Key Concepts to Fixing Dysfunctional Hospital/Physician Joint Ventures Gone South

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Are troubled Hospital/Physician ASC Joint Ventures different than other troubled centers?

- Troubled defined as losing money or breaking even.
- No good data available. Anecdotal evidence suggests more than 50% are grossly underperforming.
- Exceptions exist: USPI model outperforms other ASCs because hospital partner has greater leverage on payers resulting in increased reimbursements.
- In most Hospital/Physician JVs, there is no "bump" in rates.

Unique Features of Hospital/Physician Joint Ventures

- Greater than 90% are hospital controlled.
- Hospitals often own far more than 51%. How did that happen?
- Hospital manages the center.
- Hospital has different incentives:
  - Control cases and referrals for ancillary services.
  - Not motivated by potential ASC profits – probably less than 5% of hospital revenues.
  - Interested in empire building; physician partners are interested in patient care, efficiencies and profits.

Hospital Control

- Important for hospital to be a partner - but not necessarily majority owner - for obtaining CON.
- Important for the bump in reimbursement.
- Most payers want hospital control which is a problem if there is a corporate partner sharing the 51% equity.
- Solved by using 2 corporations: one comprised of the hospital and corporate partner owning 49%; the second comprised of the physicians and the 51% corporation/hospital JV.
- Other than reimbursement, there is no reason for hospitals to be in control.

How does hospital ownership grow to exceed 51%?

- Physicians can't answer cash calls and are diluted.
- Hospital insists on hospital-type structure and build-out. Resulting increased start up costs make it impossible for physicians to come up with 49% of the initial capital.

Hospital Management of Freestanding ASC

- Not their strength.
- Importing hospital culture to a place where physicians are hoping to escape from it.
- Most successful Hospital/Physician ASC Joint Venture is when the physicians or corporate partner manage it.
- Hospital management team naturally bring to the ASC only things that they know. Example: plastic surgery in the hospital setting.

Conflicting Incentives

Physicians

- Improving patient care compared to hospital
- Increased efficiency
- Create excellent profit center

Hospitals

- Expand market share
- Foster ancillary services
- Disparity between ASC and hospital profits leads to little interest in ASC profits
- Not-for-profit mission
- HOPD profits

Steps to Follow When A Broken JV is Encountered

- Get physicians in control; reduce hospital to 26% or less.
- Consider a corporate partner as a objective third party.
- Have a corporate partner with a strong track record of profits manage the center.
- Maintain hospital participation if it can increase average reimbursement.

Implement the Usual Fixes

- Renegotiate payer contracts.
- Recruit new surgeons and their cases.
- Get staffing costs to 21% of collections.
- Get supplies to no more than 20% of collections.

THINK PROFITS

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