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May 4, 2015

Alexandria Hicks, Coordinator
Certificate of Need Program
Department of Health and Social Services
3601 C Street Suite 978
Anchorage, AK 99503-5924
Phone: (907) 754-3428

via email: alexandria.hicks@alaska.gov

Dear Ms. Hicks,

Please consider this letter a request for determination pursuant to 7 AAC 07.031 as to whether a Certificate of Need is required for Providence Seward Medical & Care Center (PSMCC) to expend \$1,366,329 to expand the hospital's existing footprint by adding 3,036 square feet of shelled-in space.

It is our understanding that a Certificate of Need (CON) to construct these additional 3,036 square feet of shelled-in space is not required under AS 18.07.031, because the total cost of the project to be borne by PSMCC is under the current CON expenditure threshold of \$1,500,000.

The City of Seward is pursuing a grant opportunity that would partially fund expansion to the community health center, which is co-located in the same facility. Shelled-in expansion of hospital space in conjunction with the community health center project allows for significant savings in time and financial resources. At a future date, PSMCC plans to apply for a Certificate of Need to develop the shelled-in space and remodel existing space. No alteration of PSMCC's bed capacity or addition of a category of health services is planned as a part of this project.

Background:

Providence Seward Medical & Care Center is a six-bed rural acute care hospital owned by the City of Seward and managed by Providence Health & Services Alaska (Providence), a not-for-profit health care system. The hospital is co-located with Seward Community Health Center (SCHC), a primary care clinic operating as a designated Federally Qualified Health Center (FQHC). The two facilities operate out of the same building located at 417 1st Avenue in Seward, AK, owned by the City of Seward.

The current facility opened in 1996. Over time, with advances in technology and standards of care, the facility has encountered various operating and capacity issues that could not have been planned for during the original building construction. Current equipment needs, supplies and staffing have exceeded the capacity of the

existing facility layout and footprint, resulting in inefficient patient and staff flows. Furthermore, hospital computed tomography (CT) equipment, which is used daily, is housed in a trailer not connected to the hospital building. Such arrangement is not ideal for patient privacy and is detrimental to patient and employee safety during transports.

In 2014, Providence closed its primary care clinic and SCHC, an independent community health center opened in its place. This transition and SCHC's qualification as an FQHC was the culmination of several years of collaborative work between Providence, the City of Seward and SCHC's board of directors looking for ways to provide more effective and lower cost primary care to the community of Seward.

This year, the U.S. Department of Health and Human Services has released notice of the Health Infrastructure Improvement Program (HIIP) grant program. This program provides awardees with up to \$1 million for capital construction. Among the criteria applicants must meet is that this program can only be used for community health centers.

In collaboration with SCHC and the City of Seward, PSMCC has designed an expansion and renovation project that would address the operating and capacity issues for PSMCC and SCHC and qualify for submission of an application for the HIIP grant program. The application submission deadline for the HIIP grant is May 21, 2015. We understand SCHC is not subject to CON regulations, as it is not included in the definition of a health care facility under AS 18.07.111. In order to meet the HIIP application timeline and capitalize on significant savings in time and financial resources through a single expansion project, PSMCC is proposing to complete construction of the shelled-in expansion and, at a later date, submit a CON application to complete the build-out of the expanded shell and remodel of existing space.

Description of PSMCC's Proposed Activity:

The proposed project will expand the building footprint by 6,128 square feet and the total cost is estimated to be \$4,019,015. PSMCC's portion of the project is estimated to cost \$1,366,329 and will result in the addition of 3,036 square feet of shelled-in space. The cost of the remaining portion of the project (the shell and development of 3,092 square foot expansion) will be covered by SCHC.

At a later date, PSMCC will apply for a Certificate of Need request for a project to complete the development of the shelled-in expansion and renovation of the existing building. This project will include the following:

- Relocation of the CT equipment to a location within the building;
- Conversion of two (2) semi-private double patient rooms to four (4) private, single patient rooms;
- Relocation of the inpatient and swing bed rehab gym to a location near the patient rooms;
- Construction of a functional kitchen to facilitate proper patient meal preparation;
- Consolidation of hospital services and expansion of administrative office space;
- Improving patient flow by optimizing inpatient, outpatient and public space.

Please see *Exhibit A* for the facility's current floor plan and the projected changes.

Estimated Cost of the Proposed Activity

The total cost of the project is estimated to be \$4,019,015; however, only the hospital is subject to the CON requirement under the CON Statute. The estimated cost of the hospital's portion of this project is \$1,366,329, which is under the current CON threshold of \$1,500,000.

Please see *Table 1* for the breakdown of the project costs and *Exhibit B* for the certified construction cost estimate.

Table 1 Expansion Project Cost Breakdown

Project Phase	PSMCC	SCHC	Total
Core & Shell Expansion	\$ 891,840	\$ 909,816	\$ 1,801,656
Site Work	58,650	59,838	118,488
Interior Tenant Improvements	0	875,692	875,692
FF&E	0	0	0
Architect/Design Fee	142,574	276,802	419,376
Project Management Expense	47,525	92,267	139,792
Administrative Expense	47,525	92,267	139,792
Contingency	178,217	346,002	524,219
Total	\$ 1,366,331	\$ 2,652,684	\$ 4,019,015

Estimated Start Date of the Proposed Activity

The construction is planned to begin in October, 2015.

Estimated Completion Date of the Proposed Activity

Completion date of this project is estimated to be on or about August, 31, 2018.

The information presented here represents the planning work completed to date. We request a determination pursuant to 7 AAC 07.031 as to whether a Certificate of Need is required. Please note that as we proceed with further design work, we will closely monitor the cost and if estimates increase and will exceed \$1.5 million we will immediately cease and submit a Certificate of Need application and suspend the project pending a decision on the CON.

Please contact Joseph Fong, PSMCC Administrator if you have any questions or need additional information.

Thank you for your consideration.



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Exhibit A

Exhibit B