



**EXPERT REVIEWED**

# What health systems need to know about partnering to develop an **ASC** strategy

Health systems seeking to broaden their continuum of care as part of a value-based care strategy can benefit from partnering with third-party ambulatory surgery center (ASC) operators. But there are important factors they should consider before adopting such a strategy.



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**H**ealth systems must contend with conflicting imperatives. While remaining intensely focused on day-to-day operations and financial viability, they cannot ignore longer-term strategic imperatives, which may include building out a full continuum of care to succeed under value-based payment while maintaining market relevance.

Yet many health systems face significant impediments to broadening the continuum of care, including tight margins and ongoing staffing challenges. Often, therefore, their leaders must ask a fundamental question: Can we extend the range of services we provide on our own, or do we need partner(s)?

Partnerships with capable third-party operators offer an attractive means for expanding a health system's service lines and offerings beyond traditional health system core competencies. Areas for potential partnerships include not only ambulatory surgery but also other outpatient offerings (e.g., dialysis, physician services/practices), hospital-at-home services, post-acute care and behavioral health.

Yet such partnerships may not be right for every organization or situation, which makes it critical for health systems to fully grasp the nature of each partnership opportunity and the

factors that determine whether a partnership is truly the best strategy for meeting specific patient care and business objectives.

Development of ambulatory surgery centers (ASCs) is one of the most common areas of focus for such partnerships. Thus, while every partnership opportunity — whether it involves an ASC or other area — will present its own unique factors to consider, health system leaders can gain insight into how best to assess any opportunity by reviewing the key points that are important to consider around forming an ASC partnership in particular.

### **ASC PARTNERSHIPS AND THEIR TYPICAL STRUCTURE**

As the number and breadth of procedures migrating out of health system operating rooms (ORs) and into ASCs grow, a strong ASC strategy is required to maintain system surgical volume and drive surgeon alignment. Partnering with a third-party ASC operator partner can be an effective means for developing such a strategy.

Typically, the health system and the ASC operator will develop a new jointly owned entity (HoldCo) to manage the ASC strategic development. The HoldCo, in turn, will seek surgeon investors as partners to develop ASCs under shared-ownership arrangements. Each party brings capital to bear proportionate to its ownership. As with other partnerships, typically the greater the capital and resources that a partner brings, the greater its operating control and the more substantial its share of future profits/losses. Commonly, the ASC operator manages the operation of a joint venture ASC.

### **THE BENEFITS OF PARTNERING**

By partnering with an ASC operator, health systems can achieve the following benefits.

#### **Bolstered physician interest and alignment.**

Surgeons are attracted to opportunities that allow them to diversify their income streams and share broadly in the economic benefit of their clinical activity. They can meet these objectives

When discussing its share of the ASC profits with a prospective ASC operator partner, the health system should be absolutely determined that it will get more via margin creation, market capture and growth than it is giving up by sharing ownership of the ASC.



