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PITFALLS AND SUCCES FACTORS FOR PHYSICIAN-HOSPITAL VENTURES

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OBJECTIVES OF SESSION

- **Have participants understand which type of consultants, when and how to those consultants most economically, & efficiently to successfully develop an ASC**
- **Have participants understand the Process and hands-on steps of developing a successful ASC**
- **Have the participants understand the pitfalls of joint ventures and how to avoid them**

I. Hospital's Needs in a Joint Venture

- control of cases by locking in physicians
- protect non-profit status
- make money by having physician investors
- use of hospital O.R.s for more profitable surgeries, like neurosurgery, heart, or larger orthopedic cases. Need a REPLACEMENT STRATEGY
- Offensive move to gain market share at sake of competition. Recruitment of key specialists from other hospitals using ownership of the JV
- Become more attractive to managed care payers using ASCs for outpt cases

II. Physicians Needs in a Joint Venture

- control of operating venue via better use of time, O.R. turnaround time, scheduling block time
- ability to obtain equipment desired for surgeons
- ability to generate new revenue from current work
- better hire/fire control of personnel
- better control of fees charged to patients
- work in a more modern atmosphere
- make their practice more attractive financially to payers using an ASC

III. Successful Steps To Develop Good Joint Venture

- See "Next Steps" process by W/ASD attached
- Deciding which specialties to include
- Deciding which physicians in those specialties to participate

- Developing a shared vision of the program and financial results desired
- Selecting correct consultants: developer; design/build or architect, attorney, equipment procurement firm, key issue—team has worked together before
- Make sure the timing of use of each is proper and cost-effective. Don't reinvent the wheel. Use consultants that have done this a lot with JVs, not just started ASCs. JV demands for hospital management is very different.

IV. Key Issues To Resolve Before Moving Forward With Venture

- proper business plan with thorough financial and caseload research
- development of an INVESTMENT SUMMARY outlining business points upon which hospital and physicians can agree
- make sure there is enough capitalization (cash in the deal) to obtain good financing, cover all start up costs, and cover some of first three months of operations
- ownership and governance – two different issues. Distinguish them clearly in minds of all before proceeding
- proper balance of operational controls/ use of Medical Advisory Committee
- management—who is responsible, how should contract be structured, what are they responsible for, is there bonus provisions for exceeding budget, are the employees going to be incentivized economically
- location of center—how convenient is it to the surgeons who will use the ASC

V. Pitfalls to Avoid

- Have someone responsible for the development of the ASC business both regarding timeline and budget
- Avoid too many units/shares in the hands of a few key physicians
- Avoid hospital having total control on management of center. Hospital decision processes notoriously slow. Project can die if not moving along at proper pace. Surgeons get turned off. Hospital's decision process can hold up the development of ASC. Make sure the hospital has agreed to an expedited review of key developmental issues. One of biggest pitfalls.
- Make sure physician leadership and decision-making is clear up front so decisions can be made without remorse at later date or having to re-visit decisions. One of biggest pitfalls.
- Make sure property/building or development of medical office building does not delay project. There needs to be definitive time frame from project agreed to on front end, both in terms of timelines for development of the building and the business
- Don't over-build the facility. Design ability to grow business at least 30%, but it is not necessary to build the space now and pay higher rent
- Don't use architect or designer that has only done hospital-based ASCs or just 3-4 centers. They usually over spec the drawings and increase the cost unnecessarily
- Don't over equip the facility
- Don't over staff the facility
- Negotiate payer contracts very early in the development process. Contracts take a lot of time to do properly and get decent fees. Need enough time to "work" the payers

NEXT STEPS

AMBULATORY SURGERY PROJECT

PROCESS FOR SUCCESSFUL DEVELOPMENT OF A JOINT OWNERSHIP OPPORTUNITY

1. DEVELOP PROJECTIONS (profit/loss, cash flows, use and source of proceeds, staffing models, and revenue and cost per case by specialty) for three different caseload volumes to understand breakeven and profitability points. Develop this into a Business Plan & Investment Summary.

2. VALIDATE PROJECTIONS & ASSESSMENT OF SERIOUS INTEREST FROM PHYSICIANS
   - Interview/survey the key physicians or representatives of their groups
   - explain project, gain physician input related to their desires for specific services, equipment
   - obtain caseload projections from physicians based on what they feel they can do, what they would take out of the hospital
   - gage interest in joint ownership and dollar amount for investment

3. REDO FINANCIAL MODEL WITH ANY NEW DATA. ASSURE SPACE CAN BE RENOVATED TO BE A LICENSED FACILITY. MAKE SURE ALL SPECIALTIES IN NEW ASC CAN BE COVERED UNDER MANAGED CARE CONTRACTS (check with top 5 managed care payers for the medical group). WORK WITH DESIGN/BUILD OR ARCHITECTURAL FIRM TO GET BUILDING COSTS.

4. DEVELOP AN INVESTMENT SUMMARY AND FINALIZE FINANCING FOR THE PROJECT
   - structure of deal & capitalization necessary
   - amount of buy-in by physicians and the hospital's capital contribution
   - ownership % interest by both
   - governance issues
   - management and management duties
   - W/ASD finalizes financing for project

5. APPROVAL OF ASC DEAL BY THE PHYSICIAN & HOSPITALMANAGEMENT BOARDS

6. PRESENTATION OF OPPORTUNITY TO PHYSICIANS
   - review new financial projections
   - review the joint ownership, Investment Summary
   - answer questions regarding how to invest, when building will be renovated and ASC available

7. PREPARATION OF PRIVATE PLACEMENT MEMORANDUM by experienced healthcare attorney

8. SYNDICATION TO PHYSICIANS
   - formal presentation to physicians and hospital with attorney present of financial projections, final deal structure, amount to invest, projected returns, maximum amount of units physicians can purchase, where and who can answer questions on the deal.
   - Clearly define deadline for the deal to be funded by physicians and hospital at initial price per share.
   - Close deal within eight weeks of offering being given to all

9. APPOINT PHYSICIAN STEERING COMMITTEE TO ASSIST W/ASD IN SETTING UP THE ASC

10. BUILD OR RENNOVATE THE BUILDING
    - this usually takes 7-14 months depending on size of building or if renovating an existing structure
    - turn-key set up (development) of the ASC business occurs concurrently with build out

11. GET OCCUPANCY OF SPACE & MOVE IN
    - get certificate of occupancy from city
    - move in with business manager and nurse manager while contractor finishing punch list of small construction items
    - have architect and contractor obtain Fire Safety approval from State Licensing agency usually takes about four weeks to move in with ASC staff, deliver equipment, in-service staff oequipment and procedures, and prepare for the Medicare and State Licensure inspection of the policy and procedures of the ASC.