

TRENDS IN THE DEVELOPMENT OF AMBULATORY CARE CENTERS

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Over the last twenty years, there has been significant change in the delivery of ambulatory surgery and ambulatory care services. Many of the initial surgery centers struggled between 1972 and 1982 with challenges such as reimbursement, establishing themselves as perceived, high quality facilities, and establishing the trend that a facility could be run on a profitable basis and still provide good quality of care. These early pioneers laid a solid foundation for many of us who have been involved in the surgery center movement for the last twenty-five years. After 1982 and the approval of Medicare reimbursement for surgery centers, there has been a significant growth in the number of centers. This growth has occurred both in single speciality centers such as ophthalmology, plastic, and gastroenterology centers as well as multi speciality centers. Today there are well over twenty-five hundred ambulatory surgery centers (ASCs) throughout the United States. However, in the most recent three years there has been significant change in reimbursement, competition, and in the delivery of ambulatory surgery services. These changes have had a profound effect on ASC operations. These trends have a profound impact on the way that the facilities will be developed, built, and operated in the future.

The purpose of this article is to highlight some of the ambulatory care trends that are occurring within the United States and to note some of the solutions being developed to respond to these trends as they relate to ambulatory surgery.

The first trend is there are fewer free standing surgery centers being built and more centers built within a larger facility that offers a wider array of ambulatory care services. Many health organizations such as large group practices, health care systems, and some HMO's are developing multiple facilities within a thirty to forty mile radius of their primary facility. ASCs are being opened within such facilities. Such facilities help healthcare organizations solidify or gain market share. The trend of garnering market share continues to be a strong one in the US. Having a strong market share converts to a stronger position when negotiating with managed care payers. It certainly allows a facility to grow at a faster pace and secure its future in the increasingly competitive health care market. Those who do not gain a strong market share are experiencing either merger or acquisition and will certainly be faced with dwindling revenues in the near future. To avoid that trend, many health organizations have purchased individual physician practices. Many have paid too much for these practices. Many have too many locations and the logistics to service all of the locations has become problematic. In a zealous effort to gain market share, many health care organizations have too many locations and are looking for economies to

scale. There are several reasons for this. The first is to develop more of a regional center that is still convenient to patients but at the same time allows providers to gain economies of scale in staffing, supply costs, and group purchasing. Secondly, regionalized facilities provide one attractive location that can serve as a gathering place for all of the professionals. This results in more referrals between the professionals as well as use of ancillary services that are now available due to the fact that there is critical mass within the facility to support them. There tends to be a more sophisticated group of ancillary services available in the regional facilities than can typically be economically supported in the individual's physician's office. Thirdly, consolidation of real estate for health care providers becomes a great incentive to sell off small individual offices and consolidate the providers into a smaller number of larger regional facilities. What we are seeing in health care is basically a regional mall concept being implemented with smaller individual physician office practices being closed. This consolidation is being done still keeping in mind the convenience factor for patients. This trend is certainly mitigated by specific market conditions whereas in some areas this single office will remain due to its critical importance to servicing a particular community. However, this will be more an exception in the future than the norm.

These regional centers create more visual presence and have a tendency to be more attractive to patients. They typically have an "architectural signature" that reminds the patient that the facility is affiliated with a particular health care organization. Many health care organizations try to develop four to five major sites within a community depending upon the size of the market and the number of counties serviced. Our firm calls these facilities Big MACC's (Multiple-service Ambulatory Care Centers). Big MACC's typically have the critical mass to support multiple services such as ambulatory surgery centers. Enclosed is a list of common services found in a Big MACC.

Most Big MACC's are located in secondary markets and are at least twenty to thirty minutes away from the host facility. They typically include a number of rotating offices for specialists as well as permanent offices for primary care physicians including family practice, internal medicine, pediatrics.

Due to the fact that many health care organizations are developing or purchasing multiple sites and an ambulatory care is reimbursed less than hospital outpatient services, the sites need to be developed very efficiently, not oversized, and planned to be expanded in phases. It is very critical to not over build, or over spec these facilities from an architectural standpoint. The facilities should not be over equipped either. If the facility is over equipped, built too large, or built at standards way above the norm and need for ambulatory care services, the fixed costs to be covered by the lesser amounts of ambulatory care reimbursement become prohibitive. These are very specialized buildings that need to be developed in a very cost effective

way and equipped similarly.

