

H B

700

COMMITTEE REPORT

HOUSE

2/17

(5)

FURTHER: FINANCE

1/27/82

Date: \_\_\_\_\_

Mr. Speaker:

The Committee on HEALTH, EDUCATION & SOCIAL SERVICES has had HB 700

"An Act making a special appropriation for payment as a grant to the Fairbanks North Star Borough for Fairbanks Memorial Hospital expansion and improvement; and providing for an effective date."

under consideration and ~~(a majority of the committee)~~ ~~(the committee)~~ reports it back with the following recommendations:

- do pass  do not pass
- do pass with attached amendments(s)
- replace with CS for \_\_\_\_\_  same title  
 new title
- and recommends \_\_\_\_\_
- AND attaches a "Letter of Intent"  New Fiscal Note
- reports it back without recommendation
- referred to the \_\_\_\_\_ Committee

MEMBERS SIGNING DO PASS

MEMBERS HAVING OTHER RECOMMENDATIONS:

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CHAIRMAN

#B700

CON

action?

shell operation?  
competitor?

Cost / bed  
per diem

# FAIRBANKS MEMORIAL HOSPITAL

Con Frank, Ch. of Bldg. Com.

ADDITIONS  
AND  
ALTERATIONS  
1982

1650 COWLES STREET  
FAIRBANKS, ALASKA 99701  
452-8101



# The Greater Fairbanks Memorial Hospital Foundation

POST OFFICE BOX 1306  
FAIRBANKS, ALASKA 99707  
January 1, 1982

Dear Legislator:

The enclosed booklet describes additions and alterations which the Greater Fairbanks Memorial Hospital Foundation is proposing for Fairbanks Memorial Hospital in the coming year. As you can ascertain from the enclosed information, our hospital is currently operating at a very high occupancy rate. Because of the long period involved in construction of hospital facilities, it is imperative that we start construction as soon as possible.

It is the hope of the Foundation that you will help our community in expanding our hospital through a grant for the proposed hospital construction. By supporting this project, you will be able to assure that our community citizens will continue to be afforded the lowest cost of health care in the state, while at the same time assuring them of the highest quality. We as a Foundation are behind this project 100% and are hoping that you are as well.

Please let us know should you have any questions in regards to this request. We feel it is of the utmost urgency that we receive funding this year.

Thank you for your consideration.

THE GREATER FAIRBANKS COMMUNITY HOSPITAL FOUNDATION  
William H. Mendenhall, President

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## INTRODUCTION

The information contained in this report is excerpted from material which will be submitted in a Certificate of Need application to the State of Alaska early in 1982. Detailed information regarding Fairbanks Memorial Hospital's proposed expansion plans and justification for the project will be available for review once the Certificate of Need has been submitted.

## DESCRIPTION OF FACILITIES AND SERVICES

Fairbanks Memorial Hospital is located in Fairbanks, the major population and distribution center of northern Alaska. The hospital is the only non-federal, acute care facility within the boundary of the northern Alaska health service area as established by the Northern Alaska Health Resources Association, Inc. Covering 320,996 square miles, this area makes up over one-half of the total size of the State of Alaska. The population of this region is 76,656, according to the 1980 U.S. Census of Population and Housing. The size of the service area and the isolation of northern Alaska residents from access to large cities has an impact on health care services and delivery in the region. The isolation of the area's population has contributed to the development of specialized services at Fairbanks Memorial Hospital.

### Hospital History

In 1968, the Sisters of Providence who operated the old St. Joseph's Hospital left the Fairbanks community. The operation of the hospital was contracted out to the nonprofit, nonsecretarian Lutheran Hospitals and Homes Society of America to manage the facility. An organization called the Greater Fairbanks Community Hospital Foundation was formed to look into the possibilities of building a new facility. The community raised over \$6 million and received another \$6 million in state and federal funds to construct a new hospital. The new Fairbanks Memorial Hospital opened its doors to the public in the spring of 1972 with 88 beds. In 1974, another 28 beds were opened, bringing the total bed number to 116.

In 1975 the hospital grew again when day rooms were converted to wards and the total number of beds was increased to 126. A second major expansion in 1978 added 29 beds, including a modern critical care unit with 14 beds, to bring the total bed complement of the hospital to 155 acute care beds.

The overall occupancy rate for the hospital the year after the new addition was completed was 63%. Occupancy increased to 66% for an annual average in 1980. During 1981 the hospital percent of occupancy has increased to over 80%.

There are several factors contributing to the increased utilization of the hospital. Among these and quite significant is a reduction in the number of beds which had been available prior to 1981. In January of 1981 ten patient beds were lost to a remodeling project which increased the space of the nursery and obstetrics department. This perinatal remodeling project was required since the hospital outgrew its ability to handle the number of deliveries for which the unit had been planned. Based on the new licensed capacity of 145 acute care beds, the average percent occupancy of Fairbanks Memorial Hospital during the first ten months of 1981 is 76%. Since June of 1981, the percent occupancy has been considerably higher than in the past. The following table gives a percent occupancy breakdown per month over the last three years.

TABLE I

## FAIRBANKS MEMORIAL HOSPITAL

## PERCENT OCCUPANCY BY MONTH

	1979	1980	1981	
(Number of Beds)	<u>1979</u> (155)	<u>1980</u> (155)	<u>1981</u> (155)*	<u>1981</u> (145)*
<u>Month</u>				
January	64.97	71.51	70.39	75.24
February	64.24	72.79	70.60	75.47
March	56.09	70.82	68.74	73.48
April	65.81	71.81	68.82	73.57
May	53.29	62.83	66.06	70.61
June	64.00	69.38	72.30	77.29
July	60.27	66.31	72.53	77.53
August	64.25	61.21	73.03	78.06
September	63.81	64.60	72.82	77.84
October	64.14	60.29	74.90	80.07
November	60.39	61.87		
December	59.65	60.71		

\*Due to remodeling of the obstetrics and nursery departments, Fairbanks Memorial Hospital was reduced to 145 beds in January of 1981. For comparative purposes, percent occupancy is reported on 155 beds during 1981 as if remodeling had not occurred.

