

INDUSTRY DEVELOPMENTS AND TRENDS

MICROHOSPITALS: INPATIENT SERVICES WITH OUTPATIENT CONVENIENCE

It is no secret healthcare is changing. With the growing shift towards value-based care, an increasing number of providers and systems are looking for ways to cut healthcare costs. Large acute inpatient facilities, once the mainstay of healthcare, are facing shrinking inpatient volumes and a growing ambulatory market. Health systems must adapt quickly to these forces, which are changing where the delivery of healthcare in the United States takes place. Microhospitals, a new care model that Sg2 calls an “innovative solution to enabling clinically appropriate care in a low-cost, highly efficient setting,” is one way systems across the nation are looking to cut costs while increasing their ambulatory footprint.¹ Called “micro” mainly due to the number inpatient beds (typically 8-12), these facilities provide the convenience of location with the capabilities to admit and observe patients.

For many, microhospitals can be seen as promising investments to help push patients to receive care in a more appropriate setting, with lower costs for the provider and patient. In a recent Huffington Post article, President and CEO of New York State Health Foundation writes that microhospitals represent new “hybrid models of care [that] offer a good middle ground that can meet the needs of their patients and residents in a way that is more prudent and sustainable.”² This paper outlines some of the facts and benefits for the newest care model innovation to hit the market.

IN THIS REPORT

- An overview of microhospital characteristics
- The regulatory landscape of microhospitals
- Case studies of microhospital implementation



University of Missouri Health Care, Orthopedic Institute Microhospital

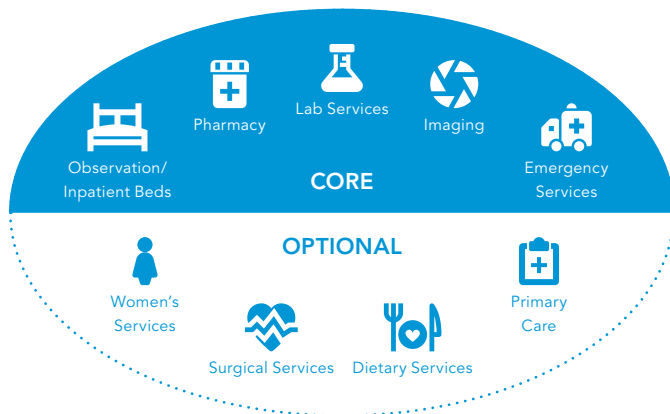


FIGURE 1

Key features of microhospitals.

Source: CannonDesign and Saulsberry, 2016

Characteristics of Microhospitals

As acute care facilities, microhospitals are subject to the same rules and regulatory requirements as traditional full-service hospitals in the state where they are built. However, microhospitals and full-service hospitals differ in the range of services they offer to patients. Most microhospitals currently under construction have the intent to meet up to 90% of the care needs of the community they serve.³ Core services for a microhospital typically include: ED, pharmacy (inpatient only), lab, and imaging. Remaining services depend on the community, but can include: primary care, telehealth, dietary services, women's services, and low-acuity surgeries (FIGURE 1). Some microhospitals include a floor or separate area with specialty and primary care physician offices where patients can be referred, allowing patients to easily connect to specialty and primary care physician networks.³ Additionally, while current news on microhospitals emphasizes low-acuity patients, the ability to serve higher acuity patients who need additional observation in an inpatient unit is the key differentiator between microhospitals and traditional outpatient facilities (i.e. FSEDs and traditional urgent care centers). Patients who are admitted to the microhospital and in need of specialty consults should (ideally) be able to connect with an acute care facility, while patients with acute needs exceeding the capabilities of the microhospital should be able to be easily directed/transferred to an acute care facility (inpatient hospital).²

The Evolution of Free-standing EDs

Microhospitals are not just aimed at easing access for existing patients — a huge opportunity exists for health systems to capture new patients and broaden their service area. In recent years, free-standing EDs (FSEDs) were seen as an opportunity to ease overturned hospital emergency departments by catering to an attractive market — a typically affluent population with private insurance. However, the continued shift towards value-based contracting, with accompanying efforts to rein in costs, may dampen utilization of high-cost settings such as FSEDs.⁴ Microhospitals, because of their inpatient classification, offer increased cost transparency and convenience for consumers, while allowing systems to expand or defend their ambulatory footprint in growing geographies.⁴

With microhospitals, healthcare systems are able to pull in new patients as well as provide comprehensive services with easier access for existing patients. For these health systems, the opportunities to expand and grow their patient base with an effective population healthcare delivery model is an appealing win-win in the push for affordable, appropriate care at the right place.

Shift to Value-based Care

In addition to meeting service and geographical gaps, some organizations see microhospitals as part of a larger strategy to decant less acute patients away from the costly services associated with a traditional full-service hospital. Dignity Health is developing microhospitals to shift less critically ill patients away from their acute care facilities, while also bringing more primary care to some underserved neighborhoods.⁵ This philosophy echoes the sentiments of AHA senior director, Priya Bathijia, that microhospitals provide an opportunity to “really ramp up outpatient services,” and in doing so, help create a continuous healthcare continuum and access across the community they serve.⁶

Location and Costs

While microhospitals are micro in size, they are still pricey investments. Usually located in retail or easily accessible locations, these spaces equate to expensive real estate, with costs varying depending on the number of ancillary services offered.⁷ State regulations will drive up the cost depending on any filings that must be done prior to construction. In general, the more comprehensive the microhospital, the greater the investment will be. Due to their difference in inpatient bed quantity, location, breadth of services, and volume expectations, using typical inpatient metrics such as cost per bed or price per SF can lead to misleading construction costs since the economies of scale for these facilities differ widely. Depending on the organization's ultimate goal of the microhospital, the cost to build these facilities can have greater variability than their full-service counterparts.