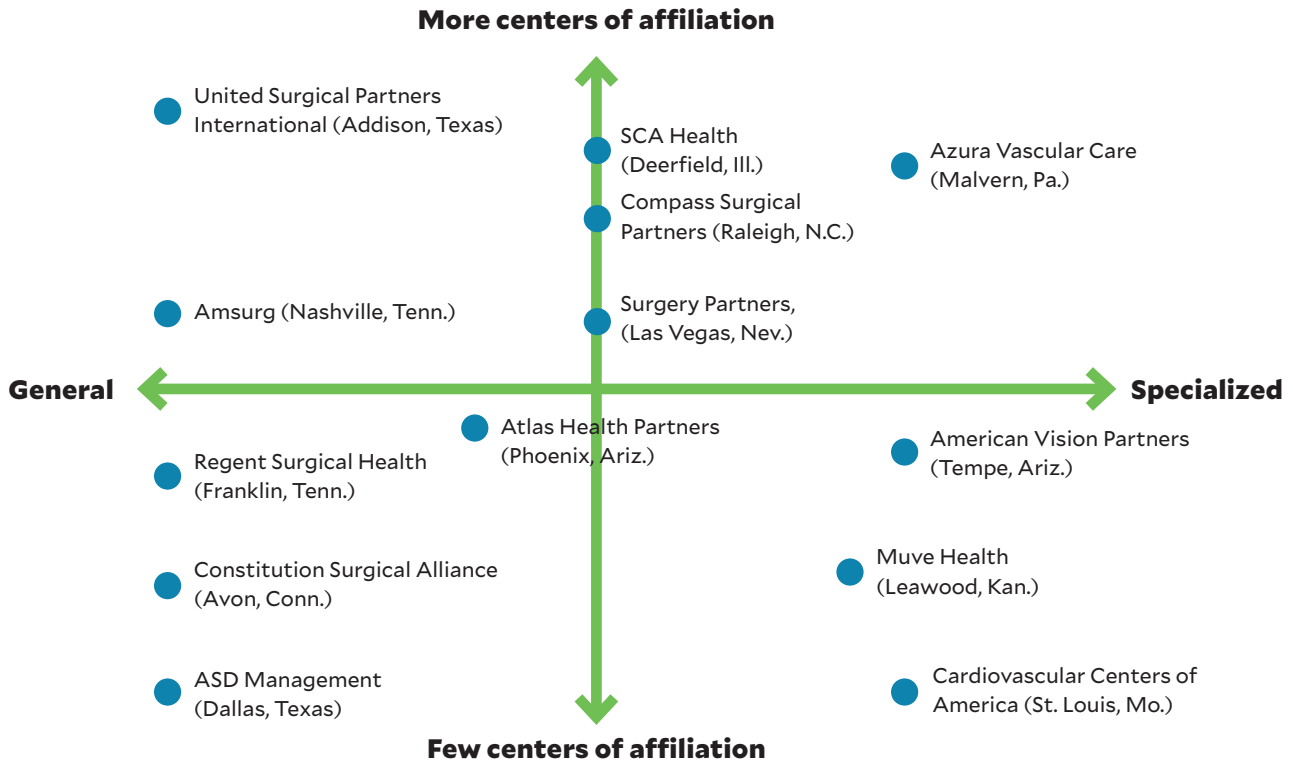
by holding ownership in ASCs where they perform surgical cases.

Health systems may not have a sufficient track record in operating an ASC to give surgeons confidence in the financial and operational success of an ASC partnership, particularly if the surgeons perceive the health system's competing objective is to maintain or grow hospital-based surgical volumes. A focused ASC operator can help overcome this barrier by clarifying this opportunity for surgeon investors.

**Enhanced speed to market and focus on growth.** Unless a health system's ASC portfolio is already a core business line, it is unlikely that the organization will be immediately capable of building and supporting a dedicated team to grow and operate its ASC footprint. An experienced and successful third-party ASC operator, on the other hand, will be prepared for such an endeavor, with the resource processes needed to conceive, design, structure, syndicate and launch ASCs and efficiently drive their expansion. A health system can look to an ASC partner to set up operational systems (e.g., operating room, patient scheduling and billing) and to connect with the surgeon partners who will ultimately drive the ASC's success.

## Potential ambulatory care partners for health systems among national ambulatory surgery center (ASC) operators

Potential ASC partners vary significantly in size, and while many provide a broad range of procedures, others have a specialized focus.



Source: Source: Veralon analysis, 2023

**Improved ability to respond to an evolving market.** Health systems partnering with ASC operators can benefit from the latter’s industry expertise and knowledge of industry trends around ambulatory care to ensure each ASC is responsive to emerging market demands, such as for creation of cardiac-care-focused ASCs.

### 8 QUESTIONS TO CONSIDER WHEN VETTING AN ASC PARTNERSHIP OPPORTUNITY

In considering an ASC operator partnership, organizational leadership will want to consider the following questions.

**1 Does the benefit of the specialty partnership outweigh the cost?** When discussing its share of the ASC profits with a prospective operator partner, the health system should be absolutely determined that it will get more via margin creation, market capture and growth than it is giving up by sharing ownership of the ASC. In many cases, the only way a health system can achieve this objective is by assuming a majority interest in ownership.

