



FMVantage Point™

HealthCare Appraisers' Industry Insight

THE ALTERED VALUATION LANDSCAPE OF AMBULATORY SURGERY CENTERS IN THE WAKE OF COVID-19

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DISCLAIMER:

This FMVantage Point contains a general discussion of current issues and developments regarding Coronavirus disease 2019 (“COVID-19”). The information provided in this article does not, and is not intended to, constitute legal advice; instead, all content in this article is for general informational purposes only.

NEW DEVELOPMENTS:

As COVID-19 continues to impose a growing strain on the healthcare infrastructure of the United States, local and federal policymakers are developing new methods to ease the burden on the nation’s hospitals. On March 30, 2020, the Centers for Medicare & Medicaid Services (CMS) took further action in an effort to provide the American healthcare system with additional flexibility to respond to the COVID-19 pandemic.¹ Under the new guidance, CMS is now allowing ambulatory surgery centers (ASCs) to contract with local healthcare systems to provide hospital services or to enroll and bill as hospitals during the emergency declaration. Of the nation’s nearly 6,000 ASCs², it is estimated that roughly half are currently affiliated with local hospitals.³ In its factsheet, CMS notes that it intends for this measure to enable ASCs “to decant services typically provided by hospitals such as cancer procedures, trauma surgeries, and other essential surgeries.” The declaration opens up the potential for thousands of additional patient beds across the country at a time when many hospitals are facing the possibility of a bed shortage.

CMS provided the following guidelines regarding ASC enrollment as a hospital⁴:

- ▶▶ Any Medicare-certified ASCs seeking enrollment as a hospital should do so through the Medicare Administrative Contractor (MAC) that serves their jurisdiction.

¹ Centers for Medicare & Medicaid Services. (2020). Additional Background: Sweeping Regulatory Changes to Help U.S. Healthcare System Address COVID-19 Patient Surge [Fact Sheet]. Retrieved from <https://www.cms.gov/newsroom/fact-sheets/additional-backgroundsweeping-regulatory-changes-help-us-healthcare-system-address-covid-19-patient>

² Centers for Medicare & Medicaid Services. Fast Facts (November 2019)

³ Szabo L. and Anthony C. (2020, March 30). More Than 5,000 Surgery Centers Can Now Serve as Makeshift Hospitals During COVID-19 Crisis. Kaiser Health News <https://khn.org/news/more-than-5000-surgery-centers-can-now-serve-as-makeshift-hospitals-during-covid-19-crisis/>

⁴ Centers for Medicare & Medicaid Services. (2020). Guidance for Processing Attestation Statements from Ambulatory Surgical Centers Temporarily Enrolling as Hospitals during the COVID-19 Public Health Emergency. Retrieved from <https://www.cms.gov/files/document/qso-20-24-asc.pdf>



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- ▶▶ CMS has streamlined the process in an effort to quickly increase the number of available beds, and as such, ASCs that have not had any Immediate Jeopardy-level deficiencies in the past three years should receive a hospital CMS Certification Number (CCN) within a number of days of submitting a signed attestation statement to the MAC.
- ▶▶ Any ASCs electing to enroll as hospitals will be required to meet the hospital Conditions of Participation, unless any conditions are specifically waived.
- ▶▶ Any ASC that is enrolled as a hospital will have its ASC billing privileges deactivated for the duration of time it is enrolled as a hospital. Once the COVID-19 emergency has been ended by the Secretary of the Department of Health and Human Services, the hospital billing privileges will be deactivated, and ASC billing privileges will be reinstated.
- ▶▶ Enrolled ASCs are also able to terminate their hospital billing privileges prior to the end of the declared emergency through a written request to the MAC.

VALUATION CONSIDERATIONS:

The COVID-19 pandemic has disrupted the usual activities of many industries, with the healthcare industry being particularly impacted. As of April 10, 2020, 35 states have released statements outlining the temporary cessation of elective or non-essential procedures during the COVID-19 outbreak.⁵ As ASCs are only permitted to perform outpatient procedures in which they can care for a patient for a maximum of 24 hours, the vast majority of procedures performed at these facilities are considered elective or non-essential. As a result, many ASCs across the nation have temporarily suspended their operations; however, these recent developments should encourage a number of ASCs to restart their operations with a different focus. The following considerations may impact ASC valuations:

