

**HB**

**529**

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB 529

Revision Date: \_\_\_\_\_  
 Title: An act giving notice of and approving the  
the entry into a lease-purchased centralized PH Lab  
 Sponsor: House HESS  
 Requestor: House HESS

Dept. Affected: Health and Social Services  
 BRU: State Health Services  
 Component: Laboratory Services  
 COMPONENT SERIAL NO. 291  
 See also (SN#): \_\_\_\_\_

Expenditures/Revenues:

(Thousands of Dollars)

OPERATING	FY97	FY98	FY99	FY00	FY01	FY02
PERSONAL SERVICES				(329.8)	(338.1)	(346.5)
TRAVEL				(7.5)	(7.7)	(7.9)
CONTRACTUAL				(61.0)	(62.5)	(64.1)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(398.3)</b>	<b>(408.3)</b>	<b>(418.5)</b>

CAPITAL EXPENDITURES						
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CHANGES IN REVENUES ( )						
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FUND SOURCE

(Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF				(398.3)	(408.3)	(418.5)
1005 GF/Program Receipts						
1037 GF/Mental Health						
Other (please specify)						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(398.3)</b>	<b>(408.3)</b>	<b>(418.5)</b>

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

Estimate of any current year (FY96) cost: \$0.0

ANALYSIS: (Attach a separate page if necessary)

Currently the Division of Public Health operates three state public health laboratories which are inadequate in Anchorage, Juneau and Fairbanks and the Medical Examiner's laboratory temporarily located in the DPS crime lab. The centralized laboratory in Anchorage would not only save the state from having to upgrade three laboratories to meet CLIA standards but would show a savings in operating costs.

The savings would start to occur in FY00 in the following line items.

Personal Services Line 100

With the centralization of the laboratory the currently staffing level can be reduced by six positions:

PCN 06-1205 Microbiologist IV, range 20, SU, PFT, Juneau \$84.2

Prepared by: Peter M. Nakamura, MD, MPH  
 Division: Public Health

Phone: (907) 465-3090  
 Date: 03/07/96

Approved by Commissioner: Karen Perdue, Commissioner  
 Agency: Department of Health & Social Services

Date: 3/12/96

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**ANALYSIS (cont.):**

PCN 06-1065 Lab Technician I, range 10, GG, PFT, Juneau \$45.3  
PCN 06-1210 Lab Technician II, range 12, GG, PFT, Juneau \$55.6  
PCN 06-1435 Admin Clerk III, range 10, GG, PFT, Fairbanks \$48.6  
PCN 06-1436 Admin Clerk II, range 8, GG, PFT, Juneau \$35.9  
PCN 06-1024 Admin Clerk II, range 8, GG, PFT, Juneau \$35.9

The salaries listed above assume a 2.5% inflation factor.

In addition, \$24.3 would be saved on an annual basis for the geographical differential which is paid to the Fairbanks staff.

**Travel Line 200**

Travel would be reduced \$7.5 due to the staff being located in one location, rather than having the Chief traveling to each laboratory as required under CLIA.

**Contractual Line 300**

Janitorial Services - \$8.4  
Federal Inspections -\$6.0  
Subscriptions - \$2.0  
Telephones - \$7.5  
Public Utilities - \$10.7  
Rent - 2.1  
Maintenance and Repair of Equipment - \$12.6  
Courier Services - \$11.7

Other savings will be realized, as the number of major equipment and appliances such as refrigerators, autoclaves, dishwashers, etc needing to be replaced are reduced due to the centralization of the laboratory.

(7)

HOUSE COMMITTEE REPORT

Date Referred to Committee: February 28, 1996

FURTHER REFERRALS:

Finance

Date of Committee Action: 3/28/96

The HEALTH, EDUCATION AND SOCIAL SERVICES Committee considered:

HB 529

HOUSE BILL NO. 529

APPROVE CENTRALIZED PUBLIC HEALTH LAB

"An Act giving notice of and approving the entry into, and the issuance of certificates of participation in, a lease-purchase agreement for a centralized public health laboratory."

recommends it be replaced with the following committee substitute [ ] the same title [ ] a new title

[ ] additional referral to Committee [ ] attached amendment(s)

ADOPTS: Letter of Intent

ATTACHES NEW FISCAL NOTE(S): (Dept) APPROVES PREVIOUS: (Dept/Date)

[x] fiscal note(s) H+SS, Revenue, Admin [ ] fiscal note(s)

[ ] zero fiscal note(s) [ ] zero fiscal note(s)

Table with 5 columns: SIGNING WITH RECOMMENDATIONS, DP, DNP, NR, AM. Contains handwritten signatures and checkmarks.

