



Central Peninsula Hospital Operating Agreement Overview of 2017 Changes

Kenai Peninsula Borough Mayor Mike Navarre

Negotiation background, timeline, and goals

Negotiation Team Members

- Mike Navarre
- Stormy Brown
- Paul Ostrander
- Craig Chapman
- Colette Thompson
- Larry Persily
- Brandi Harbaugh
- Angela Ramponi

Additional Input: KPB Risk Management team; John Hedges - Capital Projects; Cindy Cartledge - Bond Council for KPB; Marsh and McLennan Agency, LLC - Liability Insurance Brokers for KPB

Timeline

- Began KPB internal review in **June 2016**
- Began formal negotiations with CPH in **January 2017**
- CPGH, Inc. Board approved the agreement on **June 29, 2017**

Goals

- Improve communication between the hospital and KPB
- Identify areas where increased flexibility for hospital is needed
- Identify areas where increased reporting and avenues for KPB input are needed
- Identify and fix any legal issues or out of date elements of the contract, including bond financing concerns



History of Central Peninsula Hospital

- **1960s** Attempts were made to start a hospital in the central peninsula area. The City of Homer had a small hospital, and Seward had the main hospital in the borough at that time.
- **1969** Central Kenai Peninsula Hospital Service Area was formed.
- **1970** The borough entered into a 25-year agreement with Lutheran Hospitals and Homes Society, Inc. to lease and operate the hospital.
- **1982** The agreement with LHHS was amended and became a 10-year operating agreement, expiring in 1992. The borough paid LHHS a management fee.
- **1991** The borough unsuccessfully requested proposals to operate and manage the hospital. The assembly authorized the administration to create a nonprofit corporation to operate the hospital (CPGH, Inc.)
- **1992** The borough entered into a Lease and Operating Agreement with CPGH, Inc. in December 1992. It was effective for five years, expiring December 31, 1997. LHS Management Company provided contract management services because CPGH, Inc. had no management experience. The borough paid LHS **\$170,000 – \$210,000** each year for management services.
- **1996** The assembly held many hearings, worked with a consultant, and heard presentations by Providence and Columbia, offering to lease or buy the hospital. Ultimately, the assembly decided to keep operations of the hospital under local control and to negotiate a new contract with CPGH, Inc.
- **1998** New 5 year agreement with CPGH, Inc. Requirements for monthly written financial reports and a quarterly oral presentation were instituted. The plant replacement and expansion fund was started. The approval threshold for capital expenses was raised to \$100,000. Quorum provided contract management services to CPGH, Inc. Their fee was around **\$315,000**.
- **2003** New 5 year agreement with CPGH, Inc. The agreement clarified that the borough retain control over capital improvement projects and required that the PREF fund be invested via the KPB investment pool. CPGH, Inc. hired their first internal CEO and no longer needed outside management services.
- **2007** New 10 year agreement with CPGH, Inc. Threshold for approval on transfers from the PREF raised to \$250,000.



Top three changes in the 2017 agreement



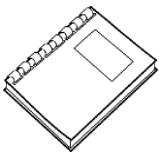
New reporting and communication requirements

The new contract establishes additional communication requirements including annual reports detailing the status of assets, upcoming projects, changes to purchasing procedures, and copies of leases. See the table on page 5 for the details of the new communication and reporting requirements.



New approval requirements for purchases and projects

Instead of a single dollar figure for all spending, the new agreement has separate thresholds and requirements for capital projects, maintenance projects, and equipment purchasing. Detail provided in the table on page 6.



Title changed to Operating Agreement

Changed from Lease and Operating Agreement to Operating agreement.

Other significant elements

- ✓ Bond financing and safe harbor language added
- ✓ Purchasing procedure notice requirements modified
- ✓ New section outlining real property acquisitions and leases
- ✓ New section outlining approval process for subleases
- ✓ Finances section was modified to clarify approval is needed for any use of the plant replacement and expansion fund (PREF)
- ✓ New defense and indemnification clause
- ✓ Level of services and other business activities modified
- ✓ Term length, the term length was left at 10-years; however, the automatic renewal if no notice of termination is given was reduced to 5 years



