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February 20, 2014

Alexandria Hicks, CON Program Coordinator
State of Alaska
Department of Health and Social Services
3601 C Street, Suite 978
Anchorage, Alaska 99503

Dear Alexandria,

This letter is a response to your recent request, dated February 12, 2014, for additional information regarding Providence Transitional Care Center (TCC) Certificate of Need (CON). Providence appreciates the proposed limited review of our request for modification of the TCC CON completion date and is hopeful the following information will support approval of the requested modification.

Upon receipt of your letter dated February 12, 2014, Providence reviewed the TCC CON Progress Report submitted to your office on January 2, 2014 and has determined that some of the financial information pertaining to obligations and expenses were incorrectly categorized. The total net obligations and expenses were reported correctly, but some individual expenses were not allocated to the correct categories. The individual who generated the financial summaries was new to the process and not familiar with the categories. Based on this discovery we reviewed and corrected the report. You should have received an amended TCC CON Progress Report from Sofia Yainova on February 19, 2014. Please refer to that amended report as you review the responses to your questions.

The following are the questions from the CON Program and responses from Providence.

- (1) The original CON was approved for a 9-month project (CON Approval 4/24/2012, Completion Date: 1/31/2013). The modified CON was approved for a slightly longer project period (Modification Approval 3/8/2013; Modified Completion Date: 3/15/2014). In the most recent modification request, Providence indicates that it broke ground on the project on 7/15/2013. With the new extension that is being requested in this modification, the project has grown to 18 months. (Ground breaking 7/15/2013; Requested Completion Date: 1/31/2015). Can you explain why the project timeline has grown significantly since as compared to the originally approved 9-month project?

Multiple factors led to the difference between the initial completion date requested in the CON application and the current request for modification.

The first factor is that Providence erred in its initial CON application. Providence typically requests a project completion date one year or later following the projected operational date for a project. This time span after a project becomes operational is intended to allow for the completion of all construction punch-lists, receipt of all final invoices and payment of those invoices. Our historical experience has been that a close out of a large project can take at least six to 12 months. This time also allows for potential delays which can occur in large projects. In this case Providence failed to include this time in its CON application. If you look at other recent CONs issued to Providence you will see a historical practice of requesting 12 months or more between projected operational date and completion date. Providence failed to do so in this case.

The second factor that led to the change in dates was delay of the project due to financial constraints. The TCC facility was originally envisioned to be constructed concurrently with the Providence Cottages project that was underway at the time the TCC CON application was submitted. When the TCC CON application was submitted, I personally discussed with Karen Lawfer, CON Coordinator at the time, the case that Providence was working concurrently on both CON and internal approval of the project and there was a possibility the project could be delayed or denied internal approval. Karen informed me that if the project were to be delayed we could either request our application to be held prior to a decision being issued or we could request an extension of up to two years after the CON was approved. Unfortunately, financial constraints delayed the internal approval of the TCC project by more than 12 months, much longer than was anticipated. Clearly, at that point, the project could not be completed within the requested time.

The third factor that delayed the project was the loss on efficiencies from not having concurrent construction projects for the Cottages and TCC. During this delay for internal approval the construction of the Cottages project was completed and Davis Constructors demobilized their crew. Once the project received internal approval in early 2013, Providence asked Davis Constructors apply for building permits from the Municipality of Anchorage and remobilize their crew. Once permits were received, Davis Constructors was able to start the TCC groundbreaking on July 15, 2013. Anticipating the time needed to remobilize the effort and gain permits led Providence to request a two-year extension of the project on March 8, 2013, which would have extended the completion date to January 15, 2015. The Commissioner granted an extension of the completion date to March 15, 2014.

Clearly, Providence erred in its initial application and the project did not progress as initially anticipated.

- (2) The original project budget identified \$0 for site expenses, and the most recent project budget still reflects \$0. Given these budget figures, can you explain why expenditures-to-date for site works are \$1.5 million? Can you also explain why there are monetary obligations for site work that amount to \$1.7 million?

As mentioned earlier in this letter, Providence discovered that some obligations and expenses were incorrectly categorized in the January 2014 TCC CON Progress Report. The category "site" is intended to reflect costs for land acquisition. There were no site expenses for this project as it was being constructed on property that was purchased and reported as part of the Cottages CON. The costs that were reported in the site category in the January 2014 report were actually costs associated with land development and landscaping. Those costs should have been reported under general construction as they were performed by Davis Constructors and part of their general construction contract. The amended progress report submitted on February 19, 2014 reflects this. The total project obligations and expenses did not change.

- (3) The original project budget reflected \$200,000 for administrative expenses, and the most recent budget reflects an increase to \$246,911. Given these budget figures, can you explain why expenditures-to-date for the administrative category are \$760,790? Can you also explain why there are monetary obligations for the administrative category that amount to \$826,893?

As mentioned earlier in this letter, Providence discovered that some obligations and expenses were incorrectly categorized in the January 2014 TCC CON Progress Report. Some of the expenses reported as administrative expenses should have been reported as general construction expenses. The amended progress report submitted on February 19, 2014 reflects this. The total project obligations and expenses did not change.

- (4) Can you explain why Architect / Engineering expenses increased from \$635,210 to \$952,641?

Providence has incurred additional architect and engineering expenses beyond those projected in the CON application. Some of the additional expenses were due to loss of efficiencies when the project was delayed and restarted. The architect / engineering obligations and expenses are still within the updated project cost estimates provided more than a year ago in the January 2013 TCC CON Progress Report. The overall project is still projected to be within the limits approved by the Commissioner and allowed by the regulations.

- (5) Per its modification request, Providence anticipates the TCC will be operational around May 1, 2014. It also indicates that "as the facility becomes operational, Providence will purchase and install fixtures, furniture and equipment that are not

part of the contract with Davis Constructors.” Given the length of time between the projected operational date and requested completion date, can you provide more detail on the construction projects that will be occurring during this time period?

The bulk of the construction will be completed at the time the facility becomes operational, but large construction projects typically have punch-lists to make sure all elements of a facility are completed to the owner’s satisfaction. These punch-lists typically are generated once a facility becomes operational and the occupants identify things that may not be functioning as intended. This could be as simple as fixing a squeaky door to as significant as addressing a problem that was not envisioned when the project was merely a design on paper.

Additionally, the installation of fixtures, furniture and equipment (FF&E) will likely not be 100 percent complete as the facility becomes operational. The TCC CON includes a three page FF&E listing that totals \$821,246. If you review the list you will find allowances for items including furniture, shelving and accessories. It is likely that items not foreseen during the design phase will be purchased and installed as the facility starts operations.

The CON regulations do not include a definition for “completion date”. Providence interprets “completion date” to mean that all activity related to a project has been completed. This may differ from how other CON applicants interpret the term “completion date”. As mentioned earlier in this letter, the time span after a project becomes operational is intended to allow for the completion of all construction punch-lists, receipt of all final invoices and payment of those invoices. Our historical experience has been that a close-out of a large project can take as much as six to 12 months. While our requested time may seem like a very conservative estimate, it is intended to make sure all project activities and expenses are truly completed prior to the projected completion date.

Providence is hopeful this additional information will allow the CON Program to complete its limited review of our TCC CON modification request. Please contact me if you need additional information or would like to discuss this further.

Thank you for your consideration.



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Providence Health & Services Alaska

E –mail cc: Jared Kosin, Executive Director – Office of Rate Review