

---

# Cattaneo & Stroud, Inc.

---

1601 Old Bayshore Highway, Suite 107  
Burlingame, California 94010-1506  
(650) 692-8884 Fax (650) 692-5923  
Website: [www.cattaneostroud.com](http://www.cattaneostroud.com)

**Fall 2006**

## OUTPATIENT SURGERY: CALIFORNIA OFFERS A MAJOR GROWTH OPPORTUNITY, BUT FOR WHICH PLAYERS?

The California market has experienced a major shift in the setting for outpatient surgical care over the past five years. Between 2000 and 2005, the number of outpatient ambulatory surgery centers (ASCs) has grown by nearly 40% and now exceeds the number of hospital providers of surgery care. During 2005, aggregate hospital outpatient surgery volumes declined from prior year levels for the first time as ASCs captured larger shares of cases. OSHPD's newly released California Emergency/Ambulatory Surgery Data Set provides hospitals with the information necessary to understand their current positioning and opportunities in the growing ambulatory surgery market. Cattaneo & Stroud, Inc. has developed new tools to assist hospitals in these study efforts.

### **TRENDS AND CHARACTERISTICS: SURGICAL SERVICES DELIVERY IN CALIFORNIA**

- During the past five years the number of licensed surgical clinics in California has increased 39% to 456 clinics.
- Over the same time period, the number of hospital sites performing inpatient operations decreased 5% to 387 sites.
- At both hospital and ambulatory sites, the largest volume of outpatient procedures relate to gastrointestinal (including diagnostic endoscopies), eye and orthopedic procedures.
- Rates of utilization for the elderly population are significantly higher than the overall population, affording potential opportunities in markets with a growing elderly age cohort.

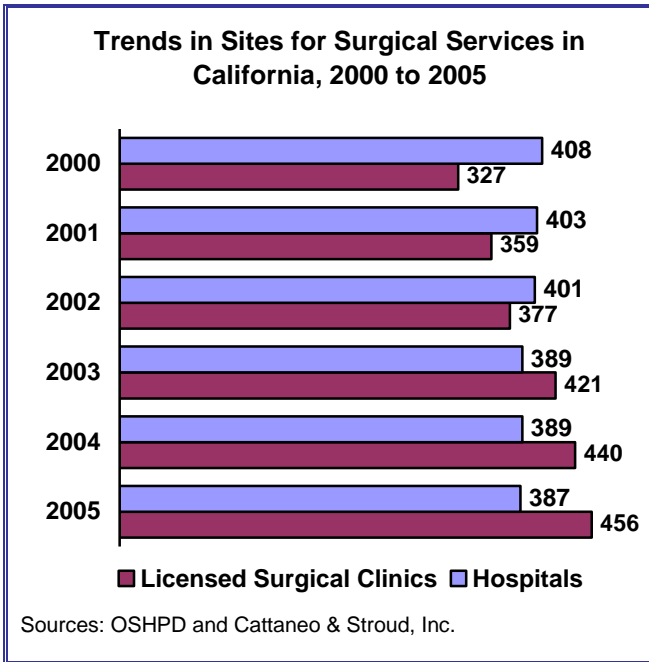
Surgical operations can be performed in general acute care hospitals, licensed surgical clinics (Ambulatory Surgery Centers), and physician offices. In California, the Office of Statewide Health Planning and Development (OSHPD) licenses and tracks utilization of hospitals and expanded its reporting licensed surgical clinics.

Cattaneo & Stroud, Inc. has analyzed trends in surgical services capacity and utilization based upon OSHPD's Annual Utilization Report of Hospitals and OSHPD's newly released Ambulatory Surgery and Emergency Services Data Set. The data set includes outpatient procedures performed in licensed surgical clinics, and hospital operating rooms, endoscopy rooms, and cardiac cath labs. It contains several data elements for each patient that are useful for planning purposes, including:

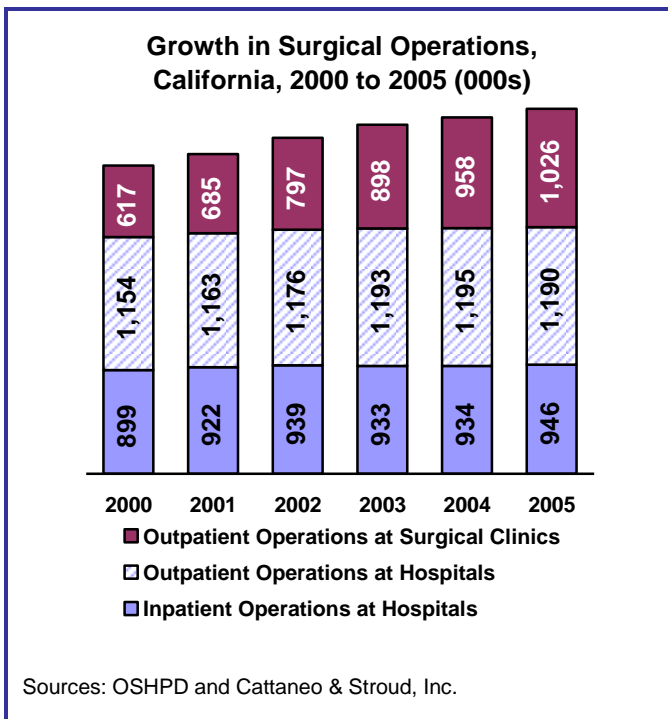
- Age
- Zipcode
- Expected source of payment
- Diagnoses (up to 25)
- Procedures by CPT codes (up to 21)
- Facility