CHAIR'S SIGNATURE [Signature]

Revision Date: \_\_\_\_\_ Dept. Affected: See NOTE below  
 Title: Approve Centralized Public Health Lab BRU: \_\_\_\_\_  
 \_\_\_\_\_ Component: \_\_\_\_\_  
 Sponsor: (H)HESS  
 Requestor: (H)HESS COMPONENT SERIAL NO. \_\_\_\_\_

Expenditures/Revenues: (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
Principle and Interest payments		3,100.0	3,100.0	3,100.0	3,100.0	3,100.0
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>
<b>CAPITAL EXPENDITURES</b>						
<b>CHANGE IN REVENUES ( )</b>						

FUND SOURCE (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF		3,100.0	3,100.0	3,100.0	3,100.0	3,100.0
1005 GF/Program Receipts						
1037 GF/Mental Health						
<b>TOTAL</b>	<b>0.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>	<b>3,100.0</b>

Estimate of any current year (FY96) cost \$ \_\_\_\_\_

POSITIONS:

FULL-TIME						
PART-TIME						
TEMPORARY						

ANALYSIS: (Attach a separate page if necessary)

The amounts shown are the debt financing lease purchase payments for construction of the Centralized Public Health Laboratory in Anchorage. Repayment of the COP's will require annual payments of no more than \$3,100.0 per year for the years FY98-FY2005. Depending on interest rates at the time of issuance, actual payments may be less.

NOTE: This fiscal note reflects the annual debt payments only and will not effect a specific agency budget. The payments are included in the debt section at the front of the annual budget submitted to the legislature. The effect of this legislation on the operating budgets of HESS and Administration are reflected in separate fiscal notes.

Prepared by: Betty Martin, Comptroller Phone: 465-2350  
 Division: Treasury Date: March 13, 1996  
 Approved by Commissioner: Ross A. Kinney, Deputy Commissioner Date: March 13, 1996  
 Agency: Department of Revenue

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# FISCAL NOTE

STATE OF ALASKA  
1996 LEGISLATIVE SESSION

BILL NO. HB 529

Revision Date: \_\_\_\_\_  
 Title: "An Act giving notice of and approving . . . a lease purchase agreement for a centralized health laboratory."  
 Sponsor: (H) HESS  
 Requestor: (H) HESS

Department Affected: Administration  
 BRU: General Services  
 Component: Leasing & Facilities  
 COMPONENT SERIAL NO. 81

**EXPENDITURES/REVENUES:** (Thousands of Dollars)

OPERATING EXPENDITURES	FY 97	FY 98	FY 99	FY 00	FY 01	FY 02
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL	0.0	0.0	0.0	(312.1)	(312.1)	(312.1)
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
<b>TOTAL OPERATING</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(312.1)</b>	<b>(312.1)</b>	<b>(312.1)</b>

CAPITAL EXPENDITURES						
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CHANGE IN REVENUES ( )	0.0	0.0	0.0	(312.1)	(312.1)	(312.1)
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**FUND SOURCE:** (Thousands of Dollars)

1002 Federal Receipts						
1003 GF Match						
1004 GF	0.0	0.0	0.0	(312.1)	(312.1)	(312.1)
1005 GF/Program Receipts						
1037 GF/Mental Health						
OTHER * CIP receipts						
<b>TOTAL</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(312.1)</b>	<b>(312.1)</b>	<b>(312.1)</b>

Estimate of any current year (FY 96) cost: \$ 0

**POSITIONS:**

FULL-TIME						
PART-TIME						
TEMPORARY						

**ANALYSIS:** (Attach a separate page if necessary.)

The bill would authorize financing and construction of a new laboratory facility which would replace the three leased locations in Anchorage, Fairbanks, and Juneau. Lease savings would be expected to begin in FY 2000. The specific leases and current costs are shown on the following page. Future years estimated lease savings have been adjusted to reflect probable CPI adjustments. Payments on the new lease purchase facility are not included on this fiscal note.

Prepared by: Duqan Petty, Director *Duqan Petty*  
 Division: General Services

Phone: 465-2250  
 Date: \_\_\_\_\_

Approved by Commissioner: Mark Boyer *Mark Boyer*  
 Agency: Department of Administration

Date: 3/28/96

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**FISCAL NOTE  
STATE OF ALASKA  
1996 LEGISLATIVE SESSION**

BILL NO. HB 529

ANALYSIS: (continued)

**Current Public Health Laboratory Leases**

Lease # Location	Property	FY 96 Cost		RSA Amount	Net DOA Estimated FY00	
		Sq Ft	/ Year		Reduction	Reduction
765 Juneau	CBJ - BMH	4,460	107,040	0	107,040	109,874
2353 Fairbanks	UAF	5,255	123,585	0	123,585	126,858
1517C Anchorage	CR Lewis Bldg	5,100	73,440	0	73,440	75,385
1517D Anchorage	CR Lewis Bldg	385	2,079	2,079	0	0
		<u>15,200</u>	<u>306,144</u>	<u>2,079</u>	<u>304,065</u>	<u>312,117</u>

# STATE OF ALASKA

DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110601  
JUNEAU, ALASKA 99811-0601  
PHONE: (907) 465-3030  
FAX: (907) 465-3068

## ISSUES ANALYSIS HOUSE BILL 529

*"An Act giving notice of and approving the entry into, and the issuance of certificates of participation in, a lease-purchase agreement for a centralized public health laboratory."*

The Department of Health and Social Services strongly supports House Bill 529 which will allow it to develop a much needed home for its Public Health and Medical Examiner Laboratory functions. The bill would satisfy the requirements of AS 36.30.085 to notify, and obtain approval from, the legislature for lease purchase financing of a new centralized Public Health Laboratory (including Medical Examiner facilities) in Anchorage.

