NEW EDITION

A practical guide to success based on 30+ years of ASC development and management

DEVELOPING & MANAGING

Ambulatory surgery centers

Joseph S. Zasa
AND
Robert J. Zasa

Disclaimer:

This book was designed as an educational and management tool that provides introductory information about applying basic, well-accepted business and management practices to ASCs. It is not intended to be a comprehensive resource, and therefore, should not be used as the sole source of information in developing and managing an ASC. No representations or warranties are made concerning the application of the principles discussed in this publication to any specific factual situation. The information in this book should not be considered to, and does not, constitute legal, financial or management advice or opinion. Specific factual situations should be discussed with professional advisers.

Contents

Developing & Managing Ambulatory Surgery Centers

Forward

Much can be learned by the ASC industry's success in designing and managing the unique environment and operations that allow ASCs to provide such efficient and high-quality outpatient care. Leaders who want their centers to continue to deliver the safest and best care must be able to meld time-tested techniques and solutions with new developments. They must also gain insights into evolving trends that will help define the future of outpatient surgery.

This book provides ASC leaders with a thoughtful tool to help them establish and run a successful surgery center. It offers extensive knowledge from experts throughout the ASC community, offering a broad understanding of ASC development and operations. Whether reading it from cover to cover or consulting individual sections as specific questions arise, ASC leaders can use this resource to focus on the many elements of operating a complex health care facility that meets and exceeds the expectations of patients, staff and owners.

I extend my thanks to the authors of and contributors to this book – respected experts within the ASC industry who have a track record of success with surgery center management and who shared their time-tested knowledge within these pages.

I hope this book will assist you in taking your ASC to new heights and bringing the benefits of efficient, high quality ambulatory care to the members of your community you serve.

William Prentice
CEO, Ambulatory Surgery Center Association (ASCA)

TOP

Introduction

First and foremost, we are operators of ambulatory surgery centers. Our roots trace back to 1986 when Bob and I launched our first surgery center management company. We have built a team of experts that has since developed and managed over 150 surgery centers throughout the United States. We are still doing it today, and find it as enriching an experience as when we first started.

We have seen ambulatory surgery grow from a fledgling industry to an integral component of health care delivery. We have experienced the first wave of corporate owned centers, capitation, failed health reform, Stark I and II, the Safe Harbors, the Affordable Care Act and the decline of private physician practices. ASCs have evolved to a position of prominence because they provide low cost, high quality care to patients and their families. Certainly, nobody wants to have surgery, but when they must, studies and satisfaction surveys show patients prefer the more personalized setting of an ASC.

We are honored and pleased to be part of the ASC industry and are excited about its future that continues to be bright. This book is our way of giving back to the industry, our way of furthering the discussion. The genesis of this book is our desire to assist future generations by giving them a basis for refining their approach to the development and management of ambulatory surgery centers. We hope you enjoy reading this as much we have enjoyed writing it.

— Joe Zasa
May 30, 2017
Sandestin, Florida

TOP

Why this Book?

We believe there is a gap in the conversation about a systematic approach for developing and managing ASCs. Many articles are published every year but few describe a proven, systematic approach written by people who are successful developers and operators of surgery centers. We submit there is a need to present all elements of ASC operations in one text. This belief, along with our long-time ASC experience, is the genesis of this book. We are pleased that many experts in the field have assisted with this book development. Their invaluable input provides a unique insider perspective.

Our central theme is defining the operational functions of an ASC that support its prime directive – exceptional patient care and safety. Just as in building a house you must lay a solid foundation, we believe the foundation of an ASC dedicated to patient care and safety is its operational system. While no two ASCs are the same, and each has its own personality, all must function from a solid operational foundation. In a hurricane, a house made of sticks blows down, but a house with a solid foundation stands.

You may think you have this content covered since you have great policies and procedures in your surgery center. We agree; policies and procedures are important, but they are only one aspect of operating a surgery center. A system reaches beyond polices and focuses on all aspects of operating the surgery center.

Going back to our foundation analogy, the four cornerstones integral to operating surgery centers are systems built around: **1)** patient care, **2)** business office processes, **3)** risk management programs, **4)** payer contracting and revenue management. Managing these systems will be the focus of Part 3 Management; but keep the four operational cornerstones in mind as you read Parts 1 and 2, Pre-development and Development. The operational cornerstones are as integral to an ASC setup as they are to ongoing management.