These are facilities different than hospital facilities. These Big MACC's require excellent traffic flow because of the ambulatory care nature of their purpose and they require a significant amount of parking due to the large volume of in and out traffic which occurs within facilities such as these. The facilities should be functional, efficient, with good design and nicely finished. There is nothing inconsistent with having a high quality, cost effective facility and delivering good ambulatory care. In fact the two are complimentary and are necessary given the lower reimbursement which is experienced for ambulatory care than hospital care. For that reason, many health care organizations are now turning to ambulatory care design-build and architectural firms that specialize in such buildings due to their proven expertise to deliver such buildings in a cost effective, functional, and high quality, architecturally designed manner.

The second trend is the trend of building smaller, single speciality Ambulatory Surgery Centers (ASCs). There has been an explosion in the number of Plastic, GI, Eye, and Urology centers that have been built over the last several years. Physician practice management companies are also driving this. They want an ASC in their multi-speciality clinic. Many of the companies are building surgery centers within their medical clinics for the specialities as mentioned above, or are consolidating these surgeries with others to form larger multi-speciality surgery centers. This trend is being fueled by the growth needed by the physician management companies which is mostly coming out of ancillary service growth. In addition, as these companies develop more capitated rates for a variety of services, capturing the profits and controlling the costs from out-patient surgery will be more important to them in the future. Other areas they are looking at are birthing centers, diagnostic centers and other types of services that can be legally owned by the group under the group practice exemption of the Stark I and II regulations.

The third trend is that Ambulatory Surgery Centers are being built "leaner and meaner". Over the last three years reimbursement for outpatient surgery has dropped 25%. This is due to the HMOs, PPOs and other managed care players gaining larger discounts from ASCs. Medicare has had a freeze on rate increases in surgery centers over the last two years as well. Lower reimbursement means ASCs have to lower cost and one means of doing so is to reduce initial capital costs such as building smaller, more efficient space for ASCs. Another trend is helping ASCs refine space. "Just in time" inventory reduces the bulk storage requirements of surgery centers which has also tended to reduce some of the storage problems that in the past many surgical nurses have complained about in surgery centers. The amount of storage space is simply not needed as it was three years ago before this very cost effective management tool was implemented. Operating room size is now being revisited. Many architects are down sizing the operating rooms or

building one very large room for orthopedics or other specialties that need a lot of equipment. Another trend is to put the table on an angle using the deep corners of the room for additional storage space rather than having the table parallel to the back wall. This is an innovative technique and allows equipment to be stored in the room safely, but clearly out of the way of the operating room personnel, anesthesiologist, and surgeon. Additionally, there are better anesthesia drugs available that now allow for patients to be semi-awake while they're being wheeled out of the operating rooms. Since this aides in significant increasing the output of the operating room, ASCs require more recovery room spaces per facility. We are now encouraging our clients to develop four recovery spaces per O.R. This is also due to the fact that there are many other procedures being done in an outpatient surgery center that heretofore had been done in a hospital. The mix of services also has a great deal to do with the number of recovery room spaces necessary. If a lot of children are having ear tubes or tonsillectomies done, these cases are done in a relatively short time within the operating room and have the tendency to easily impact a recovery room in a short period of time. Likewise, if there is a heavy cataract or GI caseload being done on a particular day, these patients are done quickly in the procedure area and then are in the recovery room in a very short period of time. If a facility is planning to have heavy caseloads in these speciality areas, they need more recovery space than a normal surgery center.

In short, the nature of outpatient surgery has changed radically over the last three years in many ways and this is impacting the design of the centers. With reduced reimbursement it is important that the facilities not be built too small, however they be built much more efficiently than in the past. The construction, build out, and equipment costs are heavy fixed costs for a facility. Though they are amortized over a long period of time, they form a large amount of money that needs to be paid each month and raised as start-up capital. If these costs can be controlled properly and appropriately on the front end, it helps insure the success of the surgery center and financial return to the owners.

The fourth trend is that Birthing Centers are becoming more and more popular on a free-standing basis. There is an increasing trend of developing labor delivery rooms with post partum rooms physically next to surgery centers particularly in Big MACC's. Prenatal screening is typically done in a Birthing Center now much more than it has ever been done in the past. This has significantly reduced the risk of having a problem with the mother during delivery. There is an accreditation association for Birthing Centers with formal criteria for such facilities. They have done a great deal to help standardize and raise the level of service and design related to such facilities. Typically such facilities are developed with three or four 72-hour beds. These beds allow the patient to stay if it is necessary and/or appropriate for the mother's physical well-being. The operating rooms of the surgery center can be used in case of severe emergency. The ASC can serve as a backup for this

particular service when they are both found in a multi-service Ambulatory Care Center (MACC).

