



Micro-Hospitals Post COVID-19: Strategize to Meet Community Needs & Demands

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Micro-Hospitals prove Viable Acute Care Providers in Post Pandemic America

Gone is the day of building new neighborhood hospitals with hundreds of beds. The moves toward ambulatory, outpatient, and telemedicine is not about to slow down. In fact, while still in the midst of a serious COVID-19 pandemic, the recent temporary changes and moves toward telemedicine are raising consumer demand. Mobile services and innovative healthcare solutions are launched every day. The ease and effective provision of many types of patient care, including mental health services, by the emergency cancellation of key telemedicine reimbursement requirements and new, innovative patient care strategies have led to an explosion of consumer demand exploiting these options. The use of modernization techniques, telehealth, and innovative clinical strategies is exactly what the micro-hospital model relies on and thrives on. As a result, the Micro-Hospital is becoming an ideal center for the provision of acute care while limiting contact with others, where infection control is vital to survival. The efficiency and innovation, natural to a micro-hospital provides the ideal framework for healthcare where scope of care is oriented more toward ambulatory care and telemedicine. At Advis, we see the Micro-Hospital becoming mission control for the provision of community services in various ways both within its own footprint and beyond its own walls. The hospital will handle emergencies, higher acuity inpatient and surgical care, while managing ambulatory services and recruiting talented healthcare professionals to provide a myriad of services at a touch of a screen.

Micro-Hospitals continue as a popular venue in rural and urban communities alike. And now, the smaller footprint and limited volume of patients makes more sense than ever for post-pandemic America. Our healthcare providers have been stretched too thin. Many providers are struggling under these new conditions. Even with CARES Act funding and enhanced COVID-19 reimbursement, times are tough for providers. However, as we emerge from the pandemic, the consumer will be looking for a more contained, more easily accessed, more efficient and personalized venue of care. Why walk into a hospital with hundreds of patients when a smaller venue better limits your exposure to potentially deadly pathogens? This smaller, more efficient hospital suddenly makes a lot of sense.

In fact, Micro-Hospitals may be the most feasible option for communities with heavy Medicaid volumes as well. Safety-net hospitals --rural hospitals-- are being squeezed from all directions. The micro-hospital can play an important role in a transformative healthcare strategy that many of these hospitals and communities are currently exploring. Quality care is not about inpatient volume. Quality care means meeting community needs in a timely and cost-efficient manner. **The primary focus must be on patient outcomes.**

At Advis, we believe one of the most promising solutions called-for is the development of needs-based, community-focused Micro-Hospital. Micro-Hospitals are commonly found in remote rural locations, in land-locked urban areas, and as designer boutiques within hospitals; but just as readily Micro-Hospitals can serve the underserved. The same lesson applies everywhere: modernized health care is best achieved through effective infection control, innovative clinical strategy, modern and efficient floor plans, and maximized telehealth and AI solutions.

What is a Micro-Hospital?

In general, Micro-Hospitals are small scale short-term acute care hospitals containing fully licensed beds and



flexible clinical structuring. A Micro-Hospital must be licensed with the State but not necessarily Medicare certified. But lack of Medicare certification may pose reimbursement obstacles under certain commercial payers. Proper strategy answers such questions before they become problems. Micro-Hospitals provide the same scope of services and life safety; and the same building codes apply no matter the size of the hospital. Similarly, the Federal Conditions of Participation (CoPs) for short-term acute care hospitals apply to micro-hospitals. Yet Micro facilities deliver Macro impact. Here's how.

Benefits/Features of Micro-Hospitals:

- Opportunity to expand health system;
- Can be focused on one service line to meet community need (e.g. Women's, Orthopedic, etc.);
- Same hospital billing rates apply as in larger short-term acute care venues;
- Ability to better manage expenses due to smaller size;
- Low capital requirements;
- Can be located in a smaller footprint, providing enhanced access to care;
- Less overhead;
- Smaller size allows for greater focus on quality; and, bottom line; and
- Higher patient satisfaction.

