Converting an ASC to an HOPD

John Smalley and Chuck Owen

Principals & Co-Founders

Healthcare Venture Professionals, LLC

Becker’s ASC Review/ASC Communications /ASC Association

Chicago / October 10, 2009
Growing interest and trend toward HOPD’s

- New ASC’s
- Conversion of existing Freestanding ASC’s

Reflected in ASC literature

HVP’s experience
Background Information …

- **Rationale**
  - Maturity of existing ASC’s and “aging” of Physician owners
  - Hospital as alternative buyer (vs. ASC Company)
  - Reimbursement differentials
  - Recent economic events
    - Risk aversion
    - Deal complexity
  - Ongoing regulatory scrutiny
  - Increasing Hospital efficiency / ASC Management Company as Operator
Key Considerations

- New ASC
  - Feasibility Analysis – JV vs. HOPD
  - C.O.N. “protection”
  - Physician leadership involvement
  - Legal / Regulatory issues
  - Open communications
  - Board and Physician education
  - ASC Business Plan / operations
Key Considerations

- Conversion of existing ASC
  - Composition of current ownership
  - Hospital impact / Feasibility Analysis
  - Board and Physician education
  - Open communications
  - Maintenance of meaningful Physician role
  - Legal / Regulatory issues
  - ASC Business Plan / operations
Legal / Regulatory Considerations - Conversions

- Certificate of Need
  - Change of ownership
- State Issues
  - Licensure
  - Medicaid Program
- Medicare
  - Certification
  - “Provider-Based” regulations
- FMV approach
“Guiding Principles” for HOPD

- Full integration into Hospital operations **BUT:**
- Run like a Freestanding ASC vs. Hospital department
- Minimize “red tape” and bureaucracy
- ASC Benchmarks – Quality / Operations / Satisfaction
- Key functions controlled by ASC
  - Staffing
  - Scheduling / Pre-cert / Registration
  - Billing
  - Supply and instrumentation standardization
  - Equipment
- Emphasis on Physician and Patient satisfaction
Use Hospital professional and support resources to extent possible

- GPO, Biomedical, Housekeeping, Lab, Pharmacy, Anesthesia, etc. **BUT:**

- Go elsewhere if better service / more efficient / less expensive

- Adopt an “Operations Committee” governance structure
Operations Committee

- De Facto Board / governance structure
  - Analogous to Board of Directors in a Freestanding ASC
- Key vehicle for formal Physician involvement, input and control of HOPD ASC
- Equal Physician and Hospital Composition
  - Senior Physician Utilizers / Leaders
  - Senior Hospital Executives
  - Ex-officio (Administrator, Medical Director)
  - Management Company Corporate Rep
- Monthly meetings
Operations Committee…

- Roles & Responsibilities:
  - Advise Hospital on all clinical, managerial and operational matters
  - Establishment of performance objectives for ASC
  - Monthly review of quality, financial & operations results and issues
  - Accreditation / Licensure / health & safety issues
  - Patient, Physician and Employee satisfaction
  - Strategic Planning, Marketing and Physician Recruitment efforts
  - New Procedures / Capital Equipment / Product Standardization
  - Performance oversight of Administrator, Medical Director, Management Company and all Contractors
Hospital / Surgery Center Integration Issues

- Staffing / HR
- Information Systems
- Scheduling, Pre-certification, registration & PAT, billing and collections
- Hospital Support Services
- Policies & Procedures
- Forms / Medical Records
- Drug Control procedures
- Finance / Materials Management
Benefits to Physicians

- Control of outpatient surgery process
  - Role of Operations Committee
- Ability (or continued ability) to offer a high quality ambulatory surgery experience in a non-Hospital environment
- Alternative form of Hospital-Physician collaboration
  - “Co-Management” opportunity?
- Return on Investment (Conversions)
- Physician recruitment tool
- Maintain / grow market share and revenue base
Benefits to Hospital

- 100% ownership of dedicated ambulatory surgery setting
- Alternative form of Hospital-Physician collaboration
  - "Co-Management" opportunity?
- Ability to offer a high quality experience to Physicians and Patients in a non-Hospital environment
- Freeing up of in-Hospital OR space
- Physician recruitment tool
- Maintain / grow market share
- Profitability
“Co-Management” Model (CMM)

- Identify key Physician Group / organization
- Management Services Agreement between Hospital and Physician Group
  - FMV considerations
- Professional ASC Management Services Subcontract between Physician Group and external ASC Management Company
CMM - Physician Group Role

