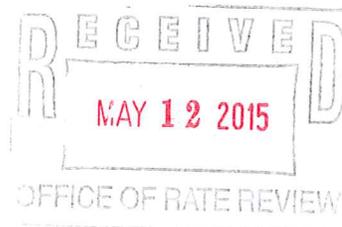


Surgery Center of Kenai, LLC
100 Trading Bay Road, Suite 9
Kenai, AK 99611

May 12, 2015

Alexandria Hicks
Coordinator
Certificate of Need Program
Department of Health and Social Services
3601 C St., Suite 978
Anchorage, AK 99503



Request for Determination-Addition of Endoscopy/Procedure Room in Surgery Center of Kenai, LLC

Ms. Hicks,

I am pleased to represent Surgery Center of Kenai, LLC (SCK) in the submission of this request for determination of our project's exemption from requiring a certificate of need. It is our understanding, among other requirements, that if expenditure costs do not exceed \$1,500,000 a CON is not required IAW AS 18.07.031. Per the enclosed project estimate as provided by David McConnell, AIA, our total costs should be \$696,488.

Due to our unplanned success in attracting a wide variety of surgery specialties, we are experiencing extreme difficulties in scheduling, as well as planning for optimal utilization of anesthesia services. As our census grows, this issue is becoming even more acute. In fact, this problem is very analogous to the issues faced by Central Peninsula Hospital (CPH) in their recent successful request for exemption from certificate of need in their expansion of two new endoscopy/procedure rooms.

A primary factor in CPH's request is summarized in one sentence from their request letter of Nov 21, 2014- 'this is not due to surgical volume, but is directly related to these short duration endoscopy/procedure cases causing congestion and delay in the pre-op area, which impacts the entire OR area...'

Additionally, from the CPH filing, the mixing of endoscopy and non-surgical procedures '...results in an operatory being used for non-surgical cases taking it out of rotation for other surgeons'.

While we sympathize with CPH's difficulties, our need is even more acute as we only have one OR to schedule and juggle disparate needs. Unlike CPH, which apparently is not stressed by increasing volume, over the next few months SCK will be adding several high volume surgeons. Additionally we reasonably expect to receive a transfer agreement from CPH, which will allow us to participate in all of the Federal and State insurance programs. This will more than double the demand on our little center, making efficiency in scheduling even more critical.

This project will start immediately after receipt of exemption determination from your office, and it is expected that completion will take a further 6 months. If approval is granted within the statutory 20 days, then construction should be completed by Dec 31, 2015.

I am also attaching a copy of the current SCK lease, which Mr. Kosen had asked for in prior correspondence.

Thank you for your efforts, and we look forward to a positive response.

Harold Gear
VP Surgery Center of Kenai, LLC
904-654-6220

CORVUS

CONTRACTORS LLC

May 11, 2015

Alexandria Hicks, Coordinator
Certificate of Need Program
Department of Health and Social Services
3601 C Street, Suite 978
Anchorage, AK 99503

Subject: 'Certified Cost Estimate' for the Proposed Expansion to the Surgery Center of Kenai

Ms. Hicks,

My company, Corvus Contractors LLC has been retained to assist in the planning, design and construction for a proposed expansion to the Surgery Center of Kenai. I am a licensed Architect and General Contractor specializing in the design and construction of Healthcare Facilities and we are very familiar with the design requirements for Ambulatory Surgical Centers.

The proposed expansion will be constructed within the lease space currently available and adjacent to the existing Surgery Center of Kenai, LLC. The existing building is a single level, CMU and wood structured commercial Building. The proposed expansion to the ASC is 1,507 SF in area and accounts for approximately 8.5% of the overall Building. The ASC expansion will include one Non-Sterile Procedure Room and associated support spaces, please reference attached floor plan – **Exhibit A**.

Surgery Center of Kenai, LLC has signed a letter of intent with Shilling Rentals, the Building Owner, to lease this space for four and a half years (50 Months) at a rate of \$1.10 per foot per month, with no annual adjustment - **Exhibit B**. Final sub-lease will be executed upon successful attainment of a determination letter from your department.

The remaining useful life was calculated on June 21, 2013 by Chris Cole, AIA, in accordance with the Estimated Useful Lives of Depreciable Hospital Assets (2008 edition) IAW 7 AAC 07.010. Mr. Cole's independent assessment is attached as **Exhibit C**. While the building has received tenant specific improvements since the date of Mr. Cole's letter, the ASC expansion space is unimproved as described in the June 21, 2013 letter.

DHSS, in the CON exemption ruling on Zukerman et al, dated April 14, 2014- **Exhibit D** implies economic life in a building that is beyond its calculated economic life, based on the lease signed. Surgery Center of Kenai, LLC has been offered the lease space at \$1.10 per foot with no escalator for the period of 50 months. The total dollar value of this proposed lease is \$82,885 as per **Exhibit E**.