Signs of emerging Alternative Care Venues a Good Omen for Micro-Hospitals

Although some recent regulatory changes are not directly linked to the micro-hospital, these changes show the direction CMS is taking with patient care. That direction compliments the Micro-Hospital model. For a long-time, MedPac and a long series of regulatory changes have alluded to the push toward affordable care venues outside the hospital. We have seen the scope of the Ambulatory Surgical Center expand mightily in recent years. Now Congress has even established a new Medicare Venue. Under recent COVID-19 relief legislation, Congress established a new Medicare provider type that moves away from the inpatient service line and focuses on emergent and ambulatory care for rural communities. Beginning January 1, 2023, a facility may be classified as a Rural Emergency Hospital (REH) if the facility was a critical access hospital, or a general acute care hospital, in a rural area with no more than 50 beds when the legislation was enacted. The REH will not provide acute care inpatient services.

Again, although at this time a new hospital cannot elect the REH classification, the creation of this venue type clearly shows that CMS understands that facilities may not provide the same type of services to be considered a hospital. This new regulatory type will allow hospitals to focus on the immediate needs of their communities without fear of losing their Medicare certification as a hospital.

The Micro-Hospital Model Thrives on Telehealth and AI Innovation Strategies

Due to the pandemic, the need for distancing and healthy alternatives to accessing hospitals or clinics has pushed providers and patients alike into the telehealth arena. Low and behold, it's not so bad! The changes and expansion of telehealth regulations allowing for immediate access to telehealth services has eased stress for many venues of care. People like the telehealth format. They like the ease and the immediacy of telehealth. Patients will have a hard time letting telehealth go even after the pandemic is controlled.

Because of its scale and limited scope, the Micro-Hospital is perfectly positioned to capitalize on telehealth



modalities and AI innovation. As a result of the pandemic, innovations in telehealth and AI solutions have been greatly accelerated to meet the demands of pandemic care. The digital transformation of hospital workflows and patient care has moved very quickly. Two different points of focus emerge: The first aimed at patient access, ease, immediacy and safety; The second focuses on assisting the clinical staff to avoid burnout, better facilitate patient care, and improve accuracy and retrieval in data collection. Examples of these strategies include:

- Virtual waiting rooms;
- Self-registration;
- Virtual check-ins;
- Virtual triage;
- Seamless access to patient records and clinical data; and
- Virtual communications with care teams.

AI tools such as chatbots, virtual triage, virtual assistants, and virtual education portals will be common place in hospitals of tomorrow. And tomorrow is literally tomorrow.

While the implementation of these innovations will have costs attached, the micro-hospital model, with its heightened efficiencies and smaller footprint is best equipped to shift those costs toward the most current solutions available. Micro-Hospitals allow the consumer's first choice for care to be the hospital.

Where do Micro-Hospitals Fit in the Continuum of Care for Post-pandemic America?

The Foundation rests on two pillars: Mission Control for the Community and Patient-Centered Care for the Individual.

As the pandemic drags on into 2021, the continued need for safety, ease of access, and enhanced convenience will continue to grow. The competition between hospitals will increase. Addressing this new consumer-focused market will be primary. The Micro-Hospital will use telehealth as a first line of service protocol and AI solutions to facilitate the process of patient care. We envision the Micro-Hospital as defining their onsite and off-site services while facilitating greater access to specialists through telehealth thereby expanding access and service quality to the community. Relationships with specialist physician groups in a variety of fields will be of the utmost importance. Understanding the regulatory requirements for providing telehealth services across venues, as well as, payer reimbursement guidelines, will be key.

In today's healthcare industry, patients seek out care settings that makes them feel like an individual and not just a name or number on a chart. With greater access to information, patients can be, and are, and will be more educated when it comes to healthcare providers. Micro-Hospitals establish a convenient, high quality venue of care with a medical staff that brings a personal touch to their patients. If they don't, patients will move on to your next best competitor. Micro-hospitals play an active role in the community to more easily sustain themselves while enhancing community health.

Micro-Hospital Technical Integration

Leveraging the interoperability provided with EMRs to effectively triage high-acuity patients to the larger medical center is essential. Providing efficient, high-value healthcare means treating patients in the places



that produce the best outcomes for patients at lowest cost to the system. Micro-Hospitals can play a key role in using health information technology to place patients to receive the highest quality of care in the most appropriate care setting.

Demographic Trends as Indicators

Site selection for Micro-Hospitals depends strongly upon the population surrounding the site. Smaller clinical spaces allow for greater community integration. Careful consideration should be given to the planned services of your Micro-Hospital. The Micro-Hospital must fit within the demographic needs, profiles, and trends in the service area.

