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October 13, 2017

VIA FEDERAL EXPRESS

Ms. Alexandra Hicks
Coordinator
DHSS/HCS/ORR/Certificate of Need
Program
3601 C Street, Suite 978
Anchorage, Alaska 99503-5936

**Re: Surgery Center of Wasilla, LLC
Request for Determination Regarding Additional Operating Room**

Dear Ms. Hicks:

As you know, we represent Surgery Center of Wasilla, LLC (“SCOW”), the owner and operator of an existing and licensed ambulatory surgery center located at 3190 East Meridian Park Loop, Wasilla, Alaska (the “Center”). This letter is in follow-up to your letter of September 28, 2017, relating to SCOW’s request for a determination pursuant to 7 AAC 07.030 as to whether a Certificate of Need (“CON”) would be required for the conversion of an existing storage room in the Center for use as a second operating room.

In your September 28, you requested that SCOW provide DHSS with certified cost estimates for the original construction of the Center in its current location and an incremental breakdown of these costs related to the original construction of the space proposed to be converted for use as a second operating room. Attached to this letter is a Certified Cost Estimate prepared by Howdie, Inc., the general contractor, showing the total original construction cost for the Center, the incremental cost for construction of the original storage room (under the column heading “Cost per Division – Original Room”), the estimated cost for the conversion of that storage room to an operating room (“Cost per Division – Proposed OR”) and the total cost of the room as converted (“Completed Cost – Proposed OR”). As indicated, the total construction cost – including the cost incurred more than 120 days ago for the original construction of the storage room – is estimated at \$236,502.68. As indicated in our original request letter, the estimated equipment cost associated

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JONES WALKER LLP

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with the second operating room is \$83,586.95. This would bring the total of construction and equipment costs, including construction costs incurred more than 120 days ago for construction of the storage room, to \$320,089.63.

In addition, while this is outside the specific scope of information DHSS has requested, we have also attached a letter for Ostrow Reisin Berk & Abrams, Ltd., Certified Public Accountants, estimating the net present value of the remaining lease payments allocable to the space proposed to be converted. As you will see, the estimated net present value is \$75,290. We do not believe that this should be considered as part of the incremental expense associated with the proposed second operating room, since that room is already leased by SCOW and SCOW will make the same lease payments whether or not the room is converted for use as an operating room. Even if that net present value is treated as incremental expense, however, the total estimated expense for the conversion, including the original construction of the storage room, is still well under the CON threshold, at \$395,379.63.

Finally, DHSS asked SCOW to provide the documentation that it relied upon for the statement that the proposed addition of the second operating room “was not financed together with either the initial development and construction of the Center or its relocation, and it was not constructed or acquired together with such projects”. As DHSS is aware, the initial development and construction of the Center was at its previous location, 3035 East Palmer-Wasilla Highway, pursuant to DHSS’s determination letter dated November 9, 2012. Since that initial construction was at another location entirely, there was no contemplation of converting the storage room for use as a second operating room (and no financing of such conversion) because the storage room did not exist at the initial location of the Center. With regard to the relocation of the Center, as you might expect, the financing documents for the relocation and construction loan do not address the possibility of a second operating room because that was not part of the original plan for the Center. However, in order to respond to DHSS’s question, we have obtained a letter from First National Bank Alaska, the lender on the relocation and construction project, certifying that the loan was not based upon and did not take into account the possible construction of an additional operating suite at a later time. That letter is likewise attached.

Again, we note that we believe that the determination requested by SCOW is substantially the same as the determination issued by DHSS to Surgery Center of Kenai, LLC on May 30, 2017, in which DHSS determined that the addition of a second operating room and two 23-hour observation rooms to an existing one-operating-room ambulatory surgery center did not require a CON where the estimated cost of the project was below the statutory CON threshold, even though the proposed project required the lease of additional space. As noted above, that factor is not present here.