Sharing the ASC’s margin can be a material consideration, because well-run centers are a relatively high-margin business. Further, some ASC surgical volume will involve surgeries that would

otherwise be performed at the hospital, reducing margin on the hospital side. To be able to fully assess the value proposition of the proposed partnership, health system leaders must understand the prospective partner's track record and perspective regarding growth and performance for the partnership. To gain this understanding, the leaders can:

- Interview other health systems with which the operator has partnered
- Ask the operator to talk through the market-specific opportunity that they see for the partnership, based on factors such as the health system's current physician base, the competitive dynamics and degree of market saturation and the payer environment
- Examine the criteria the operator uses to determine whether there is a viable opportunity for acquisition or de novo development

## 2 What is the optimal ownership structure?

Deciding on the right ownership split among the health system, the operator partner and the surgeons requires balancing the parties' different objectives. For example, for surgeon partners, holding a significant equity share is often a priority, because they drive ASC surgical volume. However, this consideration needs to be balanced against the priorities of other partners. For example, if a health system partner has strong payer contracts, the ASC would be best served by being covered under those contracts. But for such an arrangement to be possible, the health system would require sufficient ownership at the appropriate level.

## 3 Is the organization positioned to grow the partnership?

While a partner can bring significant energy to drive growth, the health system must understand what steps will be required to meet growth objectives and be prepared to make those steps. An important first step would be to ensure there is a pre-agreed upon process in place to evaluate and approve opportunities? Often what sounds great at the start of a

partnership can break down when the partners begin to pursue actual tangible opportunities. The organizations may have differing views on investment hurdles, for example.

The health system also will be balancing many priorities, and the ASC will be just a piece of their business. So before entering a partnership, the health system's leaders should have a clear idea of the philosophy behind developing an ASC strategy that fully accounts for the factors that could be construed as unfavorable, such as the potential negative impact on hospital volumes.

**4 Are leaders aligned behind ASC partnership growth?** Multimarket health systems often evaluate and implement partnerships with ASC operators at a system rather than a facility level. Ensuring that local hospital executives support the partnership is essential. If their compensation is tied to hospital earnings, for example, they would likely object to the ASC because it would reduce their compensation. Thus, it may be necessary to adjust incentive structures to ensure all leadership is supportive of ASC growth.

## 5 How much capital can be brought to bear?

Each newly developed or acquired ASC will require capital. The organization needs to be positioned to meet the capital requirements implied by the targeted growth. To address this consideration, both parties should make sure they are aligned around the growth goals and associated capital requirements before moving ahead with the partnership. During this process, they should address questions such as the following:

- Are we aligned on what forms of funding are acceptable?
- Is it acceptable to use debt?
- Will any funds be withheld from distributions to support growth?

Each organization's leaders should review their own and the other party's investment

## Home health partnerships: Key considerations

Health systems require a closely aligned home care strategy to best manage patients after discharge and prevent patient complications and related readmissions. Home health, like other post-acute care, is not traditionally a core health system competency. Therefore, health systems may find it strategically beneficial to work with a third-party home health operator to either establish a home care offering or optimize the performance of existing home care assets.

## Typical partnership structure

As with ambulatory surgery center (ASC) partnerships, home health partnerships are commonly established via creation of a “master” joint venture (JV) between the health system and the home health operator. As specific home health investment opportunities – whether acquisitions or de novo operations – are pursued, associated capital is funded proportionate to ownership. The home health operator will manage the operations under a management agreement – either with the master JV or with the individual home health agencies under the JV.

