

Contents

Dedication	v
Contents	vii
Introduction	xvii
Contributors	xix
Part One: Overview	1
<i>Chapter 1</i>	
Fair Market Value in the Healthcare Regulatory Landscape	3
Introduction	3
Requirements for Healthcare Valuations	6
Overview of Transactions and Contractual Arrangements Requiring Fair Market Value Studies	7
Overview of Major Legal Concerns	7
Stark Law	8
Anti-Kickback Statute	12
False Claims Act/Qui Tam Litigation	13
Tax Exemption Issues	15
Current Regulatory Landscape	16
Current Trends: Qui Tam Growth, Federal Fund Spent on Fraud, etc. . .	16
Recent Case Studies: Fair Market Value Business Valuation Take-Aways and Implications	17
Danger Zones	19
Internal vs. External Valuation	19
Other Bases for FMV: Benchmarks, Rate Cards—From the Attorney Viewpoint/Why Relying on Generic Surveys May Not Be Good Enough	19
Strategies for Maintaining the Attorney-Client Privilege	20
<i>Chapter 2</i>	
Fair Market Value Basics and Commercially Reasonable	23
<i>Jen Johnson, CFA</i>	
FMV: Standard of Value	24
The Business Valuation Definition	24
Regulatory Definitions and Guidelines	25
Commercially Reasonable Standard	26
Regulatory Guidelines	26

Establish a CR Checklist 27
 What Is Commercially Unreasonable? 28
 CR Final Steps 29

Chapter 3

Engaging a Valuation Analyst 33
Colin M. McDermott, CFA, CPA/ABV, and Bridget Triepke, CPA

Part Two: Business Valuations 37

Chapter 4

Overview and Business Valuation Basics 39
*Aaron Murski, CVA, Colin M. McDermott, CFA, CPA/ABV, and
 Bridget Triepke, CPA*

Components of a Standard Business Enterprise Valuation 40
 Premise of Value 41
 Level of Value: Control versus Minority 42
 Valuation Approaches 42
 Income Approach 43
 Market Approach 45
 Cost Approach 47

Chapter 5

Physician Practices 49
Clinton Flume, CVA, and Nikolaus Melder

Income Approach 50
 Volume 50
 Reimbursement 52
 Other Considerations 52
 Operating Expenses 53
 Capital Expenditures 54
 Discount Rate Considerations 54
 Market Approach 55
 Relevant Multiples 55
 Sources of Market Data 56
 Cost Approach 56

Chapter 6

Urgent Care Centers and Freestanding Emergency Departments 61
Taryn Nasr and Corey Palasota, CFA

Income Approach 62
 Volume 62
 Reimbursement 63
 Other Considerations 65
 Operating Expenses 65
 Capital Expenditures 66
 Discount Rate Considerations 67

Market Approach	67
Relevant Multiples	68
Sources of Market Data	68
Factors to Consider When Selecting Multiples	69
Comparability of the Subject to the Comparables	69
Barriers to Entry	69
Level of Value	69
Other Considerations	70
Cost Approach	70
 <i>Chapter 7</i>	
Diagnostic Imaging Centers	71
<i>Taryn Nasr and Chance Sherer, CVA</i>	
Income Approach	72
Volume	72
Reimbursement	73
Other Considerations	74
Operating Expenses	74
Capital Expenditures	76
Discount Rate Considerations	76
Market Approach	77
Relevant Multiples	77
Sources of Market Data	78
Factors to Consider When Selecting Multiples	78
Comparability of the Subject to the Comparables	78
Barriers to Entry	79
Level of Value	79
Other Considerations	79
Cost Approach	79
 <i>Chapter 8</i>	
Laboratory Services	81
<i>Aaron Murski, CVA</i>	
Income Approach	82
Volume	83
Reimbursement	84
Other Considerations	84
Operating Expenses	85
Capital Expenditures	86
Discount Rate Considerations	86
Market Approach	87
Relevant Multiples	87
Sources of Market Data	88
Factors to Consider When Selecting Multiples	88
Comparability of the Subject to the Comparables	88

Barriers to Entry 89
 Level of Value 89
 Other Considerations 89
 Cost Approach 90

Chapter 9

Ambulatory Surgery Centers 91

Taryn Nasr and Chance Sherer, CVA

Income Approach 92
 Volume 92
 Reimbursement 93
 Other Considerations 94
 Operating Expenses 95
 Capital Expenditures 96
 Discount Rate Considerations 96
 Market Approach 97
 Relevant Multiples 97
 Sources of Market Data 97
 Factors to Consider When Selecting Multiples 98
 Comparability of the Subject to the Comparables 98
 Barriers to Entry 98
 Level of Value 99
 Other Considerations 99
 Cost Approach 99

