pinnacle III

2016 ASC GUIDE TO PROSPERITY

A COLLECTION OF INSIGHTS FROM THE LEADING INDUSTRY EXPERTS

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I Want to Develop and Open a Surgery Center, Where Do I Start?

By Trista Sandoval & Lisa Austin

Physicians and hospitals alike recognize the role ambulatory surgery centers (ASCs) play in the delivery of quality, cost effective, customer focused health care. They are a popular business model to employ. If you are ready to enter into the ASC market, a significant question remains: Where do I begin?

As is true for most endeavors, developing an ASC should begin with a strategy and plan. The goal is to not overbuild or under-build your center. Rather, the goal is to develop a profitable facility with both short-term and long-term growth in mind. At PINNACLE III, a feasibility analysis is used to assess the potential viability of a project. It provides a high level, realistic projection of the facility's financial outcome through the collection of data from interested investors. The data is used to create the following:

- ✓ Projected revenue
- ✓ Projected case volume
- ✓ Projected case mix, which will determine the medical equipment, staff, and size requirements
- ✓ Estimated expenses
- ✓ Estimated capital
- ✓ Projected profits / losses

This information helps determine whether or not a development project should move forward.

A feasibility analysis is also used to assess a given market's current managed care contracts. Skipping this part of the process is inadvisable – often, valuable information is obtained during this phase which could very well affect your decision to proceed. For example, imagine you discover the key PPO for your market contracts with a health care system that operates competing surgery centers. This PPO might decline the opportunity to align with you believing the current health care system arrangement provides them with appropriate access to care for their customer base. That lack of expected volume could kill your entire project. The analysis can be thought of as a "red light/green light" exercise. A green light indicates the project makes enough sense to proceed. A red light signifies a project in its current state does not make sense. It is possible for a feasibility analysis to produce a "yellow light," indicating that you should proceed with caution. This could mean that the project would eventually be profitable, but not for many years, or projected net revenue would be marginal at best. In these instances you will need to go back and see if you can optimize the situation to move the yellow light to a green light. For example, maybe you need more physicians involved to produce higher revenue numbers or find a way to cut down on real estate costs to minimize your expenses. The project may not be dead, but it should be postponed until a better outcome is projected.

Some of the things you will want to consider as you move forward into the development phase include, but are not limited to:

- ✓ Do you own land and/or have an existing building? Or do you need to find a site to purchase or space to lease for your facility?
- ✓ What are the capital requirements?
- ✓ What are the legal and regulatory considerations?
- ✓ Should you bring in more specialties that require you to recruit new surgeons?

Beyond just the numbers, conducting a feasibility analysis helps shed light on non-measurable factors that greatly affect your surgery center's potential for success. Conducting an analysis may uncover philosophical differences among physicians that could complicate the operation going forward. For example, one or more of the physicians committed to the project may be invested in multiple ASCs which could severely impact their ability to deliver the case volume necessary to initiate and/or sustain your project. Because there are many nuanced, potential project pitfalls, it is valuable to consider working with an unbiased, third-party consultant to help uncover roadblocks.

It is no secret the development of an ASC is a complex process. Remember, the feasibility analysis is crucial to proceeding in a thoughtful and objective manner allowing you to avoid costly mistakes and move forward with confidence. Successful planning and preparation help establish the necessary benchmarks that guide your surgery center from initial concept to regulatory certification.

ASC Turnaround Case Study

When the Lutheran Campus Ambulatory Surgery Center (LCASC) opened in Wheat Ridge, Colorado in late 2005, it appeared poised for success. Having interviewed several management companies, the joint-venture ASC selected the one it believed would maximize returns for the facility’s investors. It didn’t take long for visions of a successful ASC to fade. “We opened the ASC and the management was horrible,” recalls orthopedic surgeon Thomas Fry, M.D. LCASC experienced losses of more than $1 million in 2006 and more than $1.4 million in 2007.

What Went Wrong

With LCASC heading toward bankruptcy, Pinnacle III was brought in to conduct an operational audit. “The center never realized the volume they projected in their pro forma. Their staffing didn’t meet the needs of their physicians. They had a difficult time collecting revenue on the cases that were being performed. They were paying way too much for supplies. With all of these problems, they dug themselves into a hole and were unable to pay their bills,” says Pinnacle III President & CEO, Robert Carrera.

After reviewing Pinnacle III’s recommendations for change, the leaders of LCASC elected to remove the existing management company and enter into a six-month agreement with Pinnacle III. When Pinnacle III assumed management in 2008, the center projected a loss of nearly $2 million.