The Department of Health and Social Services (DHSS) currently operates four laboratories with statewide functions. These include three public health laboratories in inadequate leased space and the Medical Examiner's laboratory temporarily located at the Department of Public Safety's Crime Detection Laboratory in Anchorage. The bill would allow DHSS to centralize laboratory functions resulting in operating cost savings that would ultimately pay for the cost of the building, while improving service delivery. Annual payments and total financing costs in the bill reflect an eight year financing period (with the first payment deferred), corresponding to the period of lowest financing costs associated with relatively high levels of Prudhoe Bay oil production.

The bill would allow DHSS to construct a Centralized Laboratory in Anchorage housing the functions of the three current Public Health Laboratories and the Medical Examiner's Laboratory. The Department studied the issues extensively over the last ten years and developed a feasibility study that reviewed alternatives but clearly showed that a new centralized laboratory was the most cost effective means of providing an adequate level of laboratory services. The new laboratory would make economic sense. Moreover, it would enhance services, replace existing poor quality leased space and provide a needed permanent home for the Medical Examiner:

**1. Makes Economic Sense.** Given present financial realities, the current situation is too costly and inefficient—the Department cannot afford to operate four separate laboratories and must find a way to provide an adequate level of services at less cost. The new facility would save operating funds and avoid costs related to the current laboratories and would allow maintenance of an adequate level of services in the future. Total savings and cost avoidance have been estimated at \$26.8 million over a 35 year period (after deducting costs of construction of the new facility).

**DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
ISSUES ANALYSIS  
HOUSE BILL 529  
PAGE 2**

Looking at operating savings alone, the facility is estimated to pay for itself in about twenty-two years. Over the long term, direct operating savings will be in the neighborhood of \$1 million a year. The savings will arise primarily from lease payments that will no longer be necessary and from a reduction in staff from economies of scale at the consolidated laboratory. Other savings are expected from reduction in duplicative supply and equipment costs. Natural attrition should accommodate the reduction in staff and the Department foresees that it will be able to offer a position to every existing laboratory employee when the new Laboratory opens (although some may have to transfer to Anchorage). Because of the relatively short eight year financing period, operating savings will only partially pay for the lease purchase payments during that period. Nonetheless, those operating savings will continue to accrue through the life of the building and ultimately will exceed the total cost of the new laboratory, and the state will own a laboratory facility which will provide many years of service.

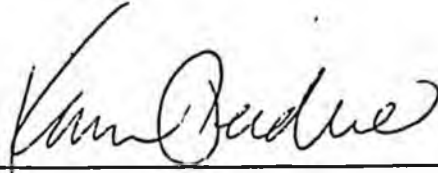
**2. Enhance Services.** All four existing laboratories serve statewide functions. Centralization of those functions at a new laboratory will improve overall accessibility to those services on a statewide basis. It will also increase coordination and enhance the Department's ability to support epidemiological investigations and disease surveillance and control. Centralization will also facilitate collaboration by helping to create a critical mass of specialized facilities and laboratory professionals.

**3. Replace Poor Quality Leased Space.** The state is currently expending over \$306,000 a year in lease payments for the three existing Public Health Laboratories. Two of the laboratories are located in offices that were not designed for the specialized needs of laboratories. The third was designed as a laboratory some time ago but is a concrete structure with an inflexible interior space that would be difficult and expensive to reconfigure for future needs. To maintain the facilities as laboratories in the future would require specialized upgrades—some needed improvements are not feasible at any reasonable cost. In any case, making major unrecoverable investments in improvements in aging leased facilities would not be a wise business decision.

**4. Provide a Permanent Home for the Medical Examiner.** The State Medical Examiner is located temporarily in borrowed space needed by the Department of Public Safety's Crime Detection Laboratory and State Troopers offices. Another solution must be found in the future to provide a permanent home for the Medical Examiner. The proposed Centralized Laboratory will be an ideal location and will help to increase collaboration between Medical Examiner and Public Health Laboratory functions. The Department wants to locate the facility at the Crime Detection Laboratory site to maintain the necessary close partnership between the Medical Examiner and the Crime Detection Laboratory.

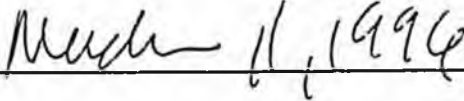
DEPARTMENT OF HEALTH AND SOCIAL SERVICES  
ISSUES ANALYSIS  
HOUSE BILL 529  
PAGE 3

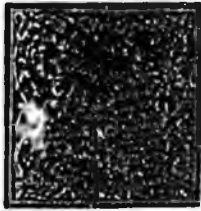
Approved by:



Karen Perdue, Commissioner  
Department of Health and Social Services

Date:





# ALASKA STATE MEDICAL ASSOCIATION

4107 Laurel Street • Anchorage, Alaska 99508-5334 • (907) 562-2662 • FAX (907) 561-2063

March 8, 1996

Representative Con Bunde  
Alaska State Legislature  
State Capitol (MS 3100)  
Juneau, Alaska 99801-1182

Subject: Central Public Health Laboratory (HB 529)

Dear Representative Bunde:

The ability to detect, measure, and combat threats to the health of a populace is a basic duty of government and is no less important than maintaining law and order.

