Valuation of Ambulatory Surgery Centers (ASC): Introduction

Until approximately forty years ago, virtually all surgeries were performed in hospitals. Patients spending several days in the hospital after surgery was common. Hospitals faced numerous restrictions such as limited operating room availability, scheduling delays, slow operating room turnover, and restrictive hospital budgets and policies.

An ambulatory surgical center (ASC) is a distinct entity that primarily provides outpatient surgical procedures to patients who do not require an overnight stay after the procedure. The facilities typically provide relatively uncomplicated surgical procedures in a non-hospital setting, and most ASC cases are non-emergency, non-infected, and elective. ASCs typically specialize in one or two procedures/specialties (particularly related to ophthalmology, gastroenterology, or orthopedics). If there is general anesthesia administered, the procedure does not usually exceed one hour in length, and requires less than a two-hour stay in the recovery room. Since the 1970s, the ASC industry has grown at a steady pace. In 1971, the American Medical Association (AMA) adopted a resolution endorsing the concept of outpatient surgery under general and local anesthesia for selected procedures and selected patients. In 1980, Medicare began covering facility costs of certain ASC procedures to promote the use of ASC settings as a less expensive alternative to inpatient procedures. In 1982, Medicare approved payment to ASCs for approximately 200 procedures; in 1987, the ASC list was modified to use specific CPT codes and expanded to over 1,535 approved procedures. As of 2017, more than 5,600 ASCs in the U.S. performed 23 million surgeries annually, and Medicare has expanded the list to over 3,500 procedures that may be performed in ASCs. The rapid growth in the ASC sector is, in large part, a product of regulatory policies; the absence of, or less stringent, certificate of need (CON) requirements; and, lower capital requirements than most healthcare ventures.

Medicare and managed care have also created incentives for patients to use the ASC setting. Lower procedure costs, more convenient locations, and higher quality have led many managed care plans to insist that minor procedures be performed in ASCs; however, there is a paucity of empirical evidence to support this preference. Physicians are increasingly choosing to be employed by hospitals rather than work in an independent practice, which may lead to fewer physicians choosing to engage with ASCs. ASCs opening in the past year have been adjusting to the changes by including fewer operating rooms (ORs) than in previous years, an average of 2.7 ORs compared to 3.1 ORs in 2012.

Many of the future challenges for ASCs will come from the regulatory and competitive environments, expounded upon in parts two and four, respectively. There are serious concerns regarding whether the proliferation of ASCs has outpaced the regulatory capacity to inspect them; whether the ASC industry unintentionally discriminates based on race and income; and, whether physician ownership creates an incentive to suggest unnecessary surgeries. As the future of healthcare becomes increasingly more consumer- and convenience-driven, the ASCs’ healthcare delivery model appears increasingly more promising. However, recent push-back from organizations such as the American Hospital Association (AHA) may prove formidable (see the article entitled “Judge Strikes Down Site-Neutral Payments (Continued on next page)

Future installments in this ASC series will discuss: (1) the regulatory environment of the ASC industry; (2) the reimbursement environment of the ASC industry; (3) the competitive environment of the ASC industry; and, (4) the technological environment of the ASC industry.

---

2 Ibid.
6 Ibid.
9 Ibid.
21 Ibid.
Todd A. Zigrang, MBA, MHA, CVA, ASA, FACHE, is the President of HEALTH CAPITAL CONSULTANTS (HCC), where he focuses on the areas of valuation and financial analysis for hospitals, physician practices, and other healthcare enterprises. Mr. Zigrang has over 20 years of experience providing valuation, financial, transaction and strategic advisory services nationwide in over 1,000 transactions and joint ventures. Mr. Zigrang is also considered an expert in the field of healthcare compensation for physicians, executives and other professionals.

Mr. Zigrang is the co-author of “The Adviser’s Guide to Healthcare – 2nd Edition” [2015 – AICPA], numerous chapters in legal treatises and anthologies, and peer-reviewed and industry articles such as: The Accountant’s Business Manual (AICPA); Valuing Professional Practices and Licenses (Aspen Publishers); Valuation Strategies; Business Appraisal Practice; and, NACVA QuickRead. In addition to his contributions as an author, Mr. Zigrang has served as faculty before professional and trade associations such as the American Society of Appraisers (ASA); American Health Lawyers Associate (AHLA); the American Bar Association (ABA), the Institute of Business Appraisers (IBA); the Healthcare Financial Management Association (HFMA); and, the CPA Leadership Institute.

Mr. Zigrang holds a Master of Science in Health Administration (MHA) and a Master of Business Administration (MBA) from the University of Missouri at Columbia. He is a Fellow of the American College of Healthcare Executives (FACHE) and holds the Accredited Senior Appraiser (ASA) designation from the American Society of Appraisers, where he has served as President of the St. Louis Chapter, and is current Chair of the ASA Healthcare Special Interest Group (HSIG).

John R. Chwarzinski, MSF, MAE, is Senior Vice President of HEALTH CAPITAL CONSULTANTS (HCC). Mr. Chwarzinski’s areas of expertise include advanced statistical analysis, econometric modeling, as well as, economic and financial analysis. Mr. Chwarzinski is the co-author of peer-reviewed and industry articles published in Business Valuation Review and NACVA QuickRead, and he has spoken before the Virginia Medical Group Management Association (VMGMA) and the Midwest Accountable Care Organization Expo. Mr. Chwarzinski holds a Master’s Degree in Economics from the University of Missouri – St. Louis, as well as, a Master’s Degree in Finance from the John M. Olin School of Business at Washington University in St. Louis. He is a member of the St. Louis Chapter of the American Society of Appraisers, as well as a candidate for the Accredited Senior Appraiser designation from the American Society of Appraisers.

Jessica L. Bailey-Wheaton, Esq., is Vice President and General Counsel of HEALTH CAPITAL CONSULTANTS (HCC), where she conducts project management and consulting services related to the impact of both federal and state regulations on healthcare exempt organization transactions and provides research services necessary to support certified opinions of value related to the Fair Market Value and Commercial Reasonableness of transactions related to healthcare enterprises, assets, and services. Ms. Bailey-Wheaton is a member of the Missouri and Illinois Bars and holds a J.D., with a concentration in Health Law, from Saint Louis University School of Law, where she served as Fall Managing Editor for the Journal of Health Law & Policy.

Daniel J. Chen, MSF, CVA, is a Senior Financial Analyst at HEALTH CAPITAL CONSULTANTS (HCC), where he develops fair market value and commercial reasonableness opinions related to healthcare enterprises, assets, and services. In addition, Mr. Chen prepares, reviews and analyzes forecasted and pro forma financial statements to determine the most probable future net economic benefit related to healthcare enterprises, assets, and services, and applies utilization demand and reimbursement trends to project professional medical revenue streams, as well as ancillary services and technical component (ASTC) revenue streams. Mr. Chen has a Master of Science in Finance from Washington University St. Louis.