Pinnacle III Quickly Got to Work

“We went out and heavily marketed to physicians,” Carrera says. “We evaluated existing staff and worked on growing the physicians’ confidence in their team while simultaneously building the staff’s confidence in the ASC’s leadership. We focused on improvements in a number of other areas as well, including customer service, policies and procedures, materials management, and the facility’s overall culture.”

To address its revenue cycle problems, LCASC contracted with Pinnacle III’s centralized billing office, Specialty Billing Solutions (SBS). SBS trained LCASC’s staff to adhere to defined collection parameters on new accounts. Their trained ASC coding and billing staff performed “forensic collections” on existing accounts including re-evaluating all write-offs and reprocessing claims that had not been properly processed to ensure as much money was collected as quickly as possible.

Building on Success

Due to the renewed focus on facility operations and revenue cycle management, the center ended up cutting its projected 2008 loss by 75 percent. “We still had some problems to overcome, but the hemorrhaging had stopped,” Dr. Fry noted. After six months had passed, LCASC extended their management agreement with Pinnacle III who continued to implement improvement measures.

Achieving Profitability

Turnaround efforts continued with LCASC undergoing refinancing and re-syndication in the years that followed. In 2012, more than $1 million was distributed to the investors. Similar distributions have continued through the present day.*

“We went from a cash call to paying dividends for four straight quarters and showing a profit,” stated Dr. Fry. “I relate that totally to the changes that Pinnacle III identified and put into practice. Specialty Billing Solutions has made a tremendous difference as well. Their expertise and hard work really turned things around for us. It’s hard not to be happy with the difference between a cash call and a dividend payment.”
difference between a cash call and a dividend payment.”

**From 2012-2016, distributions to investors have topped $1 million each year.*

Pinnacle III has managed The Lutheran Campus Ambulatory Surgery Center for 8 years. For the full white paper, “ASC Turnaround: Lutheran Campus Case Study,” visit **www.pinnacleiii.com/white-paper.**

ASC Turnaround Case Study Key Takeaways

Trista Sandoval , Director of Business Development & PhysicianRelations
Jack Mast, Physician Liaison

Adopting Best Practices to Optimize Performance

One of the best ways to analyze your center's performance is to re-evaluate your facility's strategy. Is that strategy meeting the goals of the center – financially, operationally, and through reimbursements of its negotiated payor contracts? If not, it may be time to rethink it and create a new plan fit for profitable, successful outcomes.

Best Practices

The most effective and successful ASCs do three things exceedingly well – evaluate case volume, rethink cost structures, and align operational performance and revenue cycle management.

1. **Evaluate case volume.** A profitable ASC researches and understands the cases that best fit the facility. There are several variables to consider.

Scheduling efficiency – What are the optimal number of procedures to schedule each day? Which procedures reap the highest profits? Are there procedures that make sense to schedule back-to-back to facilitate flow? For instance, you may want to place a longer procedure between shorter cases to allow staff adequate time to flip rooms and clean the equipment effectively.

Payors – Payors may have an influence on the cases scheduled at the facility. Do your current contracts contain appropriate carve-outs for specific procedures being performed? Which payors offer the highest reimbursements and are the most proficient to work with?

Physicians – Are your physicians informed on cases that are appropriate to bring to your center? Are you providing your physicians and their staff with adequate information on reimbursement relative to case costing? How do you maintain physician satisfaction?

By evaluating and considering all case volume variables, and by sharing that information with key stakeholders, the ASC becomes more effective in operational performance.

2. **Rethink cost structures.** Analyze financials on an ongoing basis to identify areas of opportunity and improvement. Reviewing staffing overhead, vendor costs, and supply expenses on a cost per case basis and assessing performance against your established budget are vital to the sustainability and growth of your center. Additionally, you will need to keep a close watch on inventory and purchasing practices to make sure you're not only getting the best products at the lowest prices but preventing costly product shortages. Be strategic in your financial approach and look for ways to enhance the profitability of your center.

3. **Align operational performance and revenue cycle management.** Revenue cycle management is a multi-functional process that requires cooperative efforts from administrative, clinical, and billing personnel. Each of these components is vital to moving the patient account from creation, to point of service, to coding, and finally to payment. A skilled ASC will integrate all these components into a holistic solution that leads to profitable results.

For more information about the Lutheran Campus ASC Turnaround Case Study or if you are looking for a partner to discuss best practices at achieving optimal performance at your center, please contact Trista Sandoval, Director of Business Development and Physician Relations at tsandoval@pinnacleiii.com or call 970.492.6059.

