Constructing A New Ambulatory Surgery Center

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The single largest factor in determining the cost of constructing an ASC is whether you are going to build a new facility or remodel an existing one. Comparing these two options against each other is a critical step in the feasibility process. However, it is a very complex issue in itself and is a topic for another article altogether. Believe it or not constructing a new facility is likely more cost effective than remodeling an existing one, once you include the existing facilities cost and/or lease deal. To keep things simple we will give you construction cost data for both new as well as remodeled facilities. The construction cost data given for the remodeled options include only the tenant improvement costs and do not include the existing facility cost; which should be added in order to create an apples to apples comparison.

Once you have decided on building a new facility or remodeling an existing facility, there are two additional factors that will affect the cost of constructing an ASC the most– LOCATION & SIZE. This of course assumes an equal build quality from one location to another. The build quality of an ASC can also have significant construction cost implications and again is a topic for another article altogether. Having designed almost 350 ASC's we have found that the quality issue alone can make or break a center. All construction costs represented in this article assume a Marasco & Associates build quality. Having spent over 30 years helping develop ASC's we feel our typical level of build quality represents a hypothetical middle ground, which maximizes your "Bang for the Buck". It should be noted that the estimates presented in this article are rough and that there are a myriad of reasons why construction costs within a certain region can become abnormal – do not use these estimates as a hard and fast rule.

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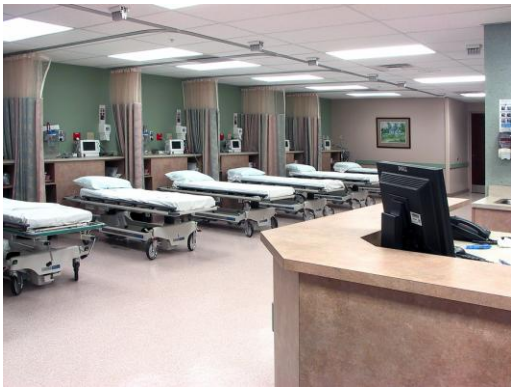
LOCATION

South-Central United States towards the North and out to the coasts its construction costs tend to increase. For example the same new ASC built in Manhattan, KS for $256-298/SF will cost $399-478/SF in Manhattan, NY. (This range of costs for each location is due to the facilities size and will be further discussed in the following paragraph) In addition, within a certain regional area, the more urban a project setting is the higher the construction costs will be. Also many urban cities in the Northern Midwest (Chicago, Columbus, Des Moines, Detroit, Indianapolis, Milwaukee, Minneapolis, Saint Louis…) see a spike in construction costs due mostly to organized labor unions. And finally natural disasters &/or material shortages can have a significant impact on construction costs as well. For instance the recent hurricanes in the gulf coast region not only effected gas prices for us all, but due to the same disruption of petroleum manufacturing, also effected the costs of asphalt paving, PVC piping, insulation… not to mention the availability of big ticket items like transformers & generators. Generally these construction cost escalations are temporary and last only a few months until the market has an opportunity to equalize. If you are unfortunate enough to be bidding a project during one of these spikes your construction costs will undoubtedly rise. The three major headings, LOW-AVERAGE-HIGH, shown on the estimated construction cost chart below represent the above-mentioned geographical methodology: LOW = the South-Central US, AVERAGE = the Central Mid West & HIGH = the Northern Coastal Regions.



SIZE

In general, as a projects size grows its construction cost on a per square foot (/SF) basis decreases. This holds true for architectural & engineering services as well – the bigger and more expensive a project becomes the lower the percentage of construction costs you should pay for these services. It's simply less expensive, on a /SF basis, to produce a large facility than a smaller one. As with any consumer product, the more of the same item you purchase, the less costly each unit becomes. This holds true for concrete, steel, drywall and most other building materials. In addition, larger facilities are easier to construct on a /SF basis than smaller ones – more SF can be finished in less time. Therefore, a contractor's overhead & profit, testing & inspections, field personnel, etc…costs are all less expensive on a /SF basis with a larger facility than with a smaller one. In a competitive bid situation all these savings should be passed on directly to you. As facility size has a significant impact on construction costs, the estimated construction cost chart below has been designed to detail these differences.

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Below each major heading is a range of construction costs. The number in parenthesis assumes an average 15,000 SF facility, while the number to the left assumes a 35,000 SF facility and the number to the right assumes a 5,000 SF facility. Given this information you should be able to estimate the construction costs of an ASC in your particular area of the country whether it be a new or remodeled facility.

ESTIMATED CONSTRUCTION COST FOR 2014:

	LOW	**AVERAGE**	**HIGH**
SITE WORK*	$5-(5)-6/SF	$6-(6)-7/SF	$8-(9)-10/SF
& NEW	$227-(238)-264/SF	$281-(297)-331/SF	$367-(390)-439/SF
or			
DEMOTITION*	$7-(7)-8/SF	$8-(9)-10/SF	$11-(11)-13/SF
& REMODEL	$152-(160)-177/SF	$189-(199)-223/SF	$246-(262)-295/SF

*The site work construction costs are for the work required to prepare the site location, not the building construction (i.e., grading, paving, landscaping, etc.). Typically 4-5 SF of site is required for every 1 SF of facility.

Although the construction cost of an ASC can seem significant, by the time you amortize it over 15-25 years it's actually quite small compared to other expenses. VMG Health's 2011 Intellimarker survey indicates the percentage of "Operating Expenses" for "Occupancy" to be ~8%, for "Equipment" to be ~4%, for "Employees" to be ~34% and for "Medical & Surgical" to be ~23% of the total. Therefore, if the design of your ASC allows for less SF but is at the cost of staff efficiency you may actually be spending, not saving money. The efficiency of your surgeons & staff and maximum throughput of your patients is key, not the mineralization of the facility.

It should be noted that Medicare and insurance providers take this geographical cost differential, both construction & staffing, to heart. They understand that it will be more costly to perform the same surgery in Manhattan, NY than it will be in Manhattan, KS. Therefore, to adjust for this situation the base reimbursement dollar amounts for each procedure performed in an ASC are adjusted using the governments "Wage Index". This index allows ASC's to be reimbursed, either higher or lower than the base dollar amount, depending on where they are located.

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