An essential tool in executing this responsibility is a public health laboratory. Every state health department has one. Some have more than one.

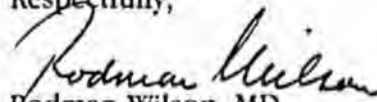
Alaska has three - in Fairbanks, Anchorage, and Juneau - but they are all in need of extensive upgrade or replacement. Each is costly. Leasing of space for them alone totals \$370,000 annually.

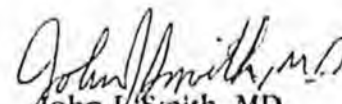
In these days of rapid, safe transportation of biologic and chemical specimens and electronic dispatching of results of testing, there is no need for Alaska to have more than one laboratory. Although a new lab could be located in any city, it would be best for it to be centrally located, thoroughly modern, versatile, and supervised ideally by a biologist or chemist.

At its Annual Meeting on February 10, the Alaska State Medical Association considered the longstanding proposal of DHSS for a new public health laboratory in Anchorage on E Tudor Road adjacent to the Scientific Crime Detection Laboratory and the State Medical Examiner's Office. Some equipment and talent might be shared. Creating a new lab and abandoning the costly old ones would save millions of dollars over a period of years. The Association unanimously endorsed the proposal for a centralized public health laboratory in Anchorage.

We urge you to initiate this project through HB 529. It will take several years to complete plans and construction. It has been put off much too long. The health of all of us is at stake.

Respectfully,

  
Rodman Wilson, MD  
Acting Executive Director

  
John J. Smith, MD  
President

SUPPORT

# STATE OF ALASKA

## DEPT. OF HEALTH AND SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

TONY KNOWLES, GOVERNOR

P.O. BOX 110601  
JUNEAU, ALASKA 99811-0601  
PHONE: (907) 465-3030  
FAX: (907) 465-3068

March 27, 1996

The Honorable Con Bunde  
The Honorable Cynthia Toohey  
Alaska State House of Representatives  
State Capitol, Room 426  
Juneau, AK 99801-1182

Dear Representatives Bunde and Toohey:

The attachments provide information about the proposed construction of a centralized public health laboratory which I understand arose as issues of concern or interest among committee members during deliberations on HB 529 last week.

I hope this information responds to the interests and concerns of committee members and will provide members with confidence in the project sufficient to move the bill. Department staff will be available tomorrow to clarify this information and answer additional questions.

Sincerely,



Karen Perdue  
Commissioner

STATE OF ALASKA

TONY KNOWLES, GOVERNOR

**DEPT. OF HEALTH AND SOCIAL SERVICES**

OFFICE OF THE COMMISSIONER

P.O. BOX 110601  
JUNEAU, ALASKA 99811-0601  
PHONE: (907) 465-3030  
FAX: (907) 465-3068

March 27, 1996

The Honorable Tom Brice  
Alaska State House of Representatives  
State Capitol, Room 426  
Juneau, AK 99801-1182

Dear Representative Brice,

Thank you for providing me an opportunity to respond to your questions related to HB 529. The \$19.2 million includes construction and other project costs along with the costs of setting up financing and represents the principal amount. The additional \$4.3 million you refer to are the interest costs over the eight year period of financing, for a total financed cost of \$23.5 million. (See the attached narrative and chart which reconciles the various cost estimates for the Centralized Laboratory.)

The information that was provided by the 1994 report describes many of the advantages of centralization. After the report was prepared, the Department discussed the financial, operational and scientific implications of centralization and felt that the benefits for centralization were very real and did not need additional analysis. The Department then focused on reviewing options for implementing a centralized laboratory including financing alternatives, possible inclusion of the Medical Examiner's laboratory, and optimal location. Differences in the construction costs for the centralization option versus the consolidation option without differences in financing costs can be found in the attachment, "Public Health Laboratory Centralization Versus Consolidation, Operating Cost Reductions and Capital Costs".

For convenience I have re-stated your questions and followed with responses.

1) You claim there is a difference in equipment costs in the various scenarios. Won't the people moving into a new lab require the same amount of equipment regardless of where they are located? Everyone will still need desks, chairs, microscopes or whatever and to re-purchase them for the new facility should greatly increase the costs for centralization.

Staff will, of course, need chairs, phones, and similar pieces of non-specialized equipment to support their activities, and various pieces of equipment will be moved to the new facility. However, there will be opportunities to configure operations more efficiently and to take advantage of designs that provide flexibility and reduce the amount of equipment needed. There will also be fewer staff in a centralized facility which will reduce equipment requirements.

Most importantly, however, centralization of the public health laboratory functions provides substantial opportunity for reducing the amount of equipment needed by eliminating duplication. Separate facilities require duplicate equipment to support separate operations. Sharing of equipment, such as microscopes, analytical balances, computers, walk-in incubators and walk-in refrigerators, can occur in common areas of a centralized laboratory that are simply not possible in separate facilities. A centralized facility combining all public health laboratory operations would provide many opportunities for sharing complex and expensive equipment such as gas chromatographs, HPLC (high pressure liquid chromatographs), biological safety cabinets, fume hoods and specialized space such as isolation rooms, as well as space/equipment for DNA probe technology and polymerase chain reaction technology between disciplines.

