

Introduced by: Mayor
Date: 06/21/22
Hearing: 07/05/22
Action: Enacted as Amended
Vote: 8 Yes, 0 No, 1 Absent

**KENAI PENINSULA BOROUGH
ORDINANCE 2022-19-04**

**AN ORDINANCE APPROVING THE PURCHASE OF THE SURGERY CENTER OF
KENAI AND APPROPRIATING \$9,770,000 FROM THE CENTRAL PENINSULA
HOSPITAL PLANT REPLACEMENT AND EXPANSION FUND TO SUPPORT THE
PURCHASE**

WHEREAS, the Kenai Peninsula Borough (Borough) has entered into an Operating Agreement with Central Peninsula General Hospital, Inc. (CPGH, Inc.) for operation of Central Peninsula Hospital (CPH) and other medical facilities, and to provide other healthcare programs and services, on a nonprofit basis in order to ensure the continued availability to the service area residents; and

WHEREAS, Section 16, Finances, Paragraph (a) Operating Revenue, of the Operating Agreement requires that, on a quarterly basis, CPGH, Inc. “shall transfer all cash on hand in excess of the operating reserve amount to the Borough for deposit into the Central Peninsula Hospital Plant Replacement and Expansion Fund (PREF)”; and

WHEREAS, Section 16, Finances, Paragraph (b) Plant Replacement and Expansion Fund, of the Operating Agreement provides, “The PREF is a fund designated as a source of funding for major repairs and replacement of Medical Facilities; improvements, fixtures, and equipment for Medical Facilities; acquisition of property, improvements, fixtures and equipment related to operation of the Medical Facilities; and to replenish the operating reserves, as provided in paragraph 16.”; and

WHEREAS, Section 24, Level of Services and Other Business Activities, Paragraph (b) of the Operating Agreement allows for expansion of health care services with prior approval by the Borough Assembly for new services that have an expected total capital cost in excess of \$250,000; and

WHEREAS, Section 14, Real Property Acquisitions and Leases, Paragraph (b) of the Operating Agreement provide, “Leases in the name of CPGH, Inc., in which CPGH, Inc. is the Lessee and no obligation whatsoever is imposed on the borough, either express or implied,” are not subject to the requirements of the Operating Agreement regarding Real Property acquisitions; and

- WHEREAS,** CPGH, Inc. administration informed the Borough on May 31, 2022 that they believe it is in the best interest of the hospital and residents of the Kenai Peninsula Borough for the hospital to purchase and operate the Surgery Center; and
- WHEREAS,** Central Peninsula Hospital currently provides Surgical Services in four operating rooms within the hospital which are near capacity, and the hospital is unable to expand due to State of Alaska Certificate of Need restrictions; and
- WHEREAS,** CPH has been presented the opportunity to purchase the Surgery Center of Kenai which will provide the hospital with two additional outpatient operating rooms for the purchase price of \$9,770,000; and
- WHEREAS,** CPGH Inc. administration engaged Healthcare Appraisers Inc. to conduct a Fair Market Value Appraisal on the surgery center; and
- WHEREAS,** CPGH Inc. administration has negotiated an agreement with the Surgery Center of Kenai to purchase one-hundred (100) percent of the shares, while retiring all associated debt, at a total price of \$9,770,000, all of which falls within the Fair Market Value ranges calculated by Health Care Appraisers, Inc.; and
- WHEREAS,** CPH Administration has determined that there are sufficient funds available in the Central Peninsula Hospital Plant Replacement and Expansion Fund (PREF) to fund the \$9,770,000 purchase of the surgery center and would like to utilize PREF funds for the purchase; and
- WHEREAS,** The Central Peninsula Hospital PREF currently has an unobligated balance of approximately \$69 Million; and
- WHEREAS,** the CPGH, Inc. board, at its May 26, 2022, meeting requested approval from the Borough Assembly to approve the purchase of the Kenai Surgery Center utilizing \$9,770,000 in PREF Funds;

NOW, THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH:

- SECTION 1.** That the assembly finds that purchasing the Surgery Center of Kenai is in the best interests of the borough and its residents as it furthers the purposes of the Central Peninsula Hospital Service Area to provide health care services.
- SECTION 2.** The purchase price not to exceed \$9,770,000, which includes paying off approximately \$650,000, in debt is hereby approved.
- SECTION 3.** That this acquisition is for the purposes of expansion of hospital services within the service area.

SECTION 4. That the mayor is authorized to execute any and all documents necessary to purchase the Surgery Center of Kenai wherein the Kenai Peninsula Borough shall be the owner of all assets and improvements under the Purchase Agreement, or similarly titled asset purchase document, and CPH, Inc. will be the lessee of the real property.

SECTION 5. Funds in the amount up to \$9,770,000 are appropriated from the Central Peninsula Hospital Unobligated portion of the Plant Replacement and Expansion Fund account number 490.20602 to account 490.81110.22SUR.49999 for the Kenai Surgery Center Acquisition Project.

SECTION 6. That appropriations made in this ordinance are project length in nature and as such do not lapse at the end of any particular fiscal year.

SECTION 7. Upon closing on the property described in Section 1, the mayor is authorized to execute an amendment to the Central Peninsula Hospital Operating Agreement with CPGH, Inc., amending Exhibit A to include the Surgery Center of Kenai on the list of Medical Facilities covered under the Operating Agreement. The understanding is that this is a business and asset-only purchase, which includes operation of the facility, and that the Borough will not own the real property. The building and real property are owned by Schilling Rentals, an Alaska partnership.

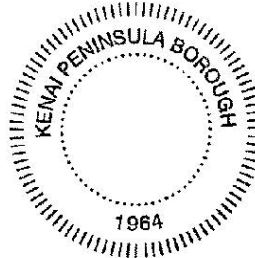
SECTION 8. This ordinance shall be effective immediately upon its enactment.

ENACTED BY THE ASSEMBLY OF THE KENAI PENINSULA BOROUGH THIS 5TH DAY OF JULY, 2022.


Brent Johnson, Assembly President

ATTEST:


John Blankenship, MMC, Borough Clerk



Yes: Bjorkman, Chesley, Cox, Ecklund, Elam, Hibbert, Tupper, Johnson
No: None
Absent: Derkevorkian