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AMBULATORY CARE PLATFORMS

AS THE KEY DRIVER OF A SUCCESSFUL VALUE-BASED CARE STRATEGY

As reimbursement risk shifts from payers to providers, hospitals and health systems are expanding ambulatory care platforms as a key element of their value-based care strategy. A leading manager and developer of ambulatory surgery centers (ASCs), Regent Surgical Health is helping hospitals realize the opportunities presented by robust ambulatory care platforms to lower costs, improve the quality of care, enhance patient loyalty, and improve physician satisfaction.

“The fact that healthcare premiums have continued to rise is proof that payers have not been successful at managing care,” says Chris Bishop, Chief Executive Officer at Regent. *“Shifting the risk to hospitals and providers aligns incentives with the quality and efficiency of care, not the volume of procedures, and presents a growth opportunity for hospitals who embrace this strategy.”*

While in the past outpatient strategies were sometimes seen as competition for inpatient volume, more and more hospitals now agree today's economics favor ambulatory care, and they're investing in ambulatory platforms as a core strategy, rather than just a retail extension of their brand. In fact, while there are 6,000 ASCs in the United States today, Bishop estimates that number will grow between 8,000 and 10,000 surgery centers over the next five to seven years.

Regent's experts believe much of this growth will come as a result of hospital-surgeon joint ventures. Hospitals benefit from an ambulatory option that improves patient outcomes and patient satisfaction. Physician owners of ASCs benefit from the hospital's help solving significant challenges including: market saturation, elimination of out-of-network reimbursements, and declining per-case reimbursement for independent ASCs. This white paper outlines how Regent Surgical Health utilizes its experience to help hospital systems embrace strategic, structural and operational approaches to optimize ambulatory care platforms as the key driver of a successful value-based care strategy.

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SHIFTING REIMBURSEMENT RISK REDUCES HEALTHCARE SPENDING

One of the biggest benefits hospital systems can accrue from expanding their ambulatory care footprint is a lower cost of care. As hospital systems and providers assume reimbursement risk from payers and begin to leverage their expertise to manage care more efficiently, collaboration is taking over in an ambulatory care arena where friction once existed. Regent Surgical Health's successful track record with hospital/physician ASCs illustrates the cost-saving benefits of moving more surgery to outpatient centers.

According to the Ambulatory Surgery Center Association (ASCA), ASCs provide cost-effective care that saves the government, third-party payers and patients billions each year. As one example: Medicare pays significantly less for procedures performed in ASCs when compared to the rates paid to hospitals for the same procedures. In fact, if just half of the eligible surgical procedures moved from hospital outpatient departments to ASCs, Medicare would save an additional \$2.4 billion a year or \$24 billion over the next 10 years. Currently, Medicare pays ASCs 58% of the amount paid to hospital outpatient departments for performing the same services. Private insurance companies tend to save similarly, enabling employers to incur lower healthcare costs when employees utilize ASC services.

"In terms of healthcare spending, surgery is number two, second only in cost to disease state management," Bishop says. "We help hospitals develop a market strategy to more cost-effectively manage their surgical spend. There's no question that the method for achieving this goal is to move appropriate surgeries out of the hospital setting and into a surgery center. It often can be done for approximately 10-40% less, and it's a more convenient, high-quality experience for the patient with lower risk of infection and readmission."

Zeroing in on a single type of surgery makes the point more specifically: Medicare pays hospitals \$1,670 for performing an outpatient cataract surgery, while paying ASCs only \$964 for performing the same surgery, according to an ASCA report. And, patients are responsible for less coinsurance when procedures are performed in the ASC. Continuing the cataracts example, Medicare could pay as much as \$496 in coinsurance for a cataract procedure performed in a hospital, while that same patient's copayment for having the surgery in the ASC would be only \$195.

"For a while, the growing reimbursement gap created friction between hospitals and ASCs," Bishop explains. "Some hospitals were purchasing ASCs outright to convert them back to hospital outpatient departments, and terminating ASC licenses to entitle the hospital to bill for services provided at rates approaching 75% higher. But in today's healthcare environment, hospital leaders are embracing joint ventures with physicians in ASCs instead to deliver quality care at lower cost to all, and to experience additional benefits including stronger loyalty through improved relationships with both patients and physicians."

