

HOSPITALS



Exploring the Growing Trend of Micro-Hospitals

What exactly is a micro-hospital? Obviously it is a smaller version of a traditional hospital, but like most things in the health care space, it is far from that simple. Below, we explore the growing emergence of micro-hospitals and detail how they are finding their niche in the health care system.

Micro-hospitals typically operate seven days a week, 24 hours a day, and on average are 30,000 to 40,000 square feet in size with eight to ten inpatient beds for short-stays and observation. Most micro-hospitals are small-scale, fully licensed inpatient facilities. In general, no two micro-hospitals are exactly the same in design or services provided, but the majority of micro-hospitals tend to be located in areas and markets that are unable to support full-service hospitals. As such, micro-hospitals may be viewed as a low-cost entry into smaller markets, with the ability to expand services as needed. Micro-hospitals are designed to accommodate overnight stays but are primarily used to assess and treat lower-acuity inpatient medical conditions closer to a patient's home and in a more cost efficient manner than a full-service hospital.

Treatment costs at micro-hospitals are typically below that of a full-service hospital but higher than urgent care centers. Although micro-hospitals are able to treat a wide range of conditions due to having inpatient beds, the goal of a micro-hospital is not to be a one-stop shop. Rather, most micro-hospitals seek to treat the majority of care required by the community (up to 90% of treatments in some cases), but not the higher end of the acuity spectrum. Commonly, but not always, micro-hospital stays longer than 48 hours are sent to facilities that are capable of handling higher-acuity patients.

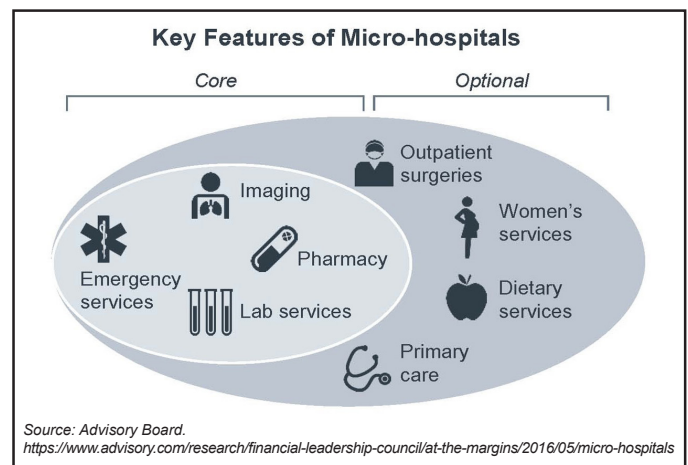
Characteristics

Typically, a micro-hospital is located within 20 miles of a full-service hospital to ensure an efficient transfer process for high-acuity patients. Additionally, markets are evaluated for potential service gaps where demand for full-service facilities is insufficient. Micro-hospitals are well suited to fill the void that exists between freestanding emergency departments (EDs) and full-scale hospitals by providing easy access to care with minimal waiting time.

Micro-hospitals and freestanding EDs are similar in that they both provide emergency care, however micro-hospitals also admit and guide patients to other appropriate care settings. Micro-hospitals, in some aspects, may be viewed as an extension of the freestanding ED model since most freestanding EDs need to be tied to a fully licensed hospital

facility. Micro-hospitals, on the other hand, are fully licensed.

Micro-hospitals have sets of core services typically including emergency care, pharmacy, lab, and imaging. The rest of the services may be tailored to the needs of the community. Common services offered also include primary care, dietary services, women's services, and low-acuity outpatient surgeries.



Advantages and Disadvantages

The most obvious advantage micro-hospitals have over larger hospitals is their ability to offer quicker and more convenient access to services. Specifically, one of the major advantages of micro-hospitals over other medical care centers is the fact that they are able to connect patients with specialty and primary care physician networks. For example, one micro-hospital in Las Vegas has a second floor with separate specialty and primary care physician offices to which patients could be referred.¹ Other advantages include reduced wait-times, higher reimbursement than an urgent care center, decreased physician burnout compared to higher-acuity settings, and more customizable services to fit the needs of a specific population.²

Conversely, one of the major disadvantages for micro-hospitals is the fact that they are limited to treating lower-acuity conditions. Often, micro-hospitals are not fully equipped to

1. <https://www.npr.org/sections/health-shots/2016/07/19/486500835/microhospitals-may-help-deliver-care-in-underserved-areas>

2. <https://leavittpartners.com/2017/06/micro-hospitals-unique-opportunity-deliver-care-underserved-areas-amidst-transition-value>

handle extreme medical situations such as heart attacks or life-threatening injuries from car accidents. Some of these patients may need to be transferred to larger facilities that are better equipped to handle high-acuity cases. Hence, the most successful micro-hospitals will have strong referral networks or be utilized as a cog in a larger health care delivery network.

