



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Health and Social Services

Certificate of Need Program

3601 C Street, Suite 978
Anchorage, Alaska 99503
Main: 907.334.2464
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June 4, 2015

Carolyn Y. Heyman-Layne
Sedor Wendlandt Evans & Filippi, LLC
500 L Street, Suite 500
Anchorage, Alaska 99501

RE: Artic Surgery Center, LLC Request for Determination dated April 13, 2015

Dear Ms. Heyman-Layne,

Thank you for your letter dated May 15, 2015 in which you responded to a request for additional information regarding your request for determination on behalf of Arctic Surgery Center, LLC as to whether its proposed project requires a certificate of need (CON).

Arctic Surgery Center, LLC seeks to build an ambulatory surgery center with one Class C operating room in Anchorage, Alaska. The total project costs are estimated to be \$1,485,992.22. The ambulatory surgery center will occupy approximately 3,200 square feet (SF) of space, and it appears that the ambulatory surgery center will be surrounded by 8,638 SF in unused space.

Arctic Surgery Center, LLC estimated the net present value (NPV) of the proposed space with leasehold improvements to be \$1,113,600 in the initial request for a determination. Based on the information you received in our request for additional information, Artic Surgery Center amended its first request for a determination to reflect the addition of the unimproved space's lease rate, resulting in a NPV for the unimproved building space at \$0.80 per square foot, for a total of \$153,600.¹

Thus, your amended request reflects the following:

Total Cost of Project:	<u>\$ 1,485,992.22</u>
Net Present Value without Leasehold Improvements	153,600.00
Leasehold Improvements	960,000.00
ASC Consultant and Valuation Consultant	5,000.00
ASC Architect Fee	85,000.00
Equipment	282,392.22

¹ \$0.80 x 3200SF = \$2,560; \$2,560 x 12 months = \$30,720; \$30,720 x 5 years = \$153,600

Artic Surgery Center, LLC

June 4, 2015

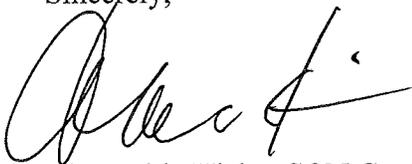
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The document originally submitted by NVISION ARCHITECTURE, Inc. indicated that a “reasonable budget for the ASC space” for “interior tenant space development” (aka leasehold improvements) is between \$800,000 and \$960,000. Your client has gone with the high estimate for the leasehold improvements, and you have correctly applied the CON methodology to reflect a total for your project that is in line with what was outlined in the Department’s request for additional information.

In the request, the Department also inquired as to whether there were any plans by your client to occupy any remaining space in the 11,838 SF building. Specifically, are there any plans to expand operations to include procedure rooms or operating rooms in the future? Your response indicated that Artic Surgery Center, LLC does not at this time plan to expand its operation. You also indicated your client “fully understands that any expansion would be considered a phase of the current project and would trigger CON requirements.” This would require your client to go through the Certificate of Need process prior to future expansion because any expense associated with expansion of the practice or any additional investment would be considered a “phased activity” as one component is directly contingent on the other component.

In conclusion, based on the request for determination, as presented, a CON is not required for the proposed project because the expenditures at issue would not exceed the \$1.5 million threshold under AS 18.07.031, and there is no issue concerning a “divided or phased activity.” The Department does caution the Artic Surgery Center, LLC that if it seeks to convert additional space or expand its operations with additional procedure rooms or operating rooms in the future, that action would be considered a phased activity at that time under 7 AAC 07.025(d).

Sincerely,

A handwritten signature in black ink, appearing to read 'Alex Hicks', written in a cursive style.

Alexandria Hicks, CON Coordinator