Based on analysis of this information, we have developed planning and forecasting tools to help hospitals assess the ambulatory surgery market. Cattaneo & Stroud, Inc. has aggregated the surgical procedure codes into "service lines" based upon CPT codes for planning purposes. This newsletter highlights some applications of the new data set that we have used with our clients for strategic, business, and facility planning purposes.

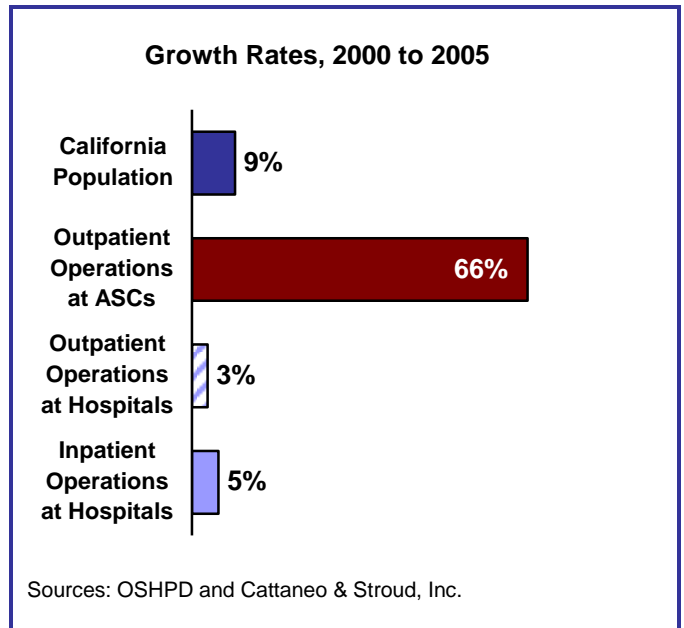
**AS OF 2003, THE NUMBER OF LICENSED SURGICAL CLINICS SURPASSED THE NUMBER OF HOSPITAL SITES PERFORMING OPERATIONS IN CALIFORNIA.**



**THERE HAS BEEN CONSISTENT GROWTH IN THE NUMBER OF SURGICAL OPERATIONS PERFORMED IN CALIFORNIA BETWEEN 2000 AND 2005 WITH MOST GROWTH AT ASCs.**



**THE GROWTH RATE AT AMBULATORY SITES HAS FAR EXCEEDED THE GROWTH RATE AT HOSPITAL PROVIDERS AND OF THE STATE'S POPULATION.**

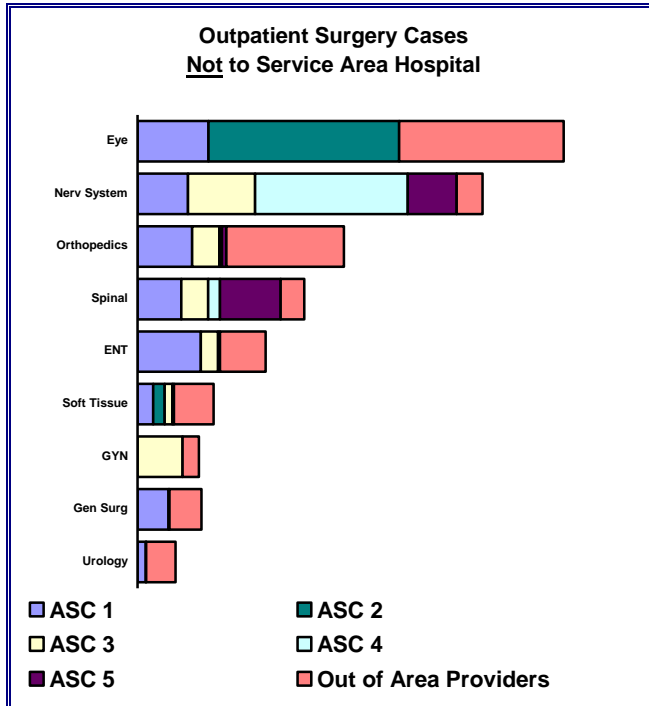


**HOW CAN HOSPITALS USE OSHPD'S NEW AMBULATORY SURGERY DATA SET?**

**Study Question One: What percent of outpatient surgery cases by service area residents are not going to our hospital and for what types of services?**

Using C&S's defined outpatient service lines, a hospital was able to understand the number and types of surgical cases that were not currently being captured at its facility for residents of its defined service area.