DEVELOPMENT COSTS OF PROPOSED ASC PROJECT

BUILDING AND LAND (LEASE EXPENSE) \$ 82,885

-37 year old building with outdated or absent mechanical systems

-Reference Exhibit B.

-Reference Exhibit C.

TENANT IMPROVEMENTS

-Reference attached breakdown of estimate at Exhibit F. \$ 461,450

EQUIPMENT

-Reference attached equipment quotes- Exhibit G. \$ 144,653

-Estimated shipping costs \$ 7,500

The aggregate total projected cost for this proposed expansion of Surgery Center of Kenai, calculated per 7 AAC 07.031, is therefore the sum of its Building and Land, Tenant Improvements, Equipment, Estimated Shipping Costs, and totals:

TOTAL PROJECT ESTIMATE \$ 696,488

Please feel free to call me if you have any questions regarding the scope of the project or the calculation methodologies and assumptions utilized.

Sincerely,



David L. McConnell, Architect
Corvus Contractors LLC

Schilling Rentals
47 Spur View Drive
Kenai, AK 99611
907 283 3660

January 5, 2015

Surgery Center of Kenai
PO Box 240
Kenai, AK 99611

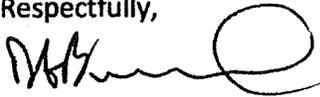
Re: Offer to lease space at 100 Trading Bay; the Décor Professional Center

Dear Mr. Gear:

Thank you for your interest in acquiring additional space for lease in the Décor Professional Center. Schilling Rentals is pleased to offer 1,507 square feet at the rate of \$1.10/square foot (fixed) effective February 1, 2015

The proposed term will parallel the existing lease with a scheduled termination date of July 31, 2018.

Respectfully,

A handwritten signature in black ink, appearing to read 'Duane Bannock', with a large circular flourish at the end.

Duane Bannock

June 21, 2013

c/o MediCenter
Atten: Rosanne Louise Carlson, Ray Lynn Carlson
10543 Kenai Spur Hwy.
Kenai, AK 99611

Building Address:
100 Trading Bay Drive
Kenai, Alaska 99611

Re: MediCenter
61northarchitects Project No. 2K1337



Dear Mr. and Mrs. Carlson:

We were tasked to determine the "net present value" of the building as defined by AMA - Estimated Useful Lives of Depreciable Hospital Assets at 100 Trading Bay Drive for MediCenter. We did an inspection of the facility on Thursday, June 20, 2013 to verify it's current condition. We based our understanding of the building's "net present value" on the current building condition and how it relates to the lease. The building is understood to be constructed in 1967.

The building construction is as follows:

Exterior Walls:

The exterior walls are 8" and 12" concrete block with 2x_ wood furring, 1 1/2" batt. insulation and gypsum wall board. This is an R-value of about 8. The walls are in good condition but the R-value is low for current standards.

Windows and Doors:

The windows and doors at the entrances are a center-glazed aluminum storefront system. The storefront system is assumed to not be thermally broken. The windows are single-pane and the infill panels are painted masonite. This window and door system is inefficient for current standards.

Roof:

The roof construction is glu-lam beams on steel columns, 2x12 roof joists, plywood and then the roof system above. We did not core the roof system; however, we assume it to be a cap layer, over a cover board, over a small amount of insulation. The roof has drains but there was evidence that the roof was close to flat and did not slope to the drains. The ceiling in the space was removed, so we could not determine if the roof currently leaks, however, the framing showed signs of water-staining at the drains, between joints in the plywood deck, and at the building perimeter.

Floor:

The floor is a concrete slab and it is unknown if there is a vapor barrier under the slab.

Plumbing, Ventilation and Heating:

There are three boilers that run hot water, ceiling-mounted unit heaters. The boilers are 240,000 BTU's each. The plumbing is out-of-date and may not be built to current standards. There is no mechanical ventilation in the building. The entry doors are the only source of ventilation.

The bathrooms are currently not useful or code compliant and will require a full upgrade for ADA in any tenant improvement scenario.

Using the methodology of the AMA - Estimated Useful Lives of Depreciable Hospital Assets, the building would result in a zero valuation—as the building is 36 years old, of "Type V" (wood) construction, and given a zero year economic life per (2008) Estimated Useful Lives of Depreciable Hospital Assets, and therefore beyond its "economic lifespan". Our understanding of the building components as described above, confirms this conclusion.



