

# **Telluride Medical Center Expansion and Remodeling of Emergency Department Business Case**

## Background

The last significant expansion of the Telluride Medical Center was completed over a dozen years ago as an add-on to the existing facility. Since then, the medical center's business has grown significantly, and capacity in our emergency department has become our number one problem.

The need to expand the Telluride Medical Center was identified as one of several key issues in the 2006 TMC Strategic Plan. It was determined that the existing facility operated at capacity during peak season and had limited space to increase the volume and scope of healthcare services offered. The most critical capacity issue was the emergency room which operated in an overflow mode approximately half the time during peak periods. The design of the existing facility was not compatible with good medical practices due to lack of patient privacy, a failure to comply with current health facility safety standards, and lack of space for emergency patients.

The 2006 TMC Strategic Plan evaluated three options:

- Remodel and expand existing facility
- Build a new facility on existing site
- Build a new facility on a new site

The first two of these options were rejected because of the difficulty of remodeling or building a new facility on the existing site without adversely impacting medical center operations. A new facility would involve a scrape and rebuild and would essentially shut down the current medical center for up to two years. A remodel would be almost as extensive because of the many deficiencies in the construction of the existing facility and the requirement to bring a facility into compliance with current health facility standards.

Building a new facility on a new site was selected as being the most pragmatic approach allowing TMC to continue operations in the existing facility, then moving to a new facility when completed. The biggest issue was where to relocate given the limited availability of sites large enough to accommodate a new medical center. Four criteria were identified for evaluating sites:

- Sufficient space to provide for immediate and future medical services
- Access to public transportation
- Emergency vehicle access
- Adequate parking

During the next two years, TMC's board and management conducted an extensive search for and evaluation of site options, hired expert architects with impressive medical facility

experience to quantify space requirements and estimate construction costs, and utilized independent experts to explore funding options.

By 2008, TMC's board had decided on a plan to build a new 25,000 sq.ft. medical facility on the RV parking lot at the west end of the town of Telluride. The RV parking lot emerged as the best available site for a new medical center and the only suitable site in Telluride. The estimated cost of the new facility was estimated at a maximum of \$31 million for land, building, and equipment. This was to be financed by a \$15 million bond, and the remainder from a combination of fundraising, grants, short term loans and TMC capital reserves. However, this plan required Telluride Hospital District voter approval for the bond funding and Telluride voter approval to build a medical center on the RV parking lot, which contained a small part of the "sacred" Pearl property. These items were placed on the ballot for November 2008 elections.

Unfortunately, the economic crisis intervened, and by late fall, local voters were unwilling to accept any tax increases and voted down all tax increases in the November 2008 elections. They did vote to approve the possible sale of the RV lot from the town of Telluride to the Telluride Medical Center, but they refused to allow anything to be built on the Pearl property. This meant that TMC could buy the land, but could not build on it. Thus, the November 2008 election left TMC without land to build on and without any bond funding for a new medical center.

### Current Issues

TMC's board was faced with a number of difficult issues in 2009:

- Problems with limited capacity and lack of privacy in the emergency department were still there.
- TMC had neither land nor funding for a new facility.
- Alternate sites to the RV lot were not readily available.
- Funding from bonds and charitable giving depended on a significant improvement in the economy. Unfortunately, the economic picture got even worse in early 2009, and all local businesses became concerned about survival.
- A new facility was 5 to 10 years away due to the time required to acquire a site, plan the facility, raise funding and construct a new facility.
- The need to do something in the interim was being aggravated by continued wear and tear and associated deterioration of the oldest section of the medical center building that included the emergency department.
- Any emergency department remodel would not be inexpensive, due to the need to fix a number of issues with the old facility.
- Conditions in the emergency department were negatively affecting patient impressions of TMC.
- These conditions were also negatively impacting morale of the medical staff that had been looking forward to operating in a decent facility. TMC Management was concerned that having to live with the old facility for 5 to 10 more years could affect retention of our valuable ER staff.

## Options

Something had to be done soon. TMC could not wait for a brand new medical facility to be built before expanding and upgrading our emergency department. Two options emerged. One was to spend money on a building that we do not own and upgrade the present emergency department. The other was to split off the emergency department and establish a separate facility just for emergency care. The latter option was way too expensive. TMC simply did not have funding to build a scaled-down new facility. While there was plenty of space readily available in existing buildings, reconfiguring the space for emergency medical use and having to meet all of the current healthcare facility regulations was also prohibitively expensive. Additionally, TMC's low cost lease on the existing building from Idarado required that we provide both primary care and emergency care in the building. Finally, splitting up primary care and emergency care would require a lot of cost duplication and put us back into operating at a financial loss.

TMC's board concluded that the only feasible option was to remodel the emergency department, expanding the building footprint to the maximum allowed on the site and making better use of existing space. TMC management and medical staff worked with a local architect to develop a plan for the remodel. The design requirements were:

- Project to be completed at minimum cost, as TMC does not own the land or building, and the site is not large enough to support future medical needs.
- Significant expansion in the number of beds available to the emergency department.
- Significant improvement in privacy.
- Minimize the portion of the building that we work on, as we could not afford to bring the whole building into line with current medical building codes.