To date, urban areas have been the focus for Micro-Hospital development because of existing service gaps. A further look into those urban communities might reveal that within those communities the demographic trends explain why and how Micro-Hospital development made sense. For example, a micro-hospital developed near a cluster of retirement age individuals could more easily support an extremely high demand for geriatric services. When considering Micro-Hospital development, Advis suggests that a health system answer the following check list:

1. Are there identifiable trends in the community demographics?
2. Which health problems are most prevalent?
3. Are some services more in need than others? If so, where are the closest options?
4. Is the community need large enough to support both outpatient and inpatient venues of care?

The Rise of Outpatient Services

Soon hospital outpatient revenue will eclipse inpatient revenue. Federal funding cuts have forced providers to spend more resources on developing outpatient clinics as the solution to their inpatient shortcomings. To develop and sustain a full-service hospital today is simply not as feasible as a century ago. Fortunately, Micro-Hospitals are the ideal venue to offer the best of both worlds: a lean inpatient setting and a selective variety of outpatient services means less waste of inpatient resources. Advis expects that health systems will build out their micro-hospitals to attach outpatient clinics that, per location, are most in demand. This method of build-out will prove a less expensive and more efficient, convenient, and profitable option than the medical office buildings found sprawling on today's medical center campuses.

Micro-Hospitals are Useful

Big hospitals have proven too expensive to operate in underserved communities. Operating costs for large facilities are impractical. The associated infrastructure requirements are too cumbersome. Many health systems across the country are thinking smaller is better. When it comes to overcoming the hurdles associated with care in underserved communities, smaller is better. Large hospitals, like most safety net hospitals, have been historically major providers of acute care in underserved communities. But large safety-net hospitals are now getting the worst of it. They take in disproportionately more Medicaid and self-pay patients than ever before. Their ability to remain financially viable under today's healthcare reimbursement structure is at risk. Healthcare funding has been declining across the board. Fortunately, the Micro-Hospital open a relief valve for large safety net hospitals. Micro-hospitals are that safety valve, and they are popping up in urban metropolises



all across the country. Micro-hospitals are our best response to the gaps in healthcare in underserved communities.

Due to their flexible clinical structures, micro-hospitals can be designed and developed specifically to serve the unique needs of any community. They can provide both inpatient and outpatient services in areas where development of a full-size short-term acute care hospital is infeasible. A smaller facility footprint avoids getting landlocked outside of an urban community. Greater flexibility in specialization means that a micro-hospital can focus the bulk of its resources on the services the community most needs. Micro-Hospitals forego low-demand service lines. They prove to be efficient solutions to the government funding dilemma. The smaller facility footprint results in lower expenses across the board. Moreover, in conjunction with a larger hospital or health system, Micro-Hospitals may form a network of coverage that provides a built-in backup plan for patients requiring care beyond the micro-hospital setting.

Micro-Hospital Integration

In some geographic areas, the micro-hospital model is infeasible as a standalone facility because of the need for multiple specialty care disciplines for high-acuity patients. This is why a lot of micro-hospitals are owned or affiliated with a bigger hospital or health system. The arrangement is logical because the provision of quality care for a community does not depend on inpatient volume or the number of beds in the hospital. Thus, Micro-Hospitals present a refined application of care, especially emergency services, by seeking out a less expensive infrastructure, streamlining patient service, and providing high-value care to the communities served. Advis strives to produce market-based solutions for all our clients' pressing problems.

Expansion Opportunity: Micro Hospitals can Provide Relief from Site Neutrality Rules

Micro-Hospital development has allowed health systems to expand their hospital-based services in a manner that does not reduce their reimbursement, as off-campus, outpatient clinics do today. **The burden of site neutral payment policy is avoided when health systems develop a remotely located Micro-Hospital because Medicare's provider-based rules do not include Micro-Hospitals in the site neutrality policy.**

Additionally, any outpatient facilities within 250 yards of a remotely located Micro-Hospital are considered on-campus; they, too, are exempt from site neutral payments. Remote, on-campus outpatient clinics are able to bill under the outpatient prospective payment system (OPPS). Billing under OPPS allows Micro-Hospitals to submit charges for both a facility fee and a physician fee. Off-campus outpatient providers can only bill under the Medicare physician fee schedule as part of the site neutral policy. ***By creating a remotely located micro-hospital, health systems are better equipped to expand their inpatient and outpatient services without sacrificing reimbursement to the site neutrality payment rules.*** In this same way, it is more favorable to health systems to provide inpatient and outpatient needs directly to communities.

