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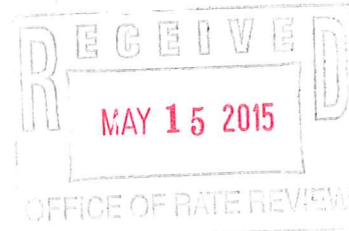
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May 15, 2015

Alexandria Hicks
Certificate of Need Coordinator
Department of Health and Social Services
Health Planning and Systems Development Unit
PO Box 110601
Juneau, AK 99811-0601



Dear Ms. Hicks,

This letter is in response to your May 1, 2015 letter requesting additional information from our client, Arctic Surgery Center, LLC. Thank you for your clarification regarding the information requested. We hope the information provided below adequately addresses your concerns and will allow you to provide us with a determination.

1. Does Arctic Surgery Center, LLC's NPV fully represent the cost of the space and leasehold improvements? If yes, why?

At the time of submission, it was Arctic Surgery Center, LLC's belief that the NPV presented fully represented the cost of the space and leasehold improvements, because the full value of the leasehold improvements incurred by Arctic Surgery Center is the value of the lease they are entering. This included a lease rate adjustment from 0.80 to 2.45 to reflect the tenant improvements that Arctic Surgery Center is receiving. Because of the inability to use a \$0 value for the building space, as stated in your May 1 letter, the CON office agrees that the value reflected by the market demand and lease value during the actual term of the lease is appropriate. The CON regulations provide numerous methods to determine the cost and Arctic Surgery Center, LLC believed that use of the lease rate alone was the most appropriate method to apply in this case.

However, after clarification from the CON office, it is clear that the full cost of leasehold improvements must be included, not just those incurred by the requestor. As a result, we are amending our response to adopt the method provided by the CON office in the May 1, 2015 letter, which adds the unimproved lease rate to the cost of improvements. This would include an NPV for the unimproved building space at the rate of \$0.80 per square foot, plus the additional costs of \$960,000 for leasehold improvements, as well as the other costs outlined in our April 13, 2015 request. This results in the maximum estimated cost demonstrated below:

Net Present Value of Lease without Leasehold Improvements	\$153,600.00
Leasehold Improvements (high estimate)	\$960,000.00
ASC Consultant & Valuation Consultant	\$5,000.00
ASC Architects	\$85,000.00
Equipment Purchases	<u>\$282,392.22</u>
Total	\$1,485,992.22

As you can see, this method still results in a total cost below the CON threshold of \$1.5 million and so a CON should not be required. Additionally, this number includes the high estimate with regard to leasehold improvements, and so it is anticipated that the costs will come in well under this amount. As we stated previously, we will be closely monitoring expenses and will alert the CON office if this number increases based on actual costs coming in above the estimated costs.

2. Why is Arctic Surgery Center, LLC's estimated NPV of the space with leasehold improvements different from the information provided by Jack White Commercial and NVISION ARCHITECTURE, Inc.?

Arctic Surgery Center's estimate differed from the value calculated by the CON office because the information provided by Jack White Commercial and NVISION ARCHITECTURE, Inc. was provided as support for the reasonableness of the lease rate being paid by Arctic Surgery Center, not the actual costs for the project. However, as discussed above, we received further clarification of the CON requirements and will be proceeding with the CON method of valuation, which reflects the information provided by Jack White Commercial and NVISION ARCHITECTURE, Inc.

3. Based on the information presented, Arctic Surgery Center, LLC will be converting and occupying 3,200 of the available 11,838 SF space. Does Arctic Surgery Center, LLC intend to expand its operation (i.e. increase procedure rooms or operating rooms) or use any of the remaining 8,638 SF of space in any capacity in the future?

Arctic Surgery Center, LLC is not converting the space, it is simply leasing the space after it is converted by the landlord, Gambell Holdings, LLC. At this time, Arctic Surgery Center does not intend to expand its operation and it fully understands that any expansion would be considered a phase of the current project and would trigger CON requirements. It is our understanding that the remaining space will be rented as medical office space for healthcare providers.

If you have any questions or need any additional information to make your determination, please call me at your earliest convenience. Additionally, if there is any way that you can provide a response by May 27, 2015, we would greatly appreciate it. Thank you for your time and consideration of this request.

Sincerely,



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