



Fresenius Medical Care

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January 24, 2008

Karleen K. Jackson, Ph.D., Commissioner
Department of Health and Social Services
P.O. Box 110601
Juneau, AK 99811-0501

JAN 25 2008
Office of the Commissioner
DHSS - Juneau

Dear Commissioner Jackson:

Per your January 10, 2008 letter regarding our certificate of need application proposing to establish a new 20 station facility in Anchorage, enclosed please find the following responses:

1. A revised cost estimate for 12 stations:

As we understand your request, you are asking that we provide updated capital cost information related to constructing and equipping a new 12 station dialysis facility. As you know, the total capital cost for the 20 station facility was estimated at \$9.2 million¹. The cost for 12 stations is \$6.9 million². We have detailed below the specific line items comprising the cost in the certificate of need required format:

Capital Costs for a 12 station Facility:

| | |
|---|--------------------------|
| Site acquisition (Section VIII.A.2.f) | \$ |
| b. Estimated general construction** | \$1,025,010 ³ |
| c. Fixed equipment, not included in a** | \$ |
| d. Total construction costs (sum of items a, b, and c)** | \$1,025,010 |
| e. Major movable equipment** | \$406,791 |
| f. Other cost:** | |
| (1) Administration expense | \$ |
| (2) Site survey, soils investigation, and materials testing | \$ |
| (3) Architects and engineering fees | \$ |
| (4) Other consultation fees (preparation of application included) | \$20,000 |
| (5) Legal fees | \$ |
| (6) Land development and landscaping | \$ |
| (7) Building permits and utility assessments (including water, sewer, electrical, phones, etc.) | \$ |
| (8) Additional inspection fees (clerk of the works) | \$ |
| (9) Insurance (required during construction period) | \$ |
| g. Total project cost (sum of items d, e, f) | \$1,431,801 |

¹ This included \$7 million for the capitalization of the lease for 25 years.

² This includes \$5.25 million for the capitalization of the lease for 25 years.

³ For leasehold improvements.

| | |
|---|-----------------------|
| h. Amount to be financed | \$0 |
| i. Difference between 2.g and 2.h (list, as Schedule 1, available resources to be used, e.g., available cash, investments, grants funds, community contributions, etc.) | \$1,451,801 |
| j. Anticipated long-term interest rate | NA |
| k. Anticipated interim (construction) interest rate | NA |
| l. Anticipated long-term interest amount | \$0 |
| m. Anticipated interim interest amount | \$0 |
| n. Total items g, l, and m | \$0 |
| o. Estimated annual debt service requirement | \$0 |
| p. Construction cost per sq. ft. | \$157.69 ⁴ |
| q. Construction cost per station | \$85,417.50 |
| r. Project cost per sq. ft. ⁵ | \$1,073.35 |
| s. Project cost per station ⁶ (if applicable) | \$581,400 |

Please note that Fresenius believes strongly that a strong rationale exists to allow us, even if we are approved for only 12 stations, to continue to construct and build a facility capable of eventually accommodating 20 stations, but only equipping it and certifying it for 12 stations. The cost of this option \$8.9 million, is detailed below. From our perspective this would be the highly preferred option as it has numerous benefits including that it allows for future, timely and more cost-effective expansion when need so justifies without unnecessary and unwelcome disruption of patient care and overall operations.

Capital Costs for Constructing for 20, but Only Equipping/Certifying 12 Stations:

| | |
|---|--------------------------|
| Site acquisition (Section VIII A.2.f) | \$ |
| b. Estimated general construction** | \$1,507,368 ⁷ |
| c. Fixed equipment, not included in a** | \$ |
| d. Total construction costs (sum of items a, b, and c)** | \$1,507,368 |
| e. Major movable equipment** | \$406,791 |
| f. Other cost:** | |
| (1) Administration expense | \$ |
| (2) Site survey, soils investigation, and materials testing | \$ |
| (3) Architects and engineering fees | \$ |
| (4) Other consultation fees (preparation of application included) | \$20,000 |
| (5) Legal fees | \$ |
| (6) Land development and landscaping | \$ |
| (7) Building permits and utility assessments (including water, sewer, electrical, phones, etc.) | \$ |

⁴ Assumes a reduction in square footage to 6,500 SF.

⁵ Also includes capitalization of lease: \$34.00 SF x 6,500 SF x 25 years = \$5,525,000. Total project cost of \$6,976,801.

⁶ Also includes capitalization of lease: \$34.00 SF x 6,500 SF x 25 years = \$5,525,000. Total project cost of \$6,976,801.

⁷ For leasehold improvements.

| | |
|---|-------------|
| (8) Additional inspection fees (clerk of the works) | \$ |
| (9) Insurance (required during construction period) | \$ |
| g. Total project cost (sum of items d, e, f) | \$1,934,159 |
| h. Amount to be financed | \$0 |
| i. Difference between 2.g and 2.h (list, as Schedule 1, available resources to be used, e.g., available cash, investments, grants funds, community contributions, etc.) | \$1,934,159 |
| j. Anticipated long-term interest rate | NA |
| k. Anticipated interim (construction) interest rate | NA |
| l. Anticipated long-term interest amount | \$0 |
| m. Anticipated interim interest amount | \$0 |
| n. Total items g, l, and m | \$0 |
| o. Estimated annual debt service requirement | \$0 |
| p. Construction cost per sq. ft. | \$158.67 |
| q. Construction cost per station | \$125,614 |
| r. Project cost per sq. ft. ⁸ | \$940.44 |
| s. Project cost per station (if applicable) ⁹ | \$744,513 |

Finally, please note that we can assure the Department a high level of confidence in these cost estimates because we have had a commitment to acquire a specific site since filing our certificate of need.

2. Additional information Fresenius believes is pertinent

We want to acknowledge our appreciation to the Department for its apparent recognition and valuing of the superior quality and commitment of Fresenius to the delivery of comprehensive, state of the art dialysis services to residents throughout the State. As you are aware, Fresenius already has the infrastructure in place, including local MD-support to ensure quality, continuous, and comprehensive service delivery. Furthermore, we have a demonstrated history of quality service delivery in Alaska.

In addition to serving more than 177 incenter patients in Anchorage, our home program serves more than 80 home patients from every corner of the State.

⁸ This includes the capitalization of the lease of \$7 million.

⁹ This includes the capitalization of the lease of \$7 million.

I appreciate having the opportunity to provide this additional information. During the course of your final review, should you have any questions or require additional information, please do not hesitate to contact me.

Thank you,

A handwritten signature in cursive script that reads "Jean E. Stevens".

Jean Stevens, Regional Vice President
Fresenius Medical Care