Current Outlook

As of the first quarter of 2017, micro-hospitals had a presence in 19 states, including Colorado, Arizona, and Texas. A common characteristic that many of those 19 states share is that a certificate of need (CON) is not required in order to build a facility. CONs can be a lengthy, complex process, thus states without that requirement are at an advantage. One of the major reasons for the growing popularity of micro-hospitals is that they are less expensive to build (most fall into the range of \$7 to \$30 million) and have an abbreviated construction period compared to full-service hospitals, allowing health care services to be delivered to patients sooner.³

Similar to fully licensed hospitals, micro-hospitals have multiple financing options available to them including taxable and tax-exempt bonds, the U.S. Department of Housing and Urban Development (HUD)/Federal Housing Administration (FHA) Sec. 242 program, private equity, real estate investment trusts (REITs), joint venture (JV) partnerships, and bank debt financing. In a recent example of a JV transaction, Emerus Holdings Inc., the largest operator of micro-hospitals in the nation, entered into an agreement with Allegheny Health Network (AHN), a Highmark Health Company, to fund the construction of multiple facilities using the Emerus neighborhood hospital concept. The Emerus neighborhood concept facilities are fully licensed hospitals that offer an array of onsite clinical services, an ED, 10 to 12 inpatient beds, diagnostic care, primary and specialty care.

In another recent example of new development, Mercyhealth announced plans to build a micro-hospital in Crystal Lake, Illinois. The plan consists of constructing a 13-bed facility with private inpatient and intensive care beds, two operating rooms, and ancillary services. As the city of Crystal Lake does not have an ED, the new micro-hospital will offer 24/7 emergency services. The facility is expected to open in 2020.

In Ohio, MetroHealth is proceeding with a plan to build a 12-bed micro-hospital in Cleveland Heights. The 12,000 square-foot facility will be constructed in a previously unfinished space within the existing MetroHealth 24-hour ED. The location should make coordination with the ED efficient, as ED patients can be admitted to the micro-hospital for observation. The maximum stay will be longer than most micro-hospitals at 124 hours.

CMS Guidance

Effective on September 6, 2017, the Centers for Medicare and Medicaid Services (CMS) provided guidance regarding the requirement that a hospital participating in the Medicare program be “primarily engaged” in inpatient services in order to be considered by Medicare as a hospital and receive reimbursement for services rendered. Under this new guidance, CMS designates a facility as a hospital based on factors such as average daily census, average length of stay and number of 3. Ibid.

off-campus locations. As a baseline for compliance, CMS will require that a facility have at least two inpatients at the time of a survey as a prerequisite for a survey to be conducted. If the facility has less than two inpatients, surveyors will review admission data while on-site and will proceed with the survey if the data demonstrates an average daily census of at least two patients, and an average length of stay of at least two midnights over the prior 12 months.⁴

Due to constant changes in regulation regarding micro-hospitals, some hospital systems have been selective in opening hospitals in specific geographic and demographic areas. For example, Emerus has strategically positioned hospitals in zip codes with higher median incomes, more commercial coverage, and areas that are exhibiting rapid population growth. Additionally, Emerus has been expanding its network of micro-hospitals by forming strategic partnerships with larger health care organizations, including Dignity Health, Baptist Health, SCL Health, Hospitals of Providence, and Baylor Scott & White Health.⁵

The growing interest in micro-hospitals is likely to endure as the health care industry continues to undergo changes while promoting an over-arching trend towards specialization in patient care. Providers and investors interested in micro-hospital development should pay close attention to demographics, the type of services to be provided, design of the facility, and the available sources of capital as part of the due diligence process. Partnering with an experienced operator may be a way to minimize risk and implement best practices for those new to the micro-hospital space.

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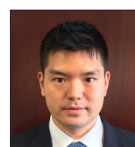
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