Low-cost ASC buy-in

Key Insight: Hospitals and independent physician groups can jointly invest in ASCs to grow outpatient market share. A low-cost buy-in arrangement is especially well suited for hospitals that want to partner with multiple groups and physician investors who are early on in their careers.

CASE EXAMPLE **Bryan Health**

Joint venture ASC • Lincoln, NE

Bryan Health is a locally owned independent health system with more than 500 specialty and family practice physicians in Lincoln, Nebraska. About 80% of its medical staff physicians are independent.

The challenge

Bryan Health didn't have enough OR capacity to accommodate all surgical cases. For young, independent physicians in their market, the buy-in for local ASCs was too expensive, costing around $100,000 per share. At the same time, payers were increasingly incentivizing physicians to move their cases to outpatient, lower cost sites of care.

How the partnership works

In 2018, Bryan Health created a joint ventured ambulatory surgery center (JV ASC) to increase surgical capacity and give young specialists, as well as patients, a less expensive option in the community. Rather than partner with a single independent group, Bryan Health formed the JV with multiple physicians and practices to better align across different specialties and spread out risk. The JV is technically between Bryan Health and LPSC Investments—the LLC that holds the independent physicians' shares.

Bryan Health intentionally priced the shares so that they would be more affordable for young specialists in the community. To buy into the JV ASC, independent physicians pay $12,500 per share and can purchase a maximum of two shares each. To determine the price per share, Bryan Health calculated the capital they needed to raise for the ASC and divided that amount by the number of physician investors they hoped to engage. The share price is lower than other ASCs in the market because Bryan partners with multiple practices—bringing the cost down. They also opened the ASC in an existing medical office building so new construction costs were minimal.

Bryan purposefully capped the number of shares per physician so they could maximize the number of physician investors and ensure equal representation from a governance perspective. Currently, Bryan Health owns 51% of the ASC and about 85 physician investors own the other 49%. Of the 85 physician investors, 25 are anesthesiologists and the remaining 60 are various specialists including, ob-gyn, ENT, pain management, podiatry, orthopedics, and general surgery.

The benefits for each party

Bryan Health

Bryan Health partners with multiple independent physician groups in the JV. The hospital system can capture cases that are moving to outpatient settings while growing market share. This arrangement increases the likelihood that independent physicians will bring their more complex inpatient procedures to a Bryan Health hospital.

Independent physicians

Independent physicians own part of the ASC at a low cost, diversify their revenue streams, and have another setting to bring outpatient procedures. Physicians can reap these benefits while maintaining their autonomy and practice ownership.

Community

Patients have a care option that is less expensive than inpatient. ASCs are a more time-efficient and less expensive setting for low-risk outpatient procedures, which is ultimately better for patient care.

Considerations for your organization

- **Governance model:** Determine whether the hospital or physician group will retain majority ownership. Two common models are 51/49 and 50/50 percent ownership. There are pros and cons to each model. ASCs where hospitals have majority ownership benefit from the hospital's payer contracts, existing agreements for group purchasing, and clear brand awareness. However, when a hospital and physicians share ownership equally, both parties have the same decision-making power.

- **Ideal partners:** Physicians who find success in JV ASCs tend to be specialists who commonly perform low-risk outpatient procedures such as general surgery, ob-gyn, ENT, and podiatry. This agreement is attractive for hospitals that want to grow their outpatient footprint and better align with independent physicians in their market. Hospitals must determine whether to partner with one or multiple physician groups. Partnering with various practices can help spread out risk and increase the number of affiliated independent physicians.

- **Share prices:** To determine physician investor share prices, divide the amount of capital needed to create the ASC by the number of independent physicians interested in purchasing shares. To maintain fair representation across investors, create a standard for the maximum number of shares that each physician can buy.

- **Metrics:** Bryan Health tracks two metrics to measure success. The system monitors case volumes by surgeon and/or specialty to determine what portion of inpatient cases go to Bryan hospitals. Bryan also reviews dividend distributions to ensure that independent physicians see a profit. In 2021 alone, physician investors received about a 33% return on their investment.