

“THE ANATOMY OF DO OVER”

There is a movie with the name City Slickers that was popular in the 1980's. Three men are on a dude ranch, cattle drive trying to find themselves and reorient their lives. One in particular has had an affair at his father-in-law's business. As a result, he has gotten divorced, lost his job, and his children. His best friend tells him his life is a “do over”, just like when they were kids playing stick ball and a mistake was made. During the game, everyone immediately understood that he made a mistake or misstep and the player immediately would ask the group to “do over” the play.

Managing an organization is similar. Management is a series of plays that are called and the team has to execute them. Sometimes mistakes of commission or omission occur. Sometimes, the players don't get along. Sometimes, the play book becomes stale or predictable. And what about the new players? How are they brought along to participate and still understand the team's goals? Sometimes a new coach or quarterback with new plays is necessary to get the team back on track. That's a “do over”. There are a lot of ASCs that are five years and older since their inception. Many of them are do overs or at the very least need to be refreshed. One starts with the recognition by all of the parties in particular in the governing body, that new ideas are needed to be interjected. And outside objective parties should be retained to review the current situation and walk the governing board through the steps of reorganization. This should be done with the key owners and users. Legal review of all of the documents, evaluation by an experienced source, and an operational review of both the revenues and expenses should be completed.

Key elements to review in a “do over”.

The Organizational:

- The age and number of current physicians.
- How many new physicians want to buy in?
- The current price per share or unit of the ASC.
- The history of the dividends with the amount that has been paid.
- The frequency of the distributions.
- Competition in the area.
- The price per share or unit at that competitive ASC.
- Does the ASC entity have both the ownership of the business and the land the building is in it or just the business of the ASC?
- Who owns the land and building and equipment?

Legal Considerations:

- When was the last time that the legal documents were reviewed and/or redone?
- What is the status of the bylaws?
- What is the status of partnership agreement?
- How are the documents handled buying out partners or members?
- How are the documents handled retired or relocated physicians who are not currently active in the center or otherwise non-productives?
- What is the buy-in method and formula?
- What is the buy-out method and formula?
- Do the documents reflect the current healthcare regulations and laws both federal and state?

Revenue Issues:

- Pricing strategy.
- Retroactive payer contract review of current plans.
- Which plans to keep and should the center apply for out of network benefits.
- Collection results and policies.

Operational Costs:

- Cost of medical supplies and drugs.
- Current inventory and ability to reduce it creating more distributable cash.
- GPO arrangements including pricing level.

Staffing:

- What is the pay scale?
- Length of employment by employees?
- The payroll.
- What are the costs of the benefit plan?
- Illness.
- Contract labor and overtime.

Service Contracts:

- How many service contracts are there?
- What are the costs of the service contracts?
- Are the service contracts related to the building incorporated in the rent or are they separate?

Professional Fees and Contracts:

- Medical Directors contract.
- Legal retainer and fees.
- Accounting contract and fees. What services are being requested on an annual basis?
- Management contract and fees. What services are to be deliverable for a year?
- For all of the contracts, what is the value for what is being paid?

Equipment and Building Financing:

- What are the existing amounts and terms of debt for the equipment financing?
- What are the existing amounts in terms of debt for the building financing?
- What is the length of debt for each of these?
- Can these expenses be improved upon by refinancing?

Accounts Receivable:

- Review the balance sheet and assure that the balance sheet reflects the truly collectable accounts receivable.
- What happens to accounts greater than 90 days? How many are there and what is the collection experience on these accounts?
- Can these accounts be collected (that review the age and quality of the accounts) to maximize the realized revenues.

Building Lease:

- Review the current lease rate and terms.
- What increases are expected over the next several years?
- Is the lease triple net (does not include maintenance, taxes, and utilities) or is it a gross lease or a modified gross lease?
- Who owns the real estate?
- Is the lease an arms length arrangement between members that also own the surgery center or is there a third party involved?
- What should the lease look like in that market to be at a fair market value?

Once a review of all of these data occurs, key decisions need to be made and they are as follows:

Key decisions to be made:

- Who will remain as owners?
- How will the previous owners of the ASC or now inactive be brought out?
- What new partners, if any, will be brought in to replenish the pool of participants in the ASC?
- What will the financial projections of the newly reorganized ASC look like?
- What was the valuation of the old ASC?
- What improvements in the legal documents should be made?
- What are the total costs of the “do over” and the economic benefit from doing it?

Addressing these key “do over” topics correctly can get you back in the game.

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