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Micro-Hospitals: A Vehicle for Changing Reimbursement Structures

What is a Micro-Hospital?

As the health care industry continues its shift toward a value-based reimbursement structure with a population health approach, health care providers continue to face pressure to deliver the best care at the lowest cost. To address these challenges, providers are trying to develop strategies that address the health care needs of its patient population in a cost-efficient manner. One emerging trend across the country, the development of “micro-hospitals”, is doing exactly that. Micro-hospitals deliver care in a highly effective, low-cost setting by focusing directly on community needs; and they operate within a compact clinical and administrative framework. When implemented correctly, micro-hospitals control costs and improve quality of care. For all of these reasons, Micro-hospitals make an excellent vehicle for navigating the changing health care reimbursement landscape.

Although Micro-hospitals do not have one set definition, they do share several important characteristics. Micro-hospitals are fully licensed hospitals, meeting all federal and state licensure and regulatory requirements. Additionally, Micro-hospitals offer a focused scope of services that align with the needs of the community. The flexibility of Micro-hospitals’ clinical structure allows facilities to uniquely combine imaging, lab, primary care, specialty providers, infusion, ED, and surgical services as best meets the demand of the patient population.

Due to their broad but flexible clinical structures, Micro-hospitals work most effectively in markets where there is demand for both inpatient and outpatient services, yet not enough demand to support a full-scale multi-disciplined hospital. As such, Micro-hospitals typically affiliate with or are owned by larger health care systems located outside of the target market. Micro-hospitals allow providers to extend services to new geographic areas without incurring the costs of implementing and operating a large hospital. Thus micro-hospitals have the ability to offer personalized service to a targeted population in a more cost-efficient way compared to larger, more complex hospital facilities.

In contrast to recently emerging care delivery models, such as freestanding emergency departments, only Micro-hospitals offer a full range of health care services, including inpatient and comprehensive ambulatory services, while still being flexible enough to meet the unique demands of their patient community. As a result, one of the challenges of Micro-hospital development is meeting the more wide-ranging requirements of acute care hospital licensure typically required under state law. Nevertheless, Micro-hospitals are becoming an

increasingly common strategy to successfully deliver quality care at a low cost directed specifically at patient needs.

Benefits/Features of Micro-Hospitals

Benefits

- Means to enter new markets, including metropolitan areas
- Financial Benefits (low capital needed, low overhead, favorable hospital billing rates)

The Means to Enter New Markets

Developing a Micro-hospital strategy can allow health systems to expand the benefit of hospital-based services under the new provider-based rules as well as bill under OPSS for outpatient services under the new site-neutral reimbursement structure. In the past, Medicare's provider-based rules allowed outpatient facilities located outside of the main campus of a hospital to bill at hospital rates (i.e., submitting under OPSS, which includes both a facility fee and a physician fee) as long as the facility was integrated with the main hospital. However, updated regulations significantly limit the types of facilities that can bill in this manner—the regulations state that any outpatient off-campus facility not submitting a Medicare facility claim before November 2, 2015 may only be reimbursed under the most appropriate Medicare fee schedule (e.g., physician fee schedule) and not under hospital rates. However, the new rules do not change the regulations regarding remote hospital locations. Specifically, a preexisting hospital can install a remote hospital location that provides inpatient services as a provider-based site. Any outpatient facilities “on the campus” of that remote hospital location (within 250 yards) can bill under OPSS for their outpatient services. Therefore, a health system could install a Micro-hospital as a remote location to a hospital. Such a set up could allow a health system to expand its inpatient and outpatient services to new communities away from its main hospital while also retaining the ability to bill at more favorable rates for those services.

Additionally, Murer anticipates that this Micro-hospital remote location strategy has the potential to become even more viable if CMS implements certain regulatory recommendations relating to freestanding ERs as proposed by MedPac. Currently, CMS's site-neutral payment law discussed above exempts stand-alone ERs in order to ensure access to care. While MedPac does not necessarily oppose this exemption, it has indicated informally that it feels these freestanding ERs should use a modifier on all claims generated at these locations. The addition of a payment modifier for freestanding EDs could theoretically make it easier to identify freestanding ED claims and therefore more easily end the exemption that allows these entities to bill at the more favorable hospital rates. Such a change would make micro-hospitals even more viable, as they are not at the same risk of losing access to hospital rates.