The fifth trend is the trend of developing Big MACCs as replacement hospitals. There is a large number of small facilities in rural areas that have been built in the past that currently cannot be converted to meet fire safety code requirements. There is a trend to use these older facilities and convert them to nursing homes or assisted living facilities. In addition, there is a trend to build a new facility that has primarily an ambulatory care focus but has have some 72-hour observation and recovery beds available. Typical services in such facilities would include urgent care and extended hours or a full blown emergency department, CT and other diagnostic X-ray services, mammography, ultrasound, a phase I laboratory, a surgery center, four to six medical observation 72-hour beds, a birthing center with post partum backup (using the 72-hour beds). These facilities typically also have permanent offices for Primary Care Physicians, time share space for specialists, EKG stress testing and cardiac diagnostic areas, a small pharmacy, optical area for refractions and glasses, dental space, and typically some type of physical therapy, wellness or cardiac rehab area in the building. Geriatric psych programs, behavioral programs for clinical depression, and alcohol and substance abuse are also popular services to include in such facilities. The services are very market specific. They depend upon the distance between the main provider's facility and the location, the population and physician demographics of the area, as well as competition in the area.

A greater number of healthcare organizations are refining their market assessment to understand which ambulatory services are feasible and necessary to deliver to these specific market areas. Population demographics, physician demographics, utilization for outpatient services are typically being analyzed by healthcare organizations to develop specific plans for servicing the medical needs of these secondary markets. Location is very critical for these facilities. The traffic count must be in the sixty to eighty thousand range per day and the location must be easily accessible to interstates and other major thoroughfares within the area. The new ambulatory care facilities basically house "retail" healthcare services. They have many of the attributes of a mall. In fact, many of them are located next to a mall, a Wendy's, McDonalds or other fast food restaurants that have significant traffic. Such market assessment and good financial projects are critical before developing Big MACCs on campus or in secondary markets. It is imperative to know which services in a given market area have the best chance of succeeding, and what is the expected economic return for the services if established.

Once the market assessment is completed, a business plan should be developed which includes financial projections for both the development and operations of the facility and all services to be located within it. The

projections should include profit/loss projections, cash flows, total source and use of proceeds, projections of equipment and all construction costs, land costs and soft costs for developing the project. It is important these are done. A financial projection also should be done for each service contemplated in the facility. Staffing models, revenue and cost per type of procedure and profit and loss statements are essential for proper planning for these types of services and facilities. This is particularly true for surgery centers being developed off of the campus of the main hospital. Surgery centers are typically not a primary care service or one that flourishes in a satellite clinic. Unless there is a significant critical mass of surgeons, the surgery center is not a good service to put into a satellite clinic. However, if there are significant number of rotating specialists and the Primary Care Physicians are properly trained to do appropriate gastroenterology procedures (that are typically done by a GI physician) and there are existing surgeons in the secondary market that will now utilize the surgery center if one is available, the surgery center may in fact be feasible. It is imperative that an accurate case count be performed and projected before developing a surgery center in such a facility. Many other ambulatory care services leave similar specific requirements that need to be met for them to be financially successful.

Good experience in development, joint venturing and managing facilities is required by the individual performing such projections. Surgery centers and many other ambulatory care services are very volume sensitive businesses. It is imperative that projections be done accurately and are operationally sound. For that reason, it is good to have somebody that has experience in operating these facilities and managing them to review or prepare the projections to assure that the cases are not either overstated nor the expenses understated. Planning such ambulatory care facilities also requires those who have had extensive experience in the development of the newer model, cost effective facilities. Significant cost savings in land, construction, design, and equipment costs can be gained by using such a firm for planning, and design/build functions. Many of the same recommendations apply for the planning and development of Birthing Centers. Participation by key obstetric care givers is also essential. Use of specialized design-build firms or architects that specialize in ambulatory care facilities is a growing response to the trends in specialized surgery/ambulatory care services and "leaner and meaner" facilities. Many of these firms are spending significant internal time and resources to further refine their ambulatory care facility space programs, patient flow pattern, clinical spaces, building specifications, and building costs.

In summary, there has been a significant amount of change in the health care landscape over the last three years that particularly impacts Ambulatory Surgery and Ambulatory Care services and facilities; feasibility, development, construction, design, and operations. Health care organizations are moving quickly to capture the ambulatory care market share within secondary

markets surrounding their facilities. It is imperative that they do so in order to sustain strong future growth, and continue to obtain key managed care contracts that are important in the future. However as they do so, they must implement their plans, keeping in mind the new trends with the ambulatory care field in order to successfully implement such strategies.

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