how important it is to inform patients up front."

In order to accommodate patient flow, Blakewoods also planned its PACU remodeling project for its least-busy month; the Michigan center performs mainly cataract procedures, and so choose a winter month when many of its potential patients would be vacationing in warmer climes.

Prep staff for the challenges

Unless your construction project is wholly separate from existing space, it's going to interfere in lots of little ways with how your nurses and other staff go about their days. Inform staff of the changes you expect, and take steps to ensure they know how things will change before you start.

"We made a checklist of everything that would need to be done each day: wipe off all cupboards, wash all the gurneys every day, put away certain items each night," says Ms. Acker. "We had very neat builders, but you still have dust to deal with. We also increased the hours of our cleaning crew for the duration of construction; they probably had the most frustration, because they were trying to work after-hours, when the construction crew was working."

There's not just extra work; workflow will likely be disturbed as well.

"We stored a lot of supplies on carts that could be pushed into unaffected areas at the end of each day," says Ms. Acker. "It's stressful, because you can't just automatically reach for what you need. It was kind of like redoing your kitchen at home: Your silverware might be in the living room, while the can of beans you need is on the porch."

It's also important to keep staff apprised when unexpected changes occur — generally on a daily basis.

"We would come in to find plastic up on a new area that was not usable; you never could get used to it all," says Ms. Acker. "We have two doors from our PACU into our sterile hallway to the ORs, and we posted signs to direct traffic because it changed day to day. Some changes made it harder to turn a cart or a gurney, but nothing was unworkable."

Watch the budget

When you look at your project, it's wise to build end dates for each stage into the contractor's contract, with penalties if the deadlines are missed — "it keeps them moving and helps keep you on budget," says Ms. Acker.

She also advises tracking construction expenses separately, so you're "not ordering supplies, for example, out of the same basket. This way, you know exactly what expansion really costs you, where your expenses are running high and low, and you can watch your money tighter," says Ms. Acker. "If you have a constant in-flow of cash, you might not see your construction budget as shrinking. My accountant helped me set everything up. The added benefit is that, down the line, we'll have a clear record of what we spent of fixed assets, building — everything related to the project." ■

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Cost to Build: Sample 2-OR ASC

By Stephanie Wasek

Usually running about $1 million per OR, a small, single-specialty center with two surgical suites ranges from $2 million to $3 million, with larger-multispecialty ASCs costing $4 million to $8 million, according to calculations provided by Meridian Surgical Partners, which partners with physicians seeking to develop new ASCs in addition to acquiring interests in existing physician-owned facilities.

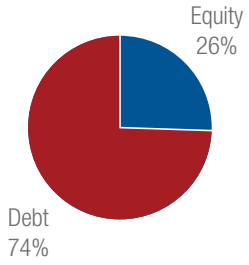
See the chart on page 47 for an analysis from a sample project: Design and construction makes up the single greatest cost, followed closely by capital expenditures to outfit the facility after it's built.

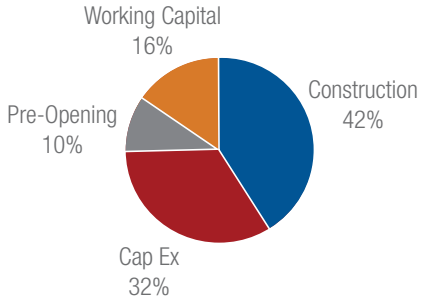
"One aspect of the project summary not included here is the land-use portion, which captures the cost of the real estate, the shell building and typically a tenant improvement allowance for interior construction," says Kenny Hancock, president and chief development officer of Meridian. "Those TI (tenant improvements) can

Facility Size	
Square Feet	8,300
Operating Rooms	2
Procedure Rooms	1

Sources of Capital		
Physician Partners	70%	770,000
Corporate Partner	30%	330,000
Total Equity Financing		**1,100,000**
Debt Financing		3,158,400
Total Sources		**4,258,400**

Uses of Capital	
Design and Construction	1,813,400
Capital Expenditures	1,345,000
Pre-Operating Expenses	426,695
Working Capital	673,305
Total Uses	**4,258,400**





Investment Terms	
Available Units	100
Price per Unit	11,000
Total Equity Financing	**1,100,000**

Design and Construction	
Construction Fees	1,494,000
Other Fees and Expenses	319,400
Total Design and Const.	**1,813,400**

Debt Financing	
Design and Construction	1,813,400
Capital Expenditures	1,345,000
Total Debt Financing	**3,158,400**

Capital Expenditures	
Medical Equipment	1,200,000
Computers and Software	45,000
Furniture and Fixtures	100,000
Total Cap Ex	**1,345,000**

range from $25 a foot to $40 a foot, though land-acquisition construction costs will vary widely depending on what part of the country you're in."

Typically, the majority of the costs associated with development, including the tenant improvements and surgical equipment, may be leveraged with debt.

"The need for equity is isolated to working capital — typically four to eight months' startup operating expenses totaling at least $1 million to $1.5 million," says Mr. Hancock. "The investment ranges from $10,000 to $15,000 for a 1 percent interest in the partnership plus assumption of pro-rata debt dependent on debt structure."

Thorough analysis of historical data and strong, realistic projections will help your cause during the current tightening of the credit market.

"You're not going to be able to get a deal financed right now," says Mr. Hancock. "Most of financing is going to require individual guarantees beyond equity, a minimum amount of cash raised and a strong, vetted financial feasibility analysis. Some of those guarantees may burn off after perhaps two years if the center hits pre-specified cash-flow targets.

"There are still lenders that can handle a certain level of debt and want to loan that money, but something that was marginal before and got financed probably would not now." ■

Four Current Issues in Real Estate Development

By Stephanie Wasek

When starting an ASC, it's easy to get caught up in the construction side — after all the building structure is the tangible element surgeons, staff and patients will have to live with day in and day out. But the choices your group makes regarding the real estate can have an equally long-lasting impact, both directly and indirectly, on the financials of the ASC business.

"I think too often, people just say, 'I'm going to go ahead and build an ASC, and it's going to cost us a million dollars,'" says Mike Lipomi, MSHA, president of RMC MedStone Capital. "Not nearly enough time is spent in thinking through the real estate component of the equation."

Here is a discussion of four key current issues in real estate development.

1. Choosing a real estate model

When physicians join together to "own an ASC," this language generally refers to the business entity that owns the operations side of the ASC. With regard to the real estate, the physician group then has three options: own the building and land as part of the already-formed entity; own the building and land as part of a separate entity that may or may not include all the physicians who are owners in the operations entity; or lease space in an existing building from a landlord. Making this decision is the top issue.

• **Own or lease.** Here, there are pros and cons to both models and, when you look at the overall financials, the decision may simply come down to your group's risk tolerance.

"In renting, you have to be careful to include all the costs so you're comparing apples to apples," says Jeff Eckert, senior principal with Kalamazoo, Mich.-based Eckert Wordell. "One of advantages in renting over owning is that not having to invest capital in real estate. We have found over the last three to five years that although real estate investments perform very well, they don't have the same return on investment as the business sides of strong surgery centers. If you have to choose between the two, based on ROI, you're better off choosing the operations over the real estate."

Further, it's not an annual return (or quarterly or monthly distributions, as you may experience with the operations side once its running full-force); it's 10 to 15 years down the road.

"It's kind of a forced savings plan," says Jerry VanderVeen, president of MW Vanderveen in Kalamazoo, Mich. "Years later, when you look at what you owe and what the building's worth, there's