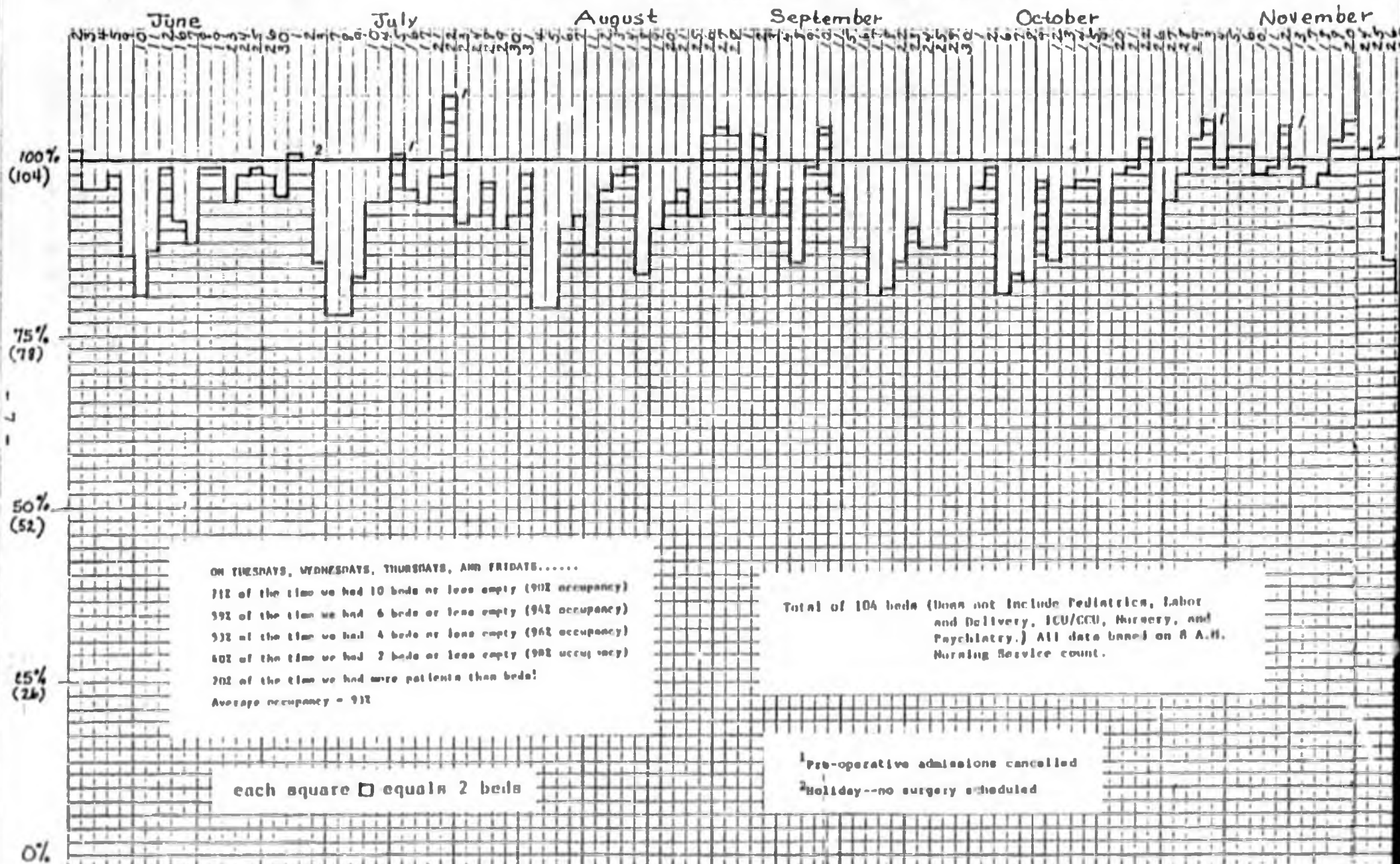
Source: Fairbanks Memorial Hospital

Normally, the hospital experiences a decline in occupancy after the summer months. This has not occurred in 1981. In fact, there has been a steady increase in occupancy rates through the fall. As shown in Table I, percent occupancy for October of 1981 was 80%, up 20% from the same time a year ago. October 1981 also marked the second busiest month in the hospital history. The only month for which more patient days have ever been recorded was during the peak of the oil pipeline impact, March 1977.

Even more significant than the overall occupancy rate of the hospital is the occupancy rate which has been experienced in certain units of the hospital. Since Fairbanks Memorial Hospital has beds set aside for specific uses, such as pediatrics, psychiatry and the critical care unit which normally experience greater fluctuation in utilization and lower overall occupancy rates, a total percent occupancy for the hospital is not a true reflection of the high rate of occupancy of certain services. Figure I demonstrates the occupancy rate of adult medical/surgical beds during the week days for the period June 1981 through November 1981. This particular time frame and days of the week were selected since June was the month in which utilization of hospital services began increasing dramatically and surgeries are not scheduled on weekends at Fairbanks Memorial Hospital. The alternative of weekend surgery at the hospital has been considered; however, this option has not been pursued as it was determined it would only lead to peak census periods earlier in the week and would not alleviate the situation of overcrowding.