Significant savings can be achieved through efficient management of resources providing greater efficiency in a single facility compared to operating in multiple facilities. For example, specimens would be received at one point and therefore could be processed by one biological safety cabinet and stored in one set of storage refrigerators or freezers. Waste disposal would also be streamlined and require less equipment such as autoclaves. Combination of operations in a single facility also provides opportunities for achieving "economies of scale" in equipment purchases.

**2) Under the consolidation scenario in the study, a number of components were added to the Fairbanks lab such as building renewal and replacement and janitorial cost and a steady annual growth in the lease and maintenance costs. Currently, under the University's lease, payments are held flat and maintenance and janitorial are included. Why are these areas double-counted against Fairbanks in the study?**

Building Renewal and Replacement. In evaluating the various options for the 1994 Strategic Plan report, the consultants developed a consistent methodology for reviewing renewal and replacement costs of a variety of different buildings, including new buildings, over a very long period of time. While in the short term a specific analysis of each building's needs is the best way to compare buildings (and we did conduct a separate physical analysis of each existing building by another consultant), there is no way to know now what specific building needs will surface in the long term, say, in twenty five years. Instead, the consultants employed a widely used formula, the Sherman-Dergis formula, to compare existing and proposed buildings. The formula uses building age and replacement value to estimate annual renewal and replacement costs over a fifty year period. It assumes that older buildings will require more renovation than newer ones.

Landlords will usually make only the limited general renovations and replacements to our laboratories needed to maintain the value of the facility. Many of the improvements that laboratories need would not be useful to a new tenant, and landlords want those improvements to be either paid directly or reimbursed through long-term leases. The new roof on the building housing the State Virology Laboratory at the University of Alaska, Fairbanks for instance was needed not just for the laboratory but to maintain the use of the building for all functions housed there.

While the University appears to have made some improvements without charging the Department of Health and Social Services, that situation will not necessarily continue in the future especially if major improvements are needed. Our lease does not require the University to do so and University staff have indicated that at some point in the future, the Fairbanks laboratory building (like every older building) will require additional renovation exceeding the thresholds that now exempt the building from current codes. A major renovation and upgrade to current standards will then be required. The costs of those renovations will have to be absorbed by either the University entirely or partially by the Department. We could expect that prudent management of University property would lead University administration to distribute costs of needed maintenance to all occupants of the facility, and primarily to those occupants requiring specialized improvements. To summarize, the numbers for renewal and replacement shown in the report may not be accurate in the short term, but do reflect some long term realities and in any case they are not at all critical for the demonstration of benefits from centralization.

Building renewal and replacement costs **have not** been included in our estimate of the operating savings that would result from centralization. We have shown them as possible cost avoidance, as an indicator of a potential extra benefit from establishing a new laboratory. We know a new centralized facility will avoid some costs related to building renewal, but the exact amount cannot be determined with absolute precision. However, the operating savings alone will defray the cost of a new centralized facility in a reasonable length of time whereas the operating savings from the consolidated scenario would not.

Janitorial Costs. It appears that you are correct that additional janitorial costs should not have been shown for the consolidated scenario. The current lease we have with the University states that the University will provide janitorial services. Since the amount in question (\$1706) is relatively small, the apparent mistake would have made little difference in the comparison of alternatives. The fiscal notes prepared for HB-529 has more current information about the actual savings that we would experience with a Centralized Laboratory. We have summarized that revised information and comparable information for the Consolidated Scenario in the attached table.

University Lease-Payments held flat. Our records indicate the lease with the University for the Fairbanks laboratory space does have an inflationary clause calling for annual price adjustment corresponding to the Consumer Price Index. In any case, given the long term approach taken by the consultants, leases as negotiated over the long term would normally follow inflationary trends.

**3) Your claim of savings in travel and personnel costs are arbitrary given it is the legislature in the budget process which establishes these funding levels. Please explain the expected savings and why we should not go ahead and realize them now?**

Our estimates of travel and personnel savings are based on determinations of the travel and personnel needed to operate the laboratory program in separate facilities compared to a centralized facility. The savings cannot be realized now without significant reductions in program

Honorable Tom Brice  
March 27, 1996  
Page 4

capacity. We are currently operating from separate facilities and this imposes additional operating costs above what would be possible in a centralized facility.

Travel would be reduced under the Anchorage centralization option. Currently the Chief of the Section of Laboratories must travel between the three laboratories in order to inspect and participate in each laboratory's quality assurance program. This must be done in order to maintain the laboratories' license under the Clinical Laboratory Improvement Amendments. This travel would not be required under the centralization option. Additionally no travel would be required by the Chief or laboratory managers for special management meetings since they would be located in the same facility.

The reduction in personnel costs are to occur through a reduction in administrative and support staff made possible through efficiencies achievable in a centralized facility. This will enable us to reduce costs but maintain the critical expertise of professional microbiologists and the capacity for performing laboratory analysis. Centralization enables us to maintain our current expertise and capacity to perform the work of the laboratories but to reduce costs through efficiencies. Reducing personnel funding now without making changes needed to achieve efficiencies would impair program operations. Each laboratory will, as long as it operates separately, continue to have separate needs for administration, clerical support, and technical support to prepare media, reagents and glassware and to process waste materials. These tasks can be performed with fewer staff under the centralization option.