We hope this is fully responsive to the question raised in your September 28 letter. If there are other questions, or if there is any further information DHSS needs to make its determination, we would welcome the opportunity to respond. Please do not hesitate to get in touch with us.

October 13, 2017
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We look forward to hearing from you.

Sincerely,



William W. Horton

WWH/hs
Attachments

cc: Ms. Anne Roberts

HOWDIE^{INC}

GENERAL CONTRACTOR

4237 E. Meridian Loop
Wasilla, AK 99654
Phone: (907) 376-4711 Fax: (907) 373-6773

Certified Cost Estimate

PREPARED BY TJDATE 10/12/17

MERIDIAN PARK MOB - SURGERY CENTER OF WASILLA

CLASSIFICATION		TOTAL	COST PER SQUARE FOOT	COST PER DIVISION	COST PER DIVISION	COMPLETED COST
DESCRIPTION	CODE	COMPLETE	COMPLETE (14,403sf)	ORIGINAL ROOM (454sf)	PROPOSED OR (454sf)	PROPOSED OR (454sf)
CONTRACTING REQUIREMENTS	00	\$ 394,517.50	\$ 27.39	\$ 12,435.67	\$ 16,370.00	\$ 28,805.67
Architectural/Engineering /Permit Fees	00700	\$ 394,517.50	\$ 27.39	\$ 12,435.67	\$ 16,370.00	\$ 28,805.67
GENERAL REQUIREMENTS	01	\$ 97,890.54	\$ 6.80	\$ 3,085.63	\$ 6,550.00	\$ 9,635.63
Contingencies	01200	\$ 30,194.25	\$ 2.10	\$ 951.76		\$ 951.76
On Site Management	01310	\$ 4,937.95	\$ 0.34	\$ 155.65	\$ 2,600.00	\$ 2,755.65
Temporary Electric	01510	\$ 5,985.91	\$ 0.42	\$ 188.68		\$ 188.68
Temporary Heating	01513	\$ 5,340.58	\$ 0.37	\$ 168.34		\$ 168.34
Temporary Barriers and Enclosures	01560	\$	\$	\$	\$ 2,300.00	\$ 2,300.00
Product Delivery Requirements	01650	\$ 3,236.28	\$ 0.22	\$ 102.07	\$ 350.00	\$ 452.07
Construction Cleanup	01740	\$ 28,605.32	\$ 1.99	\$ 901.67	\$ 1,050.00	\$ 1,951.67
Final Cleanup	01742	\$ 8,834.12	\$ 0.61	\$ 278.46		\$ 278.46
Refuse Removal	01744	\$ 10,754.13	\$ 0.75	\$ 338.98	\$ 250.00	\$ 588.98
SITE CONSTRUCTION	02	\$ 21,725.56	\$ 1.51	\$ 684.82		\$ 684.82
Excavation	02000	\$ 21,369.39	\$ 1.48	\$ 673.59		\$ 673.59
Bedding	02319	\$ 356.17	\$ 0.02	\$ 11.23		\$ 11.23
CONCRETE	03	\$ 2,837.34	\$ 0.20	\$ 89.44		\$ 89.44
Cast in Place Concrete	03300	\$ 2,837.34	\$ 0.20	\$ 89.44		\$ 89.44
METALS	05	\$ 32,438.76	\$ 2.25	\$ 1,022.51	\$ 1,410.00	\$ 2,432.51
Metal Fabrications	05060	\$ 6,064.29	\$ 0.42	\$ 191.15	\$ 1,410.00	\$ 1,601.15
Load Bearing Metal Stud Framing	05410	\$ 26,374.47	\$ 1.83	\$ 831.36		\$ 831.36
WOOD & PLASTICS	06	\$ 132,556.99	\$ 9.20	\$ 4,178.36	\$ 2,520.00	\$ 6,698.36
Custom Casework	06410	\$ 132,556.99	\$ 9.20	\$ 4,178.36	\$ 2,520.00	\$ 6,698.36
THERMAL AND MOISTURE	07	\$ 79,002.30	\$ 5.49	\$ 2,490.25		\$ 2,490.25