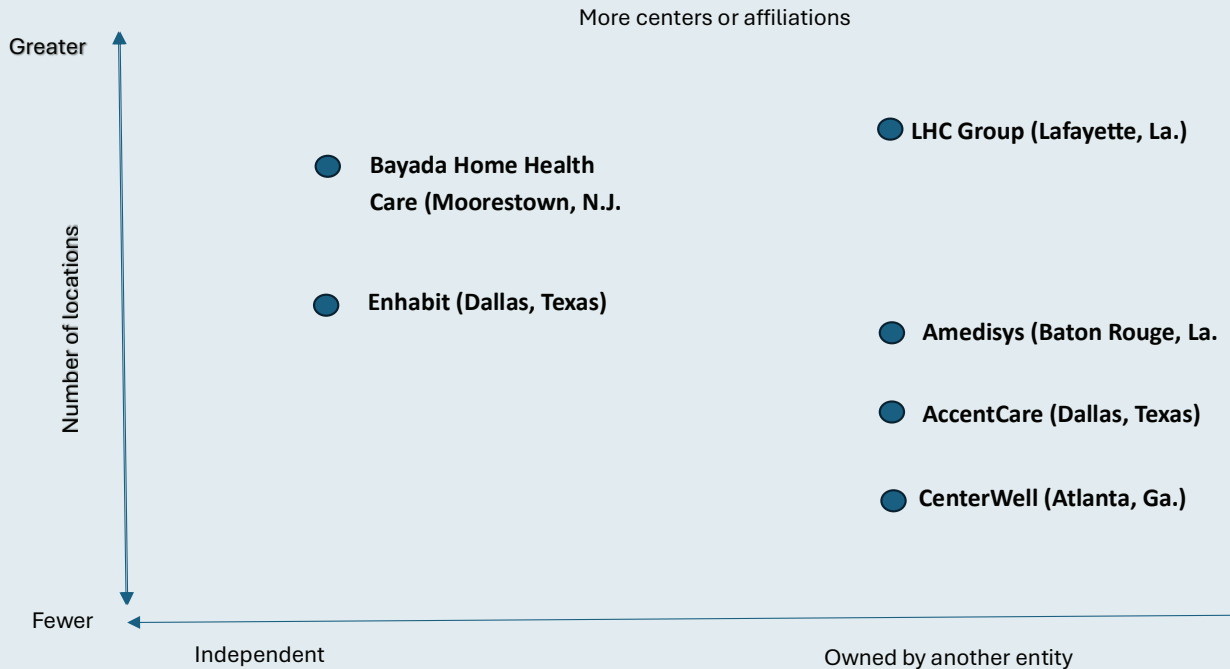
## Benefits of partnering

Partnering with a home health operator can give a health system access to the following benefits.

**Regulatory and operational expertise.** Licensure, operational issues, compliance considerations and business drivers are different in the home care world. Health systems may find it challenging or, at least costly, to build the necessary leadership and management infrastructure to support development of a high-performing home health offering “from scratch.” Partnering with a larger-platform home health operator can bring this critical expertise in a more efficient manner, as the partner will be able to leverage its corporate resources at scale

## Potential partners for health systems among national home healthcare operators

Potential home health partners vary in their size and ownership status – some remain independent, but many have been recently assimilated into larger organizations.



Source: Source: Veralon analysis, 2023

and implement “best practice” learnings from its experience across multiple markets.

#### **Resources to address labor shortages.**

Third-party operators can be better positioned than hospitals to address home care staffing requirements and challenges and to reduce turnover by virtue of centralized recruiting, scale efficiencies and human resources management capabilities.

#### **Improved ability to address licensure and certificate of need (CON)**

**considerations.** In many states, securing a new home health license may be difficult. A partner with an existing license in a targeted county could apply the license to a joint partnership. Alternatively, the health system could acquire one or more independent licensed agencies in partnership with a home health operator partner.

**Access to niche home care offerings/expertise.** A partnership with a major home care provider can allow a health system to offer “newer” or niche home

care offerings – such as pediatric home care, rehab at home, mental health home care and other offerings. Further, many home health providers also offer home-based hospice and palliative care services. Bringing on a partner with more diverse home care experience can best position a health system to ensure its home health offerings meet the diverse needs of its patient population.

### **3 key questions to consider when vetting a home health partnership opportunity**

In considering partnering for home healthcare services, organizational leadership will want to consider the following questions.

**1 Which markets and (if applicable) specific agencies are of interest to potential partners?** While a health system probably needs some level of home health services in every market, a potential partner may not be interested in operating in every market. The health system should seek to understand which

markets are or are not of interest to the partner.

**2 Will the partner be able to effect desired turnarounds?** If a health system has an existing underperforming agency that it wants to bring into the partnership, its leaders should make sure the partner is fully confident that it can turn the operation around and is willing to include the operation in the partnership.