Sincerely,
chris Cole Architect, AIA, NCARB, LEED

61northarchitects
3400 Spenard Road, suite 12
Anchorage, Alaska 99503
Ph (907)274-4446, Fax (907)274-4445
ccole@61northarchitects.com
Document: 2K1337 LETTER.doc



THE STATE
of **ALASKA**

GOVERNOR SEAN PARNELL

Department of
Health and Social Services

CERTIFICATE OF NEED PROGRAM

3601 C Street, Suite 978
Anchorage, Alaska 99503
Main: 907.334.2471
Fax: 907.334.2220

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

Dr. Zuckerman

04/14/2014

Page 2 of 2

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.

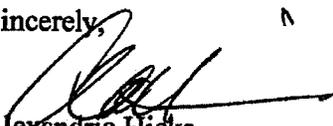
Per 7 AAC 07.010(a)(8)(A), NPV is equal to total lease payments over a specific period of time. The specific period of time is defined by the useful life of the asset less the existing age of the asset. Simply put, the specific period of time is the remaining useful life of the asset. In this case, the 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

CORVUS

CONTRACTORS LLC

May 11, 2015

Harold Gear
Surgery Center of Kenai, LLC
100 Trading Bay Road, Suite 9
Kenai, Alaska 99611

Project: Surgery Center of Kenai – Revised Expansion Proposal

Dear Mr. Gear,

We would like to thank you for the opportunity to propose on the tenant improvement expansion for the Surgery Center of Kenai. This proposal is based on Architectural Sketch SK-1a, dated April 28, 2015 as provided by Corvus Contractors LLC. Our bid for this tenant improvement is \$461,450 and is based on the following breakdown and basic understanding:

Design & Permitting (Arch, Structural & Mech.)	\$ 20,500
General Conditions	\$ 52,400
Temporary Construction	\$ 14,501
Interior Demolition	\$ 6,590
Place Concrete Slab and Pads	\$ 1,000
Surgical Light Structure	\$ 1,000
Casework Complete	\$ 13,430
Doors and Hardware	\$ 14,020
Frame & Acoustic Insulation	\$ 17,005
Gypsum Board	\$ 12,459
Tape	\$ 6,308
Paint	\$ 8,408
1 Hr Demising Wall Repair	\$ 8,656
Acoustical Ceilings	\$ 5,500
Flooring Complete	\$ 10,569
Specialties	\$ 1,825
Mechanical Systems	\$ 76,980
Plumbing	\$ 56,950
Automatic Sprinkler & Fire Alarm	\$ 23,300
Electrical	\$ 43,000
Data & Communications	\$ 6,860
Sub Total	\$ 401,261
Overhead & Profit @ 15%	\$ 60,189
Total	\$ 461,450

- Coordinate Architectural, Structural, Mechanical, Plumbing, and Electrical design and permitting.
- Remove acoustical ceiling tile, lighting and grid, gypsum board partition walls.
- Layout, saw cut and remove concrete slab as required for Plumbing rough-in.
- Layout and construct new acoustically insulated wall partition, soffits and ceilings.

7808 Hartzell Road, Suite 100 • Anchorage, Alaska 99507

907.561-2183 • fax 907.561.2184

- Rough-in Mechanical, Plumbing and Electrical in walls and ceiling plenum. This proposal includes installing oxygen, vacuum and waste gas piping.
- Install hollow metal door frames with solid core doors and hardware within the expansion area.
- Hang gypsum board, tape and paint new partition walls.
- Install acoustical ceiling grid, lighting and mechanical grills and tile.
- Install data cabling and telephone system throughout Suite. Install additional Nurse Call stations in the Operating Room and Patient Prep Area.
- Install Luxury Vinyl Plank in the Semi-Restricted Passage and welded sheet vinyl with 4" rubber wall base throughout remodeled Suite. The Procedure Room will receive welded sheet vinyl flooring with integral coved wall base.
- Fabricate and install new custom casework, please note that all countertops have a plastic laminate finish.
- Trim-out all Mechanical, Plumbing and Electrical as required.

We have observed the demising walls between the ASC and the Specialty Medical Clinic was improperly constructed. The existing wall does not have slotted deflection track at the top of the wall as required by code, this wall will not meet the 1-hour requirements for the ASC. The cost to properly construct the one-hour demising walls is \$9,954 and is include within this proposal.

We appreciate your consideration of this proposal; please contact us with any questions or requests regarding this proposal.