TOP

While the operational system is the foundation, the people responsible for patient care (physicians, anesthesia providers, clinical and business office staff and management) are the walls that bind. The system begets structure and attracts the right people who, in turn, establish a pathway to developing a winning culture. The result is increased profitability and a surgery center providing access to affordable and more personalized care for the community. With a team of involved physicians providing sufficient volume to the center—and an organizational structure that equitably aligns all stakeholders—developing and implementing a proven operational system gives the ASC its best chance to be economically successful.

TOP

Acknowledgements

Writing a book is hard as well as challenging. It is also very rewarding and enriching. As with most things, it would not have come about without the assistance of a team of people.

We would like to thank Sandra Jones for her work editing this new edition of the book. The second edition is a significant improvement and would not have happened without her tireless effort and diligence. Sandra has been our colleague for the last 14 years and her thoughts and views helped shape this book.

We also want to acknowledge the assistance of Barbara Baccei, our editor. Without her guidance, this book would not be published. In addition, we thank Joan Guthrie for proofreading the manuscripts for the first edition.

Our thanks also go out to Ann Geier, Chief Nursing Officer for Surgical Information Systems, for her review of this manuscript. During her more than 30 years of experience in the ASC industry, Ann has been responsible for every aspect of ASC financial and clinical operations.

Additionally, we are honored and touched that each co-author and friend who we asked to write a chapter not only agreed to participate, but did their best to make each chapter substantive and special. They are some of the best minds in the ASC business and their contributions honor us and greatly enhance this book.

We also want to thank our families. For us, that means the entire ASD Management team, current and former. We are honored they choose to be our colleagues and trust us to lead the firm.

"Dedicated to Brooke, J.D., Hunter and Savannah Zasa who enrich my life and are the source of such great joy."

– Joseph Zasa

"Dedicated to all the physicians and staff of the surgery centers with whom I have worked over the past 40 years. You have made this a very rich and fulfilling experience. Together, we are making a difference in health care."

– Robert Zasa

Part 1
Pre-Development

The foundation for success, or failure, of an ASC is established during pre-development. That is why the pre-development phase must be a methodical process with careful planning and discussion of key issues impacting the entire project. Attention must be given to formulating sound financial projections, creating an equitable ownership and governance structure, creating an efficient design, obtaining financing and ensuring the project is well capitalized. During this phase, the very culture of the ASC begins to emerge. Errors in this phase have a tendency to be long-lasting.

At the conclusion of pre-development, the key operational governance and ownership issues are clarified for the participating members; investment equity is raised from the participants; financial feasibility is measured; the design is finalized and financing is obtained. With a well-conceived plan, you will be on your way to making your vision a reality.

TOP

All ASCs Are Not the Same

There are several types of ASCs, each with its own unique characteristics that must be considered during pre-development. Hospital joint ventures, for example, have unique regulatory issues not applicable to physician-owned ASCs. Single specialty ASCs must be designed around focused procedures that will be performed in the center. Identifying the type of ASC is the first step in pre-development.

Physician only ASCs are typically founded by a group of surgeons for the purpose of owning the surgery center without a hospital partner. The advantage is that physicians do not split ownership with a non-operating partner. Physician owned ASCs can be single specialty, but are typically multispecialty in order to generate sufficient patient volume for economic stability and growth.

Single specialty ASCs are focused on one profitable surgical specialty. Traditionally, they have been eye centers or endoscopy centers. The new wave in single specialty ASCs, spine/orthopedic and cardiovascular (pacemakers and defibrillators), can be extraordinarily profitable if planned carefully. They are typically small, 7,500 square foot facilities with two ORs, and have low overhead. The key to success is ensuring enough volume for profitability and having sound business systems that mesh with a high-quality staff.

Hospital-Physician joint ventures have been some of the most successful ASCs. The model has many advantages, including access to referrals, a strong equity partner, political stability between physicians and hospital, and payer contracting assistance. There can be disadvantages, such as shared commitment to the vision, operational control, equity splits among partners, and the possibility for additional costs to the ASC associated with a hospital partner. The key is addressing these potential concerns in the planning phase and memorializing the venture carefully in the legal documents.

TOP

The Proforma

Most ASCs are successes or failures before they're built. Certainly, there are exceptions. The point is that planning is absolutely critical to long-term success. Developing an accurate and comprehensive business plan along with a thoroughly vetted operational structure gives the ASC its best chance for success. With the first year so critical in establishing the center's culture and breaking even on cash flow, the mantra "measure twice, and cut once" certainly applies.

