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How Physicians Can Gain the Rewards Associated with Ambulatory Surgery Center (ASC) Ownership

By Teri Yates

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AS A CONSULTANT specializing in helping private practice physicians, a big part of my work is focused on assisting clients with optimizing the site of care for their services. More than 80% of my new project inquiries have involved plans to develop a new ambulatory surgery center (ASC) in the last year. My experience aligns with the market forecasts for the industry. Analysts vary in their precise estimates, but experts predict compound annual growth rates of five to six percent over the next two to five years.

While the impact of SARS-CoV-2 on hospital-based elective procedures has heightened interest in new ambulatory surgery center development, the market forces driving ASC growth predate the pandemic, and surgery cases have been steadily migrating from hospital outpatient departments to ASC facilities for several years. The shift is accelerating. Some of the changes may be attributed to the surgeon's decision to operate in a more efficient environment and patient preference for a more convenient setting; however, the dominant force is cost containment policies set by commercial and government payers.

In 2020, the Centers for Medicare & Medicaid Services (CMS) added several new procedures (such as total joint replacement and cardiac interventions) to the list of services approved for payment in an ASC. These changes will generate significant savings for the program. For example, moving a percutaneous coronary intervention (PCI) from the inpatient to the outpatient setting reduces the payment on the case by about fifty percent or $6,000 per case.

Characteristics of the Current ASC Market

The greatest proportion of ambulatory surgery centers in the US are single-specialty facilities owned by physicians without a health system or corporate investor. Most fall within the specialties of ophthalmology and gastroenterology, although the number of centers specializing in orthopedic spine and pain procedures is rising. By limiting the facility to one specialty, overhead costs are contained, and the capital outlay to develop the ASC is reduced.

This type of facility can be very profitable but can be limited in its ability to expand its offering into additional service lines like cardiology. This is in part because many states still have certificate-of-need (CON) restrictions but waive or scale back those requirements for single-specialty and single-practice ASCs. For ASCs created under these scenarios, the facility cannot expand the service line without gaining approval. The process is time-consuming and costly, and the outcome is by no means certain.

Many states do not have any CON requirements, and the trend has been to lessen rather than tighten these restrictions. Still many physicians interested in cardiovascular ASC ownership will either need to develop their own single-specialty facility or partner with other investors in an existing multi-specialty ASC. Because cardiovascular services in the ASC setting is a newly emerging market, few cardiologists and vascular surgeons feel equipped to develop a new center without support.

Cardiovascular ASC Market Opportunity

Annual PCI Volume for Medicare Beneficiaries	700,000
Per Case Savings for PCI Procedures Performed in ASC	$6,000
Annual Cost Savings to CMS if 10% of Cases Migrated	$420,000,000
Number of New Procedures Performed in the ASC Segment	*70,000*

Ownership Structure Options

There are various ways for physicians to obtain help with the facility's development and management. However, many assume their only option is to joint venture with a hospital, health system, or ASC corpo-

ration. It is crucial to identify what the physicians want from a partner at the initial planning stage, which may include capital support, development services, operating expertise or more referrals to support the center.

For example, if a physician relies on a durable relationship with a hospital to maintain the health of her independent medical practice, a joint venture with the hospital can solidify that relationship. This can potentially be achieved within the framework of a governance model that provides the physician with an acceptable amount of control. In that case, the goodwill and potential for additional hospital referrals may be a good trade-off for less income at the bottom line.

Equity JV Partner versus Management Services Organization

In a scenario where additional case volume is not needed and the physicians' goal is to maximize their earnings from the venture, a joint venture with a capital or strategic partner may needlessly reduce their income. Giving up equity to a management company might still make sense if it is the only route to obtain payer contracts. Still it is a costly way to get help with the development or operation of an ASC.

A single experienced administrator might be able to manage things without the support of an ASC corporation or MSO, but it isn't easy to hire one employee with all of the expertise required. Given the magnitude of the investment at stake and the depth and variety of knowledge needed, it is risky to put the eggs of the whole enterprise in one basket.

If a capital partner is not needed, the simplest way to develop and run the center is to hire an ASC management services organization (MSO) that operates on a pure service model. An MSO can offer development and management services similar to those provided by an ASC corporation without holding ownership in the ASC or its facilities or equipment. Additionally, the length of the management and billing services agreement offered by an MSO can be much shorter than the term required by an ASC corporation.