8 Things ASC Board Members Need to Know About Materials Management

As an ASC board member, you are tasked with monitoring your ASC's total operation. This is no simple feat! It can be difficult to know what questions you should be asking to ascertain whether or not your facility is operating as well as it could be. In an effort to help, we sat down with our VP of Facility Operations, Kelli McMahan, who provided us with some insight into materials management.

K: Are all your physicians using the same supplies or are there any outliers? Sometimes one particular physician routinely uses a specific supply that no one else is using. When supplies can be standardized among all physicians, inventory can be reduced . Because many supplies have to be ordered in bulk, only having to stock one type of gloves in four sizes, for example, creates a more streamlined ordering process, minimizes inventory costs, and frees up valuable storage space.

K: Does your facility use custom packs and review their contents routinely? A custom pack is a procedural pack that incorporates a majority of supplies used 90% of the time for specific types of procedures. Although most ASCs use custom packs, they tend to overlook the importance of reviewing the contents of those packs on a regular basis. When new procedures are implemented and/or supply preferences change, items that were once used frequently from the packs may now be routinely thrown away. Conversely, an item may be opened for every case that isn't currently included in the pack. Instead of ordering, stocking, and opening this particular item every time, your ASC may be able to save money by adding it to the custom pack. At a minimum, custom packs should be reviewed annually to ensure they address the facility's current needs.

K: Does your ASC contract with a GPO (group purchasing organization) to provide the majority of your basic medical supplies? GPOs are able to extend discounted pricing based on their contracts with suppliers. Make sure your distributor knows you are hooked up with a GPO and loads your discounted pricing into their system. Periodically check the invoice pricing against the contract price to ensure your ASC is receiving the benefit of those discounted arrangements.

K: Are you ordering inventory using the just-in-time methodology? Items that are used routinely should be ordered according to your case volume to avoid overstocking. Standard orders and delivery dates should be set up with your distributor. Knowing your delivery dates helps you manage supplies on hand. It may be better to place smaller orders two to three times a week rather than placing larger bulk orders which can naturally lead to overstocking.

K: Have preference cards been updated to reflect supplies actually being used? Reviewing preference cards routinely prevents staff, especially those new to your facility, from opening everything that's reflected on the card without first checking if the supplies being used have changed. In some cases, the physician no longer uses what's on the card resulting in opened supplies going to waste.

K: Have deleted items been moved out of inventory? When items need to be removed from inventory, try to recoup some of the expense. Ask your materials manager if your vendor will buy those items back from your ASC or trade in unused items for commodities that continue to be stocked. If your vendor isn't willing to work with you, determine if other ASCs in the area are interested in purchasing your unused inventory. When all else fails, donate the goods to charity as a tax-deductible contribution.

K: Are you capturing all the current month's expenses on your financials? Have materials management personnel look at their purchase order accrual log. If they have not received an invoice for an item that has been ordered and received, the expense can be accrued on the current month's financial statements. Matching your expenses with your income allows you to more accurately identify financial trends and make sound business decisions.

K: What is your ASC's medical supplies expense as a percent of its net revenue? Ideally, this figure should come in under 20%. If it does not, determine what's causing it to be so high and act accordingly.

Knowing what questions to ask about your ASC's materials management practices not only helps determine where money is being spent but provides insight into the total operation. It can serve as a springboard for discussion with your physician investors about supply use and how best to achieve medical supply standardization. It can create efficiencies that optimize your facility's operations. Having a thorough **understanding** of best practices **is a great first step toward achieving your goal of a prosperous ASC.**

OUR VERY OWN DAN CONNOLLY, VP OF PAYOR RELATIONS & CONTRACTING, APPEARED IN BECKER'S ASC REVIEW ON MAY 1ST, 2016:

BECKER'S ASCREVIEW

Cost containment, carve-outs & total joints in ASCs: Key concepts for payers in 2016

Written by Laura Dyrda

Payers and health plan sponsors are pushing hard to contain costs. Negotiations with providers are becoming more difficult and low reimbursement coupled with the rising costs of doing business will continue to plague ASCs.

"As allowables are held in check and patient financial responsibility rises, the need to effectively and efficiently collect co-pays, co-insurance and deductibles is bound to equate to, if not eclipse, many critical success factors in ASCs," says Dan Connolly, vice president of payer relations and contracting at Pinnacle III. "This challenge will continue to fuel fundamental change on how the ASC's front office functions and will force ASCs to actively support and promote a cultural change like none other in the healthcare industry."