Financial Benefits

Due to low capital requirements and low overhead, the ability to target high-demand services, and favorable billing rates, Micro-hospitals can also offer other significant financial benefits to health care systems. Depending on the size of the facility and the range of services offered, Micro-hospitals cost roughly \$15-20 million to build. By comparison, a full-scale acute care hospital typically costs anywhere from \$100 million to \$1 billion, depending on the number of inpatient beds. Micro-hospitals require significantly less capital and

begin generating revenue much more quickly. Additionally, micro-hospitals' smaller size and leaner staff allow them to operate with lower overhead costs than a traditional hospital. Micro-hospitals can precisely choose the types of services to offer and the types of specialists to contract with or employ, thus foregoing the added costs from staff and specialists that are not in high demand in the community that they serve. For example, if there is a large elderly population in a specific geographic area, a micro-hospital can offer services such as orthopedic surgeries while choosing to forego services such as pediatric care. Thus, the flexibility inherent in a micro-hospital allows it to maximize revenue on high-demand services while simultaneously avoiding any costs that would be associated with having to offer certain types of low-demand services for the patient mix in the area (subject to certain regulatory requirements).

Difficulties and Challenges Facing Micro-Hospitals

Difficulties and Challenges

- Certificate of Need Requirements (if applicable)
- Other Regulatory Requirements
- Challenges to Efficacy
- Site Selection

Certificate of Need Requirements

While there are key benefits to establishing a micro-hospital, they face several challenges. One of the largest challenges may be certificate of need (CON) statutes. Most states require a CON prior to the construction and licensing of additional capacity of health care services. As such, any health system looking to build and operate a Micro-hospital needs to be prepared to answer questions about why their additional facility is needed. In Murer's experience, other health care providers in the region often present the most vocal challenges to CON requests.

In order to gain approval for new construction or modification projects to health care facilities, Micro-hospitals will likely need to justify themselves as needed, financially and economically, as well as meet a host of other requirements. Other requirements include extensive facility design work, assessments of the impact of construction on charity care, other alternatives to the construction which have been considered, and more. Furthermore, while this information is submitted to the relevant state board, other members of the community (e.g., competing provider groups) have the opportunity to submit letters opposing the construction of such a new facility.

Other Regulatory Requirements

Beyond CON requirements, Micro-hospitals will need to accommodate licensing requirements, provider credentialing requirements, payor contracting negotiations, Medicare eligibility issues, pharmacy eligibility, laboratory requirements, and more. Policies and procedures for handling these types of issues can be time-consuming, and therefore it may be easier for a Micro-hospital to work within the already existing policies of a larger health system, making modifications accordingly to reflect the scope of the hospital.

To repeat, a Micro-hospital is licensed and Medicare-certified as a hospital just like a 300-bed complex medical center. Micro-hospitals must comply with the building and life safety requirements of a hospital as dictated by the state licensing agency. States vary when defining the minimum services to be provided at a hospital in order to obtain licensure. It is important for state licensing hospital requirements to be closely reviewed to ensure that the proposed Micro-hospital model will be able to meet all standards. And note that EMTALA standards apply to all hospitals, including Micro hospitals. EMTALA requires hospitals to provide emergency treatment to individuals presenting at the emergency department, regardless of the patient's insurance coverage status. Therefore, micro-hospital EDs must be prepared to provide emergency care that may not be reimbursed. As a result, the micro-hospital site-selection process (discussed below) needs to thoroughly consider the surrounding patient population.

CMS scrutiny of these hospitals has increased in recent years. Any hospital project must keep in mind that both state licensing and Medicare certification requirements must be met. In the case of Micro-hospitals, the project team must be overt in this regard and ensure that operations have an equal focus on both inpatient and outpatient services.

Challenges to Efficacy

Although micro-hospitals benefit patients by adding a convenient setting of care for patients who are located far away from most larger hospitals, critics have challenged their efficacy and claimed that micro-hospitals may increase cost of care. These critics claim that micro-hospitals do not typically offer significantly more services than an urgent care center, but can charge at hospital-rates. Critics claim this practice could lead to inappropriate cost increases; however, this result has not yet been demonstrated in practice.