By hiring an MSO, physicians can keep 100% of their equity and maintain ultimate control of the facility's management. This issue of control is significant to most physicians and is typically one of the prime motivators for developing the facility. By using an MSO, physicians can decide which personnel to hire, what equipment to purchase, and how to schedule cases. The MSO does not replace an onsite administrator responsible for directly supervising staff and enforcing facility policies. Instead, the organization provides higher-level management services, such as human resources administration, accreditation support, risk management services and

ASC Partnership Models

ASC Corporation JV	Multi-Practice JV	Hospital JV	Single-Practice Ownership
Physicians typically hold a minority of the equity. The ASC company provides turn-key development support and holds a long-term management contract.	Physicians from two or more practices hold equity in the center, which may be single or multi-specialty. Usually involves an ASC company as an equity partner and manager.	The center may be under the management control of either the physicians or the hospital. A management services organization (MSO) may run the operation, or an ASC corporation may participate in the ownership and operation.	Small and efficient operation, with operation closely tied to medical practice. Physicians may use a consultant for development phase and contract for support from a MSO as needed to assist with operation.

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vendor contracting. The MSO also provides business services such as accounting and medical billing.

Consulting Expertise is Always Needed in the Development Phase

The success or failure of most new businesses starts with planning. Despite this, it is not uncommon for physicians to expect their existing medical practice administrator to plan and manage their new ASC's development. This is not the right place to be frugal, and as a percentage of the total project cost, engaging a qualified expert is a small investment to get a better downstream result.

The ASC development consultant's role, whether contracted independently or as part of a larger MSO arrangement, is to manage every detail of the project from concept to launch. They research the project's feasibility, develop the pro forma, source major equipment and serve as the liaison with other professionals such as the attorney, architect and contractor. They keep the project on time, within budget and do the work necessary to secure the accreditation and license to operate.

Experts Typically Involved in ASC Development

Recently, my company was hired to perform revenue cycle management services for the office-based lab (OBL) of a mid-sized physician group in a cardiovascular specialty. During the implementation process, the physicians shared with me that their original plan was to build an ASC and commenced the project with that intent. They were shocked to learn midway through construction that their facility design did not meet ASC requirements. Too late to back out, they were forced to convert to an office-based lab. This downgrade impacted their plans for anesthesia coverage, prevented the performance of a significant portion of the expected procedure volume and changed the reimbursement on the remaining procedures.

This unsettling story demonstrates how important it is to hire credible advisors. Working with an MSO can provide a convenient "one-stop-shop," or physicians can individually hire the experts needed to help with the project. Some of the risk areas that an experienced ASC development consultant may mitigate include the following:

- Underestimate of capital requirements
- Overestimate of case volume
- Faulty cost assumptions on staffing and supplies
- Building a facility that is too large (or small)
- Inefficient or non-compliant facility design
- Failure to meet the project timeline
- Failure to achieve accreditation
- Inability to obtain payer contracts or acceptable reimbursement rates

Other Strategic Considerations When Starting an ASC

There are numerous strategic considerations beyond the income projections on a pro forma when deciding whether to invest in or to develop a new ambulatory surgery center. One of the most reliable potential benefits of the project includes physicians' ability to become more productive when performing surgery in an efficiently run ASC rather than in a hospital outpatient department. The value of this is magnified when the center is adjacent to the physician's office, eliminating travel time to and from the facility.

Another appealing aspect of these projects is the chance to invest in real estate. The building will increase in value, yielding passive income to the physicians. Assuming that the ASC is profitable, physicians nearing retirement may be able to sell their shares to a younger physician investor, or the whole facility may be sold at an attractive multiple.

Future risks must be considered and accounted for when making the final decision, with the most significant being the potential that managed care contracted rates will erode over time. This possibility will increase as the number of ASCs owned by payers like Optum and Kaiser, giving them the ability to steer patients to the least expensive facilities and wield pricing leverage over those that remain independent.

To ensure profitability under any reimbursement scenario, the financial forecast for a new ASC should be based on modest volume projections and realistic reimbursement rates that are attainable even in a saturated market. By basing the decision to move forward on a conservative forecast, physicians can feel confident that the ASC will be a successful and rewarding venture. V

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