Over 70% of the time, beginning in June of 1981, adult medical/surgical beds experienced at least 90% occupancy. The graph depicts times at which..

ADULT BEDS OCCUPANCY RATE ON TUESDAYS, WEDNESDAYS, THURSDAYS, AND FRIDAYS  
 June 1, 1981 through November 30, 1981

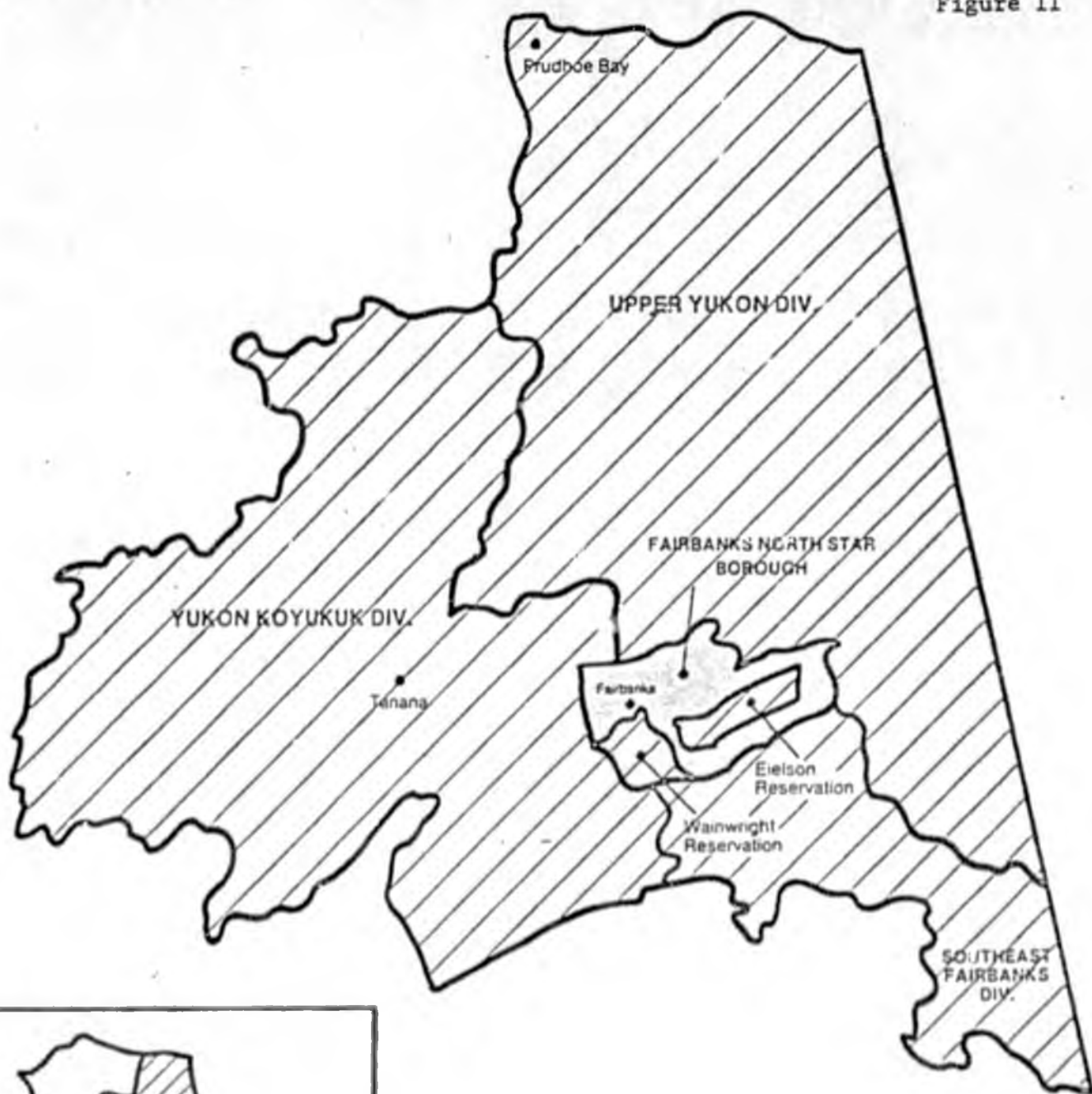


## Hospital Service Area

Fairbanks Memorial Hospital serves residents of the northern Alaska region. Charles Bailly and Company identified the primary service area of the hospital in a needs assessment study conducted for Fairbanks Memorial Hospital as the Fairbanks North Star Borough, minus the military bases. The Northern Alaska Health Resources Association references a slightly larger primary service area for the hospital in their Health Systems Plan: The Fairbanks North Star Borough and the Southeast Fairbanks Census Districts.<sup>1</sup> Both identify the service area stretching as far north as Prudhoe Bay and south to Northway and the Canadian border. The North Slope Borough and the Maniitiq regions are generally not considered a part of the primary or secondary service areas of the hospital. This is due to the fact that referrals from the Public Health Service Hospitals located in Barrow and Tanana most often are to the Alaska Native Medical Center in Anchorage rather than to the Fairbanks facility. The referral patterns are also based somewhat on existing flight schedules. A map of the service area of Fairbanks Memorial Hospital as defined by Charles Bailly and Company is included in this section. The Northern Alaska Health Resources Association has prepared preliminary population projections for the hospital's service area through 1990. Charles Bailly and Company also projected population for this same time frame. Both sets of population figures are projections excluding potential gasoline impact. Table II details the numbers.

<sup>1</sup>Planning for Better Health, Health Systems Plan for Northern Alaska, 1980, page 198.