Water Vapor Emission Control	07105	\$ 4,019.94	\$ 0.28	\$ 126.71		\$ 126.71
Applied Fireproofing	07810	\$ 71,764.01	\$ 4.98	\$ 2,262.09		\$ 2,262.09
Firestopping	07840	\$ 3,218.35	\$ 0.22	\$ 101.45		\$ 101.45
DOORS & WINDOWS	08	\$ 124,915.55	\$ 8.67	\$ 3,937.49		\$ 3,937.49
Metal Doors/Frames	08110	\$ 23,405.71	\$ 1.63	\$ 737.78		\$ 737.78
Wood Doors	08210	\$ 14,073.00	\$ 0.98	\$ 443.60		\$ 443.60
Access Doors	08311	\$ 830.14	\$ 0.06	\$ 26.17		\$ 26.17
Aluminum Sliding Doors	08343	\$ 15,500.00	\$ 1.08	\$ 488.58		\$ 488.58
Automatic Operators	08467	\$ 35,788.94	\$ 2.48	\$ 1,128.11		\$ 1,128.11
Door Hardware	08710	\$ 35,317.76	\$ 2.45	\$ 1,113.26		\$ 1,113.26
FINISHES	09	\$ 478,326.92	\$ 33.21	\$ 15,077.44	\$ 4,395.00	\$ 19,472.44
Non Load Bearing Wall Framing - Full	09110	\$ 68,670.50	\$ 4.77	\$ 2,164.58		\$ 2,164.58
Soffit Framing - Vertical	09110	\$ 19,738.16	\$ 1.37	\$ 622.17	\$ 840.00	\$ 1,462.17
Drywall-Taped & Finished	09250	\$ 138,261.41	\$ 9.60	\$ 4,358.17	\$ 2,055.00	\$ 6,413.17
Ceramic Tile	09310	\$ 10,919.80	\$ 0.76	\$ 344.21		\$ 344.21
Acoustical Ceiling	09510	\$ 46,344.63	\$ 3.22	\$ 1,460.84		\$ 1,460.84
Acoustical Insulation	09530	\$ 12,668.00	\$ 0.88	\$ 399.31		\$ 399.31
Floor Prep	09655	\$ 4,245.00	\$ 0.29	\$ 133.81		\$ 133.81
Flooring	09680	\$ 137,281.00	\$ 9.53	\$ 4,327.26	\$ 680.00	\$ 5,007.26
Painting-Interior	09911	\$ 40,198.42	\$ 2.79	\$ 1,267.10	\$ 820.00	\$ 2,087.10
SPECIALTIES	10	\$ 80,061.26	\$ 5.56	\$ 2,523.63		\$ 2,523.63
Toilet Compartments	10160	\$ 3,562.22	\$ 0.25	\$ 112.29		\$ 112.29
Cubicle Curtain Tracks	10191	\$ 3,548.93	\$ 0.25	\$ 111.87		\$ 111.87
Impact-Resistant Wall Protection	10265	\$ 44,043.47	\$ 3.06	\$ 1,388.30		\$ 1,388.30
Interior Signage	10440	\$ 6,237.77	\$ 0.43	\$ 196.62		\$ 196.62
Metal Lockers	10505	\$ 8,042.07	\$ 0.56	\$ 253.50		\$ 253.50
Commercial Toilet Accessories	10801	\$ 14,626.80	\$ 1.02	\$ 461.05		\$ 461.05
SPECIAL CONSTRUCTION	13	\$ 30,936.36	\$ 2.15	\$ 975.15		\$ 975.15
Wet Pipe Fire Sprinkler System	13930	\$ 29,670.00	\$ 2.06	\$ 935.23		\$ 935.23
Dry Chemical Fire Extinguisher	13970	\$ 1,266.36	\$ 0.09	\$ 39.92		\$ 39.92
MECHANICAL	15	\$ 1,764,089.66	\$ 122.48	\$ 55,606.24	\$ 29,926.00	\$ 85,532.24
Mechanical Insulation	15080	\$ 89,513.04	\$ 4.83	\$ 2,191.14		\$ 2,191.14
Plumbing/Heating	15410	\$ 895,716.04	\$ 62.19	\$ 28,234.05	\$ 9,306.00	\$ 37,540.05
Ducts	15810	\$ 649,694.67	\$ 45.11	\$ 20,479.16	\$ 16,020.00	\$ 36,499.16
Direct Digital Controls	15910	\$ 135,215.91	\$ 9.39	\$ 4,262.17	\$ 2,100.00	\$ 6,362.17
Testing and Balancing	15990	\$ 13,950.00	\$ 0.97	\$ 439.72	\$ 2,500.00	\$ 2,939.72