ASCs wield leverage in contract negotiations due to their integral role in moving services into less expensive, clinically appropriate settings. The lower cost is attractive to payers, employers and patients who also appreciate the traditionally lower infection rates, greater convenience, shorter wait times and easier scheduling ASCs offer.

"Many payers now have at least embraced and recognized that advances in technology and clinical acumen are driving factors in the movement of high-acuity cases from hospitals to ASCs," says Mr. Connolly. "For instance, moving spine and total joint replacement cases to ASCs is much easier now than it was only a few years ago."

Payers are much more willing to negotiate carve-outs for spine and total joint cases today as well, and more ASCs want to add these high-acuity cases to their contracts with commercial payers. Total joint and spine cases can increase the ASC's revenue, gain margin and potentially improve low-acuity procedure rates in some cases.

IMPORTANT STRATEGIES FOR NEGOTIATING SUCCESSFUL CONTRACTS WITH ASCS INCLUDE:

1. **Negotiating facility-only case rates to diminish delays in implant payment as much as possible.**
2. **Conracting with employers directly, utilizing discounts and rebate arrangements to drive increased volume.**
3. **Bundling payments whenever the ASC can fold reimbursement for multiple providers into one predictable rate.**

Narrow networks unfavorably impact ASCs in some markets, but this could change in the future. "As the web of this cost containment strategy widens, especially with more employers self-insuring and wanting to leverage their book of business, ASCs would be well advised to ensure they have the dexterity needed to capitalize on this 'narrow' opportunity," says Mr. Connolly.

Why Did My Accounts Receivable Days Go Up?

By Carol Ciluffo
VP of Revenue Cycle Management

A/R days rise and fall for numerous reasons including...

- An increase or decrease in case volume
- An increase or decrease in net revenue
- An increase or decrease in collections
- An increase or decrease in write-offs to bad debt
- An increase or decrease in types of cases performed (specialty) or payor mix
- The number of refunds cleared and posted

For example, a rise in case volume resulting in an increase in net revenue of $100,000 along with a decrease in collections of $50,000 creates a $150,000 swing. This will greatly impact your A/R days. Another example is a decrease in collections of $50,000 due to lower case volume. This would cancel out the decrease in net revenue due to the lower case volume. The impact on A/R days would likely be minimal.

Here are three different explanations of causes for an increase in A/R days:

1 A/R days rose due to an increase in case volume of 20 additional cases - a good "problem" to have - producing additional net revenue of $98,000. There was an additional rise in A/R due to $17,000 in refunds clearing the bank. The resultant A/R swing of $115,000 resulted in a rise in A/R days.

2 There was a dramatic increase in A/R days from 30.34 to 39.56. An increased case volume of 10 cases resulted in a rise in net revenue of $80,000. Collections simultaneously decreased by $61,000. The combination of these two items - a swing of $141,000 - increased A/R days by 9.22.

3 A/R days rose slightly to 49.38. Case volume was down by six cases or 4%, but the net revenue rose by $126,000, an increase of 126%. The $90,000 increase in outstanding accounts receivable was not explained by either the case volume by specialty or by the payor mix. The next area to explore is the acuity of the cases performed to determine if that caused the rise in net revenue.

Combining one or more of the above scenarios can create more significant swings in your A/R and A/R days. A/R days are all about timing. While an important statistic to monitor, the statistic most investors focus on is cash receipts. After all, cash is king!

If I Obtained Authorization for the Surgical Procedure per Payor Requirements, Why Aren't They Covering the Implant Costs?

By Carol Ciluffo
VP of Revenue Cycle Management

Seems crazy that a payor would authorize a surgical procedure which included an implant then deny payment on the implant, doesn't it? Unfortunately, it happens more than you might think. A payor's pre-certification and authorization requirements often dictate that implants be pre-certified or authorized in addition to the procedures themselves. If you feel like the pre-certification and authorization cards are stacked against you, you're not alone. The rules of the game can be difficult to follow especially when each payor has its own unique set of guidelines. Here are some hints on how to play the game well. The first step is to identify which procedures require implants. Then research the following to secure maximum reimbursement:

- Does your contractual agreement with the payor allow separate reimbursement for the implant? If so, what is the anticipated reimbursement?
- If separate reimbursement is allowed, determine what Healthcare Common Procedure Coding System (HCPCS) code will be used on the claim that references the implant. Check the payor's master pre-certification and authorization lists to see if the HCPCS code for the implant is present.
- If the HCPCS code is listed, obtain pre-certification or authorization for both the HCPCS and CPT codes prior to performing the service.