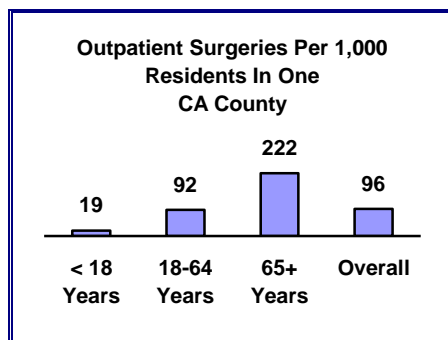
- The market area of 150,000 persons supported five ambulatory surgery centers.
- Many of the five facilities specialized in one or more types of procedures (e.g., eye, G.I.)
- In this market area, the largest numbers of outpatient surgical procedures not directed to the hospital facility were eye, orthopedic and spine cases.
- In aggregate, 1,900 outpatient surgical cases, or 20% of cases of area residents, were treated at facilities outside the service area.
- An additional 62% of the outpatient surgical cases were being captured by competing ASCs located in the service area.



**Study Question Two: Do levels of outpatient surgical utilization suggest a new ambulatory surgery center can be supported in the community now or in five years?**

Using the age data element and population estimates, C&S was able to calculate the utilization rate of outpatient surgery services by age cohort to forecast future outpatient surgical utilization for their growing and aging service area population.

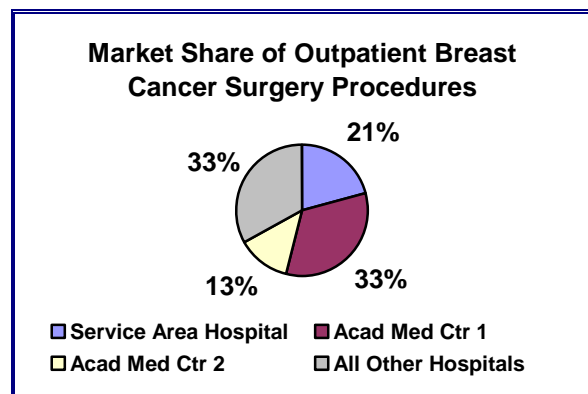
- The service area population currently generates 96 surgical procedures per 1,000 residents.
- The highest rate of outpatient surgical utilization is by the elderly age cohort, with a rate 2.3 times higher than the overall population.



- Currently, 27% of service area residents receive their outpatient surgical care at facilities outside of the service area.
- The market could support four additional surgical suites in five years given population growth and aging, if 62% of current outmigration is redirected to the new facility.

**Study Question Three: How many patients who are diagnosed with breast cancer are not receiving their outpatient surgical care at the local service area hospital?**

- Using the patient diagnosis field, the market for outpatient breast cancer surgical cases in the service area was calculated at 200 annualized cases in 2005.
- 21% of these women were treated at the local service area hospital, while 46% were treated at two nearby academic medical centers.



*CALIFORNIA HOSPITALS HAVE NEW TOOLS FOR ASKING THE FOLLOWING QUESTIONS*

- Is there sufficient patient volume currently in a service area to justify development of an ASC alone or in partnership with medical staff members?
- What will the future size of the outpatient surgery market in the service area be based upon service area specific use-rates for outpatient surgical procedures by specialty and age segment in the next five years?
- Is there sufficient population in a growing target market area to support future development of an ASC and what specialists' support would optimize success?

- Have we adequately sized our surgical facilities to accommodate forecasted outpatient surgical volumes?
- How can we enhance market performance in the outpatient surgical market given our market size and competitive positioning?

The new data set and our sophisticated modeling techniques provide a powerful tool to identify opportunities and understand risks associated with ASCs.

Cattaneo & Stroud, Inc. has over twenty-five years experience in health care consulting, with expertise in:

- Strategic planning
- Organizational redesign and business planning
- Industry analysis
- Forecasting
- Facilitation at Leadership Retreats
- Market assessments
- Physician workforce planning

To learn more about Cattaneo & Stroud, Inc. outpatient surgery planning and forecasting methodologies, please visit our web site at: [www.cattaneostroud.com](http://www.cattaneostroud.com).

**Grant Cattaneo**  
[grant@cattaneostroud.com](mailto:grant@cattaneostroud.com)

**Penny Stroud**  
[pstroud@cattaneostroud.com](mailto:pstroud@cattaneostroud.com)

**Craig Paxton**  
[paxtonc@cattaneostroud.com](mailto:paxtonc@cattaneostroud.com)

**Gerri Berg**  
[gberg@cattaneostroud.com](mailto:gberg@cattaneostroud.com)

**We Can Be Reached at:**

**Phone: (650) 692-8884**

**Fax: (650) 692-5923**

**Cattaneo & Stroud, Inc.**  
**1601 Old Bayshore Hwy., Suite 107**  
**Burlingame, California 94010-1506**