BUILDING BRAND LOYALTY THROUGH HIGH-QUALITY, COST-EFFECTIVE CARE

Expanding ambulatory care platforms can help hospitals build brand loyalty by improving relationships directly with patients, and with the physicians who open doors to new patients, providing convenient access to services and elevating the quality of care.

Why is this true? The answers lie in the very nature of the delivery model enabled by an ASC. By definition, ASCs offer more focus, providing fewer types of surgery compared to the breadth of services hospitals must be prepared to handle. This narrower scope, less physical space and fewer operating rooms, allow for sharpened quality control processes. It also gives patients access to specialists with case-specific expertise, and with less overall bureaucracy. As a result, ASCA reports ASC patients have a 92% satisfaction rate with both the care and service received from ASCs, citing safety and high-quality service, ease of scheduling, greater personal attention, and lower costs, as reasons.

For hospitals, patient satisfaction is a metric that helps drive even more success in the era of value-based care, both in terms of current expenditures and future revenue. For example, having invested heavily in electronic medical records (EMRs) over the past several years, hospitals can now access a patient's full record anytime and anywhere to see what procedures they've had in the past. Extending this benefit across ambulatory care platforms is reassuring to patients, and helps hospitals realize the lifetime value of a patient by setting up systems and services to deliver the majority of the care patients will need throughout their lives.

"The move to value-based care is forcing healthcare leaders to reconsider their entire patient care model including where procedures are performed, shifting focus to efficiency and quality, and patient wellness, not just treating those who are sick," Bishop says.

"Providence Health & Services in Oregon understands the importance of offering an alternate site of service for patients who qualify for outpatient surgeries, and has been instrumental in identifying cases better served by the ASC versus the hospital," states Anne Roberts, Regent Surgical Health's Vice President of Operations. She notes that being able to move appropriate procedures to a more efficient site of care is good for the hospital as well – enabling better stewardship of healthcare dollars being spent through their in-house health plan. *"Providence is a leader in outpatient strategies. They truly see the ASC as part of their system of providing care,"* says Roberts.

A timely example of "appropriate, cost-effective settings" is outpatient urgent care centers. According to Bishop, these consumer-friendly healthcare sites are enjoying rapid growth now, because when compared to hospital emergency rooms they provide a significantly better consumer experience, more cost effectively, closer to home. Also, they attract physicians who are ideally suited to urgent – but non-emergency – care.

"While there are 6,000 ASCs in the U.S. today, that number is expected to grow between 8,000 and 10,000 surgery centers within the next five to seven years."