Figure II



# MAP OF SERVICE AREA FAIRBANKS MEMORIAL HOSPITAL

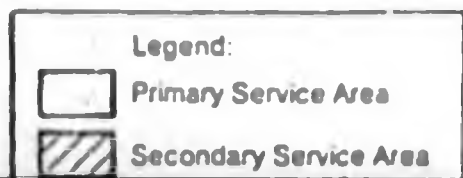


TABLE II

## FAIRBANKS MEMORIAL HOSPITAL

## SERVICE AREA POPULATION ESTIMATES AND PROJECTIONS EXCLUDING GASLINE IMPACT

SOURCE	1980		1985		1990	
	Fairbanks North Star Borough	Total Service Area	Fairbanks North Star Borough	Total Service Area	Fairbanks North Star Borough	Total Service Area
Charles Bailly and Company	41,748 <sup>1</sup>	66,283	47,200 <sup>1</sup>	73,700	53,600	81,000
Northern Alaska Health Resources Association	53,983 <sup>2,3</sup>	67,626 <sup>3,4</sup>	58,760 <sup>2</sup>	73,842 <sup>4</sup>	65,538 <sup>2</sup>	80,060 <sup>A</sup>

<sup>1</sup>Excludes military<sup>2</sup>Includes military<sup>3</sup>1980 U.S. Census<sup>4</sup>Northern Alaska minus Maniilaq and North Slope Borough

Sources: Northern Alaska Health Resources Association, Unpublished statistics, November 1981.

U.S. 1980 Census of Population and Housing.

Charles Bailly and Company, report to Board of Directors, Greater Fairbanks Community Hospital Foundation, December 1981.

There has been considerable controversy regarding the population estimates from the 1980 census count. The City of Fairbanks conducted a door-to-door survey of residents in late 1981 and discovered 2,881 more residents than shown by the 1980 federal census. The City of North Pole also performed a door-to-door survey during July and August of 1981. This survey determined there were 928 residents living within the city limits compared to 724 counted by the census takers during 1980. A new census for the Fairbanks North Star Borough was not taken but the State Department of Community and Regional Affairs, through a formula, accepted the population figure at 51,659, excluding Eielson Air Force Base. This resulted in a total population for the Fairbanks North Star Borough and military bases of 58,313.<sup>2</sup>

There are several indicators within the community of Fairbanks and the North Star Borough that growth in population is occurring during 1981. Indicators of this growth include increases in the dollar value of building and zoning permits which have been issued. The value of the permits issued in the total Borough is up 60% during the second and third quarters over the same period during 1980. Results of an annual housing survey indicated that the vacancy rate during June of 1981 was 3.3%, compared to 9.1% during June of 1980. Numbers of commercial and residential electrical customers are up approximately 5% and average daily traffic counts in the Fairbanks metropolitan area have increased between 12% and 25% in most areas.<sup>3</sup>

<sup>2</sup>Conversation with Terrence May, Division of Local Government Assistance, Department of Community and Regional Affairs, State of Alaska, December 21, 1981.

<sup>3</sup>Unpublished statistics, Community Research Center, Fairbanks North Star Borough, December 1981.

### Projected Utilization and Need

The Charles Bailly and Company needs assessment study currently has a bed shortage of approximately ten medical/surgical beds. They projected that bed need by 1990 would be 40 additional beds. This projection was made excluding impact the proposed natural gas pipeline could have on the population of the region.

Their estimates included increased utilization by Alaska Natives from the interior region of the state. This was based on the assumption that the proposed closure of Tanana Hospital would occur. This proposal, which has been endorsed by the Tanana Chiefs Regional Health Board and the Alaska Native Health Clinic in Fairbanks, proposes closure of the facility for inpatient acute care in October of 1982.

Other factors which could dramatically affect utilization of Fairbanks Memorial Hospital include changes in the composition of military population and/or military health care personnel and building of the proposed Alaska natural gas pipeline and associated petrochemical development.

Bassett Army Hospital provides services to military personnel and dependents in the region. Bassett currently has the capacity to operate at approximately 80 beds. There are 19 physicians assigned to the hospital. In the past, Bassett Army Hospital has experienced shutdown of certain services due to nonavailability of personnel. For the present, it is expected that the level of services which they currently have will be maintained. This would mean that Fairbanks Memorial Hospital is used by the military and dependents only on an emergency basis for specialized

care which cannot be provided at Bassett Army Hospital.

During late 1981, Eielson Air Force Base began to add personnel to the base associated with the A-10 close air support aircraft. It is expected that by mid-May of 1982 there will be a substantial increase in the base as well as the dependent population as a result of the arrival of these new aircraft. Information from the Commander's office of Eielson Air Force Base indicates that Eielson will add 600 military personnel as a direct result of this project. Their estimate is that approximately 1,300 new people will relocate in the Fairbanks North Star Borough by late spring.<sup>4</sup>

Although there is no guarantee at this date that the proposed Alaska gasline project will develop, it is expected that the project will begin at sometime within the next few years. The route for the gasline would be along the highway system. This would mean that Fairbanks Memorial Hospital would be required to provide services to people connected with this project. Table III reflects activity from 1973 through 1976 at Fairbanks Memorial Hospital. This was during the building of the Alaska oil pipeline. As statistics indicate, the impact on hospital services was significant. Emergency room visits more than doubled, while admissions and patient days increased almost 70% over this three-year period. While this building project is not a reaction to anticipation to the construction of the gasline project, consideration of the possible impact is relevant.

