

November 15, 2010

Mission:

To enhance the quality of
life for all we serve

Vision:

Honor our heritage and be
the pride of the community

Values:

Integrity
Compassion and Caring
Trust
Transparency
Loyalty
Honoring our Heritage
Quality
Fiscal Responsibility

VIA EMAIL AND U.S. MAIL

Karen Lawfer, CON Coordinator
Certificate of Need Program
Health Planning and Systems Development
P.O. Box 110660
Juneau, AK 99811-0660

Re: Request for Modification of a Certificate of Need
For Wrangell Medical Center

Dear Ms. Lawfer:

Attached please find Wrangell Medical Center's (WMC) Request for Modification of a Certificate of Need which we are filing with you pursuant to 7 AAC 07.095. We are forwarding you a copy by email and have placed the original in the U.S. Mail. The Request for Modification is being filed with you on the form you supplied WMC. Additionally, we are also providing you a Periodic Progress Report as you requested and on the form you provided. A copy of the most current WMC Expense Sheet is included with the Periodic Progress Report.

WMC believes that it has provided the Department with all of the information it has requested. Also, WMC believes that the information provided is more than sufficient for the Department to conclude that the Request for Modification should be categorized as "minimal" which mandates that the Department should conduct only a "minimal level of review" under 7 AAC 07.095 (e)(2). The reasons for WMC's conclusion is stated below.

1. No Change in Scope of Authorized Activity is Requested.

7 AAC 07.095 (c)(1) states: "[A]n activity changes in scope if one or more purpose or goal of a proposed activity has been added or eliminated; a redesign of a project and an expansion or addition of a purpose or goal is not considered a change in scope in the main elements of the proposed activity are intact and cost remains the same or is reduced."

*Caring for
Southeast*

We realize that the Department may disagree with our interpretation of this regulation so we are complying with the Department's request that we formally request a modification of our current CON to address the increase in square footage issue as opposed to litigating this issue. Nevertheless, we believe that even if the Department is correct that an increase in the square footage of a project automatically constitutes a change in the scope of an activity, since WMC is keeping in place all of the elements of the proposed activity and the cost remains the same, the Department should conclude only a minimal level of review is required. As detailed in the Request for Modification and Periodic Progress Report the reason for the increase in square footage is easily identified and none of those reasons change the main elements of the project.

2. No Change in Cost of Authorized Activity is Requested.

WMC is not requesting an increase in cost. As detailed at the meeting held with the Department on November 4, 2010, WMC is using a Construction Management model that puts the Construction Management entity at risk since they are required to build the project for a Guaranteed Maximum Price (GMP). Right now the GMP for this project is at or below the dollar amount authorized by the CON issued for the project.

Since the current regulations allow a project to exceed the approved maximum expenditure by 15% before having to request a modification of a CON, WMC believes that the fact that they are not seeking any increase in the approved maximum expenditure mandates that the Department should conduct only a minimal level of review.

3. No Change in Time Schedule is Requested.

Currently, WMC believes that no change in time schedule is needed. However, at the meeting on November 4, 2010, the Department noted that until a modified CON is issued it is the Department's position that WMC cannot build anything except a 39,000 square foot hospital and long term care facility. If it takes an extended amount of time to have the modified CON issued it may become necessary for WMC to request time schedule changes.

Since WMC is not requesting any change in its time schedule, WMC believes that the Department should conduct only a minimal level of review.

With respect to 7 AAC 07.095 (d), WMC believes that all elements of that section of the regulation have been met. The forms you provided WMC have been filled out in full and include:

- (1) a detailed description of the proposed changes to the CON, specifically changing the number of square feet needed for the project from 39,000 square feet to 56,000 square feet, and the reasons why the change is needed;
- (2) a statement that there is not to be any increase in cost related to the changes noted in the attachments; and
- (3) includes a completed current progress report.

Pursuant to 7 AAC 07.095 (e) and (f), WMC requests that the Department conclude either that the changes requested by WMC do not require a modification of the current CON or that it conclude that the changes being requested are minimal requiring only a minimal level of review.

Thank you for considering this matter. If you believe we have failed to provide you any information required, please let us know. Please identify whatever other information you believe we need to provide and direct us to the statute or regulation requiring that that information be supplied as part of a Request for Modification for a CON.

Very truly yours,
WRANGELL MEDICAL CENTER



Olinda White
Chief Financial Officer

cc: Stephen D. Rose, Esq. (w/encl.)
Jim Harbison, (w/encl.)

REQUEST FOR MODIFICATION OF A CERTIFICATE OF NEED

Name of Facility: Wrangell Medical Center

Mailing Address: P.O. Box 1081
Wrangell, AK 99929

Street Address: 310 Bennett Street
Wrangell, AK 99929

Project Authorized in Certificate of Need dated: April 1, 2010 as modified August 18, 2010.