The Legislature could, of course, reduce funds appropriated to support the laboratories without providing for a means of solving our facility problems or enabling us to achieve program efficiencies through centralizing laboratory operations. However, this would reduce capacity to perform the needed laboratory analytical work and affect the functioning of Alaska's public health system.

I hope this information helps allay your concerns about this project.

Sincerely,



Karen Perdue  
Commissioner

cc: Honorable Con Bunde  
Honorable Cynthia Toohey

## Centralized Laboratory: Comparing Project and Financing Costs

The table below compares estimates that have been developed in the last few years for the centralized laboratory project. The 1994 Strategic Plan report contained a construction cost estimate of \$13.7 million for the centralized laboratory, but that estimate was strictly for construction costs through a direct capital appropriation—the report did not address financing alternatives. Moreover, while the report discussed the potential merits of including the Medical Examiner facility, space for that laboratory was not a part of the construction cost estimates.

The 1995 Financing Report prepared the next year compared several financing alternatives for a centralized laboratory. It also addressed the costs of including the Medical Examiner facility as an option. With centralization in Anchorage, adding the Medical Examiner makes sense in terms of both costs and operations, since we must find some space for the Medical Examiner in the future. The revised construction cost estimate was \$17.8 million including the Medical Examiner, along with adjustments for two years of inflation (because of delays in the start of construction) and for costs of obtaining financing. Combined principle and interest payments to finance that facility was estimated at \$22.1 million. The project was delayed yet another year, requiring another inflation adjustment. In addition, we adjusted the numbers to accommodate a specific financing strategy leading to the numbers contained in HB 529 (\$19.2 million principal costs; \$23.5 million for combined principle and interest costs). It is important to note that the total principle and interest cost is extremely sensitive to fluctuations in interest rates.

### Reconciliation of Project and Financed Cost Estimates for Centralized Laboratory

	Project/ Principal Costs	Total Principal and Interest Costs
<b>1994 Strategic Plan Report (with Coopers &amp; Lybrand)</b> (Excludes Medical Examiner)	13,685.0	17,116.0 *
<b>1995 Reports—Financing a New Public Health Laboratory and Executive Summary Brochure (with Coopers &amp; Lybrand)</b>		
—Excluding Medical Examiner but including some adjustments for financing costs and two years of inflation. Estimate ("Lease Financing Option") is 8.7% higher than in 1994 report.	14,878.9	18,378.5
—Addition to include Medical Examiner	2,931.2	3,697.9
<b>Total with Medical Examiner</b>	17,810.1	22,076.4
<b>Adding additional year of inflation (approx. 5%)</b>	18,700.0	22,918.4
<b>Adding additional financing costs</b>	19,200.0	23,500.0

\* Financed cost was not actually calculated in the Strategic Plan, which did not look at financing alternatives—financed cost number shown uses same methodology as in 1995 report.

## **Centralized Public Health Laboratory: Construction and other Project Costs**

Laboratories, especially those requiring isolation of biological hazards such as public health laboratories, are expensive spaces to build. Costs for construction of modern laboratory space are very high for a variety of reasons. Specialized and complex laboratory areas require additional space for expensive utilities and services which generally run through utility chases between walls and under floors. These areas provide for gas, vacuum, compressed air and very specialized electrical and ventilation requirements (negative air pressure). Built in fume hoods and biological safety cabinets also require specialized ventilation to the outside. Waste treatment of biological materials (in autoclaves) and chemicals has unique requirements.

Construction must be explosion proof and have specialized floor drains, fire showers and eye wash stations in order to meet modern safety codes. Additionally, un-interruptable power sources are necessary for the expensive equipment common to laboratories. Work surfaces, sinks and drainage pipes must be made of particular materials which are resistant to corrosion and storage space must be appropriately vented for combustible solvents. Cold rooms and walk-in incubators are also common to laboratories and emergency systems are necessary. Special containment construction is required for working with each group of infectious organisms depending on its biosafety level (1-4). There are also special requirements for unusual floor loading or vibration isolation and adaptability to changes or expansion.

In addition, requirements of state and federal law make public buildings more expensive than comparable buildings built for the private sector. For instance, the requirements of AS 35.05.010 to pay prevailing wages for public buildings ("little Davis-Bacon") can make construction of public buildings considerably more costly than facilities serving a private function.

### **Estimating Construction Costs**

In 1994, construction costs for the public health laboratory were estimated by a professional estimating firm in collaboration with Livingstone Slone, Inc., an Anchorage architectural firm. Costs for construction of the building were estimated at \$384 per square foot for construction and site development alone, excluding other project costs such as design, project management, and equipment—these other project costs are described on the next page. The construction costs estimated in 1994 also need to be adjusted upwards to account for three years of inflation.