<sup>4</sup>Telephone conversation with Colonel Carl Granberry, Eielson Air Force Base, December 16, 1981

TABLE III  
 FAIRBANKS MEMORIAL HOSPITAL  
 HOSPITAL ACTIVITY  
 1973-1976

	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>% Change 1973-1976</u>
Admissions	4,959	6,139	7,397	8,266	67%
Patient Days	23,541	28,682	36,789	39,839	69%
Average Daily Census	65	78	101	109	68%
Percent of Occupancy	56%	68%	87%	91%	63%
Average Length of Stay (days)	4.8	4.7	5.0	4.8	--
Emergency Room Visits	9,867	13,481	19,333	19,975	102%

Source: Fairbanks Memorial Hospital

## DESCRIPTION OF THE PROJECT

Fairbanks Memorial Hospital proposes to add a total of 38 acute care beds, thus bringing licensed occupancy of the hospital up to 183 beds. In addition to the 38 beds, the hospital is also proposing that additional ancillary and administrative services be added. These are required to accommodate the increased number of beds. The hospital also proposes to shell two additional floors so that in the future they might be completed at a lower cost and with less disturbance to the hospital.

During the last construction project in 1978, the departments of laboratory, radiology, operating room, recovery room and intensive care were addressed. At that time these services were oversized so that no major revisions and/or additions would be required during this phase of expansion. It is projected, however, that other services such as administration, medical records, business office, data processing and educational areas will require relocation to the new facility in order to accommodate expansion of the laundry, central supply and storage, operating room storage, pharmacy, admitting, occupational therapy and respiratory therapy.

In order to accomplish the expansion project it is proposed that a new five-story tower be added to the hospital which would run perpendicular to the original four-story building. This new tower will be located in what is now the front parking lot of the hospital. The new tower will consist of a full basement area for storage and data processing,

a first floor which will be utilized for the relocation of administrative, medical records, education and nursing offices, a second floor patient care wing which will house 40 acute care beds, plus two additional shelled floors which will not be completed at this time. An additional fifth floor will be added which will house all mechanical and electrical equipment required for the new tower. In addition, the hospital will be expanding its dietary and mechanical areas on the ground floor of the present building. These two areas have not been addressed since the hospital was constructed in 1972.

The new beds which will be designated medical/surgical will be located on the second floor of the tower. These beds will comprise a new 40-bed ward. Since a corridor will be required from the second floor of the present tower, this will mean that two beds will be lost in the present building, thus adjusting the net gain to 38 beds.

Listed below you will find a detailed explanation of the additions and/or alterations which will occur in the expansion of Fairbanks Memorial Hospital.

1. Respiratory Therapy

Respiratory therapy currently occupies space in the addition completed in 1978. Since the current location is relatively close to the intensive care unit, it is projected that no changes should take place in the relocation of this service. Additional space is required for this department. The only expansion possibility for respiratory therapy in its current

location is into the educational offices located proximal to the department. It is anticipated that this additional space will give respiratory therapy adequate room to service the expanded needs of the hospital.

2. Occupational Therapy

Occupational therapy is currently located in the physical therapy area. Since it is projected that physical therapy will need additional area in order to accommodate the increased workload, the best alternative is to relocate the occupational therapy department. Since both occupational and physical therapy work together on many patients, it would be difficult to locate the occupational therapy department a great distance from the current physical therapy department. It is recommended that the best location would be directly adjacent to the physical therapy department in an area which is currently a conference room and an administrative office. In addition to being in close proximity to physical therapy, very little physical modification will be required in order to make this area acceptable as an occupational therapy department.

3. Central Supply

Central supply will need additional area in the expansion in order to service the additional bed requirement. In addition, the current surgery area is lacking in terms of storage and service capabilities in regards to

processing instruments and supplies. It is the intention that in the expansion surgery and central supply should be connected in order to develop a centralized processing area for both departments. This will not only create efficiencies but possibly will save manpower in the future.

4. Laundry:

With the relocation and addition of surgery/central supply, the laundry will have to be relocated in addition to being expanded. This is required due to the fact that the capacity of the laundry is at approximately 95%. With the additional beds, this area will require expansion. It is projected the best possible expansion for the laundry is towards the rear of the building in the current area occupied by the laundry, auxiliary office and a multipurpose/educational room. It is imperative that the laundry maintain a close proximity to the boiler room because of utility connections.

5. Surgeons' Lounge

The current surgeons' lounge is totally inadequate in terms of the number of locker facilities available. Since the original hospital was built, no additions and/or modifications have occurred to the current surgeons' lounge. It is projected the best relocation would be towards the back of the facility, but still opening on to the surgery suite. These additional locker facilities are required due to the number of surgeons working in the hospital.

## 6. Pharmacy

Due to an increased area in central supply, it is projected that the pharmacy will have to be relocated. Since the pharmacy is a key service department and is required to service each floor, it is mandatory that the department maintain a centralized position in the core area of the hospital. This will not only create efficiencies from the service standpoint but will also allow the availability adding additional pharmacy services such as a 24-hour pharmacy in the future when required. It is projected that the pharmacy would be relocated to the current medical records department. With this relocation, very little remodeling will be required. In addition to receiving the medical records department area, the pharmacy will also receive the current gift shop and storage area. This area will be adequate in terms of square footage for the pharmacy department.

## 7. Admissions

Because of increased pressure on the admissions department due to the number of patients utilizing the hospital, it is projected that this area will need additional space. The current admissions department is divided into two areas -- one for people being admitted to the hospital and the other for emergency room patients. It is the objective in altering and remodeling this area to bring both of these areas into a centralized admitting area. This will be done to promote efficiency while at the same time increasing the service capacity of the department.

