

Case Study

Reimagining Outpatient Care: From HOPD to ASC

A large, nonprofit hospital (Hospital) with a robust outpatient surgery department (HOPD) desired to strategically align with both employed and local community physicians by converting the HOPD to a free-standing ambulatory surgery center (ASC).

Situation

Approximately 15 years ago, the Hospital acquired all physician ownership out of a free-standing ASC and converted it to an HOPD to capitalize on the higher reimbursement rates. In recent years, the Hospital identified the need to strategically align with independent, non-employed physicians and allow their employed physicians the opportunity to invest in an ASC. Recent market changes, including payer pressure to lower outpatient procedure rates, patient and physician convenience, and the need for more efficient surgical programs, led the hospital to decide to convert the HOPD to an ASC. It was the Hospital's goal that, post-conversion, the ASC would be owned 51% by the Hospital, physician investors would own 49%, and the ASC would be managed by the Hospital.

Services Provided

- Real Estate Valuation
- Capital Assets Valuation
- Revenue Consulting & Analytics
- Professional Services Agreement
- Consulting & Pro Forma Development
- Business Valuation

Does your organization need assistance in improving clinical operations? Reach out today for a complimentary assessment from a consultant.

Contact

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Solution

The Hospital retained VMG Health to value the contributed HOPD into a newly formed joint venture between the hospital and local, qualified physicians.

- VMG Health conducted a comprehensive analysis to support the hospital's decision to convert the HOPD to an ASC. The hospital owned the associated real estate, so VMG Health performed a fair market rent analysis to determine the rent expense that the ASC would pay back to the hospital. The furniture, fixtures, and equipment were valued by VMG Health's capital asset division to establish an opening balance sheet for the ASC.
- VMG Health's Revenue Consulting and Analytics team conducted a reimbursement analysis to project the expected revenue of the ASC using free-standing ASC reimbursement from both commercial and governmental payers.
- Due to the hospital managing the ASC and there being shared services, VMG Health's Professional Services Agreement (PSA) team performed a fair market value analysis of these services to ensure the Hospital's fees to the ASC for these services were consistent with fair market value.
- VMG Health's Valuation team used the results of the analyses to develop a pro forma for the HOPD as a free-standing ASC. In creating the operating and financial profile of the ASC, VMG Health leveraged the Intellimarker benchmarking study.
- Upon development of the pro forma, VMG Health's Valuation team conducted a fair market value analysis of the ASC's equity at the minority level, which was used to establish the share price for the physician investment.

Success

The Hospital successfully converted its HOPD to an ASC and financially and clinically aligned with approximately 20 physicians through joint venture investment in the ASC. The ASC has created strong profitability for the Hospital and physician investors while providing high-quality and convenient care for patients. The ASC has also created surgical capacity for the Hospital and the capture of additional case volume as more cases shift from inpatient to surgery center settings of care. The ASC also aligns with the Hospital's payer strategy by performing surgical services in the optimal site of care for managing total medical cost of care for patients.

Client Results

92%

Client Satisfaction
Rating

About VMG Health

VMG Health is a leading, national, full-service healthcare strategy and transaction advisory firm providing solutions exclusively for the healthcare industry with a long-standing reputation of excellence in client service. Whether you need assistance with traditional transactions or emerging physician compensation models based on value and performance, VMG Health provides the expertise you can rely upon.

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