## Expansion and Remodel Plan

A number of remodel options were evaluated over the summer of 2009 and a remodel plan was approved by the TMC board in September that included schematic designs, schedule and phasing, and cost estimates. The primary benefits for the emergency department are:

- Addition of 330 sq.ft. to the building
- Conversion of hallways to patient care space
- One additional dedicated emergency care bed
- Two additional beds in flex patient rooms (shared with primary care)
- Improved patient privacy
- Improved work environment

These benefits were achieved by expanding the emergency department into part of the ambulance bay that was basically not used by ambulances because of curb and ramp slope issues. Additionally, the new design better utilizes the existing space, converting hallways to allow more functional use. There are three more patient beds available for emergency care. One is another dedicated emergency care bed. The other two are additional beds created in flex patient rooms. These are rooms that can be shared

between primary care and emergency care. Peak loading for primary care is often in the morning, while peak loading for emergency care is usually in the afternoon. By sharing these rooms between primary care and emergency care, we do not just get some extra emergency care beds that will only be utilized during peak periods. These beds will also be utilized by primary care, allowing us to provide increased services provided by visiting specialists.

The project will be started at the end of the 2009/2010 ski season when the demand on the emergency department drops off. However, phasing of the project is critical, as TMC must maintain emergency care capability during construction. The project has been carefully scheduled so that the number of available emergency care beds drops from 4 to 2 when the ski season ends, but is back up to 4 for the busy period from the Bluegrass Festival through the 4<sup>th</sup> of July. The emergency department remodel will be completed by the start of the 2010/2011 ski season.

Cost Estimate

<b>Telluride Medical Center Remodeling Budget</b>	
<i>Category</i>	<i>Total Expense</i>
Construction	\$770,000
Medical Equipment	\$30,000
Fixtures/furnishings	\$2,000
Information Technology	\$9,000
Independent Evaluation, pre and post construction/remodeling	\$7,000
Miscellaneous, including insurance, permit fees, licensing fees, legal fees, additional construction/equipment fees, and other related expenses.	\$82,000
<b>Total</b>	<b>\$900,000.00</b>

Financing

The estimated cost for the entire project is \$900,000. TMC’s financial picture has improved dramatically in the last five years. It has gone from having over half a million dollars in debt and no cash on hand at the end of 2005, to having over \$800,000 in cash available at the end of 2009. TMC does need to keep some of that cash to operate its business, but TMC management feels that it can afford to provide \$650,000 toward the project. Thus, TMC has established a goal of raising \$250,000 in funds to help finance this project. Achieving this goal will help to demonstrate TMC’s fundraising capability and provide improved confidence that TMC can raise significant funding for a new facility.

Financial Justification

Determining a payback for this investment is extremely difficult. While the project will increase the capacity of the emergency department, it is not likely to increase the revenue

of the department. TMC's emergency department does not turn patients away when the existing beds are full. Patients have to wait for a bed and/or are treated in the hallways. Going to the emergency room is usually not a discretionary activity. When people need help, they go, or are taken, to the nearest facility with the capability to assist them. The nearest alternate facility to TMC that provides emergency care is 65 miles away, so few patients bypass TMC when they really need emergency medical care.

The emergency department remodel and expansion will certainly improve the image of TMC and will improve the patient experience at TMC. This may help to encourage patients to utilize TMC more for some of their non-emergency requirements, but this additional use is also difficult to quantify.

Existing tax support is critical for the financial viability of the emergency department. There is no way to provide 24/7 emergency care with highly competent staff including 4 board certified ER doctors for a region with as small a population as the Telluride region has without some subsidy. Despite the risks associated with many of the local outdoor activities, the region just does not generate enough emergency medical business, to cover the cost of providing this service on a 24/7 basis throughout the year. TMC feels that providing high quality emergency medical care in an acceptable setting is critical to maintaining public support for the tax subsidy.

Finally, safety issues associated with the existing facility are increasing, and one bad experience or safety problem at TMC could do irreparable harm to TMC's reputation. Completing the remodel will provide a good insurance policy.

### Summary

Determining to go forward with the emergency department remodel was not a decision that was taken lightly by TMC's management and board. Completing this upgrade will significantly reduce our cash reserves and limit our ability to acquire land for a new facility. However, the current situation was critical enough that inaction was not an option. Something needed to be done, and this was the best and most cost effective option.

This expansion and remodel will not give us the emergency department of our dreams, but it will serve as a bridge to cover needs until a new facility can be built. The medical staff that has to work in the facility deserves and will appreciate the upgrade, and any patients that need emergency care in the next 5 to 10 years will certainly have a better experience at the Telluride Medical Center after this project is completed.

