

Kenai Peninsula Borough

Mayor's Office

MEMORANDUM

TO: Brent Johnson, Assembly President
Members, Kenai Peninsula Borough Assembly

FROM: Charlie Pierce, Borough Mayor *CP*
Robert Ruffner, Planning Director *RR*

DATE: June 9, 2022

RE: Ordinance 2021-19-04 Approving the Purchase of the Surgery Center of Kenai and Appropriating \$9,120,000 from the Central Peninsula Hospital Plant Replacement and Expansion Fund to Support the Purchase (Mayor)

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.

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."

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.

CPGH, Inc. 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. CPGH Inc. administration engaged Healthcare Appraisers Inc. to conduct a Fair Market Value Appraisal on the surgery center and subsequently negotiated an agreement with the Surgery Center of Kenai to purchase one-hundred (100) percent of the shares at a price of \$9,120,000, along with the assumption of approximately \$650,000 of debt; all of which falls within the Fair Market Value ranges calculated by Health Care Appraisers, Inc. Funds are available in the

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Re: Ordinance 2022-19-04

Central Peninsula Hospital (PREF) to fund the \$9,120,000 purchase of the surgery center.

The CPGH, Inc. board, at its May 26, 2022, meeting requested approval from the Borough Assembly to approve the negotiated purchase of the Kenai Surgery Center for an amount not to exceed \$9,120,000 with the assumption of approximately \$650,000 in debt and approve the transfer of funds from the PREF in an amount not to exceed \$9,120,000 to cover the purchase price and all required closing costs.

The Borough administration's understanding is that this is a business and asset-only purchase. The real property where the Surgery Center of Kenai is located is owned by the City of Kenai.

This ordinance also authorizes an amendment to the Operating Agreement upon closing to add this property to Exhibit A – Description of Medical Facilities - of the Operating Agreement.

Your consideration of this ordinance is appreciated.

FINANCE DEPARTMENT ACCOUNT / FUNDS VERIFIED	
Acct. No.	<u>490.20602</u>
Amc	<u>\$9,120,000</u>
By: <u>CJ</u>	Date: <u>6/9/2022</u>
By: <u>BH</u>	<u> </u>