

Turning Around a Poor-Performing ASC

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Fixing ailing ASCs is an important part of our industry

Based on reporting data from California
and Pennsylvania:

- 25% lose money.
- 25% break even.
- 50% make money with 18-20% average profit margins.

**We see approximately
one underperforming
center each week that is
seeking a turnaround for
the following reasons:**

Reasons for Failing

- Poor case volume – partners not bringing all their cases.
- Poor management.
 - High staffing costs.
 - High supply costs.
- Poor payer contracting.
- Overbuilt.
- Staggering debt service.
- Poor AR management.

What are the indicators that a center can be saved?

- Inefficiencies – poor management.
- Recruiting possibilities.
- Low case reimbursement.

What precludes a turnaround?

- MDs failure to support a turnaround model.
- No recruiting possibilities.
 - No unaffiliated MDs.
 - Hospital employment of MDs.
- Poor payer contracts with years to run on the contracts.
- Staggering debt.
- Overbuilt.
- Killer lease.
- Payers controlled by hospital.
- Political obstructions.

How quickly can a turnaround be accomplished?

- Weeks to Months.
- Average 12 weeks.

Turnaround Goals

- AR – less or equal to 35 days.
- AP – less than 1 month of expenses.
- Case volume – 300 per month or greater.
- Revenue per case - \$1,000 per case or greater.
- Operating costs – lease less than 10%.

Turnaround Goals (continued)

- Staffing costs – 20% or less.
- Supplies – 20% or less.
- Debt.
 - Less than \$4 million in liabilities.
 - Debt service not more than 10% of revenue.
- Income statement/operating expenses.
 - Less than 60% of revenue.
- Net income – 20% or greater.

Seven Steps to Fixing the Failing ASC

- Increase cases.
- Reduce staffing costs.
- Reduce supply costs.
- Create efficiencies.
- Improve contracts.
- Improve AR.
- Refinance.

Steps to Recruiting New Cases

- Identify the busy high quality surgeons.
- Show them the increased efficiency and the profit center that the ASC represents.
- Invite them to come and use the center.
- Get them credentialed.
- Get the equipment they need to do the cases.

Steps to Recruiting New Cases (continued)

- Invite them over at the end of the day, prior to surgery, and have the staff and the surgeon walk through the case so that the next day goes perfectly.
- Let them know what is expected of a non owner-user and an owner-user.
- Demystify the buy-in mechanism.

Increasing the Cases

- Recruiting surgeons.
 - Fellow surgeon partners are the best recruiters.
 - Only the efficient should be recruited.
- Getting current partners to bring all of their cases.
- Compare what was promised to actual monthly numbers

Decreasing Staffing Costs

- Schedule compression produces decreased staffing costs.
- Block time release—use it or lose it.
- Cancel if less than 6 cases for one day.
- Part-time staffers.
- Turn off lights when done.

Decrease Supply Costs

- GPO.
- Reduce inventory.
- Case costing.
 - Every procedure, every surgeon, every month.
 - Compare surgeons and centers of excellence.

Improve Efficiency

- Encounter forms—accurate one-day billing.
- Turnaround time 7-10 minutes or less.
 - 2 rooms vs. 1 room.
 - Role of anesthesia.
- Templates.
 - Decrease paperwork.
 - Improve turnaround time.

Payer Contracting

- Every year revisit each contract.
- Any increase goes to the bottom line.
- Get consultant if needed.

Improving the Case Mix and Average Reimbursement Per Case

- Average reimbursement typically above \$1,000/case.
- As an owner of an ASC you are looking for those procedures that will dramatically increase that number.

Improving the Case Mix and Average Reimbursement Per Case

(continued)

- Ortho, spine, bariatric surgery all fill that requirement.
- Orthopedics is going to experience over the next 2 years, an increase of 46% in Medicare reimbursement. It is becoming profitable to do these cases in an ASC.

Improving the Master Charge List

- Sometimes reimbursement is low because the ASC is not charging enough. Review master charge list periodically and make sure it is representative of the facility charges in the community.
- It should reflect closely, the hospital charges for the same procedure in the outpatient setting.

Accounts Receivable

- Less than or equal to 35 days out.
- 65% current.
- Little over 90 days.
- Administrator capable of coding, posting, collections and submissions.
- One day.
- We prefer on site.

Refinancing

- Lower interest rate.
- Fully amortized over 7 years.