New reporting requirements

| Item | Description | What is included on list | Change from 2008 |
|--|---|---|--|
| Annual Hospital Assets Schedule Par. 10.b | Annually updated breakdown of important capital infrastructure assets and major moveable equipment. | Assets, location, remaining useful life | *New* |
| Annual Projects List Par. 10.c | Annual list of reportable maintenance projects, equipment purchases, and capital improvements for the upcoming year | Project description, schedule, estimated cost, location | *New* |
| Annual Property Lease List Par. 10.d | All real property leases regardless of term length or cost All other operating and capital leases with terms greater than 1 year | Leased property, lessor/lessee, term, and cost. Copies of leases upon request | *New* |
| Annual Purchasing Policy List Par.10.e | Annual list of policies related to purchasing | List and copies of all policies that have been updated in the past year | *New* |
| Monthly Financial Report Par. 6.a | Written financial report | Balance sheet, cash flow statement, income statement, operating statistics | New template sample report attached to agreement |
| Quarterly Activity Report Par.6.b | Activity report, written and presented to assembly | Financial report plus statement of activities, issues and events | Unchanged |
| Updated CEO Contract Par.18.d | CEO contract | Full copy of contract | Unchanged |
| Executive Incentive plan Par 18.e | Incentive plan for all “key employees” (IRS definition) | Full copies of plans upon request | *New* |
| Form 990 Par.6 | IRS Form 990 Information – reporting not needed when the form is publicly available, but may be needed in the event CPGH, Inc. is no longer required to complete the form | Info previously available on the 990 as required by KPB | *New* |



Thresholds for borough approval

| Item | Reporting | Contract Admin | Assembly | Other KPB Involvement |
|--|--|--|--|---|
| Maintenance and Repair Par. 11 | Notify before all major maintenance and minor maintenance exceeding \$100,000 Annual list & notify when starting work | Major maintenance & minor maintenance exceeding \$100,000 that was not included on the annual list | N/A | KPB reserves right to manage any major maintenance projects. KPB can require submittals for approval of components, equipment and material for major maintenance projects. KPB can require major maintenance is done |
| Major Moveable Equipment Par. 12 | Exceeding \$250,000 Annual list & notify when equipment is purchased | N/A | Exceeding \$2M or requiring Certificate of Need | |
| Capital Improvement Projects Par.13 | Exceeding \$250,000 or requiring permit* Annual list, notify at start, periodic updates, notify at completion. | Leasehold improvements over \$100,000 Projects requiring a permit* | Exceeding \$1M | KPB reserves right to manage any capital improvement project, and shall manage any project in excess of \$1M unless contract admin gives authorization to CPH to manage Can require submittals for approval on components, equipment, and material for any capital improvement project |
| Capital Improvement Planning Par. 13.a | Projects expected to cost in excess of \$1M | Involved in planning for all projects in excess of \$1M | N/A | Borough purchasing and contracting involved in all aspects of planning CPH may spend less than \$25K on preliminary conceptual designs, diagram, etc. before notice |
| Real Property Acquisitions Par 14.a | All real property acquisitions | N/A | All | All real property acquisitions are conducted by KPB unless CPH is given written authorization to do so |
| Leases (in which CPH is the lessee) Par. 14.b | Included in annual list | \$100K or more annual cost (each lease) | Exceeding \$400K annual cumulative cap | Cannot obligate KPB in any way; leases must contain clause stating this |
| Subleases Par. 15 | Notify 7 business days prior for under \$250,000, and 21 days prior for over \$250,000 | \$250K or more annually (each lease) | N/A | Requirements for leases to be at fair market value, in furtherance of purposes of Agreement, within authorized powers of the Service Area |
| New or expanded services Par. 24.b | Prior notice of all new or expanded services | N/A | Exceeding \$250,000 capital cost, and all joint ventures | All other approval requirements apply to new & expanded services |



FAQS – Term Length

- **Why are we proposing ten years?**
 - **Frequent negotiations have disadvantages**
 - Significantly time intensive on both ends
 - Frequent negotiations paired with turnover of mayoral administrations could reduce institutional knowledge on the borough's side in particular
 - With a five year term, renegotiating hospital agreements would happen very frequently, potentially leaving little time for new borough administrations to get up to speed, understand the relationship, and prioritize changes
 - **Shorter term could have potential negative impacts on hospital**
 - Need for long term planning and stability
 - 5 year term could have negative impacts on negotiations for other subleases, contracts, etc. due to the limited ability of CPGH, Inc. to enter into agreements that extend beyond the length of the agreement with the borough.
 - Sublessees or others contracting with the hospital may not be comfortable signing short term agreements unless the conditions are significantly favorable for them
 - **KPB still retains control and ability to address issues**
 - Paragraph 36.e. allows the borough contact administrator to request any problem be remedied if they “become dissatisfied with the performance or results of CPGH, Inc.’s operation and maintenance of any of the Medical Facilities or services provided pursuant to the contract” If the Contract Administrator determines the CPGH, Inc. has failed to take reasonable action to remedy the problem within sixty days, the Borough can terminate the agreement. (Assembly approval is required)