

2.3 Health Care Facilities

New financial approaches to healthcare in the U.S. are restructuring the industry... and providing a market niche in which Canadian expertise is recognized.

The introduction in 1983 of the Medicare Prospective Payment System (MPPS) as a device to reduce the growth in government expenditures for hospital care has had a dramatic effect on the health care industry. The MPPS was designed to encourage shorter lengths of stay and more outpatient services. Hospitals are now paid a fixed rate for treating those Medicare and private insurance company patients whose illness can be classified into one of 470 diagnostic-related groups (DRGs). The fixed rate is based on industry averages for length of stay for each DRG category. The previous method for calculating health care costs, in both public and private hospitals, was a cost-plus, 'retrospective' system over which Medicare and private insurance had little control.

The 'prospective' system now in place puts the burden of cost containment on the health care industry. These changes are stimulating alternative health care practices requiring new configurations and design solutions for health care facilities. In a recent design award contest, Canadian competence in meeting the challenges was recognized.

2.3.1 The Recent Past

Hospital construction continues to decline.

In anticipation of the introduction of the prospective payment system, there was a surge in hospital construction in 1983. Hospital administrators advanced projects ahead of schedule because of a fear that the cost constraints imposed by the prospective system could limit future construction. This fear was well founded. In 1983, the contract value of health care construction reached \$8.5 billion - an 11 percent increase over 1982. By 1986, the contract value of health care construction had declined by nearly 25 percent, to US \$6.7 billion (Fig.8). For hospitals, the decline has been even more dramatic. The value of hospital contracts between 1983 and 1984 alone dropped 30 percent. All regions experienced this decline. Even with this reduced level of construction, hospitals continue to experience low occupancy levels.