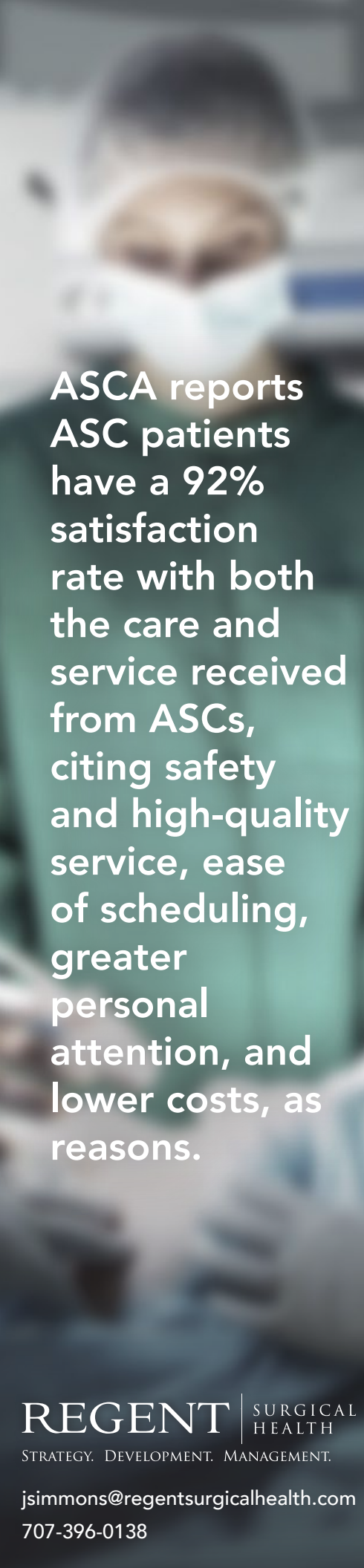
- Chris Bishop

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IMPROVING PHYSICIAN ALIGNMENT

By enhancing a hospital's relationships with the physicians in the community, a robust ambulatory care platform also helps hospital systems optimize both effectiveness and efficiency.

Using ASCs as an example, many physicians find working with hospital systems through jointly-owned ASCs complements their own skills with the inherent strengths of hospital partners, allowing them to leverage managed care contract rates and shared administrative functions. In today's healthcare environment, many physicians are exploring options that include integrated relationships with hospitals that keep them focused on improving the quality of care, while offering support, autonomy and the financial opportunities they seek.

The Glasgow Medical Center, LLC and its multi-specialty physician partners have been affiliated with Christiana Care Health System for a number of years. Ranked the 21st leading hospital in the nation and 10th on the east coast in terms of admissions, Christiana Care joins a growing family of Regent health system partners in the Northeastern United States.

Center leadership recognized an opportunity to expand services and when they announced their partnership with Regent, Dr. Paul Imber, ENT, board chair of Glasgow Medical Center stated, *"Regent Surgical Health has been the conduit for bringing together the hospital and physicians. We're all working together in a unified way. I believe our patients will be the beneficiaries of this partnership, continuing to receive the high level of customer service they've grown accustomed to at Glasgow. And now, we are well-positioned to deliver a higher level of care at a lower cost."*

Patrick Grusenmeyer, Sc.D., FACHE, president and Chief Executive Officer of Christiana Care Health Initiatives, Inc., the health system's home for entrepreneurial activities and joint ventures, echoed Imber and noted, *"Regent Surgical Health demonstrated a stellar track record for delivering value to some of the nation's leading systems. They bring clinical and business expertise in operating centers, and have a proven history of building strong relationships with surgeons."*

With a track record in structuring hospital/physician ASC joint ventures, Regent Surgical Health's experience suggests the best model to minimize hospital investment and risk, gives doctors the largest ownership interest in their ASC facilities and more control. This arrangement encourages a productive in-patient relationship between surgeon and hospital, eliminating competition between the two, and provides greater leverage with payers as well.

"Based on more than a decade of ASC joint venture experience, we know that physicians can become more valuable partners when they work closely with hospital executives to grow the ASC," says Bishop.

According to Bishop, hospitals have had reservations in the past regarding physician partnerships because they wanted majority ownership and control of operations — frequently a nonstarter with physicians. Today's financial

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realities are forcing many hospitals to reconsider, and to adopt ownership and governance models that allow physicians to maintain operational control of an ASC, providing a financial win for both.

On the other side of the equation, shrinking reimbursements are driving physicians to reconsider an ASC partnership with a hospital. The reasons are numerous: 1) hospital-affiliated ASCs reap significantly higher payments for cases than independent facilities; 2) strategic alliances with hospitals are consistent with the aims of healthcare reform models; 3) these deals provide a hedge against shrinking practice reimbursements for surgeons; and 4) joint venture ASCs hold a competitive advantage over ASCs that do not partner with hospitals.

UNDERSTANDING STRENGTHS DRIVES OPTIMAL STRUCTURE

As a result of their experience structuring and managing ASC joint ventures between hospitals and surgeons, Regent Surgical Health brings both parties together effectively so their individual strengths and interests are correctly aligned and the resulting ventures thrive and deliver growth. Broadening the approach to an overall ambulatory care platform can drive similar results across a hospital system's value-based care strategy.

