



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Health and Social Services

CERTIFICATE OF NEED PROGRAM

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March 31, 2016

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

RE: Request for Determination dated October 23, 2015

Dear Dr. Clark:

The Certificate of Need (CON) program received your letter dated October 23, 2015. In that letter, you requested a determination as to whether a CON is required for your proposed project in Anchorage, Alaska. 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.

On November 13, 2015, the CON program informed AMC by letter that its request for determination was substantively incomplete. On December 14, 2015, AMC responded by letter with missing information. Based on the initial request letter from October 13, and the follow up letter from December 14, AMC's request for determination had been accepted as complete. However, the CON program still had questions concerning the proposal and its costs. On January 22, 2016, AMC responded by letter to the remaining questions. Upon reviewing this letter, the CON program followed up with AMC concerning one last pertinent detail. AMC responded to this follow up by letter on March 24, 2016.

Based on the information exchanged between October and now, the CON program can analyze AMC's request for determination.

Project Description

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. AUI will sublease space to AMC, which includes leasehold improvements to the space and equipment. AMC anticipates performing the following types of surgery or procedures: dental, general surgery, gynecology, plastic surgery, pain management, urology, and breast surgery. The estimated start date for the project is one to two months after the CON program issues its determination. The estimated cost of the project is \$1,402,664.01.

Project Costs

| | |
|--------------------------|-----------------------|
| • Space Rental | \$403,577.76 |
| • Equipment Rental | \$599,919.84 |
| • Leasehold Improvements | \$380,666.40 |
| • Insurance | \$18,500.00 |
| • Total | \$1,402,664.01 |

Space Rental

In your response to the Department's request for additional information, AMC states that the space to be subleased consists of 8,161 square feet with the estimated usage of 65% of the space by AMC for a term of two (2) years. The total space rental cost is estimated to be \$403,577.76. You determined the cost as follows: square footage under the existing lease (8,161) multiplied by estimated AMC usage (.65) multiplied by the current market rate per square foot (\$3.17) multiplied by twenty four (24) months equals \$403,577.76. You included a copy of the proposed sublease along with a blue print of the space to be subleased.

Additionally, Commercial Real Estate Alaska provided AMC with an independent Broker Opinion of Value estimating the market value for the lease of the Subject property. "The market rate for subject space is \$3.10 - \$3.20 per square foot, monthly. It is our opinion the lease rate of \$3.17 is at market rate."

Equipment Rental

Based on the Department's request for additional information, AMC provided a certified cost estimate for the proposed equipment rental, including the acquisition price and equipment age. The total rental cost of the equipment is estimated to be \$599,919.84. This amount is determined from the original cost of the equipment (\$1,308,646) amortized over five (5) years at the rate of 5.5%, which produces a monthly rental rate of \$24,996.66. This amount multiplied by twenty four (24) months equals \$599,919.84. Fairwinds Biomedical, LLC provided AMC with an independent certification that "The proposed lease payment of \$24,996.66 is a fair and reasonable estimate of the monthly rental cost of [the listed] equipment."

Leasehold Improvements

AMC estimates that the rental cost of its use of existing leasehold improvements that were installed by AUI is \$380,666.40. This was determined by using the original leasehold improvement cost of \$2,986,439 multiplied by AMC's estimated usage (65%) amortized over fifteen (15) years at a 5.5% rate. This produces a monthly sublease amount of \$15,861.10, multiplied by twenty four (24) months equals \$380,666.40. Commercial Real Estate Alaska provided AMC with another Broker Opinion of Value that concludes "[b]ased on comparable Anchorage properties, the derived monthly tenant improvement lease rate of \$15,861.10 is a fair and reasonable estimate of the monthly rental cost for the surgery center tenant improvements."

Insurance

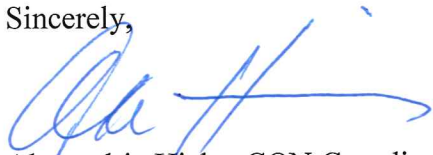
The cost of all insurance required under the sublease is estimated to be \$9,250 per year for a total of \$18,500 for the two-year term of the sublease.

Conclusion

Based on the request for determination, a CON is not required for the proposed project as it is presented because the expenditures at issue appear not to exceed the \$1.5 million statutory threshold under AS 18.07.031. Please be aware, if the information presented and relied upon in making this determination changes in any way, this determination is void and a CON may be required for the project.

If you are dissatisfied with this determination, you may request reconsideration under 7 AAC 07.033. A request for reconsideration must be postmarked no later than 30 days after publication of the public notice.

Sincerely,



Alexandria Hicks, CON Coordinator