Site Selection

Finally, one of the most important considerations for Micro-hospitals is site-selection. Rather than a market necessity, health systems should evaluate potential markets for any gaps in care to see if those gaps can be met by a Micro-hospital. It is important to identify a location with a real need for additional services and a patient population able to provide sufficient volume to support the provision of those services. Accurately evaluating market demand and characteristics is essential to success.

Where do Micro-Hospitals Fit in the Future Health Care Landscape?

Industry Trends and Micro-Hospitals

- Consumerism
- Health Care IT
- Aging Population
- Growth in Outpatient Services

Consumerism

When experts discuss the future of health care, one of the most commonly cited trends is consumerism. This trend could be particularly advantageous to the growth of Micro-hospitals. Consumerism in health care recognizes that patients have a choice between health care providers and identifies the need to fulfill patient preferences. In addition to competing with other providers to reduce costs and provide more effective care,

Micro-hospitals deliver care in a more convenient setting for patients while more directly addressing patient need. Their smaller size allows their doctors and employees to have a more consumer-forward approach than is possibly within a 400-bed facility. A Micro-hospital's patient-centered structure aligns well with the growing trend toward health care consumerism.

Health Care IT

Micro-hospitals can also utilize recent advances in health care IT in to better achieve Medicare Quality Payment Program requirements. As Medicare payment reform continues to shift toward quality metrics via MACRA, a hospital with a well-developed EMR-quality plan can effectively leverage its Micro-hospital relationships as part of its continuum of care. Alternatively, health systems could determine where urgent care or emergency departments in their systems have the longest wait times, and provide electronic reporting so that the patients could be directed from a high-volume, high-wait time emergency facility to a Micro-hospital with shorter wait times.

Finally, patient convenience could help reach other provider goals. For instance, Micro-hospitals could treat patients with low acuity conditions at a lower cost, while sending higher acuity patients to hospitals to effectively triage certain patient types. For capitated payment models, this could mean significant savings and revenue advantages to the health system.

Demographic Trends and Aging Patients

Micro-hospitals are part of an emerging health care trend focused on patient convenience. Other similar attempts include Micro-systems and Micro-clinics. These alternative models all have the advantage of greater flexibility because they can (1) be located in smaller clinic spaces and (2) have a greater focus on a particular community need.

To date, Micro-hospitals have been most frequently established in urban areas that have existing service gaps, but not gaps large enough to justify another full-sized hospital. Future plans for Micro-hospital growth might begin to target areas with certain populations that would particularly benefit from proximity to an emergency department, as well as inpatient beds that could provide care for short-term admissions. For example, a Micro-hospital near a retirement community could provide critical, badly needed care for a population much more likely to require emergency treatment or inpatient services. When building a Micro-hospital, Murer suggests that health systems begin to ask:

1. What type of patients are in this area?
2. Are there any health problems with high rates of occurrence in this market?
3. Are there particular services these patients are more likely to need?

Growth in Outpatient Services

Finally, an important trend in the health care industry has been a decline in inpatient admissions, coupled with a significant increase in outpatient visits. Therefore, Micro-hospitals can provide a convenient way to integrate specialists who might occasionally need the resources of a full-service hospital but who predominantly serve in outpatient settings. Rather than attach these services to a large hospital, health systems can build out their office space attached to a Micro-hospital. Using this method, Murer expects that many providers of different specialties who are similarly situated could be able to locate their practices in locations that are more affordable or convenient than a medical office building attached to a hospital.

Conclusion

Micro-hospitals present a unique opportunity, both financially and clinically, for health care systems looking to expand their reach to new geographic areas and patient markets. Murer has more than 30 years of extensive experience in guiding our clients through the complex health care landscape and helping to optimize their space within it. Most notably regarding Micro-hospitals, Murer has specific expertise in opening hospitals, with hospital operations, and in designing provider-based strategies to maximize client benefits. Please feel free to contact Murer to discuss the feasibility of establishing a micro-hospital and to explore the potential possibilities a Micro-hospital might represent to your health care system.

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Regulations are constantly changing. For FAQs about your particular situation, please contact Murer Consultants at 708-478-7030.