

THE OUTLOOK FOR AMBULATORY SURGICAL CENTERS IS BRIGHT

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There are more than [23 million ambulatory surgical cases](#)ⁱ performed annually in the U.S. Industry pundits and market experts are predicting that the ambulatory surgical center (ASC) market will experience massive growth in the coming years. According to [Sg2's forecasts](#)ⁱⁱ, total outpatient surgery volumes are expected to increase over 10% within the next few years. The [same report](#)ⁱⁱⁱ predicts that outpatient spine and orthopedic specific surgeries could grow by 35% over the next 10 years.

As discussed below, a combination of market and regulatory forces including consumer price transparency, payment reforms and technological innovations will likely spur ASC growth. Accordingly, leadership operators and investors in ASC assets will need a strong understanding of the driving market and regulatory forces behind ASC growth to be positioned for success in an increasingly competitive and value-driven economy. This article outlines the primary market, regulatory and competitive determinants that will affect ASC growth and the sector's forecast.

MARKET FORCES

As one of the primary ASC growth-enhancing market forces, technology will enable ASCs to mitigate the risk of patient safety and adverse medical outcomes and enable more consumers to recover at home. Data collection and analysis will empower ASC operators with utilization and capacity data that will enhance efficiencies. It will also enable facilities to prove their high-quality outcomes, garner additional reimbursements from payers and increase volume. Lastly, patient monitoring technology will allow providers to more immediately manage care episodes before, during and following care procedures.

Private payer network design and consolidation will also serve as market drivers for ASC growth and M&A activity. Private payers are increasingly forming narrow networks in exchange for premium discounts. Resulting [benefit designs](#)^{iv} will likely encourage more hospitals to partner with ASCs in the coming days to protect and grow their volumes. Narrow networks will also incentivize forward-thinking ASCs to enhance performance in exchange for network inclusion and increased volumes from payers. And while some ASCs may feel threatened by payer [consolidation](#)^v, it will drive further hospital-ASC alignment and M&A activity to enhance ASCs' negotiating leverage.

POLICY & REGULATORY FORCES

The federal and state regulatory landscape bespeak a generally optimistic and stable outlook as well. On the federal front, we foresee a generally stable inpatient, outpatient and ASC payment environment with modest and positive updates expected in the coming years. The current Administration's benign regulatory posture will bode well for ASCs. The prospect of a site-neutral payment rollout in the coming years will enhance ASCs' competitiveness vis-à-vis hospital-based outpatient departments. And since CMS has removed several procedures, including knee replacements, from the inpatient-only list, ASCs will now compete for more Medicare business among larger and higher acuity cases.

As for the state laws and regulations, the outlook is generally positive, especially in states where there are no Certificate of Need programs, the licensing requirements are simple and straight forward and there are no taxes on ASCs to support Medicaid. For example, states like [Texas and Wisconsin](#)^{vi} are attractive for ASCs in that they do not require Certificate of Need for any ASC services, and that is unlikely to change in the foreseeable future. Most states do not assess provider taxes on ASCs, although taxes could be raised in more states as federal Medicaid funding eases. Wisconsin first enacted an ASC tax back in 2009 and had reauthorized it in successive years until Wisconsin [repealed it](#)^{vii} in 2017. Lastly, ASC licensing requirements are fairly benign in most regions given states generally have either standard or no specific ASC licensing requirements.

COMPETITION

Competition will continue to be fierce among ASCs and hospitals in the coming years with ASCs having the upper hand. ASCs often operate more efficiently than hospital out-patient departments (HOPDs) given they can shrink scheduling and prep time and improve patient throughput. Consequently, a growing number of ASC operating rooms will compete for the more than 23 million patient cases and investment dollars. And an ever-increasing number of spine, orthopedic, ophthalmology, vascular, urology, dermatology, dental, gastroenterology and other surgeries that occur outside the hospital inpatient setting will heighten market competitive dynamics.

CONCLUSION

As healthcare modernizes and catches up to other industries from a technology and productivity perspective, price, access and transparency will increasingly play an important role for patients seeking to schedule elective surgeries at ASCs. ASCs that recognize and plan for the rising tide of consumerism will have a chance to attract more patients given they generally have low procedural costs and can be more convenient than hospitals. All things considered, the competitive advantages of ASCs vis-à-vis hospitals along with the market and regulatory tailwinds noted above will further enhance their market and investment value in the coming months and years.



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