8. Food Service

The current dietary department was built in 1972 for a 116-bed hospital. Since that time no additions and/or remodeling activities have occurred in this area. Since the hospital has grown tremendously since that time, many inefficiencies have occurred in the area. In order to accommodate additional patient services, this department requires expansion. This expansion will consist not only of expanding the food preparation area but also an expansion on to the current cafeteria.

9. Boiler Room Expansion

It is expected the new tower will require an additional boiler, both for the current expansion and for future shelled-in floors. This boiler expansion will be an actual extension of the current boiler room. The current boiler room now has two large boilers which heat the total facility. The addition of a third boiler will bring the capacity of the heating plant up to meeting the needs of the new addition.

Because of the relocation, addition and modification of the ancillary services, the administrative areas will be relocated to the first floor of the new addition. These areas include medical records, nursing service administration, business office, library and educational facilities. These services will be sized in order for additional expansion in the future. In addition, the hospital will attempt to maintain efficiencies by combining office requirements so that such innovations as secretarial pools can be utilized. Again, the hospital is looking at the remodeling

and/or expansion from a standpoint of efficiency and utilization of personnel.

1. Medical Records

Medical records will be relocated to the first floor of the new addition. This area will not only include medical records and transcription but will also include a doctors' dictating area and lounge. It is imperative that these two be in close proximity in order to maintain efficiencies in the department.

2. Administrative

It is the proposal to combine all administrative offices into a suite in order to combine related functions in addition to utilizing central secretarial support. This area will include administration, nursing service administration, planning, public relations and educational offices. Since there is a close working relationship between these departments, it is not projected that additional secretarial manpower will be needed, even with additional workloads due to the relocation and revisions suggested above.

3. Data Processing

Data processing will be located in the basement of the new addition. This will provide flexibility for this department to expand in the future and will also give the area some amount of stability and assurance that it will not be relocated. Each relocation of data processing is very costly

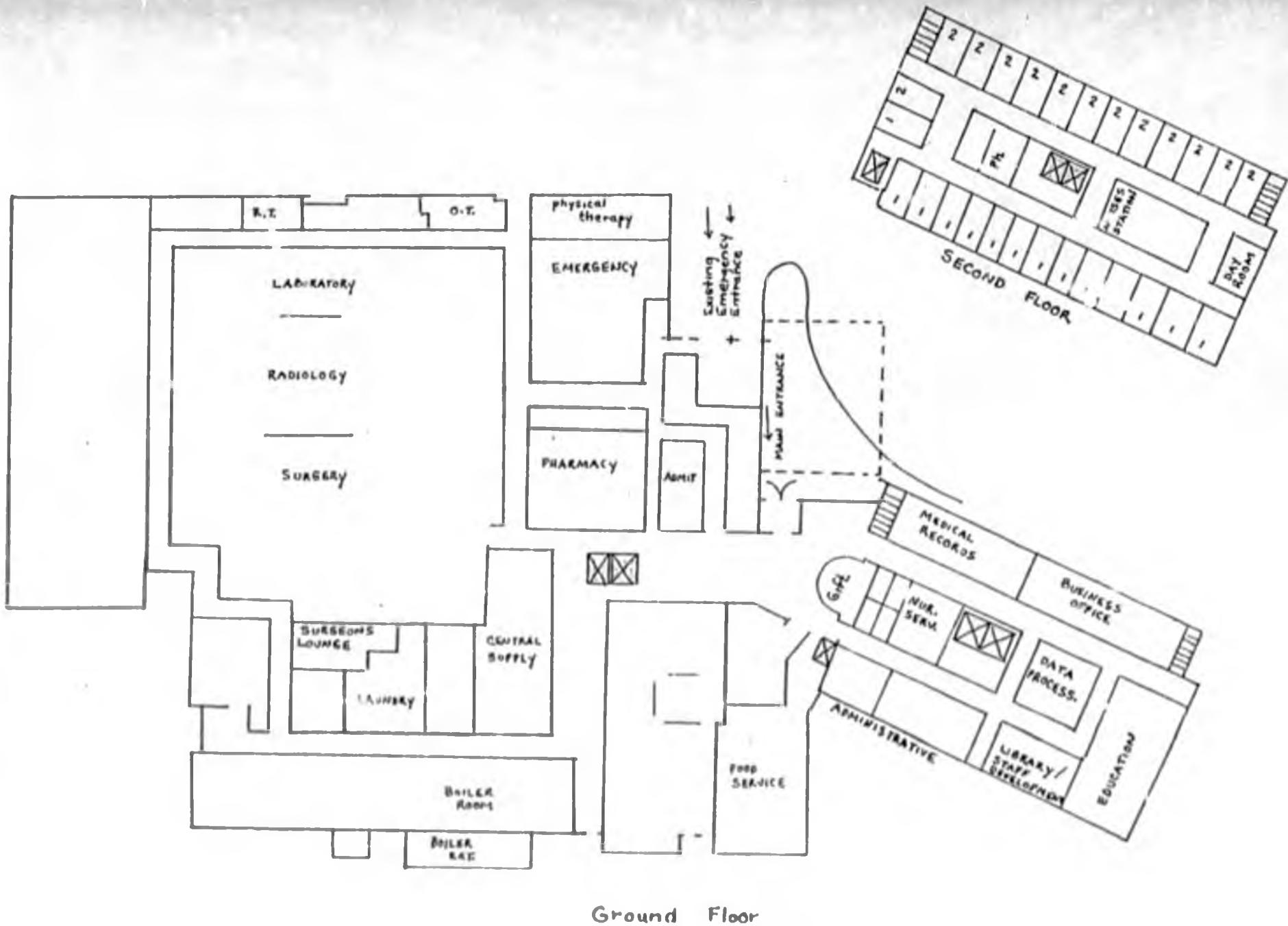
from the standpoint of repulling all cables to terminals throughout the hospital.