An effective ambulatory care platform takes appropriate care delivery out of the hospital and into the communities where patients live and work, creating a productive network between hospitals and physicians to drive market share. Bishop describes this network effect in terms of a "hub and spoke" relationship.

"While the hospital 'hub' is best at taking care of very sick patients," Bishop explains, "adding ambulatory care facility 'spokes' allows physicians to serve patients' less severe healthcare needs in a more convenient, more efficient venue, while referring inpatient needs back to the hospital."

Leadership at hospitals and surgery centers are planning for the future with this model.

Dr. Jim Ballard is a partner at an independent ASC in Oregon and selected Regent Surgical Health as a management and development partner in part because of Regent's ability to bring hospitals and surgeons together. *"As value-based care drives more surgery cases from hospitals to surgery centers, ASCs are playing a more significant role in the healthcare model of the future,"* says Ballard. *"Our practice recognized this opportunity and launched an extensive search to find a surgery center management and development company that shared our vision. Not only does Regent bring clinical and business expertise in operating centers, they have a track record for fostering strong relationships with surgeons and hospitals."*

Restructuring to support an expanded ambulatory care platform can be accomplished a number of ways, from building to acquisition. *"The best way is really 'all of the above',"* Bishop says. *"The first step is to understand what*



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**- Dr. Jim Ballard
partner at Oregon
Surgical Institute, an
independent ASC**

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ASC Assessment includes:

- Market Research
- Market ASC Footprint
- Evaluate ASC/HOPD Models
- Availability of Existing ASCs
- Opportunity to Build New ASCs
- Opportunity to Re-purpose Licensing
- Physician Recruiting Opportunity
- Construction Estimates
- Operating Budget Estimates
- Case Mix/Volume
- Reimbursement Projections

you're currently doing in the hospital: Who are the patients that could go home on the same day?"

Regent's approach is to identify surgical specialties that could be performed elsewhere – things like colonoscopies, orthopedics or ophthalmology, and then to take a look at quality physicians in the market associated with those specialties, including surgeons dedicated to one hospital and those splitting time with competing health systems. Depending on the gaps, either forming a de novo ASC or acquiring a quality center already in existence may make sense.

"We wanted a management company that would bring a successful operating model to this ASC," says Miriam Odermann, Chief Executive of Ambulatory Services at Providence Health & Services in Oregon (PH&S-O). *"Regent was asked to develop the pro forma, provide payer contracting, recruit the ASC's administrator involving the Board of Managers, and assist with the development and implementation of operations. This was PH&S-O's first 'on hospital campus' joint venture ASC. It serves as a model for future developments on other hospital campuses within PH&S-O."*

Regent's national team of clinical, operational and financial experts tackle everything from shaping ambulatory strategy to partnership/center development to managing day-to-day operations. Regent's track record with facilities in the United States and Europe suggests ASCs can make a big impact on value-based care as part of a hospital's ambulatory care platform. They improve efficiency and inspire greater surgeon loyalty, resulting in inpatient referrals while providing higher quality, more consumer-friendly patient care.

AMBULATORY STRATEGY ASSESSMENTS

The first step in developing an ambulatory strategy is researching market need and its ASC footprint. Regent Surgical Health looks at the availability of existing ASCs, the options to build new ASCs, and the opportunity to re-purpose licensing. For existing ASCs, Regent will assess the availability of new physicians and the ability to add additional specialties.

After reviewing market intelligence with hospital partners, Regent will develop construction estimates, operating budget estimates, and reimbursement projections.

At the completion of an ambulatory strategy project, Regent's hospital partners are armed with the information including timelines, budget, P&L projections, and roles and responsibilities.

SUMMARY

Fueled by changes in the healthcare landscape and improved partnerships between hospitals and physicians, a robust ambulatory care platform has become the most important driver of a value-based care strategy for successful hospital systems today.

"At Regent, we believe the health systems that will win in the new, value-based

reimbursement world are those who drive care strategy from an effective and expanding ambulatory care platform,” says Bishop. “The ‘big box’ model was built around volume, not value, around quantity, not quality of care. Our experience suggests the key to success with value-based care is to identify your system’s high opportunity markets, and to provide convenient outpatient access. This elevates the quality of care and improves the experience for both patients and physicians.”