Sincerely,



David L. McConnell, Architect
Corvus Contractors LLC

5-5-2015**Quote for Expansion of Surgery Center of Kenai**

PRICE QUOTE

QT.	Part #	Description	Cost	Extension
1	B2AV800-1	Nuvo V800 OR Table with Split Legs	\$13,475	\$13,475
1	NVSD2D2	Nuvo Dual VistOR MS LED Surgical Lights	\$14,850	\$14,850
2	800-0008 508-0071	Standard Armboards w/ 2" Pads (1176158) (1177630)	\$360	\$720
1	Force FX	ValleyLab Force Fx ESU System w/Cart Foot Pedals, and Smoke Evacuator Refurbished w/ One Year Warranty	\$7,900	\$7,900
1	Prima 450	Penlon Anesthesia Machine w/Electronic Ventilator	\$26,500	\$26,500
1	M80	Edan M80 OR Monitor w/Multi Gases (#9073322)	\$10,250	\$10,250
1	T0005	Mac Medical Instrument Table (1147159) 24x60x34	\$680	\$680
1	MYO-2002	Mayo Stand X-Large Foot Operated 20x 25 Tray (1147192)	\$585	\$585
1	SOL-101	Solution Stand w/Shelf (1203449)	\$246	\$246
2	KB-1000	Kick Bucket 12Qt (1147190)	\$130	\$260
1	IVS-1004	IV Pole 4 Hook (1147189)	\$290	\$290
1	IVS-5002	IV Pole 2 Hook	\$140	\$140
1	T0086	Prep Table Single Drawer (1156835)	\$440	\$440
1	IC183664	OR Cabinet 18"D x 36"W x 64" H	\$3,100	\$3,100



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GENERAL BUSINESS: 631-843-5500

TO ORDER: 800-772-4346

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1	LH-2001FOL	Hamper SS Foot Operated (1184133)	\$385	\$385
1	11410	Hamper Chrome Foot Operated (9158508)	\$180	\$180
1	6450	Anesthesia Cart 6 Drawer (1100455)	\$920	\$920
1	172BS-II	Madavac II Portable Suction (9233316)	\$156	\$156
2	272	Rolling Stools Ritter	\$140	\$280
1	273	Rolling Stool w/Back Ritter	\$195	\$195
1	278	Surgeon's Stool w/ Foot Lever & Back	\$815	\$815
1	0571224	Medela Dominant 50 Liposuction Machine w/mobile Cart (2400019)	\$3,450	\$3,450
1	1400XL	Cool View LED Surgical Head Light 2 Batteries and Charger (1147747)	\$2,600	\$2,600
3	M50	Edan M50 Recovery Room Monitor w/ Rolling Stand (9073327)	\$2,600	\$7,800
3	M3A	Edan M3A Monitor w/ Rolling stand (Spo2, NIBP) (#9073480)	\$850	\$2,550
3	PT1000	Mac Medical Recovery Room Stretcher Complete w/ IV pole, 4" Mattress (#114200)	\$2,700	\$8,100
2	6530	Winco Care Cliner Blue (#1145175)	\$860	\$1,720
3	11610	Brewer Overbed Table (#6056802)	\$110	\$330
1	SWC1824-TL	Blanket Warmer I/2 Size (1141935)	\$4,100	\$4,100
1	T0023	Blanket Warmer Trolley	\$450	\$450
1	M Series	Defibrillator Refurb Zoll M Series Bi-Phasic (1136835)	\$5,000	\$5,000
1	L110W	SciCan Under counter Instrument washer (1381358)	\$6,600	\$6,600
1	M550	Midmark Ultrasonic Cleaner (1025896)	\$2,450	\$2,450

Products & Services for Healthcare Professionals





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GENERAL BUSINESS: 631-843-5500

TO ORDER: 800-772-4346

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1	PS257237-02	Instrument processing Sink Single Bay	\$2,120	\$2,100
1	ES25	Single Bay Scrub Sink (1174729)	\$2,100	\$2,100
1	FF511LMED	Medication Refrigerator (1164826)	\$630	\$630
1	MIM44ADA	Ice Machine Undercounter (1194126)	\$1,150	\$1,150
1	2703-BG	Narcotics Cabinet (7380010)	\$320	\$320
1	L461	Allied Autovent 3000 (7828048) Emergency Ventilator	\$2,200	\$2,200
1	KVLKIT3	King Vision (For Difficult Intubation) Video Laryngoscope (4998127)	\$1,300	\$1,300
3	204	Ritter Exam Tables w/ Seamless Tops	\$1,340	\$4,020
3	172	Rolling Stool Ritter	\$140	\$420
3	680	Side Chair Midmark w/Arms	\$240	\$720
3	LC-RLSSP-xxx	Ritter Basic Casework w/Sink	\$1,235	\$3,705
1	30A	Venaflow DVT System (1085856)	\$1,706	\$1,706
1	5015300A	Warm Touch Patient Warmer (1085470)	\$765	\$765

QUOTE TOTAL (freight not included)

\$144,653

Prices do not include freight or local Sales Tax. All Prices guaranteed for 60 days from the date of the quote.
Freight estimated at \$7,500 for total order.