Using the analogy of building a house, the business plan and operational structure serve as the foundational structure. The cornerstones of that structure are clinical care, managed care, business office and risk management systems. Notwithstanding, an ASC can have the best staff and the best management systems, but will not achieve economic success without sufficient revenue coming in the door to meet or exceed overhead. In our world, patient volume (cases) equals revenue. Therefore, it's critical to accurately predict volume by specialty and by payer, and assign reimbursement rates to these predictions to determine expected annual revenue.

STEP ONE

Estimate Volume

Identify physicians who will perform cases and estimate actual volumes. Be conservative since you want good surprises, not bad ones. An advisable process follows.

Obtain written data from interested physicians, using a one-page form asking for the physician's specialty, cases or CPT codes, estimated payer mix and type of cases performed. Sort the data from all the physicians by specialty. If CPT codes are sent, eliminate procedures not on the Medicare approved list. While there are exceptions with some third-party payers, it is best to exclude

TOP

procedures (CPTs) that are not Medicare covered. Understand that "procedures" and "cases" are not the same. If you get a list of CPT codes, you must convert from codes to patients or cases. Each specialty has a certain typical procedure-to-case ratio.

Assume that no more than 70% of a physician's reported volume can actually be performed. A good strategy is to run 3 scenarios estimating volume: 60% (conservative), 70% (probable) and 80% (aggressive).

Predict in-network versus out-of-network reimbursement by specialty, once you convert procedures (CPTs) to cases. It is advisable to use in-network rates for reimbursement.

However, many centers in the past have employed an out-of-network strategy to obtain higher reimbursement from payers. The way this works: the patient is informed the ASC is out-of-network and that the facility will bill the insurance company first. The facility may or may not collect the patient's co-pay prior to surgery, and will bill the insurance company for the procedure. The insurance company historically has reimbursed the facility at a higher rate than if the center was part of its network. The ASC then bills the patient for his or her portion of the facility fee. Usually, this bill is higher than if the patient had the procedure done in-network, and results in patient complaints.

The only way to sustain this strategy is if co-payments are waived. However, that creates a compliance issue since the center takes "assignment of the claim" and must make a reasonable effort to collect the amount that is the patient responsibility. While some facilities do not collect this amount due to the volume of patient complaints, they run the risk of violating state insurance laws or recoupment by the payer.

There is some precedent to the recoupment strategy. Despite the gray area related to collecting the patient portion, reimbursement has been so high that many providers opted to take the compliance risk. However, in the last few years, high deductible plans have

TOP

come into vogue, sold by payers in part to counteract this out-of-network strategy. With a high deductible plan, the patient may not even have out-of-network benefits, or the deductible or out-of-pocket may be so high the patient opts not to have the surgery at the ASC when it is not a network provider. This dissuades patients and surgeons from using out-of-network facilities.

Because high deductible plans will be the norm and not the exception going forward, an in-network strategy is recommended. This will equate to more work for the ASC manager; and, the owners must feel secure that facility management has the requisite expertise to negotiate favorable contracts.

STEP T WO

Estimate Supply, Drug Costs & Staffing

Supply and drug costs should be determined by specialty based on the expected volume. Pay special attention to implants since they may or may not be reimbursed. It is important to estimate supply and drug costs accurately and adjust for the cost of implants on revenue and expense estimates. Supply and drug costs are the highest or second highest expense in an ASC.

Finally, based on expected volume, project staffing requirements. Research the wage and benefits scale for the market. The supply, drug and staffing projections will be used as reference data when finalizing the pro-forma income statement.

STEP THREE

Estimate Facility Needs

This is critical in planning. Overbuilding is a key factor in unsuccessful ASCs, so make good estimates about square footage based on your estimated volume. It can be helpful to work with an architect for ideas on space planning.

TOP

Part 3

Surgery Center Management

Managing an ASC is a series of complex, interrelated tasks to obtain high quality patient care and operational efficiency. You must have a system for methodically managing your surgery center and consistent, focused management of day-to-day operations to achieve long-term success.

As in development, the ongoing management system centers on the four critical areas of operations — 4 Cornerstones of Management.

- Patient care and clinical operations
- Business office and revenue cycle management
- Enterprise risk management
- Managed care and payer contracting

TOP

Two Models of ASC Management

OBJECTIVE APPROACH

Engaging a Management Company

A surgery center may contract with a specialized ASC management company that brings comprehensive oversight of clinical and business operations to all systems and staff. This model provides expertise and resources beyond what the surgery center could provide on its own, and ensures compliance with management systems and regulatory matters geared to long-term success. The management company effectively works with the local surgery center staff through ongoing audits and site visits, all targeting the goals of the owner-investors and governing body.

