



THE STATE
of **ALASKA**
GOVERNOR SEAN PARNELL

Department of
Health and Social Services

CERTIFICATE OF NEED PROGRAM

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April 14, 2014

Dr. Jeffrey Zuckerman, M.D.
Radiology Interpretation Services, Inc.
Post Office Box 70277
Fairbanks, Alaska 99707

Dr. Zuckerman,

In a letter dated February 24, 2014, you formally requested a determination under 7 AAC 07.031 as to whether a Certificate of Need (CON) is required to establish an independent diagnostic testing facility (IDTF), as defined in AS 18.07.111 and 7 AAC 07.900(23), of approximately 3,085 leased square feet and a purchase of a Toshiba 1.5 Titan wide bore MRI and a Toshiba 16 slice Aquillon CT system in Fairbanks, Alaska. You expect to be operational approximately 120 days from entering into contractual arrangements with associated vendors related to your project.

In response to your request, the CON Program sent you a letter dated March 7, 2014 with additional questions. You responded to those questions by letter on March 31, 2014.

After review of the certified cost estimates and other information submitted with the request for determination, it has been determined that a CON is not required for the project, as proposed, because the expenditures at issue are below the \$1.45 million statutory threshold under AS 18.07.031.

The certified cost estimates that are considered expenditures for purposes of the CON statutory threshold include the following:

DESCRIPTION	EXPENDITURE
• Toshiba 1.5 Titan wide bore MRI	\$800,000.00
• Toshiba 16 slice Aquillon CT	\$358,360.00
• NPV Lease of 3,085 SF space at Washington Plaza in Fairbanks, AK	\$148,080.00
• Leasehold Improvements	\$81,502.00
• Office Equipment and Furnishings	<u>\$6,286.00</u>
• TOTAL	\$1,394,228.00

In the request for determination, you concluded that the Net Present Value (NPV) of the building lease is \$133,889.00. This calculation appears to follow a standard "present value" formula. The CON Program appreciates the analysis, but it appears to deviate from the NPV formula that is

specified in 7 AAC 07.010(a)(8)(A). Applying the formula from regulation results in an NPV of \$148,080.00. The rationale for this calculation is as follows.


Per 7 AAC 07.010(a)(8)(A), NPV is equal to total lease payments over a specific period of time. The specific period of time is defined by the useful life of the asset less the existing age of the asset. Simply put, the specific period of time is the remaining useful life of the asset. In this case, the useful life of the asset is less than the existing age of the asset, which results in a remaining useful life of -5 years. This suggests that there is no remaining useful life left in the asset and that the NPV should be \$0. However, Radiology Interpretation Services entered into a lease to use the asset, despite the age of the asset and the useful life of the asset. This implies that there is still useful life remaining in the asset. Since there is no published asset depreciation schedule to quantify the remaining useful life of the asset, the actual term of the lease is used. Accordingly, the $NPV = 74,040(2) = \$148,080.00$.

In conclusion, Radiology Interpretation Services, Inc. is an IDTF that is subject to CON requirements. The total estimated costs of the proposed project are \$1,394,228.00. This expenditure amount is below the \$1.45 million statutory threshold under AS 18.07.031. Accordingly, a CON is not required for this project as it is proposed.

Since this determination is restricted to the specific project proposal, if the project experiences a change in scope, costs, or circumstances, then this office must be notified immediately because this determination is void and a CON may be required.

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, DHSS