CLASSIFICATION		TOTAL	COST PER SQUARE FOOT	COST PER DIVISION	COST PER DIVISION	COMPLETED COST
DESCRIPTION	CODE	COMPLETE	COMPLETE (14,403sf)	ORIGINAL ROOM (454sf)	PROPOSED OR (454sf)	PROPOSED OR (454sf)
ELECTRICAL	16	\$ 582,499.06	\$ 40.44	\$ 18,361.08	\$ 32,469.00	\$ 50,830.08
Basic Materials and Methods	16050	\$ 582,499.06	\$ 40.44	\$ 18,361.08	\$ 32,469.00	\$ 50,830.08
	SUBTOTAL	\$ 3,821,797.80	\$ 265.35	\$ 120,467.69	\$ 77,270.00	\$ 214,107.69
	CONTRACTOR'S OVERHEAD AND PROFIT	\$ 342,768.83	\$ 23.80	\$ 10,804.49	\$ 11,590.50	\$ 22,394.99
	TOTAL	\$ 4,164,566.63	\$ 289.15	\$ 131,272.18	\$ 88,860.50	\$ 236,502.68

October 12, 2017

Ms. Anne Roberts
Regent Surgical Health
4 Westbrook Corporate Center, Suite 440
Westchester, IL 60154

Dear Anne,

Attached, please find our calculation of the net present value of the remaining lease payments for Surgery Center of Wasilla, LLC. A summary of the key inputs for the calculation is below.

Discount Rate – 4.16%

Lease term – 12/1/2016 – 11/30/2031 (180 months)

Total Lease Payments Remaining – \$3,783,014

Net present value of remaining lease payments – \$2,830,733

Approximate square footage of the storage space – 400

Total square footage under lease – 15,039

Net present value of remaining lease payments for storage space – \$75,290

The calculation was prepared based on an analysis of monthly rent payments per the lease agreement prepared by Dave Becker from MedHQ. The discount rate used estimating the center's incremental borrowing rate of 4.16% is per the loan repayment schedule, also prepared by Dave Becker, for a construction loan obtained in early 2017 from First Bank of Alaska.

If we can be of more assistance, please let us know.

Sincerely,



Jason Flahive, CPA

JH/sr

Enclosure



October 4, 2017

Re: Surgery Center of Wasilla, LLC

To whom it may concern:

First National Bank Alaska provided Surgery Center of Wasilla, LLC with a credit facility in the principal amount of \$7,150,000.00 on July 20, 2016 for the purpose of relocating its facility to its current location and constructing an ambulatory surgical center with one operating suite at that location. That credit was not based upon, and did not take into account, the possible construction of an additional operating suite at a later time.

The Surgery Center of Wasilla is a valued client of First National Bank and has always conducted their business affairs in a very responsible and conscientious manner. As such, I would appreciate any consideration given to them to help facilitate their business transactions.

Please feel free to call me if you need further confirmation.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Craig A. Thorn'.

Craig A. Thorn, Sr. Vice President
Mat Su Regional Supervisor
907-352-5930
cthorn@fnbalaska.com