Some construction costs for similar types of buildings are shown in the table on the following page. Most of the projects listed are much larger projects than the proposed Centralized Laboratory. If everything else is equal, a smaller building is more expensive to construct on a per square foot basis. In addition, insulation and heating plant for the buildings in Los Angeles and Seattle would have to be significantly upgraded if built in Anchorage. (Also, costs shown for those projects do not include site development.) Most projects include a proportionately larger area of relatively inexpensive office or general purpose hospital room space. Probably the most comparable project in terms of size is the Controlled Disease Center at the Alaska Native Medical Center.

Project	Location	Size (sq. ft.)	Construction Costs	
			Costs (\$millions)	Per sq. ft.
<b>Alaska Examples—Actual costs</b>				
Alaska Native Medical Center Hospital	Anchorage	362,607	\$95.7	\$264
Controlled Disease Center		13,439	\$5.0	\$375
Elmendorf Hospital	Anchorage	444,700	\$138.7	\$312
Kotzebue Hospital	Kotzebue	90,000	\$43.0	\$478
<b>Out of State Examples—Costs adjusted for Anchorage and 1998 (4% inflation/year)</b>				
UCLA McDonald Building—1993 research building—Anchorage/Los Angeles geographical cost ratio=115%	Los Angeles	136,000		\$364
Fred Hutch Cancer Research Center (1994)—Anchorage/Seattle geographical cost ratio=125%	Seattle	305,000		\$293

Sources: Livingstone Stone, Inc. and McLellan & Copenhagen, Inc.

### Other Project Costs

In addition to the costs of site development and construction of the facility, other costs had to be estimated in order to calculate total project cost. These additional costs include: equipment, consultants (including design), project administration and project contingency. Because the building program and design have not been completed, the estimates by necessity were based on very limited information about the project.

**Equipment** The construction estimate includes the basic elements of a building. In addition a laboratory requires a range of general and specialized furnishings, including cabinets, counters and sinks, fume hoods, safety equipment; complex final plumbing connections and specialized lab equipment. When appropriate, existing equipment will be reused in the new facility. Equipment costs were estimated to equal 25% of the construction costs.

**Consultants** Before construction, the laboratory will require a detailed architectural program, specialized consultants and architectural and engineering services leading to design. Design and associated consulting services were estimated at 17.5% of construction costs, reflecting the specialized services needed for a laboratory housing biologically hazardous materials.

**Project Administration** Every construction project, whether in the private or public sector, requires project administration: to prepare bid packages, award contracts, monitor performance of design and construction contracts, process payments and serve as the contact for contractors when problems need resolution. Administration costs have been estimated to equal 7% of construction costs.

**Project Contingency** Estimating construction costs is an art, not a science, and every construction project encounters unforeseen problems and requires changes. Standard practice for every construction project, whether it be a single family residence or a major shopping center, is to set aside a certain percentage of construction costs for contingencies. Therefore, the project budget includes an additional 7% of project cost for contingencies.

### **State Medical Examiner Program**

The State Medical Examiner is a forensic pathologist who performs investigations, autopsies and other post-mortem examinations needed to determine the cause and manner of death in cases of violent, suspicious, or sudden and unexpected deaths, and deaths which occur without a physician in attendance. The Medical Examiner is responsible for determining the cause and manner of death, identifying the deceased if unknown, signing the death certificate, and testifying in civil and criminal cases about his findings. These activities are essential to support the criminal and civil justice systems and public health surveillance activities.

The Medical Examiner program has a total budget of \$834.7 including seven staff. Staffing consists of:

- 2 Board-certified forensic pathologists
- 3 Autopsy Assistants
- 2 Clerical staff

The Autopsy Assistants transport human remains, prepare them for autopsy, assist in the autopsies and other post-mortem examinations, prepare and sterilize the autopsy lab, and perform other duties necessary to support the forensic pathologists. Clerical staff perform medical transcription, audit and track billings for air transport and embalming and restoration services, and provide clerical support for all activities of the Medical Examiner program.

The Medical Examiner office is housed on a temporary basis in the Department of Public Safety central offices in Anchorage. Autopsies and other technical laboratory work is performed in temporary arrangements at the Scientific Crime Detection Laboratory located in the same complex of Public Safety offices but in a separate building. The Department of Public needs this space and is prevented from expanding crime detection activities while the Medical Examiner occupies the space.

Medical Examiner facilities are relatively expensive compared to costs of constructing standard office space. This is because they present design and engineering considerations similar to those of hospital facilities but with additional unique considerations. Medical Examiner facilities must support scientific work requiring specialized equipment and involving biohazards and provide specialized security that can maintain a chain of custody needed for storage of evidence that will be used in criminal and civil litigation. Facilities housing a Medical Examiner must accommodate long term processing and storage of decomposed human remains and other potentially life-threatening infectious or non-biological hazards such as material from toxic chemical spills.

The presence of biohazards in the work environment requires that special environmental, public health and safety, occupational safety, and fire protection codes be met. For example the facility must be explosion and fire proof, have uninterruptible power sources and provide special isolation

and working areas (such as separate autopsy facilities for decomposed remains.) It must also provide differential cold storage areas, long term storage of tissue and fluid samples, special ventilation and air-locked entrances, on-site access to an incinerator, special physical security measures, and separation of laboratory work areas from office/public use areas. Medical Examiner facilities must provide adequate morgue capacity to accommodate mass casualty events, be able to accommodate next of kin and media when necessary, and would ideally provide potential to support tissue recovery activities.

