FLEXIBILITY IS A GREAT STRATEGIC ASSET

The Role of an AOH (ASC-OBL-Hybrid) in Tomorrow's Ambulatory Care Environment

by Chas E. Sanders
Founder and CEO, MARGIN LLC.

In today's world of health care, there seems to be only one certainty—the direction and future of health care is uncertain. In saying this, I am not suggesting that the future of health care is grim–quite the contrary. Advances in technology over the last decade have been astonishing. On the horizon, specifically in the vein space, I am optimistic and excited to see the release and utilization of new technologies, such as the routine use of intravascular ultrasound (IVUS) in deep venous procedures (which has had tremendous reimbursement in the ambulatory environment). Another great advance has been the use of the Ekos catheter for patients with chronic Deep Vein Thrombosis (DVT) and Post-Thrombotic Syndrome (PTS).

Over the last few years, there has been a sizeable migration of procedures involving many specialties from the hospital to the outpatient space. Regardless of recent claims by hospitals to suggest otherwise, the data indicates that patients are reaping benefits in the form of lower-cost procedures, more personalized care, and (often) better outcomes in the outpatient space compared with care performed in the hospital. This overall more positive experience has encouraged many endovascular specialists to transition their cases to the outpatient lab.

Today the choice by physicians to open their own outpatient labs is a hot topic, both across the country and across multiple specialties. The opportunity for greater financial security for physicians who operate their own Office-Based Labs (OBLs) is well known, and many more of our peers are now opening OBLs. However, are our peers who are now opening OBLs doing so in a changed landscape and after the peak of the supernormal returns of the past? This point is even more salient given the risk of CMS rates moving forward. For 2020, the proposed reimbursement rates for many endovascular procedures in the OBL site of service are projected to see an 8-10 percent reduction, creating quite a different picture from the financial prosperity of the past. There were similar mid-year proposed rates during the summer of 2018 for 2019 that inevitably did not come to fruition. These rate proposals do, however, lend further credence to the precariousness of the times.

Here lies the uncertainty; the cost of opening an OBL is substantial. In most markets, the cost to build, equip, furnish and license a two-procedure room center is greater than $1M (excluding operating expenses). Even with the financial risk of this sizeable investment, there remains a path forward for a de novo outpatient lab to produce attractive returns, but is that path the same as it has been for the last few years? Is it prudent for an interventionist to

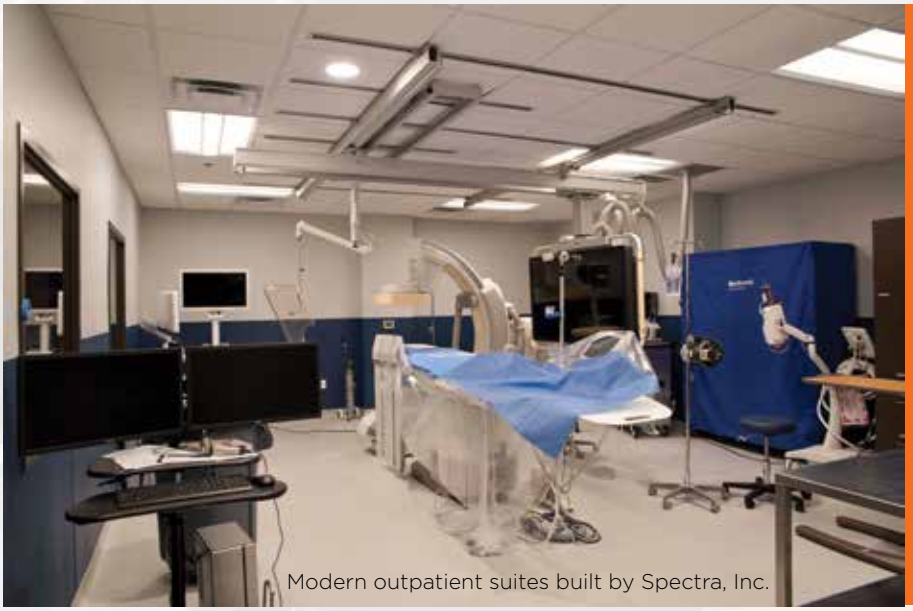
jump right into an OBL in today's marketplace? Is the right alternative an Ambulatory Surgery Center (ASC)? Is there a more prudent option altogether?