Examples of turnarounds and lessons learned:

Tennessee Center

- 1 OR.
- 1,200 sq. ft.
- Only 2 active surgeons.
- Brink of bankruptcy.

Before Turnaround Financial Data 1998

	Total	% of Revenue
Cases	365	
Revenue	401,547	
Services	118,830	30%
Supplies	75,051	19%
Wages & Benefits	136,659	34%
Rent	72,647	
Management Fee	40,000	
Depreciation	46,632	
Interest	15,365	
Net Income	(103,637)	-26%
Distributions	-	-

After Turnaround Financial Data 2005

	Total	% of Revenue
Cases	5,015	
Revenue	3,744,502	
Services	304,818	8%
Supplies	634,064	17%
Wages & Benefits	740,523	20%
Rent	-	
Management Fee	-	
Depreciation	92,304	
Interest	43,164	
Net Income	1,929,629	52%
Distributions	1,629,509	44%

Mechanism for Improvement

- Built a modern ASC with 2 rooms and 1 procedure room in 6,300 sq. ft.
- Recruited all new surgeons—12.
- New contracts.
- Case costing.
- AR 34 days.

Michigan ASC

- CON for 3 ORs and 2 procedure rooms.
- Beautiful facility.
- Lost money for 5 previous years of operation.
- Losses getting less—prior year was 541,739 loss.
- Staffing costs excessive.
- Poor staff morale.
- Billing and collections poor.
- Heavily in debt—3.2 million.

MI Before Turnaround

- Supply costs 40%
- Cases 200/month
- Staffing Costs 50%
- AR 85 days
- AP \$1,253,160
- Average revenue per case \$ 791
- Distributions \$ 0

MI After Turnaround

- Supply Costs 15% of revenue
- Cases 350/month
- Staffing Costs 15% of revenue
- AR 33 days
- AP \$200,000
- Average revenue per case \$ 1,285
- Distributions \$100,000/month
after one year

Mechanism for Improvement

- Case costing.
- Utilized a GPO.
- Reduced inventory.
- Recruited 6 new surgeons/retired 5 surgeons.
- Refinanced debt.
- Replaced full time with part time.
- Closed ORs when not in use.
- Reduced surgical days.
- Brought billing on site.
- Claims billed on same day as surgery.

New York ASC

- 9,621 sq. ft. facility with 3 ORs and one procedure room.
- CON state.
- Purchase price 1.2 million for the CON and equipment.
- ASC destitute – on the brink of bankruptcy.

NY Before Turnaround

<u>EXPENSES:</u>	<u>Actual % of Revenue</u>	<u>Accepted % of Revenue</u>
Supply costs:	\$ 710,025 = 29%	\$ 486,261 = 20%
Staffing costs:	\$ 1,262,406 = 52%	\$ 486,261 = 20%
Real estate lease	\$ 340,497 = 14%	\$ 243,130 = 10%

NY Before Turnaround

<u>OTHER BENCHMARKS:</u>	<u>Actual</u>	<u>Accepted</u>
Accounts RECEIVABLE	94 Days Out	Less than 40 days out
Accounts PAYABLE	\$582,000 (almost 3 mo.)	Less than one month
Average Revenue PER CASE	\$ 846	\$ 1,000 or greater

NY After Turnaround

- Supply Costs 14% of revenue
- Staffing Costs 20% of revenue
- Real estate lease 5% of revenue
- AR 29 days
- AP \$ 72,763
- Average revenue per case \$ 2,586
- Distributions \$ 230,000/month

Mechanism for Improvement

- Cancelled and renegotiated contracts.
- Case Costing.
- Part time replaced many full time personnel.
- Compression of schedule.
- Reduce number of operating rooms used.
- Implement efficiencies.

Florida ASC

- The center had bad credit—forced to pay vendors on delivery.
- The Center was charging less than it cost to perform cases.
- Administrative staff had limited experience in billing and collections, e.g., AR 9 days out.
- \$2,528,390 – Total debt and AP.

Florida ASC (continued)

- Poor equipment.
- Open 5 days a week when 2 would have been adequate.
- Poor reputation in the community.
- No experience with contracting—all contracts were signed regardless of terms.