Financial Benefits

Micro-Hospitals not only improve a health system's presence in the community, they also bring favorable financial opportunities. With lower capital requirements and significantly lower overhead, the potential to successfully target high-demand services and turn a profit is well within the grasp of many systems via the Micro-Hospital model. Advis estimates that the cost of micro-hospital development falls between \$15-20 million dollars as opposed to \$100 million to \$1 billion dollars to construct a full-scale acute care



hospital. Micro-Hospitals require significantly less capital to get off the ground and they generate revenue in an expedited manner.

Micro-Hospitals operate with less staff than traditional hospitals. Service is streamlined. A lower number of beds is offered. Contractual agreements with an affiliated health system or hospital allow for selective recruitment of specialists where needed on a case-by-case basis. The structure of Micro-Hospital staffing allows a much smaller budget and that budget goes much, much further. Generally, micro-hospitals utilize staff for high-demand services to meet community needs. They let the larger hospitals pick up the patients requiring services in lower demand. For example, if a community has a proportionately larger elderly population, a micro-hospital can be located there that focuses on orthopedic surgery and treatment of chronic kidney disease while forgoing services such as pediatric care. Focusing on those services used most produces the best outcomes financially. Their refined operating budget reduces the waste of attached to expensive, more seldomly used services.

Patient Satisfaction

Along with financial and system-wide benefits, increased patient satisfaction is another perceived benefit with micro-hospitals. Many patients feel intimidated by the magnitude of a full size, 300 bed, short term acute care hospital. Micro-hospitals offer many of the same services as large-scale hospitals, but the smaller setting provides a more comforting, patient-centric service. For instance, would a patient feel more anxious waiting in a micro-hospital waiting room with 3 other patients or in a full-scale hospital waiting room with 20 other patients? The end result of the patient care may be the same between equivalent settings, micro and macro, but most patients will always prefer the smaller, patient-centric setting.

Difficulties and Challenges

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

Certificate of Need Requirements

The benefits to establishing micro-hospitals are clear. But one major obstacle to developing a Micro-Hospital can be Certificate of Need statutes. Several states require an application process and CON approval before construction or renovation can begin on a selected site. This means that health systems in these CON states, looking to develop a micro-hospital will need to spend a significant amount of time building a case for why the additional facility is needed. During this application process, it is likely that other health systems in the community or service area will be formidable adversaries, writing letters of opposition to the state board or vocalizing resistance during CON hearings. Solid financial and economic justifications are a must-have when developing a micro-hospital.

For the micro-hospital CON process, health systems must:

- Assess the current supply of high-demand services;
- Project expected demand;



- Submit proposed facility design and floor plans;
- Project operational costs, expenses and revenue;
- Estimate charity care capacity for the micro-hospital;
- Provide alternatives to construction of the Micro-Hospital; and
- Explain why joint ventures for target services are not feasible.

Regulatory Requirements

There are a host of other requirements that micro-hospitals must address before the doors open to the public. **Remember, Micro-Hospital is a term of art.** There is no state or federal classification category for a Micro-Hospital. Micro-Hospitals are licensed and Medicare certified as acute care hospitals. Therefore, state licensure requirements for a hospital as well as Medicare Conditions of Participation for an acute care hospital apply to the Micro-Hospital as well. Again, a Micro-Hospital may operate without seeking Medicare certification. Some boutique hospitals are currently operating successfully without Medicare certification. These hospitals do not rely on commercial payer contracts, federal or state reimbursement for their services.

