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Jessica C. Burt, Esq., MHA - Senior Research Associate • Jacob Z. Voss - Interim Editor

Hospitals Expansion: Coordinated Care or a Vie for Insured Patients

As the healthcare industry strives to maintain stability in the wake of the most recent recession and brace itself against the turbulence of healthcare reform, hospitals have developed a new method for achieving growth and securing revenue. In what has been termed the "*geographic expansion race*," U.S. hospitals have begun employing new strategies to expand their market presence and compete for valuable insured patients.[1] In a fourteen-year study of twelve healthcare markets, the Center for Studying Health System Change observed facility growth in large metropolitan areas, analyzing the different expansion strategies employed, and the market composition that resulted.[2] Though the study acknowledges it is likely too early to predict the impact hospitals' geographic expansion will have on patient access, quality, and costs, others in the industry have both praised and sharply criticized this new trend for its anticipated effects.[3]

Prior to 2007, hospitals often sought to achieve growth by expanding or developing specific service lines, such as cardiac care or cancer treatment, but the last several years have been marked by a significant shift in expansion strategies, whereby many hospitals and healthcare systems are expanding into new geographic areas in order to acquire more patients.[4] In order to target privately-insured patients during geographic expansion, hospitals are increasingly using one or more expansion strategies, including: acquiring existing full-service hospitals or constructing new facilities; building freestanding emergency departments; building ambulatory care facilities; and, strengthening relationships with emergency medical transport systems or operating their own transport services.[5] While hospitals offer efficiency and quality justifications for these expansion methods, others in the healthcare industry assert that these strategies pose the potential to raise costs, reduce quality, and eliminate some patients' access to care.[6]

Hospitals that decide to purchase or construct full-service hospitals, do so for a number of strategic reasons, such as to prevent patients who reside in outlying areas from being drawn to competitors in more distant cities, or in response to increased growth by smaller competitors in outlying areas who are seeking to expand their scope of services to directly compete with their larger, tertiary care counterparts.[7] When part of a larger system, freestanding emergency departments can stabilize patients and then transfer them to an affiliated hospital, effectively bypassing nearby competing hospitals.[8] Ambulatory care facilities capitalize on the supply of physicians who are either employed by, or closely aligned with, hospitals, thereby allowing hospitals to develop service lines for complicated cases.[9] By expanding into emergency medical transport operations and strengthening relationships with existing providers through workflow process improvement and providing various amenities, hospitals may be able to further impact the number of patients that are delivered to their facilities and diverted away from competitors.[10] In its findings, the Center for Studying Health System Change noted that hospitals studied in each of the twelve markets were either considering or actively employing one or more of these strategies, a trend which has sparked considerable debate and the forecasting of negative consequences among various industry stakeholders.[11]

Hospitals' acquisition of physician group practices and other hospitals has led to increased consolidation in markets, which in turn confers significant leverage to the acquiring hospitals when negotiating rates with insurers.[12] Insurers have stated that due to increasing hospital leverage, they are unable to contain rate increases. Insurers then translate higher rates to premium increases for employers.[13] Despite the potential to raises premiums, most of the consolidation occurring in healthcare markets will likely avoid scrutiny under antitrust regulations, as many mergers take place over broad geographic areas and do not result in excessive market concentration. Several factors beyond mergers and acquisitions can contribute to hospitals' increased market power.[14] For example, a hospital's brand recognition or its ability to provide a specialized service confers significant leverage in negotiations with insurers.[15] With respect to multi-hospital systems, the ability to negotiate a single contract on behalf of all the facilities allows systems to bargain for higher reimbursement rates.[16]

In terms of access, hospital expansion strategies have the potential to improve coordination of care as ties between outlying facilities and tertiary care centers are strengthened.[17] However, there is some concern that the addition of locations has the possibility to encourage overutilization of services, and that quality of care may be diminished as a result.[18] Further, patients in lower

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income communities may not experience any improvement in access to care, as resources continue to be invested elsewhere and hospitals abandon struggling facilities in favor of more profitable ventures.[19]

While hospitals insist that geographic expansion will allow them to improve access to care, their increased leverage with insurers may result in higher premiums.[20] As this trend continues, patients who are less sought after because of their insurance status may face hospital closures and consequently struggle to obtain care. In the current market emphasizing care coordination among providers, policy makers should be mindful of unhindered geographic expansion.

