



Development with Surgical Precision

CLIENT:
MedExec

BANKER:
Jason Baldwin

- CHALLENGES:
- ▶ Complex development needs
 - ▶ Serving multiple physician partners
 - ▶ Obtaining real estate, construction and medical equipment loans

Joe Campagnola, founding partner of MedExec, took on the complex task of creating the Rocky Mountain Surgery Center

You need minor surgery. What would you rather do, go to a hospital and stay a night or two recovering, or walk into a small surgery center, have the operation on an outpatient basis and return that night to your own comfy bed?

Given the option, most people would rather recover at home—a desire that has led to a significant increase in the number of so-called “ambulatory surgery centers” that have been popping up nationwide since the first one was invented 30 years ago. (In 2005, there were 4,506 Medicare-certified centers in the U.S., up from 2,786 in 1999.) Because of advances in medical technology, more and more surgical procedures can be done on an outpatient basis these days, including such complicated-sounding operations as attaching detached retinas and even replacing hips. Moreover, as the number of elderly in the U.S. grows, so too does the demand for surgery, sometimes straining hospital facilities and leading to long waits for appointments. In many cases, surgery centers are filling the void.

In 90% of cases, physicians own the centers, often in partnership with hospitals. It’s an attractive business arrangement for doctors, who earn facility fees in addition to their normal surgical fees. A doctor’s ancillary income from part ownership in a surgery center can be a significant contributor to a physician’s annual compensation, says Jason Baldwin, who leads the health care and executive services group at Compass Bank in Denver. That’s particularly helpful at a time when payor reimbursements to doctors have been falling, he adds.

It’s no surprise that more physicians are banding together to develop new surgery centers.

Should you consider investing in or working for one? Before you do, consider this: the business of developing centers is complicated and not every center manages to eke out profits. It takes a developer experienced in the industry, along with sophisticated financial expertise from a partnering bank, to make these multi-faceted entities work.

FINANCING A COMPLEX BUSINESS

Just ask Joe Campagnola, founding partner of MedExec in Denver. His company has been managing medical practices for physicians for 25 years. About eight years ago, several doctors asked Campagnola to help them develop the Rocky Mountain Surgery Center. Campagnola was willing to try. He partnered with Development Solutions Group, a real estate developer, and went looking for a bank to provide \$10 million in financing. MedExec sent a detailed RFP out to six banks, two of which turned him down. Of the four remaining, Compass Bank was singularly poised to offer not just a competitive package, but one that could serve the needs of the health care community particularly well: it was founded across the street from The University of Alabama at Birmingham, whose medical school enjoys a reputation as an excellent research facility. With the university as its neighbor, Compass grew up serving doctors, says Baldwin. “We have had a very positive experience serving that industry for the last 45 years,” he says.

With the assistance of real estate, construction and medical equipment loans from Compass, MedExec developed its first successful

surgery center. Since then, says Campagnola, “Our business has just exploded with the surgery centers.” Today the company manages five centers and is in the midst of developing its largest to date—a two-building, 150,000-square-foot facility in Lone Tree, Colorado. By 2009, Campagnola expects to have built 10 to 12 centers.

If it sounds as though it’s been easy, think again. Campagnola and his four partners start each day at 6 a.m. meeting with physicians; they end each day with 6 p.m. physician meetings. Campagnola must understand the different reimbursement rates for each medical specialty and stay on top of Medicare legislation that can not only change those rates, but also ultimately change the profitability and the value of the centers. And then there’s the physician mix—it can take 30 doctors, in different specialties, to make a center work. “Physicians hire us to herd cats,” Campagnola says. “When you have 33 partners, you have 33 different ideas of what a project will look like.”

These kinds of complicated dynamics lead to failure for many centers, says Jason Baldwin, citing many Denver-based centers that are struggling to make money. Baldwin has lead financing of more than 100 medical practices, including a dozen surgery centers in several states for Compass. Baldwin’s expertise is just what Campagnola needs as he continues to grow his company. “We need a banker who understands the health care industry, because it involves very specialized lending,” Campagnola states. “We need somebody who’s willing to roll up their sleeves and understand the financial models and projections that go into it.”

It’s enough to give a less experienced banker a headache, but it’s right up Baldwin’s alley. ■