- Provide key leadership to Operations Committee
- Provide Medical Director for ASC
- Oversee Management Company Subcontractor
- Establish / maintain standards to ensure quality
- Recommend approved surgical procedures and ASC staffing / personnel
- Implement training programs
- Recommend and implement Quality Improvement & Utilization Review programs
- Develop Community Education and Outreach programs
- Other clinical / administrative responsibilities as defined in the Management Services Agreement
CMM - Management Company Role…

- On-site Administrator
- Management of day-to-day ASC operations
- Consulting Expertise / Operational Oversight
- Corporate representative at all Operations Committee Meetings
- Operational Performance monitoring & benchmarking
- Support for ASC Strategic Planning efforts
- Information / education on industry trends, regulatory and safety issues
- Monthly financial reporting / annual budgeting / new procedure or equipment analysis
- ASC Policy & Procedure development
- Administrative coordination w/ Hospital on behalf of Physician Group ("Buffer" role)
- Other duties as defined in Subcontract
Final Comments – HOPD Model

- Need for “balance”
  - Hospital integration vs. operational “freedom”
- Consider options for meaningful Physician participation
- Obtain Legal and Professional expertise
- “Best of Both Worlds”
  - Enhanced service delivery model
  - Opportunity for unique Hospital-Physician collaboration
  - Financial results
Closing

Questions?
Hospital-Owned Ambulatory Surgery Centers as a Hospital Outpatient Department

The Trend Toward HOPD ASCs

John A. Smalley
10/30/2008

Healthcare Venture Professionals (HVP) remains committed to facilitating and supporting the physician-hospital ASC collaboration. At the same time, we are becoming more routinely involved in working with hospital-owned ASCs operating as hospital outpatient departments (HOPD).

There are two basic variations when it comes to the development of HOPD ASCs: new ASCs that are being developed as an HOPD; and existing equity-based ASCs (either physician-owned or hospital-physician joint ventures) that are being converted to a HOPD.

Based on the ASC literature, we are not alone in seeing this phenomenon. Others have recently commented on the growth of the HOPD approach to the development of ASCs. Depending on the specific situation, there are a number of reasons why this trend may be occurring:

- The increasing numbers of “maturing” physician-owned or joint venture ASCs. Many physician owners are reaching the point where they are looking to “cash out” on their ASC investments, and the local hospital is more frequently serving as a friendly alternative (vs. selling out to a for-profit company) to accomplish this goal.
- Increasing costs and greater risks entailed for physicians to meaningfully participate in equity-based ASCs (either physician-owned or joint ventures). This includes burgeoning construction and related materials costs, as well as tightening (and more demanding) lenders when it comes to financing ASC projects.
- The predicted or actual increased scrutiny by state and federal regulators of physician ownership in ASCs. A lot of people think that physician ASC ownership is bound to come under the same fire, sooner or later, that physician
Ownership in hospitals has been undergoing for the past several years.

- Increasing reimbursement pressures on freestanding ASCs from managed care payors. This has been true for some time in the highly-penetrated managed care markets. There is growing evidence that this trend is quickly spreading into markets that have been historically considered as “friendly” when it comes to the negotiation of favorable reimbursement contracts. This is having a direct impact on the profitability, cash flow and ROI/distributions from equity-based ASCs.

- The recent changes to the Medicare facility payment system which began a four-year phase-in program beginning this year. There’s been a lot of misinformation about these changes and their negative impact on freestanding ASC reimbursement and profitability. The facts are that, with the exception of a few specialties, this new system should be beneficial to freestanding ASC reimbursement. Even those specialties that are being hit (i.e., G.I., ophthalmology and pain management — where Medicare spends most of its freestanding ASC dollars) can still do well under the new Medicare system, with the proper attention to cost containment and operational efficiency. Despite these facts, there is at least anecdotal evidence that these Medicare changes have made some hospital or physician investors less willing to consider an equity-based approach to ASC development.

- The increased efficiency and effectiveness of in-hospital and HOPD ambulatory surgery operations. Hospitals are even turning to professional ASC management companies to ensure that their HOPD ASC is operated, to the highest degree possible, like a freestanding ASC. In some markets, this has obviated the “need” to consider an equity-based approach to new ASC development since existing or capacity is being better utilized to the satisfaction of physicians and their patients.

- Increasing reimbursement pressures being felt by hospitals and healthcare systems. Hospitals are becoming even more reticent to share in the technical/facility component by creating a joint venture ASC with physicians, due to the negative impact such a venture will have on the hospital’s increasingly fragile bottom line.

**Making the Decision — Steps to Consider**

Despite strong belief in the collaborative model, an equity-based ASC joint venture is not for everyone. There can be political, practical, regulatory or other overriding reasons why a joint venture approach is not merited in a specific situation. The reasons listed above are among the numerous factors that may lead to a decision that a well-designed and professionally managed ASC, of the HOPD variety, becomes the best solution in a given market.