**3 How will the partner work with relevant hospital departments?** With any home health partner, it is essential that there be a strong connection with hospital case management. To understand how a prospective partner approaches this function and to gauge its level of experience, the health system should interview its past or current health system partners in other markets. In addition, depending on its value-based and risk arrangements, the health system may require close coordination around the management of certain patients. Setting expectations for these specific considerations upfront will pave the way for a smoother partnership.

criteria and capital approval process to reconfirm they are going in with eyes wide open.

**6 Are the resources and processes in place to effectively evaluate and pursue ASC opportunities?** Health systems’ investment approval processes tend to be more layered and lengthy than those of third-party partners. Thus, to ensure the success of the partnership, the health system will likely need to modify its processes to align them with its partners’ processes and growth objectives.

**7 Who controls the partner?** In some cases, a prospective partner will be owned by a parent organization, as is the case with many

ASC operators.<sup>a</sup> The health system should understand the implications of such ownership, and whether and how that might change. Other prospective partners may be privately held and/or private equity backed and may be considering a sale down the road. The terms of the joint venture or management agreement should protect the health system against the possibility that it might be adversely affected by a change in partner ownership.

**8 What are the management fee implications?** While the ASC operator will be a partner in the ASC, it will also typically be providing management services for the ASC, for

a. For example, UnitedHealthcare Group owns Optum and its ASC arm, SCA Health; and Tenet Healthcare Corporation owns USPI [United Surgical Partners International].

## Behavioral Health: Key considerations

Behavioral health services are a pain point for most health systems. Demand for behavioral health services exceeds available resources in the majority of markets across the country, and patients requiring behavioral health services are often unable to access them. Insufficient access to facilities and services drives patients to emergency departments (EDs), resulting in backlogs and sometimes very long waits for patients waiting for mental health beds.

Health systems that do operate behavioral health service lines often struggle to break even and maintain

consistent operations and staffing. Poor financial performance makes it challenging to improve aging facilities or to expand.

Bringing on a third-party operator partner not only can improve patient care and service line financial performance but also can provide a substantial portion of the capital required to fund development of new or expanded behavioral health facilities.

### Typical partnership structure

Recent years have seen a number of major health systems (as well as regional players) announce material partnerships with behavioral health operators. These partnerships are almost always joint

ventures between the health system and the behavioral health operator partner, with the latter typically taking a majority ownership stake. The operator partner manages and staffs the joint ventured facilities, which typically include inpatient and step-down facilities.