Public Health Laboratory  
 Centralization Versus Consolidation  
 Operating Cost Reductions and Capital Costs  
 Based on Current Information (March 1996)

*Operating cost reductions  
 from existing operations*

DOA Lease Cost

DHSS Costs

Personnel

Travel

Contractual

*Total Reductions*

FY2000			FY2001			FY2002		
<i>Central- ization</i>	<i>Consol- idation</i>	<i>Differ- ence</i>	<i>Central- ization</i>	<i>Consol- idation</i>	<i>Differ- ence</i>	<i>Central- ization</i>	<i>Consol- idation</i>	<i>Differ- ence</i>
312.1	185.2	126.9	312.1	185.2	126.9	312.1	185.2	126.9
329.8	81.2	248.6	338.1	81.2	256.9	346.5	81.2	265.3
7.5	3.5	4.0	7.7	3.5	4.2	7.9	3.5	4.4
61.0	15.2	45.8	62.5	15.2	47.3	64.1	15.2	48.9
710.4	285.1	425.3	720.4	285.1	435.3	730.6	285.1	445.5

*Project Costs*

<i>Central- ization</i>	<i>Consol- idation</i>	<i>Differ- ence</i>
19,200.0	15,657.8	3,542.2

TONY KNOWLES, GOVERNOR

DEPARTMENT OF PUBLIC SAFETY  
OFFICE OF THE COMMISSIONER

P.O. BOX 111200  
JUNEAU, ALASKA 99811-1200  
PHONE: (907) 465-4322  
FAX: (907) 465-4362

January 10, 1996

Ms. Karen Perdue, Commissioner  
Department of Health and Social Services  
P.O. Box 110601  
Juneau, AK 99811-0601

Dear Commissioner Perdue:

I understand that the Department of Health and Social Services is requesting funding in the FY 97 capital budget for a new lab facility to be built adjacent to the Department of Public Safety crime lab at 5700 E. Tudor Road. I understand this new facility will house the Medical Examiner and will be the site for all state required autopsies. It is critical to law enforcement statewide that an adequate facility be built for this purpose. The vast majority of cases referred to the medical examiner are those involving the Anchorage Police Department or the Criminal Investigation Bureau of the State Troopers. Investigators from both law enforcement agencies regularly attend autopsies and consult with the Medical Examiner's staff on homicides and other death investigations involving questionable circumstances. Close physical proximity of the Medical Examiner and the autopsy facilities to both agencies creates a beneficial and efficient relationship in dealing with difficult and complex investigations

The original design and construction of the Public Safety crime lab allowed little room for growth without additional physical plant construction. At a time when fingerprint, serology and toxicology units require additional space to accomplish their tasks, the only space available for expansion is occupied by the Medical Examiner, who moved into the space on what was understood to be a temporary basis approximately two years ago.

*Handwritten signature: H. J. ...*

Commissioner Karen Perdue  
January 10, 1996  
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I want you to know that I support construction of this facility as it will relieve the present overcrowding of the crime lab and also promote more efficient handling of serious investigations.

Sincerely,

Ronald L. Otte  
Commissioner

By: Mayor Jim Sampson  
Introduced: 03/14/96  
Adopted: 03/14/96

**RESOLUTION NO. 96-023**

**A RESOLUTION IN SUPPORT OF THE ALASKA STATE  
VIROLOGY LABORATORY REMAINING IN FAIRBANKS**

WHEREAS, the Alaska State Virology Laboratory (ASVL) has been an integral part of the research community on the University of Alaska Fairbanks campus; and

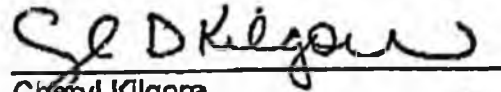
WHEREAS, over the years ASVL has interacted with research institutes and other facilities, including the UAF Health Center and various medical facilities in Fairbanks, as well as providing services to state, federal and Alaska Native agencies; and

WHEREAS, if ASVL is moved to Anchorage, as proposed by the Commissioner of the Alaska Department of Health and Social Services, fifteen staff positions will be lost, and the economy of the Fairbanks North Star Borough will be affected not only by the loss of their salaries but also by the loss of state and federal funds that currently support the operation of ASVL, amounting to more than a million dollars annually; and

WHEREAS, over the past twenty years Fairbanks has lost eleven laboratories and offices dealing with science and natural resources as a result of permanent closure or relocation of the program to other offices and organizations:

NOW, THEREFORE, BE IT RESOLVED that the Fairbanks North Star Borough Assembly and Mayor Jim Sampson urge that the State of Alaska leave the Alaska State Virology Laboratory in Fairbanks, or, if centralization is necessary, that the proposed new health lab be built in Fairbanks.

PASSED AND APPROVED THIS 14TH DAY OF MARCH, 1996.



Cheryl Kilgore  
Presiding Officer

ATTEST:



Mona Lisa Drexler, CMC/AAE  
Municipal Borough Clerk

Ayes: McBride, Logan, Bartos, St. John, Hackenmiller, LaSota, Parr, Quakenbush,  
Chizmar and Kilgore

Noes: None