A management company effectively manages the business of the center, providing oversight to the four critical areas – patient care, business office, enterprise risk management and managed care and payer contracting. In managed care, for example, the surgery center gains experts solely focused on negotiating payer contracts and strategies for revenue enhancement, experts who understand the nuances of payer contracting and how to maximize their return. In the area of risk management, experts focus on new standards adopted by federal and state agencies as well as ensuring the center has an active and compliant risk management program. Business office experts oversee billing, coding, collections, refunds, denials and the myriad of tasks required to effectively operate the business office system. Clinical experts oversee quality of patient care and scheduling, drawing from the extensive experience as nurses in ASCs, and interfacing with the nurses and technicians at the facility.

Most importantly, an effective management company is skilled at providing optimal service to physicians, patients and payers – all with the goal of keeping costs on target, optimizing revenue and maximizing return to investors without compromising quality. The

TOP

management company does not replace staff – it works effectively as an objective extension of the staff, fostering an environment where staff can do their best and experience long-lasting job fulfillment.

A management company can also provide the strategic planning and implementation to expand case mix and services to effectively grow the business, become more competitive in contracting and recruit new surgeons as users and potential investors. The surgery center gains experts who can effectively work with physicians and can integrate physicians into the organization and ownership structure.

The complexity of surgery center business today requires the ASC augment its local team with objective management expertise. But beware, all surgery center management companies are not the same. Do your research, investigate the experience, results and offering of potential candidates for this vital engagement.

SUBJECTIVE APPROACH

Staff Managing Operations

Traditionally, surgery centers have been managed by an administrative director, hired to oversee all operations and staff including the nurse (or clinical) manager and business office manager. The ASC then proceeds to outsource other components of the business.

Unfortunately, this approach can be fraught with problems in today's complex ASC business. The major weakness is that the approach does not provide objective, independent oversight of the manager and operations so critical to ensure compliance with management systems, goals and financial targets laid out by the governing body. Another concern is that key functions outside the bailiwick of the administrator are outsourced to consultants

TOP

who may or may not have the talent and competencies of an integrated unit.

The biggest concern is that this model places the tremendous work of managing all four critical areas – patient care, managed care, business office and risk management – on one person alone. It is nearly impossible for one person to have expertise in all of these areas, let alone the time and energy. While the approach may seem to be less costly at first glance, it can actually be costlier in the long run. Success today is dependent on using objective benchmarks to ensure critical areas are managed, with a system of checks and balances.

Full disclosure: We authors represent a management company and, thus, have an inherent bias. Common sense tells us that a team of experts is better equipped to manage a complex business with four distinct areas of operations. Those areas of an ASC are so disparate that this gap becomes wider (patient care vs. coding, for example). We have, of course, witnessed well-run ASCs that are managed by an administrator. However, our experience has found that 9 in 10 of those centers do not effectively operate within objective performance benchmarks because they lack independent oversight. Therefore, we believe, at the very least, an independent ASC should use a valuation or consulting firm regularly to provide feedback to the governing body.

TOP

There are now more than 5,600 ambulatory surgery centers (ASCs) operating in the US. This high quality, cost-effective delivery system is not only accepted, it has come to be admired and preferred by patients, physicians, health care systems and third-party payers. Success in an ASC is dependent on the ASC's day-to-day systems, processes, people and leadership providing safe, effective surgical care. There is tremendous complexity in developing and managing all these components. This first comprehensive book on developing and managing ASCs is written by actual owners, operators and leaders in the field. The book focuses on the four cornerstones of an ASC: patient and clinical care, risk management, business office systems, and managed care and payer contracting.

Joseph S. Zasa and Robert J. Zasa are managing partners and co-founders of ASD Management, a national developer and manager of ASCs for physician groups and hospital/physician joint ventures since 1986.

With contributions from leaders in the ASC industry: William Prentice, Ambulatory Surgery Center Association (ASCA), Scott Becker, JD, and Amber Walsh, JD, of McGuireWoods, Ken Seip of Siemens Financial, Aaron Murski of VMG Health, Randy Bishop of Surgical Notes, Durr Boyles of Boyles Moak Insurance Services and Steven Dobias of Somerset CPA. ASC physician leaders: Dr. T K Miller, Dr. John Fitz, Dr. Chad Perlyn, Dr. Michael Latham and Dr. Alan Valadie. And, members of the ASD management team.

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