Chapter 10

Radiation Therapy 101

Chance Sherer, CVA, and Zach Sadau

Income Approach 102
 Volume 102
 Reimbursement 104
 Other Considerations 104
 Operating Expenses 105
 Capital Expenditures 106
 Discount Rate Considerations 107
 Market Approach 107
 Relevant Multiples 107
 Sources of Market Data 108
 Factors to Consider When Selecting Multiples 108
 Comparability of the Subject to the Comparables 108
 Barriers to Entry 109
 Level of Value 109
 Other Considerations 110
 Cost Approach 110

Chapter 11

Acute Care Hospitals111
Colin M. McDermott CFA, CPA/ABV, and Corey Palasota, CFA

Income Approach 112

 Volume 112

 Inpatient volume112

 Outpatient Volume 113

 Other Volume Considerations 115

 Reimbursement 115

 Other Considerations 116

 Operating Expenses 117

 Capital Expenditures 118

 Discount Rate Considerations 118

Market Approach 119

 Relevant Multiples 119

 Sources of Market Data 120

 Factors to Consider When Selecting Multiples 120

 Comparability of the Subject to the Comparables 120

 Barriers to Entry 121

 Level of Value 121

 Other Considerations 121

Cost Approach 122

 Other Considerations 122

Chapter 12

Inpatient Rehabilitation Facilities125
Clinton Flume, CVA

Income Approach 126

 Freestanding vs. Hospital Department 126

 Volume 127

 Reimbursement 128

 Other Considerations 129

 Operating Expenses 129

 Capital Expenditures 131

 Discount Rate Considerations 131

Market Approach 132

 Relevant Multiples 132

 Sources of Market Data 133

 Factors to Consider When Selecting Multiples 133

 Comparability of the Subject IRF to the Comparables 133

 Barriers to Entry 133

 Level of Value 134

 Other Considerations 134

Cost Approach 134

Chapter 13

Dialysis137

David LaMonte, CFA, Silas Eldredge, and Bridget Triepke, CPA

- Income Approach138
 - Volume 138
 - Reimbursement 139
 - Operating Expenses 140
 - Capital Expenditures 141
 - Discount Rate Considerations 142
- Market Approach142
 - Relevant Multiples 142
 - Sources of Market Data 143
 - Factors to Consider When Selecting Multiples 144
 - Comparability of the Subject to the Comparables144
 - Barriers to Entry144
 - Level of Value144
 - Other Considerations145
- Cost Approach145

Chapter 14

Home Care Services147

Aaron Murski, CVA

- Income Approach148
 - Volume 148
 - Reimbursement 149
 - Operating Expenses 150
 - Capital Expenditures 151
 - Discount Rate Considerations 151
- Market Approach151
 - Relevant Multiples 151
 - Sources of Market Data 152
 - Factors to Consider When Selecting Multiples 152
 - Comparability of the Subject to the Comparables152
 - Barriers to Entry 153
 - Level of Value 153
- Cost Approach153

Chapter 15

Long-Term Acute Care Hospitals155

William Teague, CFA

- Income Approach156
 - Volume 156
 - Patient Acuity157
 - Capacity157
 - LTACH Facility Moratorium157

The 25% Rule	158
Local Market Factors	158
Reimbursement	159
The 25% Rule	160
Site Neutral Payments	160
Other Considerations	161
Operating Expenses	161
Capital Expenditures	162
Discount Rate Considerations	163
Market Approach	163
Relevant Multiples	163
Sources of Market Data	164
Factors Impacting the Selection of Multiples	164
Comparability of the Subject to the Comparables	164
Barriers to Entry	165
Level of Value	165
Other Considerations	165
Cost Approach	165
Part Three: Compensation Agreement Valuations	167
<i>Chapter 16</i>	
Overview and Agreement Types	169
<i>Jen Johnson, CFA</i>	
Valuation Approach	170
Agreement Types	171
<i>Chapter 17</i>	
Clinical Services	173
<i>Jonathan Helm, CVA</i>	
Clinical Services Fee Structures	175
Flat or Fixed-Salary Structure	175
Variable Structure	176
Combination (Fixed and Variable) Structure	176
Value Drivers Impacting Clinical Services Compensation	176
Key Considerations in Assessing Clinical Services Compensation FMV	
Opinions	178
<i>Chapter 18</i>	
Medical Directorships and Physician Executives	183
<i>Jonathan Helm, CVA</i>	
Physician Executive Services Fee Structures	185
Fixed-Fee Structure (Stipend)	185
Variable Structure (Hourly)	185
Value Drivers Impacting Medical Directorship Services Compensation ..	186
Key Considerations in Assessing Medical Directorship Services	
Compensation FMV Opinions	187