APPLICANT INFORMATION

If the owner, applicant organization, or contact person has changed since the certificate of need was issued, please provide the new name, title, and address.

Not applicable.

REASON FOR MODIFICATION (Describe each applicable reason in detail)

- Change in scope of authorized activity
- Change in cost of authorized activity
- Change in time schedule of authorized activity

There is no change in the scope of the authorized activity, the cost of the authorized activity, or time schedule for the authorized activity. The modification is being sought because the number of square feet required for this project has increased. The reasons for the increase in square footage includes, but is not limited to, under-estimation of square footage needed by the original architect, increasing the square footage of the long term care rooms, increasing the size and number of hallways, adding a meditation room, and making other changes to the floor plan to be in compliance with various state laws and building codes including the American Institute of Architecture ("AIA") guidelines applicable to hospitals and long term care facilities for licensure purposes. The original estimated total square footage required for the proposed activity was 39,000 square feet based on the conceptual design plan filed with the CON Application.

Some of the reasons for the increased square footage needs noted above are explained in more detail in the attached "Current Progress Report" which is incorporated herein by this reference.

CERTIFICATION

I certify that all of the information contained in this request, including any supporting documents, is true to the best of my knowledge and belief.

Name: Olinda White

Title: Chief Financial Officer, Wrangell Medical Center

Date: Nov. 15, 2010

Signature: Olinda White

NOTE: A current periodic progress report must be submitted with this request.

PERIODIC PROGRESS REPORT

Name and Address of Applicant or Certificate Holder: Wrangell Medical Center, P.O. Box 1081, Wrangell, AK 99929.

Project Description: Construction of a Replacement Hospital in Wrangell Alaska for Wrangell Medical Center.

Date Certificate of Need Issued: April 1, 2010, as modified on August 18, 2010.

Approved Cost: \$25,427,743.00.

All persons who have requested an exemption or have been issued a certificate of need are required to submit periodic reports until the project has been completed or terminated, as required under 7 AAC 07.105. Submittal dates are on or before January 1 and July 1 each year.

Please respond to the following questions. If the question is not applicable, please state why.

1. Is the project fully obligated? (An obligation is defined as an enforceable contract for acquisition, construction, or lease of a capital asset; or, in the case of donated property, the date on which the gift is completed in accordance with applicable state law.) If not, explain. If yes, indicate the nature and date of all obligations incurred to date. If the project is not fully obligated, indicate the cost and the date those obligations will be incurred.

No. Facility is in the process of obtaining and executing the necessary contracts.

2. What are all expenditures by category (e.g., land fees, construction, etc.) made to date on the project? Attach an expense sheet that compares the proposed costs to the expenses for the reporting period, as well as all expenses since the certificate of need was issued.

Development Costs:	\$ 84,914
Pre-Construction Services:	20,607
Professional Fees and Reimbursable Expenses:	391,944
Administrative and Legal:	70,695
<u>TOTAL</u>	<u>\$568,160</u>

A copy of the expense sheet presented to the CON Coordinator on November 4, 2010, is attached.

3. What is the anticipated completion date (operational date)? How does this differ from the project schedule submitted in the certificate of need application? Please explain any significant differences in the schedules. How will future milestones in the schedule be affected?

The anticipated completion date remains the same, and the project will be completed on or before July 1, 2013.

The project schedule remains the same as submitted in the CON Application.

There are no significant differences in the schedules.

At present, none of the future milestones in the schedule are affected.

4. In the case of construction projects, has the construction started and what has been completed to date (e.g., footings, foundations, etc.)? What percentage of total construction is complete?

Construction has not started.

5. Are construction/project activities progressing in conformance with the scope of the project approved by the Commissioner? Explain any variations (e.g., in size or type of construction).

Construction/project activities have not yet begun. As noted at the November 4, 2010, meeting with the CON Coordinator, the project will require more square footage than estimated in the conceptual design submitted with the CON Application. Currently, it is estimated that the project will need to be approximately 56,000 square feet or less. The reason for changing the estimated square footage are as follows:

- The architect who drafted the original conceptual design that was included with the original CON Application also provided WMC with his square footage calculation based on his conceptual design. Believing the architect's calculations to be correct and accurate, WMC based many of its responses on the architect's calculations. It now appears that the architect's calculations were incorrect and understated the number of square feet needed for this project. The architect failed to include the following in his original square footage calculations:
 - Mechanical Space—approximately 2,000 square feet. The architect did not include covered space for heating and cooling elements.
 - 28 beds total (the original conceptual design shows only 22 beds)—approximately 2,700 square feet.
 - Procedure Room and Support within Surgery—approximately 400 square feet.

- Equipment Storage within the Med/Surg and Long Term Care Units—approximately 300 square feet.
- Nursing Offices within Med/Surg and Long Term Care Units—approximately 240 square feet.