1 "Hospitals' Geographic Expansion in Quest of Well-Insured Patients: Will the Outcome be Better Care, More Cost, or Both?" By Emily R. Carrier et al., Health Affairs, Vol. 31, No. 4 (April 2012), p. 827.
2 Ibid, p. 828.
3 Ibid, p. 831, 832.
4 Ibid, p. 827; "Key Findings from HSC's 2010 Site Visits: Health Care Markets Weather Economic Downturn, Brace for Health Reform" By Laurie E. Felland, Joy M. Grossman, and Ha T. Tu,

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Robert James Cimasi, MHA, ASA, FRICS, MCBA, AVA, CM&AA, serves as President of **HEALTH CAPITAL CONSULTANTS** (HCC), a nationally recognized healthcare financial and economic consulting firm headquartered in St. Louis, MO, serving clients in 49 states since 1993. Mr. Cimasi has over thirty years of experience in serving clients, with a professional focus on the financial and economic aspects of healthcare service sector entities including: valuation consulting and capital formation services; healthcare industry transactions including joint ventures, mergers, acquisitions, and divestitures; litigation support & expert testimony; and, certificate-of-need and other regulatory and policy planning consulting.

Mr. Cimasi holds a Masters in Health Administration from the University of Maryland, as well as several professional designations: Accredited Senior Appraiser (ASA – American Society of Appraisers); Fellow Royal Intuition of Chartered Surveyors (FRICS – Royal Institute of Chartered Surveyors); Master Certified Business Appraiser (MCBA – Institute of Business Appraisers); Accredited Valuation Analyst (AVA – National Association of Certified Valuators and Analysts); and, Certified Merger & Acquisition Advisor (CM&AA – Alliance of Merger & Acquisition Advisors). He has served as an expert witness on cases in numerous courts, and has provided testimony before federal and state legislative committees. He is a nationally known speaker on healthcare industry topics, the author of several books, the latest of which include: "*The U.S. Healthcare Certificate of Need Sourcebook*" [2005 - Beard Books], *"An Exciting Insight into the Healthcare Industry and Medical Practice Valuation"* [2002 – AICPA], and *"A Guide to Consulting Services for Emerging Healthcare Organizations"* [1999 John Wiley and Sons].

Mr. Cimasi is the author of numerous additional chapters in anthologies; books, and legal treatises; published articles in peer reviewed and industry trade journals; research papers and case studies; and, is often quoted by healthcare industry press. In 2006, Mr. Cimasi was honored with the prestigious "*Shannon Pratt Award in Business Valuation*" conferred by the Institute of Business Appraisers. Mr. Cimasi serves on the Editorial Board of the Business Appraisals Practice of the Institute of Business Appraisers, of which he is a member of the College of Fellows.

Todd A. Zigrang, MBA, MHA, ASA, FACHE, is the Senior Vice President of **HEALTH CAPITAL CONSULTANTS** (HCC), where he focuses on the areas valuation and financial analysis for hospitals and other healthcare enterprises. Mr. Zigrang has significant physician integration and financial analysis experience, and has participated in the development of a physician-owned multi-specialty MSO and networks involving a wide range of specialties; physician-owned hospitals, as well as several limited liability companies for the purpose of acquiring acute care and specialty hospitals, ASCs and other ancillary facilities; participated in the evaluation and negotiation of managed care contracts, performed and assisted in the valuation of various healthcare entities and related litigation support engagements; created pro-forma financials; written business plans; conducted a range of industry research; completed due diligence practice analysis; overseen the selection process for vendors, contractors, and architects; and, worked on the arrangement of financing.

Mr. Zigrang holds a Master of Science in Health Administration and a Masters in Business Administration from the University of Missouri at Columbia, and is a Fellow of the American College of Healthcare Executives. He has co-authored *"Research and Financial Benchmarking in the Healthcare Industry"* (STP Financial Management) and *"Healthcare Industry Research and its Application in Financial Consulting"* (Aspen Publishers). He has additionally taught before the Institute of Business Appraisers and CPA Leadership Institute, and has presented healthcare industry valuation related research papers before the Healthcare Financial Management Association; the National CPA Health Care Adviser's Association; Association for Corporate Growth; Infocast Executive Education Series; the St. Louis Business Valuation Roundtable; and, Physician Hospitals of America.

Anne P. Sharamitaro, Esq., is the Vice President of **HEALTH CAPITAL CONSULTANTS** (HCC), where she focuses on the areas of Certificate of Need (CON); regulatory compliance, managed care, and antitrust consulting. Ms. Sharamitaro is a member of the Missouri Bar and holds a J.D. and Health Law Certificate from Saint Louis University School of Law, where she served as an editor for the Journal of Health Law, published by the American Health Lawyers Association. She has presented healthcare industry related research papers before Physician Hospitals of America and the National Association of Certified Valuation Analysts and co-authored chapters in "*Healthcare Organizations: Financial Management Strategies*," published in 2008.