



THE STATE
of **ALASKA**
GOVERNOR BILL WALKER

Department of
Health and Social Services

Certificate of Need Program

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May 13, 2016

Mr. David A. Joslin, Administrator
Diagnostic Health Alaska
4100 Lake Otis Parkway, Suite 102
Anchorage, AK 99508

RE: Diagnostic Health Alaska Request for Determination dated April 25, 2016

Dear Mr. Joslin,

Thank you for your letter dated April 25, 2016. In that letter, you indicate that Diagnostic Health Alaska has incurred additional expenditures related to its Wasilla facility that were not covered in the determination made by the Certificate of Need ("CON") program on September 1, 2015. Accordingly, Diagnostic Health Alaska is submitting a new request for determination.

Diagnostic Health Alaska originally submitted a request for determination for this project in Wasilla on July 27, 2015. That request was to open a multi-modality imaging center at 1751 E. Gardner Way, Suite A, in Wasilla, Alaska. The center was to include Computed Tomography ("CT") and Magnetic Resonance Imaging ("MRI").

The CON program made its determination on September 1, 2015, finding that "[b]ased on the request for determination, a CON is not required for the proposed project, *as presented*, because the expenditures at issue do not exceed the \$1.5 million statutory threshold under AS 18.07.031." *CON Determination 9-1-2015* (emphasis added).

Diagnostic Health Alaska refers to its April 25, 2016 letter as an "amended" request for determination. Since the CON program already issued a determination on Diagnostic Health Alaska's project, and since that project and expenses have since changed, the CON program must evaluate the project in full, including all of its costs, to issue a determination under 7 AAC 07.031. Therefore, it must treat Diagnostic Health Alaska's request as a new request for determination, not an amended request for determination. However, in making this new determination, the CON program will draw from the previous determination for purposes of understanding how the project has changed in scope and cost.

Total project expenditures in the September 1, 2015 determination are as follows:

Total Projected Expenditures:	<u>\$1,242,282.07</u>
MRI GE Gold Seal 1.5T 16 Channel HDXT	\$ 571,600.68
CT GE Gold Seal Brightspeed 16	\$ 266,987.75

Lease Costs (\$11,500 x 24 months)	\$ 276,000.00
Leasehold Improvements	\$ 105,800.00
Furniture and Accessories	\$ 5,893.64
MRI Rigging	\$ 16,000.00

Total project expenditures in the April 25, 2016 request are as follows:

Total Projected Expenditures:	<u>\$1,464,353.71</u>
MRI GE Gold Seal 1.5T 16 Channel HDXT	\$ 588,600.68
CT GE Gold Seal Brightspeed 16	\$ 266,987.75
Ultrasound Siemens Sequoia 512	\$ 1,500.00
X-Ray Unit Americorps Summit AM2	\$ 57,840.00
OEC C-Arm GE Stenoscope 2	\$ 2,000.00
Lease Costs	\$ 236,736.00
Leasehold Improvements	\$ 286,763.00
Furniture and Other Equipment	\$ 17,449.04
X-Ray Install	\$ 6,646.24

Diagnostic Health Alaska's new request for determination includes at least three additional pieces of equipment, additional costs in existing categories, and a new method for estimating costs that reduces the lease costs by nearly \$40,000, despite there being no apparent change in circumstances concerning the commercial lease since its original request for determination in July 2015. Given this new approach to estimating lease costs, and given the addition of equipment that was not previously disclosed and the change in other costs, the CON program needs more information before it can make a determination.

Please submit the following information to the CON program no later than 20 days from the date of this letter:

1. The cost listed for the MRI equipment has increased by \$17,000 since the 9-1-2015 determination. Why has this cost increased? In its previous request for determination, Diagnostic Health Alaska identified a cost of \$16,000 for MRI Rigging. That expense is not listed in the most recent request for determination. Is it included in the increased MRI cost? If so, why is there still a differential of \$1,000?
2. Why did Diagnostic Health Alaska not disclose the project's ultrasound, x-ray unit, and C-Arm in its original request for determination? Also, why did Diagnostic Health Alaska not disclose a cost for "X-Ray Install" in its original request for determination?
3. The x-ray unit's invoice reflects a cost of \$54,890.00. Why is \$57,840.00 listed in Table 1 of Diagnostic Health Alaska's most recent request for determination?

4. In its original request for determination, Diagnostic Health Alaska estimated its lease costs to be \$276,000.00. This was determined by taking the sum of the monthly lease expenses over the life of the lease, which in this case is two years. Simply stated, the original lease cost = $\$11,500 \times 24 \text{ months} = \$276,000$.

Substantively speaking, there has been no material change to the commercial lease agreement that was considered in the 9-1-2015 Determination. However, in its most recent request for determination, Diagnostic Health Alaska also submitted a sublease agreement.

The sublease agreement is between Chugach Imaging JV, LLC (sublessor) and Alliance Healthcare Services, Inc (sublessee). The sublease agreement appears to be a sublease of a portion of Diagnostic Imaging Alaska's space (i.e. 1,019 square feet of 7,827 square feet) for use as "office space."

Questions

Based on Diagnostic Health Alaska's first request for determination, please identify what portion of space would have been dedicated to "office space." Please provide the original blueprints or floorplan as an illustration of the project originally proposed in July 2015.

Please disclose any and all details concerning the relationship between Chugach Imaging JV, LLC and Alliance Healthcare Services, Inc. Is there any common ownership? This should cover any LLCs, subsidiaries, or any other structures that a reasonable person would perceive as having a relationship, a commonality, or any type of overlap.

The monthly sublease base rent is \$1,497.30. You have submitted a cost of \$1,636 as the total monthly cost to sublease the space. Please explain exactly how you calculated the "monthly \$1,636 rent" that you assert should be deducted from Diagnostic Imaging Alaska's overall lease costs.

5. Based on supplemental documentation (see Application and Certification for Payment), total leasehold improvement costs appear to be \$288,233.00. Diagnostic Imaging Alaska lists leasehold improvement costs as \$286,763.00. Please identify the correct amount and explain the discrepancy.
6. Furniture and equipment includes a line item for "Procedure Table." Diagnostic Imaging Alaska lists the procedure table cost as \$5,237.34. Based on supplemental documentation, the cost amount appears to be \$5,273.34. Please identify the correct amount and explain the discrepancy.
7. Please disclose any other material information you believe is necessary for the CON program to make an accurate determination under 7 AAC 07.031 concerning this project.

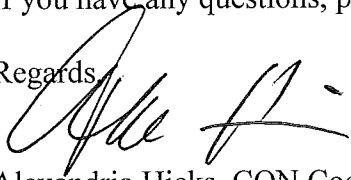
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If you have any questions, please do not hesitate to contact me.

Regards,

A handwritten signature in black ink, appearing to read 'Alex Hicks', with a stylized flourish at the end.

Alexandria Hicks, CON Coordinator