FL Before Turnaround

- Supply Costs 27.5 % of revenue
- Staffing Costs 39.0 % of revenue
- Rent 8.5 % of revenue
- AR 9 days out
- AP \$ 640,000
- Average Revenue \$ 807 / per case

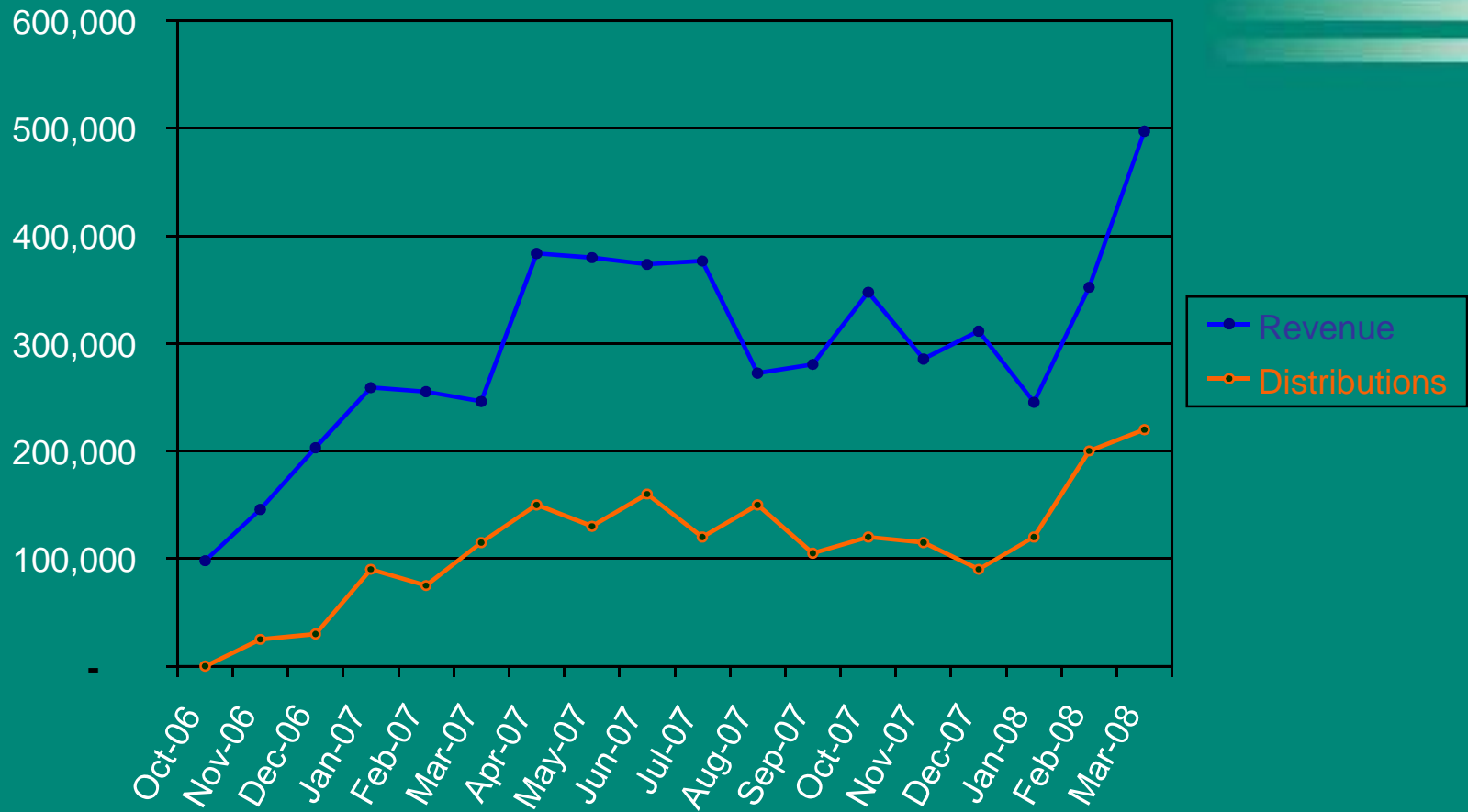
FL After Turnaround

- Supply Costs 14% of revenue
- Staffing Costs 20% of revenue
- Rent 3% of revenue
- AR 39 days out
- AP current
- Average Revenue \$ 2,600 / per case
- Distributions \$ 150,000 / month

Mechanism for Improvement

- Resyndication of ownership to new surgeons.
- Cancellation of unprofitable payer contracts.
- Implement efficiencies
 - AP
 - AR

Monthly Performance Since Closing



THINK PROFITS

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