Chapter 19

Non-Clinical Administrative (Management and Billing Services)191

Sean Dowd and Alexandra Higgins

Health System-Owned Administrative Services Companies193

National Administrative Services Companies193

Physician-Owned Administrative Services Companies194

Administrative Services Fee Structures194

 Percent of Net Revenue 194

 Fixed Fee 194

 One-Time Fixed Fee 195

Valuation Drivers Impacting Administrative Services Compensation195

Key Considerations in Assessing Administrative Services

 Compensation FMV Opinions196

Chapter 20

On-Call Coverage199

Ben Ulrich, CVA

Compensated Call Coverage Fee Structures200

 Unrestricted On-Call Coverage 201

 Activation Fee Payments 201

 Reimbursement Guarantees 201

 Excess Coverage Payments 201

 WRVU-Based Payments 201

 Backup or Concurrent Coverage 202

 Third-Party Locums Coverage 202

 Restricted On-Call Coverage 202

Valuation Drivers Impacting On-Call Compensation202

Key Considerations in Assessing On-Call Arrangement FMV Opinions203

Chapter 21

Telemedicine

Mary Fan, CVA, and Ben Ulrich, CVA

Telemedicine Compensation Structures207

 Independent Companies/Vendors and Physicians 207

 Between Facility and Healthcare Provider 207

 Between Hub Facility and Spoke Facility/Facilities 208

 Between Facility/Health System and Vendor (Enterprise-Level Arrangements) 208

Valuation Drivers Impacting Telemedicine Compensation209

Key Considerations in Assessing Telemedicine Arrangements or FMV Opinions210

Chapter 22

Hospital-Based Coverage (Subsidy)211

Ben Ulrich, CVA, Mary Fan, CVA, and Mallorie Holguin

Compensation Structures213

Collections Guarantee213
 Coverage Agreement (Subsidy)213
 Valuation Drivers Impacting Hospital Coverage Compensation214
 Key Considerations in Assessing Hospital-Based Coverage Arrangements .215

Chapter 23

Professional Interpretation/Read Fees217

Ben Ulrich, CVA, and James Tekippe

Compensation Structures218
 Split Bill Payments 218
 Global Bill Payments 219
 Valuation Drivers Impacting Professional Interpretation Compensation ..219
 Key Considerations in Assessing Professional Interpretation
 Compensation220
 Conclusion220

Chapter 24

Pay for Performance (Quality and Cost Savings)223

Alexandra Higgins

Hospital Quality Incentive Demonstration Project224
 Medicare Gainsharing Demonstration Project224
 Medicare Shared Savings Program225
 Bundled Payments for Care Improvement Initiative225
 Pay-for-Performance Compensation Models and Fee Structures226
 Quality Payments 226
 Co-Management 226
 Gainsharing 227
 Shared Savings 227
 Bundled Payments 227
 Hospital Efficiency Improvement Programs 227
 Value Drivers Impacting Pay-for-Performance Payments228
 Key Considerations in Assessing P4P Compensation229

Chapter 25

Life Sciences Physician Compensation231

Jen Johnson, CFA, Kevin McDonough, CFA

Life Sciences Compensation Models and Fee Structures233
 Hourly Rate Structure 233
 Per Procedure 233
 Royalty Fee 233
 Value Drivers Impacting Life Sciences Payments233
 Key Considerations in Assessing Life Sciences Compensation234

Part Four: Real Estate and Capital Asset Valuations..... 235

Chapter 26

Real Estate237

Victor H. McConnell, MAI, and John S. Trabold, MAI

Key Valuation Considerations 238

 Cost Approach 239

 Sales Comparison Approach 240

 Income Approach 240

Fair Market Value Rent/Lease Payments240

Important Tips When Reviewing a Real Estate FMV Analysis243

Chapter 27

Capital Assets (Fixed Assets)247

Nick Shannon, ASA, and Kevin M. Florenz, ASA

Key Valuation Considerations248

 Sales Comparison (Market) Approach 250

 Cost Approach 250

 Income Approach 252

 Reconciliation 252

Fair Market Value Lease Arrangements253

Important Tips When Reviewing a Capital Asset FMV Analysis255

Terms Related to the Valuation of Capital Assets257

Chapter 28

Medical Office Timeshares261

Britt Martin, CVA

MOT Fee Structures262

 Fixed Monthly Payment 262

 Variable Payment 262

Value Drivers Impacting MOT Payments262

Key Considerations in Assessing MOT FMV Opinions265

Appendix: Checklist for Reviewing an FMV Opinion267

*Jen Johnson, CFA, Colin M. McDermott, CFA, CPA/ABV, and
Bridget Triepke, CPA*