For procedures involving implants – especially those requiring pre-certification or authorization – failure to do your research on the front end will likely result in non-payment of the implant. Most payors do not provide retro authorizations (approval for the implant after the procedure has been performed). And appealing the denial of payment will not change the outcome if you did not follow the payor's authorization requirements. Further, not adhering to requirements specified in the contract results in a write-off of the total charge – you are not allowed to balance bill the patient.

Winning the game is possible! Identify the procedures your facility performs most often. Know which procedures involve implants. Be familiar with the pre-certification and authorization requirements outlined in your contracts. Understand the reimbursement nuances of your top payors. Being informed on the front end ensures the dollars you worked so hard to secure actually arrive on the back end.

What Does It Take to Run an Effective ASC Board Meeting?

By Rick DeHart
Principal Partner

We sat down with Rick DeHart, Principal Partner for PINNACLE III, to gain some advice on what it takes it run an effective board meeting. Rick enlightened us with his 25 years of experience in the ASC industry managing governing boards and running effective meetings.

1 **Preparation is essential.** Create a detailed, organized agenda that covers the appropriate items needed for board approval and/or discussion. Thoroughly understand your presentation items, such as monthly and quarterly financials. Anticipate questions from stakeholders. Be prepared to clearly respond with clarifying information. Conduct a detailed review ahead of time with your team to ensure everyone is familiar with the information that will be presented.

2 **Send out the agenda in advance.** Once the agenda has been created, it is important to distribute it to board members at least 24-48 hours prior to the meeting. This allows everyone time to review the information and/or request additions or changes.

3 **Be organized.** Make the best use of the limited time you have available with your board members. As the leader of the meeting, organizing meeting items appropriately will allow you to cover everything on the agenda and allow for discussion that will lead to sound decisions. Sequence materials in a fashion that is easy to find; avoid putting together packets of information that send everyone scrambling to find their place.

4 **Stay on task.** You will have approximately 90 minutes at most before people lose interest. If possible, consider scheduling meetings for a 1½ hours or less. Keep questions defined and answers focused. Take questions at the end of each agenda item before moving on to the next section. Restrain yourself and meeting participants as much as possible to ensure you do not go off on tangents!

5 **Follow up promptly.** There will be times when you cannot answer certain questions in the meeting or need to research items further. In those cases, follow up with an email to board attendees noting you are looking into those questions and will provide answers in the near future. If you are not prepared to respond with meaningful information, don't wing it! It's better to delay a response to ensure it is correct, rather than provide an immediate response that is poorly articulated or, even worse, contains inaccurate information.

6 **Debrief with your team following the meeting.** Decide on appropriate next steps and determine if further research is needed to handle unaddressed inquiries. Assign follow-up items to the appropriate team-members. Keep an eye on whether or not follow-up items are being handled in a timely fashion. Don't over-manage the process but be available to step in when necessary.

Picking a Line: Leadership Lessons I Learned from Mountain Biking

By Robert J. Carrera
President and CEO

Recently I was mountain biking and thinking about near/far vision.

Near/far vision, or focus flexibility, is the ability to change focus from a faraway object to a nearby one, or vice versa. It is vital in a variety of sports. That same skill is also vital for managers. Not, of course, in the sense of being able to assess a rock or root in front of your wheel as you are setting yourself up for a turn in the trail. But in the sense that your ability to clearly assess what is in front of you, and adjust accordingly, impacts your longer term goals and results.

For example, a physician showing up late for cases is similar to a rock dislodged by another trail rider careening directly into your path. You weren't expecting it but you suddenly have to deal with it. Not only do you need to relay that information to those who are immediately affected, you have to determine how to minimize its impact on the schedule for the remainder of the day.

Another example – you are reviewing month end accounts receivable data and notice a marked increase in Medicare cases for the month. Ideally, you will use that information to predict the impact the change in payor mix will have on the facility's available cash in the future.

Perhaps you are budgeting for the new total joint surgeon who "does everything like everyone else." However, when they arrive and start performing cases, you learn their medication costs are significantly higher than your other physicians. There goes your budget! Now you are scrambling to minimize the impact going forward.

On second thought, maybe it is exactly like avoiding the rocks in your path or sending yourself headlong into a tree!

In the past I worked with young mountain bike racers helping them assess their near/far vision. I taught them exercises to improve their focus flexibility.

As managers we can teach ourselves to look for changes in our business that can knock us off course.

We may have to chart an alternate route, but we don't have to allow the bumps in the road to interfere with accomplishment of our goals. Furthermore, as leaders we can work with our teams to help them understand the importance of constant attention to what is happening now and teach them how doing so can positively impact their results.

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WANT TO KNOW MORE? CONTACT...

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