Staffing can also vary depending on the breadth of services that exist near or at a microhospital. Advisory Board suggests avoiding overstaffing with high-acuity employees and opting instead to use board-certified emergency physicians and ED nurses. In places that have aligned their microhospitals with outpatient clinics, specialist can also be seen in the staffing mix.³

Meeting Service Gaps

Not every market is created equal, and microhospitals are not ideal for every part of the country. When looking at where to build your hospital, industry experts suggest ensuring that there are clear service gaps and adequate demand for service to ensure your microhospital has sufficient volume.⁶ It is also important to locate the facility near a full-service hospital, generally within 20 miles, in the event an high-acuity patient is not able to be treated.³

Outside of the ED and inpatient beds, any other services chosen should align with the gaps in coverage for that particular community. As seen in the recent construction of microhospitals in Kansas, Indiana, and Colorado, each is uniquely tailored to fit the population it serves. More on these hospitals on the next page.

Providing Patient Care Close to Home

In Kansas City, Saint Luke Health system, in conjunction with Texas-based developer, Embree Asset Group, is planning to build the metro area's first microhospital. The facility will feature an emergency room, Level IV trauma center, lab, radiology, pharmacy, and eight inpatient beds. Their affiliation with Saint Luke's means they will be able to accept Medicare and Medicaid, whereas unaffiliated freestanding emergency centers cannot. The construction is a larger part of the health system's movement to ensure that when patients want care, they are able to access it close to home.⁷

Building Comprehensive Care Across a Health System

Johnson County, Indiana, is the home of the new \$50-million-dollar microhospital being built for Franciscan Health. The project will include an 85,000-square-foot outpatient and specialty care pavilion, which will connect to a 20,000-square-foot microhospital with an emergency department.⁸ The pavilion will house a pediatric wing with 16 exam rooms, a 15-room "flex clinic" that specialty physicians will use on a rotating basis, a rehabilitation area with seven treatment bays for hand therapy, speech therapy and other activities, office space for obstetrical and gynecological care, and a wellness/spa area. The microhospital will offer some of the same services found at Franciscan Health Indianapolis on South Emerson Avenue and at Franciscan Mooresville — each roughly 12 miles away — but on a smaller scale.⁸

Closing the Insurance Gap

Houston-based microhospital builder Emerus, along with SCL, a faith-based non-profit in Colorado, have teamed up to build a microhospital in Jefferson County, Colorado. Emerus chose the Jefferson location due to extensive research in the area that determined the need for additional services. The 37,000-square-foot facility will offer primary care, surgery, imaging and pediatric care. Additionally, it will accept all patients regardless of insurance or ability to pay, including Medicare, Medicaid and Tricare.⁹ In an interview with the *Denver Post*, the Jefferson County Commissioner noted the anticipated community hospital (the official name given to microhospitals in Colorado) will appease those who complained about long wait times at nearby emergency care facilities and insurance ... [because] some facilities only accept certain kinds.⁹

Regulation

Building a microhospital means undertaking the steps required for a traditional, full-service hospital. Depending on the state, this can greatly lengthen the timeline for design and construction of these facilities.⁵ To date, we have not found microhospitals in states with Certificate of Need (CON) regulations. This suggests that states without a CON application process may face less regulatory requirements when constructing and designing these facilities.

Site-Neutrality

The decision by the Center for Medicare Services to enact site-neutrality payments will continue to have a big impact for hospital providers and Medicare beneficiaries in the future. Because microhospitals are subject to the same rules and regulations as full-service hospitals, they are exempt from the site neutrality rules that traditional ASCs or urgent care centers are subject to.¹⁰ In other words, while microhospitals usually require more significant costs up front because of regulations and requirements when compared to traditional ASC and urgent care centers, they are able to experience a much higher reimbursement due to their facility type (inpatient facility). This implication can be an important factor when deciding to build a microhospital and understanding potential benefits and ROI.

Reimbursement

For health system leaders, site-neutral payment threw a big wrench into strategic planning for addressing gaps in their systems. The reimbursement landscape will continue to have a tremendous effect on how strategic planners choose to expand into their outpatient market. In a recent *Hospitals and Health Network Magazine* interview, the CEO of SCL Health stated:

"Ultimately, the idea for these microhospitals is that they are able to provide access points, and while they are priced higher than an urgent care center, they are also able to care for a wider range of illnesses and injuries because of the inpatient capability. They are also priced less than a full-service hospital emergency center or inpatient facility, so they offer a mid-range price point, as well as a significant service offering."¹¹

As out-of-pocket costs continue to rise and patients become more discerning healthcare consumers, cost imbalances will continue to have huge effects on the perception and patient choice in facilities.⁴ Microhospitals' unique positioning and middle-of-the-road price point can be seen as an opportunity to create value-based care centered on the patient's financial and health interests.

Conclusion

Delivering the right care in the right place and at the right cost will be a deciding factor between organizations that thrive and decline in this new age of healthcare. The shift to value and affordability brings unique challenges and opportunities to healthcare providers, payers and patients. Microhospitals seem to be a natural innovation in these changing times, but time will tell if they can deliver on their big hopes of value and price.

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