As a partner through this change, Regent Surgical Health works with physicians and hospitals to structure and manage facilities where patients enjoy efficient and excellent care. Recognizing that both physicians and patients are customers of the business, Regent works to improve not only the quality of care, but also the business of care, helping hospitals increase market share, enhance physician loyalty and improve quality through robust ambulatory care platforms.

ABOUT REGENT SURGICAL HEALTH

Regent Surgical Health is among the nation’s leading surgery center management and development companies, and the most experienced company offering physician/hospital ASC joint venture partnerships. Regent has an unmatched record for delivering sustainable profitability, while enabling physician partners to maintain clinical autonomy and financial control. The company invests capital side-by-side with hospital and physician partners, and firmly believes the by-product of excellent care and efficiency is financial success.

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To learn more about Regent Surgical Health or to request an Ambulatory Strategy Assessment, contact:

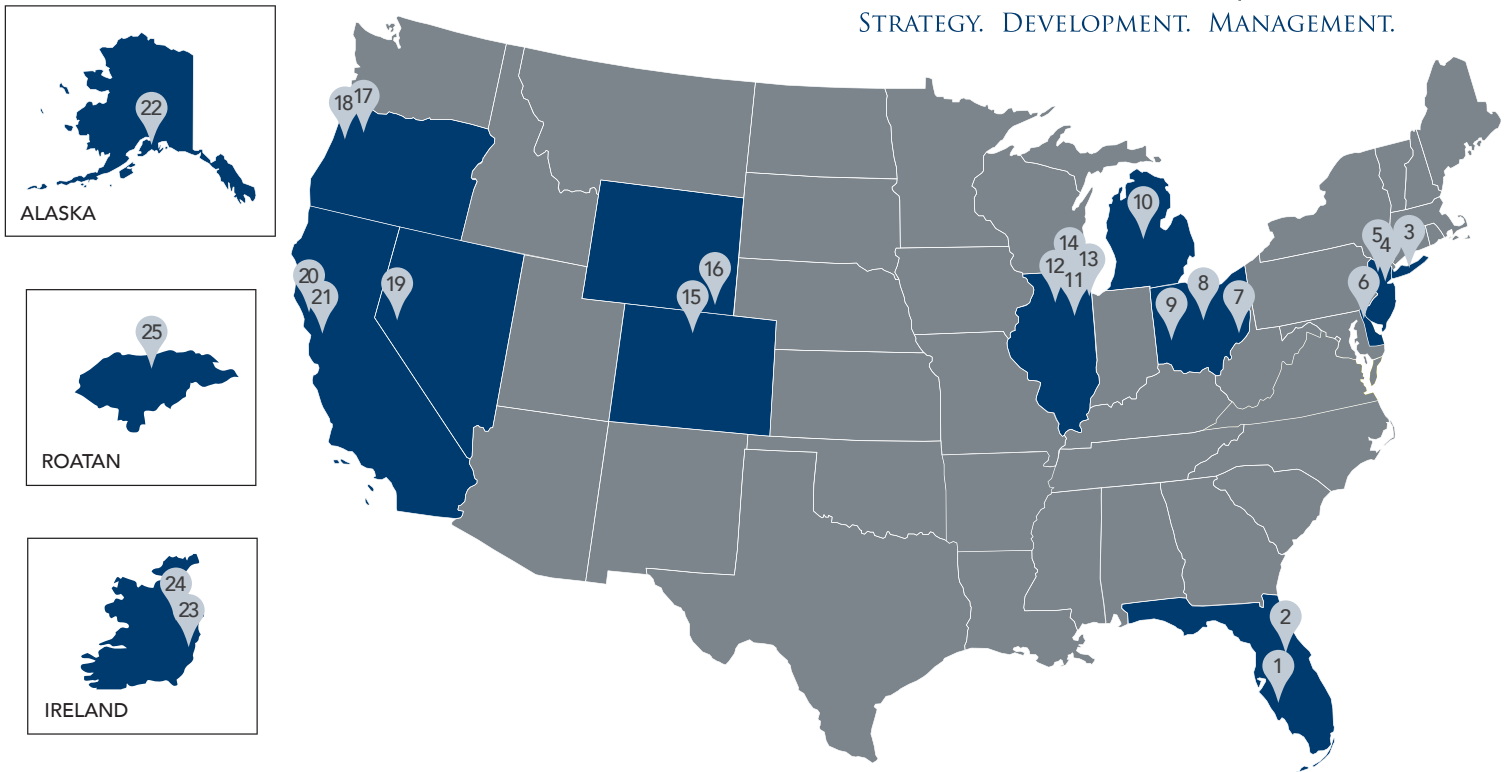
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- Miriam
Odermann
Chief Executive of
Ambulatory Services
at Providence