4. Educational Conference Room

One area which requires addressing in the new addition is that additional educational and meeting rooms be added. At the present time the hospital is very short of meeting rooms. In addition, the hospital has no conference room which will adequately seat more than 35 to 40 people. This is very difficult with a medical staff consisting of almost 100 members with frequent meetings. Other groups in the community and other hospital personnel also utilize these meeting areas. It is the intent to make these meeting rooms as flexible as possible thus utilizing the concept of movable walls to either create large or small meeting facilities.

The second floor of the new addition will contain 40 medical/surgical patient beds. This floor will be designed in the same context as the present facilities, thus utilizing both semi-private and private rooms. In addition, it is projected that a day room can be added so that ambulatory patients and families might utilize this area. The interior design of the nursing care unit will be approximately the same design as was used in the current hospital except that the nursing station will be sized larger. It is projected, however, that all the requirements of facilities will be met, including soiled and clean utility rooms, janitors closets and so forth.

It is the intention of the hospital that a third and fourth story be added to the project. These areas would not be finished at the present time but would be shelled in and indirectly heated. This proposal will make sense purely from an economic standpoint when reviewing the financial projections. In addition, there would be major problems from a construction standpoint when adding two additional floors to the tower. The fifth floor on the new hospital would be a penthouse which would house all of the utilities and maintenance facilities. In addition, this area would be sized to include space so that additional utilities could be located in this area when the third and fourth floors would be completed.



Ground Floor

## FINANCING

### Introduction

The hospital proposes to finance the construction of the new addition to Fairbanks Memorial Hospital through a direct grant from the State of Alaska. This grant would provide the opportunity for Fairbanks Memorial Hospital to maintain a quality medical center without adding additional costs to the patient. It is projected, however, that if a partial grant were received, then the hospital would be in a position to utilize the Medical Facility Authority to sell bonds in order to receive the financing necessary. As you can see from the article attached, Fairbanks Memorial Hospital has historically maintained the lowest rate structure in the state. In addition, Fairbanks Memorial Hospital can compete with many areas in the lower 48. This has been possible through the commitment of legislators, Foundation members and community citizens to maintain the hospital as debt free as possible.

It is projected that the total construction cost of the project described in the Fairbanks Memorial Hospital additions and alterations - 1982 will consist of \$20,000,087. This includes the shelling in of two additional floors for future expansion purposes. The project cost includes all equipment in addition to construction costs. These additions and alterations to our hospital will give Fairbanks Memorial Hospital the ability to meet the additional patient needs in our area in the future.

As you are well aware, the hospital is open and available to anyone in our community who requires medical care regardless of their ability to pay. Thus, all citizens of our community benefit by any help which you can lend towards the enactment of this project.

#### Financing Narrative

The Hospital Foundation is currently looking towards financing the new addition by applying to the State of Alaska for a 100% grant for the cost of the new addition.

The hospital originally utilized the Alaska Medical Facility Authority in 1978 when \$12 million worth of tax-exempt bonds were sold in order to provide the financing for the addition which was completed in November of 1978. Using the Authority for total bonding of the proposed addition would take into consideration that currently on the books through the state revenue sharing/construction funds is the possibility for the hospital to receive 25% of the total construction cost of the new addition. This total construction cost would not only include the cost of construction but also the interest which the hospital would be paying on the tax-exempt bonds. Because the 25% could be deposited with the bond trustee and earn interest while at the same time amortizing debt service, it was originally estimated that this would be the least expensive way to pay for the new addition. Because of the state injecting 25% of the cost up front in both construction and interest dollars, there is a problem with overissuance of the bonds. This would mean that the hospital would not be able to totally bond the project because the interest earned off the construction revenue sharing dollars deposited with the trustee

would be greater than that which would be paid on the bond issue. This could get the hospital into a position of arbitrage, thus jeopardizing the tax-exempt status of the bonds. In order to explain this further, it might possibly be helpful to quote a definition of arbitrage, which is "buying of bills of exchange, stocks, bonds, in one market and selling them at a profit in another market." In other words, the hospital would be earning more interest off of the funds deposited with the trustee than the hospital would actually be paying on the bond issue.

There are some possibilities to get around the overissuance and arbitrage problems, and these are being looked into at the present time. However, we are projecting this as a last alternative in financing of the new building. It is projected that if the hospital went by this method in issuing tax-exempt bonds for the total amount, the net debt service would amount to \$50.40 per patient day. This is fairly excessive considering other possibilities.

FAIRBANKS MEMORIAL HOSPITAL  
PROJECTED COST OF ADDITION AND ALTERATIONS

New Construction

Basement	\$ 2,746,125
Ground Floor	4,567,400
Second Floor	3,200,000
Third and Fourth Floor Shell	3,193,000
Fifth Floor Mechanical	1,600,000
New Canopy	225,000

✓ 3.2 M.

Total New Construction \$15,531,525

Alterations 1,752,000

Total Construction Cost \$17,283,625  
(Includes architectural and engineering costs)

Equipment 1,200,000

Building permit, legal fees, development and landscaping costs, insurance 107,400

Contingency 1,409,062

**Total Project Cost** **\$20,000,087**

Total Square footage 107,607

Cost per square foot \$185.86

*Cost / bed available 120 u. \$500,000 / bed*

Position Paper  
House Bill 700

"An act making a special appropriation for payment as a grant to the Fairbanks North Star Borough for Fairbanks Memorial Hospital expansion and improvement; and providing for an effective date."