The correct estimate of square footage that should have been submitted in the original CON Application based on the conceptual plan and approved by DHSS should have been approximately 49,340 square feet.

In addition to the architect's errors, WMC has increased some areas and redesigned some areas to be safer, more home-like for residents, and more cost efficient. For example, hallways were added that were not in the original conceptual design. The addition of hallways perform two critical roles. First, the hallways allow WMC to maintain patient privacy while still allowing visitor access to the facility by steering foot traffic away from the patient rooms as needed. Second, the additional hallways allow WMC to create separate traffic patterns for sick or infirm patients separate from healthy visitors and healthy residents of the long term care section of the facility. Increasing the size of these areas does not in any way change the scope of the project. Some of the increases that were missed by the original architect are necessary in order to allow WMC to meet Building Codes and State licensing requirements.

- Increases to areas not included in the original CON Application are:
 - Increased Physical Therapy Space—approximately 1,000 square feet
 - Increased Patient Room Size (50 square feet added per bed)—approximately 1,400 square feet
 - Increased Long Term Care Activity Space—approximately 600 square feet
 - Enlarged Lobby/Community Space—approximately 500 square feet
 - Space for SEARHC—approximately 600 square feet

Based on all of the above, the total square footage for this project should be increased to 56,000 square feet or less.

As detailed at the November 4, 2010, meeting with the CON Coordinator, it is critical to remember that a key consideration for estimating total square footage is to allow for working with the standard module sizes to be constructed by the manufacturing plant. If Wrangell Medical Center has to pay to create non-standard modules in order to meet specific square footage requirements, the cost of this project will escalate significantly.

6. Is the projected final project cost currently within the limits approved by the Commissioner? If the project is complete, please submit a final capital budget. Include a documentation of

expenses that has been certified by a general contractor, equipment supplier, and/or other authorized representative who can objectively confirm the expenses.

The projected final project cost is currently within the limits approved by the Commissioner.

7. Are there any changes in the services or programs from those that were originally proposed and approved? If so, please indicate those changes.

No.

I hereby certify that the statements made in this report are correct to the best of my knowledge and belief.

Signature of Certifying Officer: Olinda White

Name: Olinda White

Title: Chief Financial Officer, Wrangell Medical Center

Telephone: (907) 874-7164

Date: Nov. 15, 2010

Send to:

Certificate of Need Program
Health Planning and Systems Development
Department of Health and Social Services
P.O. Box 110660
Juneau, Alaska. 99811-0660

Wrangell Medical Center Replacement Facility							AHFD	
8 acute care beds, 20 LTC beds;								
Project Budget Summary								
4-Nov-10								
Item	Preliminary Budget 20-Apr-10	Working Budget 25-Aug-10	Board Approved Budget 21-Sep-10	Cost Mar 2010 To Date	Difference Savings (+) Overrun (-)	Cost 2007 to 3/1/2010		
Development Costs	45,000	130,764	200,764	84,914	115,850	0		
Building & Site Construction	15,947,305	16,329,374	18,444,564	20,607	18,423,957	0		
Professional Fees & Reimbursable Expenses	2,267,916	1,760,800	1,665,800	391,944	1,273,856	65,458		
Administrative & Legal	130,000	145,000	145,000	70,695	74,305	29,864		
Medical Equipment	650,000	650,000	15,000	0	15,000	0		
Furniture & Furnishings	275,000	275,000	250,000	0	250,000	0		
Telecommunications Systems	1,000,000	1,000,000	0	0	0	0		
Project Contingency	1,500,000	1,524,283	1,094,093	0	1,094,093	0		
Total	\$21,815,221	\$21,815,221	\$21,815,221	568,160	21,247,061	95,322		
				% Expended/complete	2.60%			
Notes:								
1) Financing costs are not tracked as part of project budget.								
2) Relocation cost to move into new facility is excluded.								
3) Picture Archiving Comm. Sys (PACS) hardware is excluded. Assumed to be leased system.								
4) Preliminary budget based on 4th qtr 2009 Alaska construction costs and original rough order of magnitude 39,000 gsf building scope.								
5) Telecommunication and Medical equipment are based on Hospital's assessment of needs and equipment survey. Telecommunication and Medical Equipment included in component construction scope of work after schematic design decision of Sept 2010.								
6) Furniture budget is based on re-using a portion of the existing furniture.								
7) Development costs include environmental permitting increase to cover wetlands compensatory mitigation and US Army Corps of Engineers soil disturbance permitting.								
8) Project contingency is 6% of construction value & 5% of total budget. Building & site construction estimates carry a 3% contingency. Overall contingency is 7.6% of total.								
9) Cost to date amended Oct 2010 to exclude \$95,322 in architecture, design and CON costs that occurred prior to March 2010.								