There is also recent federal scrutiny of the micro-hospital concept. Guidance issued in the fall of 2017, provides state and CMS surveyors with factors a hospital must also demonstrate before being approved for Medicare certification, in addition to the standard Medicare certification requirements. In other words, micro-hospitals must be “primarily engaged” in the provision of inpatient services. CMS will conduct a totality of the circumstance test by reviewing and considering where this new hospital falls within the

CMS factors:

- Average daily census (two or more);
- Average length of stay (two or more);
- Number of off-campus provider-based Eds;
- Number of inpatient beds in relation to size of facility, services offered, and other treatment sites such as ER bays and operating rooms;
- Volume of outpatient vs. inpatient surgical procedures;
- Volume of outpatient procedures for “specialty” hospital;
- Patterns and trends in ADC by the day of the week;
- Staffing patterns – 24/7 inpatient care; and
- How facility advertises itself to the community.

Due to regulatory requirements, Micro-Hospital are most easily built with a health system affiliation. The health system has the acumen, policies, and procedures for handling regulatory requirements. These requirements include: licensing, provider credentialing, payer contracting, Medicare eligibility, pharmacy eligibility, laboratory requirements, and more. Awareness of the requirements allows developers of micro-hospitals to pare down existing health system policies to reflect the requisite scope of services called for and to comply with all required regulations.

Additionally, since a Micro-Hospital is licensed and Medicare-certified in the same way as its larger counterparts, it must likewise comply with the life safety and building code requirements applicable to hospitals as dictated by the state licensing agency. Furthermore, because micro-hospitals must meet the same requirements as large hospitals, they must also be prepared to address patients for emergency treatment as



required by EMTALA. The EMTALA standards mandate that, regardless of a patients' ability to pay or insurance coverage type, the emergency department of a hospital must assess and stabilize all patients. In sum, because Micro-Hospitals operate licensed and certified beds in the same manner as larger short-term acute care hospitals, there must be careful consideration for site and service line selection for the proposed hospital.

Site Selection

A micro-hospital must be located in an area of real need for additional high-demand services. On paper, there may be underutilization of some services at other healthcare facilities in the area; but the key to selecting the best site is determining the root cause of why a particular community is not using all the resources seemingly available. Healthcare cannot always be solved with additional bed capacity at a nearby full-scale medical center. Underlying factors and social determinants affect access to, and utilization of, area healthcare services.

Successful micro-hospital site selection is more concerned with future potential utilization within the community than with past patient volumes at nearby hospitals. Site selection must identify what the biggest gaps in care are for a given community and then determine the most feasible location to best serve that community. Again, need may range from a unique boutique service line in a high scale market to a rural location in need of basic hospital services.

Challenges to Efficacy

Critics of some urban micro-hospitals may suggest it's irrational to expect a health system to invest so much in a smaller, and/or underserved community, and that these proposed Micro-Hospitals may even drive up the cost of care. Micro-Hospitals must always distinguish themselves from outpatient urgent care centers if they are to succeed.

As discussed in the regulatory section, micro-hospitals are under federal scrutiny due to recent concerns that Medicare certified providers are not running these facilities as hospitals but still receive hospital reimbursement. As long as providers operate their micro-hospital in compliance with the regulations and with a robust inpatient service line to ensure their beds are utilized, a Micro-Hospital strategy will overcome the additional scrutiny.

Conclusion

As we turn towards a post-pandemic America, the micro-hospital is a viable model for the future. It ensures a safe provision of care in any given service market with the capability to implement **State-of-the-Art** telehealth and AI initiatives. The smaller footprint of the Micro-Hospital allows the flexibility to test the market with innovation and safety protocols that accord with the specific needs of the service community. Our consumer-driven market will always be looking for new and innovative options for better care. The Micro-Hospital is equipped to deliver. In addition to entrepreneurs, rural communities, land locked urban areas, safety net hospitals, and health systems with large, multidiscipline, acute care hospitals should look to Micro-Hospital development for financial and clinical opportunity. Micro-Hospitals will allow for health systems to expand and extend their continuum of care even further into their communities.

Micro-Hospitals are a cost-effective way to enter a new market. This market may be a boutique service line for a specific clientele or a land-locked market in need of a convenient and efficient care option. Advis has



more than 30 years of experience in navigating our healthcare landscape. Let Advis help you to rethink and optimize the space within and around your system. Advis has extensive knowledge in opening hospitals, hospital operation, as well as the design of provider-based strategies that maximize client benefits. Let us help you to decide which model is best for your strategy; then let us help execute that strategy accordingly. Contact Advis today to discuss the feasibility of Micro-Hospital development. Explore the potential Micro-Hospital development can bring to your health care system.