Nevertheless, any decision to take the HOPD approach to ASC development should be made in a thorough and thoughtful manner. There can be negative political, practical and interpersonal consequences of deciding to go the HOPD route when, in fact, a more collaborative or equity-based approach is still seen as desirable from a physician perspective.

As the movement toward the HOPD form of ASC development continues, the process
used to make the decision about the need and corporate structure for any ASC (planned or existing) becomes even more critical. More than ever, the ASC business-planning and decision-making methodology must include:

- Education for hospital representatives (including the hospital board of directors) and physicians on alternative models available for the development of an ASC, together with an effective description of all steps and the specific roles of all key players in the decision making process.
- Open communications between hospitals and physicians to include the identification of formal “leaders” or “champions,” who will represent and more actively participate in all subsequent ASC discussions and deliberations on behalf of their respective constituencies.
- A professionally conducted feasibility analysis that thoroughly considers and presents the quantitative and qualitative benefits of each approach to ASC development for both the hospital and physicians.

The above approach should optimally position both the hospital and its physicians when it comes to making the critical “Go / No Go” decision for subsequent ASC development. This same approach, with only minor modifications, will also work quite well in situations where the option of converting or “flipping” an existing equity-based ASC into an HOPD is being considered.

**The Best of Both Worlds**

If the decision is made to go with the HOPD ASC model, the goal should be to obtain “the “best of both worlds.” From a hospital perspective, the benefits of an HOPD model should include:

- More attractive reimbursement and retention of all outpatient surgery revenues that may have been reduced in a joint venture model. An HOPD ASC, regardless of location, will operate under the hospital license and usually receive hospital payment levels from governmental and managed care payors for outpatient surgery procedures.
- Better utilization of existing operating room capacity. It is also possible to “free up” other space currently dedicated to the provision of ambulatory surgery for alternative or improved revenue generating services.
- Providing patients/family and physicians with a much improved ambulatory surgery experience. By removing this service from a hospital environment, a dedicated HOPD ASC should avoid most staffing, scheduling and logistical problems which are inevitable in even the best run hospital OR settings, due to the “mixing” of inpatient and outpatient cases, and the unpredictability and inefficiencies resulting from emergency cases. An HOPD ASC can also be designed and located to minimize traffic congestion and directional confusion, and to maximize convenience and accessibility for the public.
- “Built-in” administrative and support services for the ASC such as human resources, maintenance, biomedical engineering and housekeeping.
- “Built-in” availability of hospital systems for support of the ASC (e.g.,
• Direct access to needed clinical service arrangements for the ASC, such as anesthesiology, pathology and radiology.

Achieving the Best of Both Worlds

Achieving the “best of both worlds” is directly premised on operating the ASC as if it were a “freestanding” entity vs. a hospital department. This is best done by having:

• A facility designed, equipped and staffed for efficiency and effectiveness.
• Excellent professional management with experience in the operation of a freestanding ASC. As a side note, the engagement of a professional ASC management company can make the difference in gaining physician support for an HOPD ASC model. Physicians frequently express the “fear” (for a variety of reasons) that the new ASC “will be run like the hospital operating room.”
• Commitment to providing both utilizing physicians and their patients with a “Five-Star Experience,” usually best found in a freestanding ASC setting.
• Meaningful physician input and influence on all ASC clinical matters.
• ASC control of staffing, scheduling, pre-certification, registration and billing, product standardization, credentialing, quality improvement and other key functions to the greatest extent possible.
• Establishment of quality, operational and patient satisfaction benchmarks similar to those seen in the freestanding ASC sector.

Summary

Achieving the “best of both worlds” can be a challenge, especially for the hospital. There must be a willingness and flexibility to allow for a greater degree of autonomy for the ASC vs. the typical hospital department. This must be balanced by recognizing that the ASC, as an HOPD, must be fully integrated into the hospital organizational structure. Finding this balance is very important to the ultimate success of the HOPD ASC. If the right balance is not found, the hospital can become a bureaucratic burden that works against the goal of having the ASC function in a freestanding-like fashion.

A well-planned and operated HOPD ASC should result in significant benefits for patients, physicians, hospital and the community. With the appropriate amount of communication, expertise and patience, this goal of having the “best of both worlds” with an HOPD ASC can certainly be accomplished.

John A. Smalley (jsmalley@hvpros.com) is a principal and co-founder of Healthcare Venture Professionals, LLC, a full-service ASC management, development and consulting company with special emphasis on physician/hospital joint ventures.