



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Health and Social Services

CERTIFICATE OF NEED PROGRAM

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November 13, 2015

Alaska Medical Center, LLC
188 W. Northern Lights Boulevard, Suite 101
Anchorage, Alaska 99503

RE: Request for Determination dated October 23, 2015

To Whom It May Concern:

The Certificate of Need (CON) program received your letter dated October 23, 2015. In that letter, you request a determination as to whether a CON will be required for your proposed project in Anchorage. More specifically, Alaska Medical Center, LLC (AMC) seeks to open a multi-specialty ambulatory surgery center in space currently occupied by Alaska Urological Institute, P.C. (AUI). The space is located at 188 W. Northern Lights Boulevard in Anchorage, Alaska.

7 AAC 07.031(b) specifies the requirements for submitting a complete request for determination. Based on these regulatory requirements, AMC's request for determination is substantively incomplete. Please review the following provisions and issues, and revise your request for determination accordingly.

7 AAC 07.031(b)(1) a clear, complete, and current description of the proposed activity, including a description of each component of the activity proposed to be undertaken;

- AMC states that the space to be subleased consists of 8,161 square feet "with estimated usage of 65% of the space five (5) days per week." AMC uses the 65% usage as a means of allocating CON-related costs. There is no description as to why AMC would use the space for five days per week, or how the space will be used during the remaining two days per week. Given that this usage is a basis for AMC's presented costs, without additional information about use and ownership of the space, it is not possible to make a formal determination as to the proposed activity to be undertaken by AMC.
- While AMC describes its intent to "establish a multi-specialty ambulatory surgery center," it does not describe the layout of the space or how the space will be used (i.e. how many surgery suites will occupy the space and what type surgeries or procedures will be performed in the space).

7 AAC 07.031(b)(2) a certified estimate of the total cost of each proposed component of the activity listed in 7 AAC 07.010(a), as applicable, for the entire activity

- Based on the information submitted, it appears that AUI is the sole owner of AMC. Furthermore, based on the operating lease agreement and the sublease agreement, it appears that AUI is both the lessor of equipment and the landlord of the space at issue. Generally, when a facility acquires equipment or space by lease, it must estimate the cost of the equipment and lease using the methodology in 7 AAC 07.010(a)(8). However, in this instance, the owner of the equipment and the space is also the owner of AMC. Given this relationship, the CON program has no way to validate the reasonableness of the lease costs, especially since the estimated costs are not certified. Please submit a certified cost estimate for the leased equipment and the leased space. Additionally, given the perception that the lease agreements may not represent an arm's length transaction for purposes of capturing all CON-related costs, AMC should demonstrate that the costs for the space are consistent with the value of the square footage of the space if it were leased using the average current market rate for similar space leased in the proposed service areas or comparable space in a comparable service area.
- AMC uses a 5.5% amortization to produce a monthly rental rate for equipment and tenant improvements. Similar to issues identified above, without a cost estimate certified by a party unrelated to AMC or AUI, it is not possible for the CON program to determine whether the identified costs represent all applicable CON-related costs.
- Based on the operating lease agreement and the sublease agreement, it appears that AMC is solely responsible to acquire and maintain insurance for both the space and equipment. Insurance is a capital cost that must be considered in the threshold determination.

7 AAC 07.031(b)(3) an estimated starting date and completion date for the proposed activity.

- AMC does not include an estimated starting date and completion date for the proposed activity.

As demonstrated above, per 7 AAC 07.031(c), the CON program requires additional information to make its determination because AMC's submission is substantively incomplete. Please review the provisions and issues identified above, and revise your request accordingly. In response to this letter, please submit a complete request for determination to the CON program no later than December 14, 2015. Note, the CON program may require more information beyond the issues identified above, so additional inquiry may be necessary following a later submission from AMC.

Sincerely,


Alexandria Hicks, CON Coordinator