- ▶▶ Revenue related to traditional, elective or non-essential procedures is likely to decline at many ASCs across the country; however, the ability for ASCs to perform services and procedures typically provided in hospital settings may mitigate some lost revenue for ASCs electing to pursue the CMS waiver.
- ▶▶ In the event of a decline in elective or non-essential procedures, such an event may be short-term as many of these postponed procedures are expected to be performed when normal operations resume; however, in an effort to further assist ASCs that experience cashflow shortages during this period, CMS has expanded its Accelerated and Advanced Payment Program. Under the program expansion, eligible ASCs will be able to request an up-front payment of up to 100% of their historical Medicare payment amounts for a three-month period. Repayment of the advanced funds will begin 120 days after the funds are disbursed, and an ASC will have 210 days from disbursement to repay the balance in full. ASCs will receive full payment for their claims during the initial 120-day period. During the repayment period, every claim submitted by the ASC will be offset from the new claims to repay the advanced payments. As such, the ASC's outstanding advanced payment balance will be reduced by the new claim payment amount.⁶ Further economic assistance may also be available to qualifying ASCs through the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, in the form of the Paycheck Protection Loan Program and direct cash payments to medical providers equal to approximately 6.2% of the provider's Medicare fee-for-service payments in 2019. The loan comes with a low interest rate and may be forgivable if certain criteria are met while the direct cash payments to medical providers will be a grant and will not require repayment. These assistance programs are expected to assist ASCs that need a cash flow lifeline during the COVID-19 pandemic.

⁵ Ambulatory Surgery Center Association. (2020). State Guidance on Elective Surgeries. Retrieved from <https://www.ascassociation.org/asca/resourcecenter/latestnewsresourcecenter/covid-19/covid-19-state>

⁶ Centers for Medicare & Medicaid Services. (2020). Expansion of the Accelerated and Advance Payments Program for Providers and Suppliers During COVID-19 Emergency [Fact Sheet]. Retrieved from <https://www.cms.gov/files/document/Accelerated-and-Advanced-Payments-Fact-Sheet.pdf>



- ▶▶ According to the Medicare Payment Advisory Commission’s (MedPAC) 2020 *Report to the Congress: Medicare Payment Policy*, “Medicare payment rates for surgical services performed in hospital outpatient departments (HOPDs) are almost twice as high as in ASCs.”⁷ As such, ASCs electing to enroll and bill as hospitals during the emergency declaration may see an increase in revenue received per case compared to their historic non-HOPD reimbursement rates. However, a shift in an ASC’s procedure mix towards hospital-based procedures will likely come with shifts in its expense structure. Some ASCs may have to purchase additional supplies to accommodate the procedures that are typically performed in hospitals. Additionally, a shift to inpatient care would require an ASC to operate around the clock, which could require a shift in the ASCs staffing structure and increase certain overhead and occupancy-related expenses. It should be noted that the total revenue impact of the transition to hospital billing is unknown, as some ASCs may elect to take on hospital-based surgical procedures, such as trauma surgeries, while other ASCs may focus on COVID-19 patient care. We would expect any valuator to consider and understand these differences in order to accurately assess the impact to value.
- ▶▶ If an ASC elects to contract with a hospital to provide hospital services while the hospital continues to receive hospital payments under Medicare, the ASC would likely receive a fee from the contracted hospital for use of its space, staff, equipment, and supplies. This could create a new, temporary revenue source for ASCs nationwide. For more detail regarding valuation considerations as they relate to ASC space and equipment under the new CMS guidelines, please refer to the [following article](#).

Given the uncertainty of the length of time the industry will be impacted by the COVID-19 pandemic, it will be important to consider these factors, among many others, on both a short and long-term basis as part of any valuation assignment. Due to the effects of the global pandemic, publicly traded stock prices have fallen from their previous highs, and private companies would not be expected to be shielded from similar declines in value. However, private companies, including ASCs, that effectively adapt and navigate the newly available assistance options should be able to emerge from the COVID-19 pandemic with a less severe impact to its financial position and potentially poised for a quick recovery. Each situation is unique and will require a valuator to understand the impacts of the above scenarios, among many others. HAI has extensive experience in both ASC and hospital valuations and is uniquely positioned to provide clients with an accurate and defensible valuation analysis during this unprecedented period. HAI has also expanded its website to include many COVID-19-related resources, which can be found below:

- ▶▶ [HealthCare Appraisers COVID-19 Resources](#)

⁷ Medicare Payment Advisory Commission. (2020). Report to the Congress: Medicare Payment Policy http://www.medpac.gov/docs/default-source/reports/mar20_entirereport_sec.pdf?sfvrsn=0