- 1 **THE CENTER FOR SPECIALIZED SURGERY**
Ft. Myers, FL
- 2 **SURGERY CENTER OF MOUNT DORA**
Mount Dora, FL [Partnered with Leesburg Hospital]
- 3 **EAST HILLS SURGERY CENTER**
Long Island, NY [Partnered with Catholic Health Services of Long Island]
UNDER DEVELOPMENT
- 4 **ROBERT WOOD JOHNSON ENDOSCOPY CENTER**
East Brunswick, NJ [Partnered with Robert Wood Johnson University Hospital]
- 5 **AMBULATORY SURGICAL PAVILION AT ROBERT WOOD JOHNSON**
New Brunswick, NJ [Partnered with Robert Wood Johnson University Hospital]
- 6 **GLASGOW MEDICAL CENTER**
Glasgow, DE [Partnered with Christiana Care Health Initiatives]
- 7 **MARIETTA SURGERY CENTER**
Marietta, OH [Partnered with Marietta Memorial Hospital]
- 8 **KNIGHTSBRIDGE SURGERY CENTER**
Columbus, OH [Partnered with OhioHealth]
- 9 **MEDICAL CENTER AT ELIZABETH PLACE**
Dayton, OH [Partnered with Kettering Health System]
- 10 **MT. PLEASANT SURGERY CENTER**
Mt. Pleasant, MI [Partnered with MidMichigan Health System]
UNDER DEVELOPMENT
- 11 **PALOS SURGICENTER**
Palos Heights, IL [Partnered with Palos Community Hospital]
- 12 **MIDLAND SURGICAL CENTER**
Sycamore, IL [Partnered with Kishwaukee Community Hospital]
- 13 **RAVINE WAY SURGERY CENTER**
Glenview, IL [Partnered with Northshore University Health System]
- 14 **IL SPORTS MEDICINE AND ORTHOPEDIC SURGERY CENTER**
Morton Grove, IL
- 15 **LOVELAND SURGERY CENTER**
Loveland, CO
- 16 **HIGH PLAINS SURGERY CENTER**
Cheyenne, WY [Partnered with Cheyenne Regional Medical Center]
- 17 **PLAZA ASC**
Portland, OR [Partnered with Providence Portland Medical Center]
- 18 **OREGON SURGICAL INSTITUTE**
Beaverton, OR *UNDER DEVELOPMENT*
- 19 **SURGERY CENTER OF RENO**
Reno, NV
- 20 **ENDOSCOPY CENTER OF LODI**
Lodi, CA [Partnered with Lodi Memorial Hospital]
- 21 **LODI OUTPATIENT SURGICAL CENTER**
Lodi, CA [Partnered with Lodi Memorial Hospital]
- 22 **SURGERY CENTER OF WASILLA**
Wasilla, AK
- 23 **NEUROSURGERY IRELAND AT HERMITAGE MEDICAL CLINIC**
Dublin, Ireland [Partnered with Hermitage Medical Clinic]
- 24 **CYBER KNIFE IRELAND**
Dublin, Ireland [Partnered with Hermitage Medical Clinic]
- 25 **STEM CELL CLINIC**
Roatan, Honduras [Partnered with Hospital Cemesa]
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