## Exhibit A – Benefits of Emergency Department Expansion and Remodel

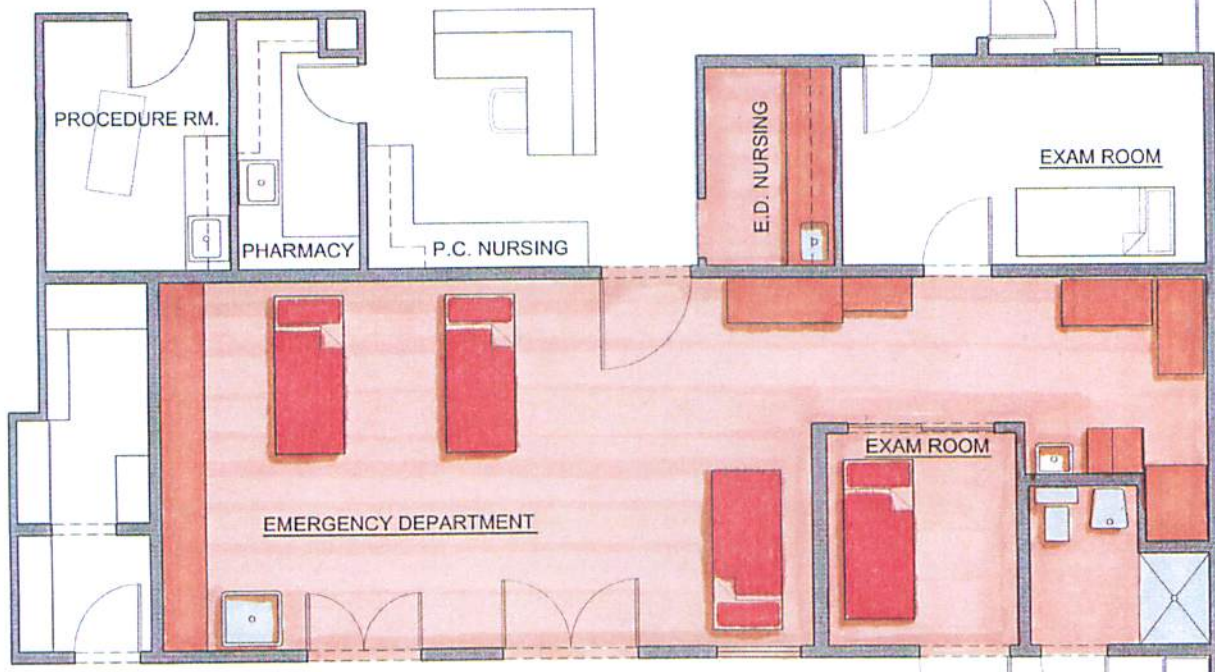
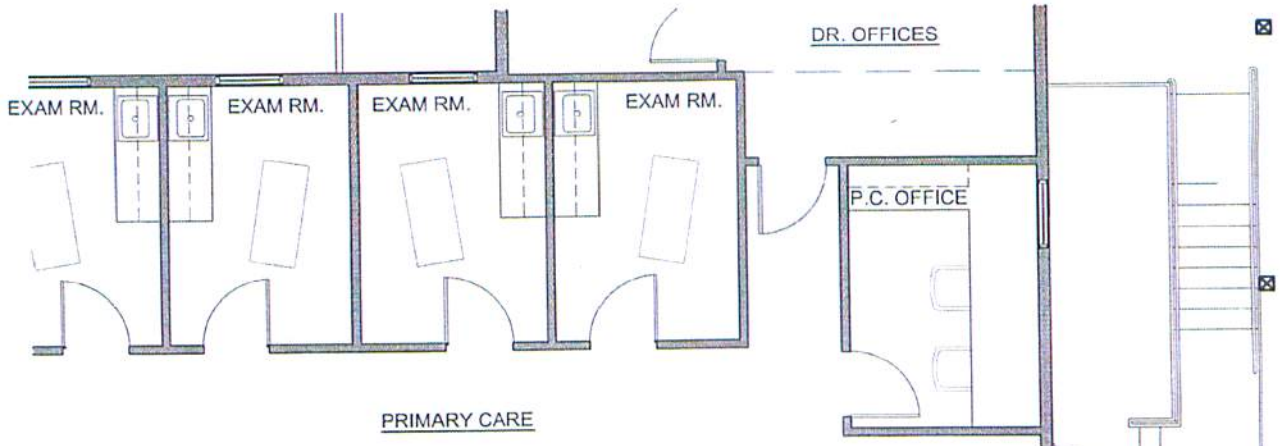
Our existing emergency department is shown in Exhibit B. There are 3 emergency care beds which are separated by curtains, and a fourth bed in a very small private room.

The expanded and remodeled emergency department is shown in Exhibit C. There are 5 emergency care beds in 4 rooms. The room with two beds is a trauma room with plenty of space to get extra emergency care equipment into the room when required. Additionally two flex rooms are created where patient beds will be shared between primary care and emergency care.

### Benefits Summary

- Addition of 330 sq.ft. to the building
- Conversion of hallways to patient care space
- One additional dedicated emergency care bed
- Two additional beds in flex patient rooms (shared with primary care)
- Improved patient privacy
- Improved work environment

Number of beds available for emergency care increases from 4 to 7
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GENERAL CIRCULATION HALL