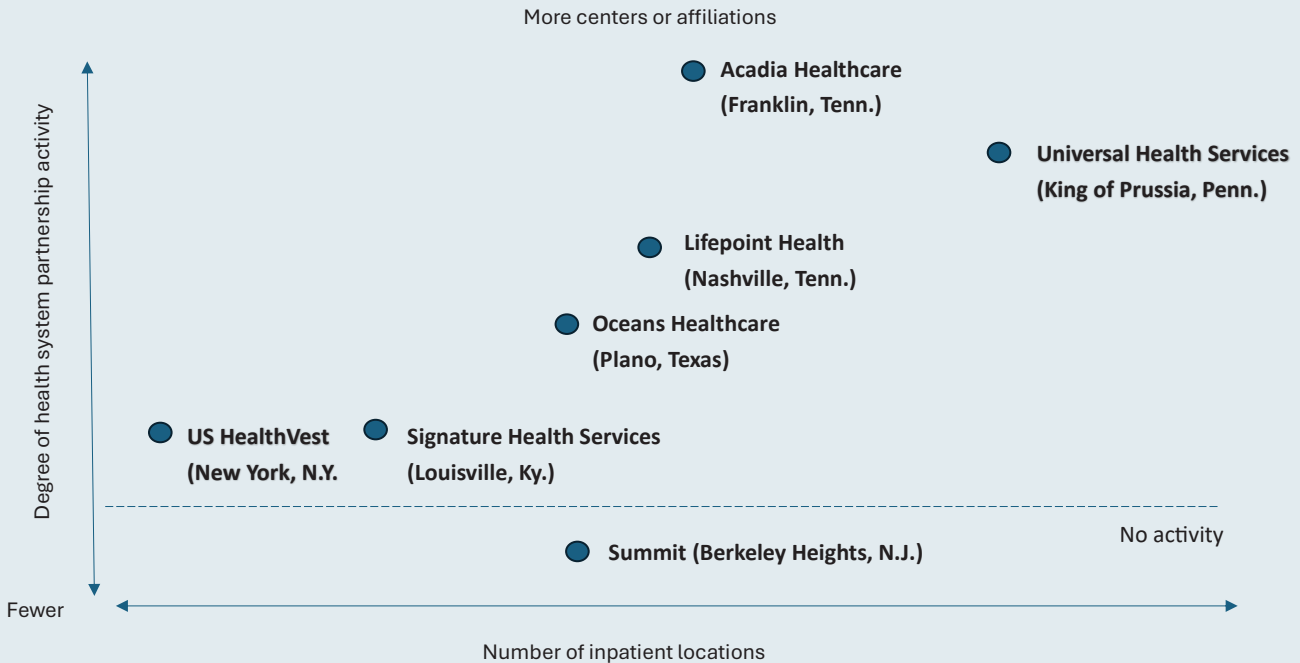
### Benefits of partnering

In well-developed partnerships, the third-party operator can make it possible to provide behavioral health services of a quality and quantity that would not otherwise be possible. Partners can bring the following benefits.

**Clinical best practices and operational expertise.** These benefits include the ability to address the behavioral health

## Potential partners for health systems among national behavioral health operators

Acadia and Universal Health Services (UHS) are the largest players and the most active with respect to health system partnerships.



Source: Source: Veralon analysis, 2023



needs of adults and seniors, children and teens as well as of patients dually diagnosed with mental health and addiction problems. Behavioral health operators typically offer expertise in traditional and intensive outpatient care and may also be able to support partial hospitalization programs.

**Cost efficiency via scale.** Third-party operators typically come with operating models developed and tested over years of operating history and with the ability to leverage corporate resources to drive scale and efficiency.

**Capital resources.** Behavioral health services often require new or expanded facilities. Operator partners typically seek a majority stake in the joint venture and will accordingly bring a proportionate majority of the required capital.

### 3 key factors to consider when vetting a home health partnership opportunity

The following are unique aspects of behavioral health partnerships that require special attention.

**1 Ownership compatibility.** Most, if not all, potential partners in the behavioral health field are for-profit entities. As a result, finding a partner can pose challenges. In certain states, corporate-practice-of-medicine laws may prevent the for-profit operator from owning and operating facilities. Navigating mission alignment also can take time and thought for not-for-profit health systems.

**2 Potential partner interest.** Most of the potential partner organizations will be evaluating every opportunity based on the financial return it will

generate on capital deployed and ultimately to owners. For a partner to be interested, the opportunity must be big enough and profitable enough to meet its investment criteria. Health systems in smaller communities may struggle to identify sufficient demand. Further, markets with particularly high labor expenses and/or a challenging payer mix may present challenges that a potential partner would not be able to address or improve upon after the transaction.

**3 A need for integration.** Behavioral health partnerships require that outsourcing co-exist with a high degree of clinical integration between the parties. Coordination is required with the ED, related medical services and laboratory and potentially pharmacology services. If a shared medical record is not feasible, other means of data and information sharing must be established.

which it will charge a management fee, including a “markup.” In addition to evaluating the costs of the management services provided, the health system should consider how the management arrangement would be affected were the overall ASC partnership to terminate.

#### PARTNERSHIP OPPORTUNITIES AROUND

The examples described here of key factors for assessing an ASC partnership opportunity can provide health systems with insight into how to similarly assess other opportunities for partnering with specialty service operators across the continuum of care. Potential areas for partnerships include the following:

- Behavioral health
- Dialysis
- Urgent care
- Physician management companies
- Home health and other post-acute offerings

- Inpatient rehab
- Outpatient imaging
- Physical therapy

Of course, each specialty area will present unique elements. But the overall exercise will be essentially the same, and health systems should regard such a process as an imperative for vetting each opportunity.

For discussions of other common areas for such partnerships, home healthcare and behavioral health, see the online sidebars with this article at [hfma.org/hfm](http://hfma.org/hfm). ■

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