



KENAI PENINSULA BOROUGH

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MIKE NAVARRE
BOROUGH MAYOR

MEMORANDUM

TO: Blaine Gilman, Assembly President
Kenai Peninsula Borough Assembly Members

THRU: Mike Navarre, Mayor *MN*

FROM: Craig C. Chapman, Finance Director *CC*

COPY: Ralph Broshes, Chair, South Kenai Peninsula Hospital Service Area Board

DATE: May 5, 2016

SUBJECT: Ordinance 2016- 15, An Ordinance Providing for the Submission to the Qualified Voters of South Kenai Peninsula Hospital Service Area the Question of the Issuance of Not-to-Exceed Four Million Eight Hundred Thousand Dollars (\$4,800,000) of General Obligation Bonds of the South Kenai Peninsula Hospital Service Area to Pay Costs of Planning, Design, Construction, and Equipping of Facilities at the South Peninsula Hospital and Homer Medical Center at an Election in and for the Kenai Peninsula Borough on October 4, 2016 (Mayor)

The Kenai Peninsula Borough provides for health and medical services through the South Kenai Peninsula Hospital Service Area (SKPHSA) through a sublease and operating agreement with the nonprofit South Peninsula Hospital, Inc.(SPHI).

The Homer Medical Center (HMC), was purchased by the borough on behalf of the SKPHSA as authorized by ordinance 2015-19-12 and is the service area's main primary care facility providing family practice, obstetrics/gynecology, midwifery, nurse practitioners and other services. Expansion of the facility is necessary to accommodate these primary care services.

Also, as authorized by ordinance 2015-19-12, \$150,000 was appropriated for the design of a 3,700 square foot addition. During the design process, a steering committee made up of users of the HMC was formed to establish a project scope based on operational needs. Through this process, it was determined that a facility of 5,700 square feet was necessary to address those needs. Rather than constructing an expansion of 3,700 square feet now, followed by a future second expansion of 2,000 square feet, it is more cost effective to complete the entire expansion in one project.

This additional expansion will enable South Peninsula Hospital, Inc. to terminate several third party leases by relocating employees to this new facility. The recurring costs associated with these leases will be eliminated, helping offset the cost of the expansion.

Along with the proposed addition of 5,700 square feet, related renovations and site improvements would be made such as additional parking. The borough's capital projects department has estimated the proposed addition will cost between \$2,800,000 and \$3,000,000 including project management and administrative costs.

In addition to the expansion at the Homer Medical Center facility, funding is needed to replace the heating, ventilation and air conditioning (HVAC) units for the hospital's operating rooms. The hospital engaged an engineering firm to review the current units and they have recommended the HVAC systems serving the operating rooms be replaced as soon as possible. The current units are circa 1975, do not meet current code requirements and no longer provide the needed air exchange. The estimated cost of replacing the HVAC systems is approximately \$2,100,000. Included in the SKPHSA FY2017 capital budget is \$300,000 for design of a new system. Additional funding of \$1,800,000 is needed for this project.

Bond funding of \$4,800,000 is being requested through the ballot proposition for these two projects. The annual debt service payment is estimated at \$370,000 over a 15-year period. This equates to an equivalent mill rate of .21 mills. Based upon current assessed values, the administration does not see any need to change the current mill rate.