House Bill 700 and Senate Bill 691 make special appropriations of \$20,000,000 in the form of a grant to the Fairbanks North Star Borough for expansion and improvement of the Fairbanks Memorial Hospital. The Department of Health and Social Services has received an application for a certificate of need from Fairbanks Memorial Hospital (submitted 1-18-82) which proposes remodeling of portions of the existing facility and a 107,607 square foot addition at a projected cost of \$20,000,087. The proposed addition is to include five floors, two of which are shelled-in space for future use. Approximately \$3,000,000 of the total projected cost is attributed to the shelled-in space. ✓

The certificate of need (review), which is expected to be completed by mid-April, 1982, will address the following aspects of the proposed project which are pertinent to a consideration of state financial assistance: ✓

- the need for additional acute care beds in the Fairbanks Memorial Hospital service area;
- the relationship of the project to other health care providers in the area;
- the anticipated impact of the project on hospital operating costs, revenues, and patient charges;
- the financial feasibility of the project;
- the cost-effectiveness of constructing shelled-in space for future use

In the certificate of need application Fairbanks Memorial Hospital has considered several alternative financing methods ranging from total State funding by means of a grant to total self-financing by means of tax-exempt bonding. The application states the facility's desired financing method as follows:

The Hospital Foundation is currently looking towards financing the new addition by applying to the State of Alaska for a 50% grant for the cost of the new addition. This grant would exclude the third and fourth floors for future expansion. The Foundation is requesting that the State of Alaska fund the third and fourth floors or \$3.1 million at 100%. The remaining 50% of the addition would be bonded through the Alaska Medical Facilities Authority using the mechanisms which are currently in place.\*

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\* Fairbanks Memorial Hospital Certificate of Need Application, January 1982, page 104.

Other possible funding sources for hospital and nursing home construction are limited. Under AS 29.90 municipalities or other hospital or health facilities sponsors may receive reimbursement for up to 25% of total project costs. This partial reimbursement is available only to those facilities which have successfully secured financing and have completed a health facility construction project. Most rural facilities do not have the capacity for debt required for securing financing.

Under AS 18.26 medical facilities may apply to the Alaska Medical Facility Authority for State backing relative to the sale of tax-exempt bonds for the purpose of financing medical facility construction. One project has been financed through this program to date -- a 1978 Fairbanks Memorial Hospital expansion project in the amount of approximately \$12 million. Alaska Hospital and Medical Center, Anchorage, is presently working with the Authority to determine the viability of this funding approach for refinancing that facility and the acquisition of the adjacent professional office building.

One determination which the Authority must make before bonds may be issued under this statute is that the lease or operator agreement for the medical facility being financed by that issue is at least sufficient to meet all obligations in connection with the lease or operator agreement, including all costs necessary to service the bonds. This prerequisite essentially disallows use of the program by rural facilities, most of which do not have more than a minimal capability to service bonds.

The Department is conducting an inventory and condition survey of rural Alaskan hospitals and nursing homes to determine physical condition and functional adequacy and to identify means for upgrading facilities and correcting deficiencies. The inventory was focused on rural facilities because of the Department's awareness of insufficient tax bases in the smaller communities to correct recurring problems identified through the Department's regular licensing and certification processes and architectural reviews. Fairbanks Memorial Hospital, in one of the state's more urban settings, was not included in this inventory.

Recommended by: Phoebe A. Lindsey  
Phoebe A. Lindsey, Director  
Division of State Health  
Planning & Development

Date: February 16, 1982

Approved by: Helen D. Beirne  
Helen D. Beirne  
Commissioner

Date: 2-16-82

THE LEGISLATURE OF THE STATE OF ALASKA  
TWELFTH LEGISLATURE

FISCAL NOTE

I. REQUEST

Bill/Resolution No. House Bill 700  
 Title An Act making a special appropriation for payment as a grant...  
 Requested by Department of Health & Social Services Date 2-8-82

II. FISCAL DETAIL

Agency Affected Health and Social Services  
 Program Category Affected Health  
 BRU, Program, Or Subprogram(s) Affected \_\_\_\_\_  
 (Note: If more than one budget component is affected, separate line-item amounts and funding for each component in the analysis section.)

EXPENDITURES (Thousands of Dollars)

	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87
100 PERSONAL SERVICES		-0-				
200 TRAVEL		-0-				
300 CONTRACTUAL		-0-				
400 COMMODITIES		-0-				
500 EQUIPMENT		-0-				
600 LAND & STRUCTURES		-0-				
700 GRANTS, CLAIMS, ETC.		-0-				
TOTAL		-0-				

FUNDING (Thousands of Dollars)

GENERAL FUND		-0-				
FEDERAL FUNDS		-0-				
OTHER (Specify Source)		-0-				

POSITIONS

FULL TIME		-0-				
PART TIME		-0-				
TEMPORARY		-0-				

III. ANALYSIS (See Fiscal Note Preparation Instruction, Section III)

This bill does not directly impact the Division of State Health Planning and Development. The amendments proposed do not change the original fiscal note which projected a -0- impact.

IV. DATE February 2, 1982 PREPARED BY Dave H. Williams *Phoebe Lindsay* *JCC*  
 AGENCY DHSS - State Health Planning & Development  
 Original: Legislative Finance PHONE 465-3038  
 cc: Budget and Management  
 Prime Sponsor (First Legislator Named)  
 33-001 (Rev. 12/61)

3/3/82 Better than  
CON

- SHELL - competition?

Costa MS 365

10 beds

maxima -

Population served?

NO well 29.90

HB - 846