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The ABCs of ACCs – Are Ambulatory Care Centers on Your Future Roadmap?

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Every hospital today is feeling the effects of shrinking payer reimbursements and greater patient choice on its inpatient volumes and incomes. Nationwide, inpatient use has declined and outpatient use has risen over the last decade across all age groups.[i] Much of this care is shifting from hospital outpatient departments to less expensive freestanding ambulatory care centers (ACCs), such as urgent care clinics, outpatient surgery centers, physician clinics, imaging and therapy services, and pharmacies. A recent report from the national healthcare consulting firm SG2 projected a 22% increase in ACC services from 2010 to 2019.

ACCs are popular, cost-effective choices for patients and payers. Patients receive care in settings that are conveniently close to home and at prices more in line with their high-deductible-plan budgets. Quality care is delivered quickly, efficiently, and usually less expensively than in hospital settings with their higher overhead—a situation that supports payer goals to lower costs without compromising patient outcomes.

Yet given the right service mix and markets, hospitals, too, can benefit from adding ACCs within or outside the hospital setting. ACCs are less expensive to build and operate than a hospital in the same market, and can offer hospitals an efficient and cost-effective way to bundle services for one-stop consumer shopping. They can increase a hospital's market presence, improve patient access to care, offer lower-cost delivery settings, and help make the most of scarce capital.

The decision to develop an ACC is not lightly made, however: it must be both market- and organizationally-driven. You must balance many variables, such as service goals and needs, market forces, patient demographics, and market share. By following a thorough, analytic approach to the question, you can develop a solid case for whether you should add an ACC to your service continuum.

To start, you need to answer questions such as:

- Which of our departments and service lines are losing patients and income, and where are these patients and dollars going today?

- Which services would most benefit from moving to outpatient?

- Where should we put an ACC? Would the market support it there? What volumes and incomes can we expect?

- Should we go it alone or partner with someone?

Often, your hospital will already

have basic assumptions from which to start. For instance, if you're considering developing an ACC that has outpatient surgery services, a utilization study can help you estimate current and forecast demands by surgery type. You can then calculate how many operating suites are available now, as well as how many additional suites your hospital and market can sustain.

"Most ACCs provide several services, such as an urgent care clinic, physician offices, some imaging, maybe some therapy," says Frank Fox, PhD, a healthcare economist with his own healthcare consulting company that provides service line assessments, market analyses, and other support functions. "The actual mix depends on what your hospital needs, what the market needs, and what service suppliers already exist around you."

Determining the best structure and financial arrangement for your ACC is the next step. Hospitals throughout the west coast are finding creative ways to operate an ACC. Some enter as a sole lessee or owner, while others partner with provider groups or participate in a joint venture. According to Fox, a frequent approach is for a hospital to either lease or build an ACC, then sublease space to its own tenants, independent physicians, or other providers.

One northwest organization, for example, leases 60,000 square feet of office space as a major lessee, then uses part of it for an urgent care center and their physician clinics. They built out the rest of the space as offices, which they sublease to physicians, either on a short-term or longer-term basis.

In another arrangement, the hospital built and owns a large medical office complex, uses two floors for its own outpatient services, then leases the rest of the space to physical therapists, an imaging company, individual physicians, physician groups, and others.

"Access to capital is key," says Fox. "It may cost $25-$50 million to build an ACC. To reduce the amount of investment capital needed, a hospital provider often finds a developer who will build and lease the space to the hospital tenant. This is relatively frequent, and helps hospitals avoid large, one-time capital expenditures on physical buildings."

Another important question in the evaluation process is whether to operate the outpatient facility as an ACC that is freestanding (with lower reimbursement rates, but potentially higher volume) or as an ACC that is actually a hospital outpatient department, or HOPD. An HOPD is managed as part of the hospital and has the same high expenses—but also the same high reimbursement rates—as the rest of the hospital. There is risk in operating a hospital-like ACC, since independent, lower-priced ACCs may also be in the market. Whether it's reasonable to do so means weighing the higher cost/higher reimbursement ACC option against market competition from independent ACCs that offer convenience and lower cost-sharing to price-sensitive patients.

Equally important is how the ACC will fit into your hospital's vision and strategies. One west coast organization is building a large ACC and designing it with the intent to receive the lower reimbursement rates, not HOPD-based reimbursement. Even though there is no other low cost ACC in their market to compete against, this plan actively supports their vision to lead in cost effectiveness and be prepared for the future.

Another hospital has taken a different approach that suited its market best—it built a freestanding ACC on hospital grounds and maintained it as an HOPD with a hospital like feeling. The local, easier access outpatient model draws in patient volumes, yet its care is reimbursed at the usual hospital rates.

Both options allow the parent hospital to capture new markets without building a new hospital, and each one fits the market need for that organization.

Taking your time to think through your options can help you serve your patients better, support your financial needs, and give you a way to re-position yourself in the market so you can stay viable and competitive in the next decade.

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[i] *Health Affairs Blog*, "Where have all the Inpatients gone?" Healthaffairs.org/blog/2014/01/06; American Hospital Association, Trends Affecting Hospitals and Health Systems, TrendWatch Chartbook 2014, http://www.aha.org/research/reports/tw/chartbook/ch3.shtml