One should weigh many factors when considering opening an outpatient lab. Among the obvious are the patient population available to serve, procedures which are safe and effective, and the right selection of talented staff. But it seems that many of our peers are not asking one more basic question—what type of center should I open? Does an OBL or does an ASC make better sense? Both have different benefits and shortcomings. Or is the best option an outpatient lab offering both an ASC and an OBL—an ASC-OBL-Hybrid?

An OBL faces fewer regulatory challenges than an ASC. For example, some centrally managed companies have obtained Joint Commission accreditation for all their OBLs under one umbrella instead of going through an individual process for each center. Despite this accreditation benefit, the types of procedures that may be performed in an OBL are limited, as well as most other multispecialty procedures that cannot be outsourced.

By comparison, an ASC is more highly regulated and generally must meet more stringent standards in order to obtain and maintain regulatory approval. As one would expect, with these more stringent standards comes a larger expense to construct, possibly as much as 50 percent higher than a comparable OBL. In addition to the cost increases, almost half of the states in the US have Certificate of Need (CON) Laws restricting the number of ASCs that are permitted to operate. However, an important factor to consider is that an ASC affords the ability to create a more diversified business model because of a broader range of procedures that are permitted—Open Surgery, CRM Devices, Orthopedics, etc.

The options need not be binary—ASC or OBL. Quite possibly, the most advantageous setting could be an ASC-OBL-Hybrid (AOH). An AOH model would allow a facility to operate as an ASC or OBL, just at separate times. There are concerns with such a model, primarily related to operational regulations and execution. It is challenging to operationalize an AOH outpatient lab and meet all regulatory requirements because you must run two distinct businesses (with different schedules, charts, etc.) at the same site of service. For this reason, it is potentially beneficial to find a strategic partner to help you mitigate these risks. In addition to the operational regulatory concerns, there are further financial investments needed to construct (or convert) a center to function as an AOH (potential CON application processes, construction, licensure and various regulatory inspection fees).


Modern outpatient suites built by Spectra, Inc.

These hurdles are surmountable, and it may be well worth the effort to do so. Here are three major advantages to operating an AOH over a traditional ASC or OBL:

The first advantage is diversity of procedures. Under a single site of service (technically two sites of service, but one physical address), physicians could perform any procedure allowed in their state in an ambulatory setting: endovascular interventions (venous and arterial), pacers/ defibrillators, coronary procedures, ablations, open fistula creations, UFEs, ports/filters, and cardiac catheterizations. In addition, there is the ability to bring into an AOH other specialties such as Podiatry, Orthopedics/ Spine, Gastroenterology, and Urology among others,

Continued on page 68

Continued from page 67

provided there is extra procedural capacity. No setting, other than an AOH, offers the ability to holistically treat all the needs of your patient population.

Modern outpatient suites built by Spectra, Inc.

A second advantage of an AOH is that your investment is better insulated from the fluctuations in reimbursements by CMS. For 2019, CMS had initially proposed an 8-10 percent reduction in reimbursements for some endovascular procedures in the OBL site of service, while planning several increases in the ASC fee schedule. Though it didn't happen in 2019, it has been proposed again for 2020. If this proposal eventually comes to fruition, an AOH would be prepared to maintain financial viability by offering either site of service.

The third major advantage is the resale value of the investment. The paid multiples are greater for ASCs versus OBLs. By opening an AOH versus a traditional OBL (as most of our peers are doing), one would be able to reap the most attractive exit available, given the potential of your center for future owners.

Based on diversity of procedures that can be performed, insulation from reimbursement changes, and increased value, if one is considering opening their own ambulatory care facility, it may make sense to forge a new path and open an AOH (ASC-OBL-Hybrid). After all, flexibility is a great strategic asset. V