



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
Fax: 907.334-2220

May 1, 2015

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

RE: Request for Determination dated April 13, 2015

Dear Ms. Heyman-Layne,

Thank you for your letter dated April 13, 2015 in which you request a 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 \$842,792.22. 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 estimates the net present value (NPV) of the proposed space with leasehold improvements to be \$470,400.00. The CON Program agrees with this approach for estimating the NPV of the building space because an NPV of \$0 due to depreciation is not representative of CON-related costs. The asset at issue (building space) still has useful life because there is market demand to lease space. Since there is no published asset depreciation schedule to quantify the remaining useful life of the building space, the actual term of the lease is a reasonable and appropriate approach to quantify its remaining useful life.

While the CON Program agrees with Arctic Surgery Center, LLC's approach to estimating the NPV of the building space, there are questions about the NPV's representation of both the space and the leasehold improvements. Specifically, the document submitted by Jack White Commercial indicates that the only previous offer for the property at issue was for warehouse and retail use at \$0.80 per square foot. Using this figure and applying the NPV analysis used by Arctic Surgery Center, LLC, the NPV of the space without leasehold improvements is \$153,600.00.¹

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

The document submitted by NVISION ARCHITECTURE, Inc indicates that a "reasonable budget for the ASC space" for "interior tenant space development" (aka leasehold improvements) is between \$800,000 and \$960,000.

Taking the NPV of the space without leasehold improvements (\$153,600) and adding the estimated cost for leasehold improvements (\$960,000) results in a total cost of \$1,113,600 for the space with leasehold improvements. Arctic Surgery Center, LLC estimates \$470,400 for the space with leasehold improvements. These estimates differ by more than a half million dollars.

Given the disparity between these estimates, the CON Program cannot make a determination as to whether Arctic Surgery Center, LLC's proposal requires a CON. In order to issue a determination, the CON Program requests answers to the following questions:

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

Please provide the requested information no later than 20 business days from the date of this letter.

Sincerely,



Alexandria Hicks, CON Coordinator