



KENAI PENINSULA BOROUGH

144 North Binkley Street • Soldotna, Alaska 99669-7520

Toll-free within the Borough: 1-800-478-4441

PHONE: (907) 262-4441 • FAX: (907) 262-1892

www.borough.kenai.ak.us

MIKE NAVARRE
BOROUGH MAYOR

MEMORANDUM

TO: Gary Knopp, Assembly President
Members, Kenai Peninsula Borough Assembly

THRU: Mike Navarre, Mayor *mn*
Max Best, Director of Planning

FROM: Marcus Mueller, Land Management Officer *mm*

DATE: April 2, 2012

SUBJECT: Resolution 2012-026, authorizing the borough, on behalf of the South Peninsula Hospital, Inc. (SPH, Inc.), to enter into three lease agreements for medical office space in Homer, Alaska, and amend the sublease and operating agreement with SPH, Inc. to include these leases

At its meeting of March 26, 2012, the Planning Commission considered the above resolution and requested the following changes:

- Amend the third Whereas on page 194 of the packet as follows:

WHEREAS, three leases are being negotiated including (1) a five-year lease of a 4,904 square foot building with two one-year renewal options, a first right of refusal and option to purchase; (2) a five-year lease of approximately 1,500 square feet of clinical space; and (3) a two-year lease of 700 square feet of business office space, all of which are located in Homer; and

- Amend the last Whereas on page 195 of the packet as follows:

WHEREAS, the KPB Planning Commission at its regularly scheduled meeting of March 26, 2012, unanimously recommended that the resolution be amended to include the square footage of the business office space and adopted as amended;

- Amend Section 3 as follows:

SECTION 3. That the borough is authorized to lease 700 square feet of office space located at 309 W. Fairview, Homer, Alaska 99603, situated within the property described as follows:

Lot 14 Block 4, Fairview Subdivision, as shown on Plat No. 56-2936, Homer Recording District, Third Judicial District, State of Alaska.

The lease term shall be for two years with a monthly rental of \$1,500.

- requirements.
7. To date, one utility company has provided a letter of no comment.
 8. Brant Drive right-of-way easement is 25-feet wide.
 9. A 30-foot alternative right-of-way is proposed to be dedicated atop the existing driveway.
 10. The Plat Committee is scheduled to review the associated preliminary plat on March 26, 2012.

VOTE: The motion passed by unanimous consent.

BRYSON YES	CARLUCCIO YES	COLLINS ABSENT	ECKLUND ABSENT	FOSTER YES	GROSS YES	HOLSTEN ABSENT
ISHAM YES	LOCKWOOD YES	MARTIN YES	RUFFNER YES	TAURIANEN YES		9 YES 3 ABSENT

AGENDA ITEM F. PUBLIC HEARINGS

3. Resolution 2012-____; A Resolution authorizing the Borough, on behalf of the South Kenai Peninsula Hospital Service Area, to enter into three lease agreements for medical office space located in Homer, Alaska, and authorizing an amendment to the sublease and operating agreement with South Peninsula Hospital, Inc to include these leases.

Staff Report given by Marcus Mueller

PC Meeting: 3/26/12

South Peninsula Hospital Administration has determined that additional space is needed consistent with its strategic plan to provide services that increase utilization of SPHI as a first choice medical facility and service point in the Service Area. It has identified 4,904 sq ft of three office spaces for lease in close proximity to the South Peninsula Hospital campus that is available and suitable for a medical clinic to support operations of the hospital.

The three lease properties are located at the following:

1. 4136 Bartlett – 4,904 sq ft office space; 5 years with two one year renewal option with monthly rent of \$9,808.
2. 4117 Bartlett – 1,500 sq ft office space; 5 years with monthly rent of \$3,000.
3. 309 W. Fairview - business office space; 2 year lease with monthly rent of \$1,500.

The proposed leases also contain a right of first refusal and option to purchase. This provision provides the borough with the opportunity to consider purchasing the property in the event that a third party offers to buy the property from the Lessor during the term of the leases. This resolution does not however authorize any future purchase of the property nor do the leases obligate the borough to purchase the property in any event.

Additionally SPH, Inc is negotiating a five-year lease of an additional 1,500 square feet of clinical space and a two-year lease of office space. The leased property would be sublet to SPH, Inc., and SPC, Inc. would be responsible for the costs associated with the leases. An amendment to the Sublease and Operating Agreement will be provided that would make this transfer.

Consideration of the resolution authorizing both the medical office space lease and an amendment to the sublease and operating agreement with SPH, Inc is appreciated.

END OF STAFF REPORT

Chairman Bryson opened the meeting for public comment. Seeing and hearing no one wishing to speak, Chairman Bryson closed the public comment period and opened discussion among the Commission.

MAIN MOTION: Commissioner Martin moved, seconded by Commissioner Ruffner to recommend adoption of Resolution 2012-____; a Resolution authorizing the Borough, on behalf of the South Kenai Peninsula Hospital Service Area, to enter into three lease agreements for medical office space located in Homer, Alaska,

and authorizing an amendment to the sublease and operating agreement with South Peninsula Hospital, Inc to include these leases.

Commissioner Tauriainen asked for clarification of why the lease price of \$9,808 was so high. Mr. Mueller replied they received an appraisal from Derry & Associates that the fair market value was \$2 a square foot for this property. The square footage is 4,904 and at \$2 a square foot it would equal \$9,808.

Commissioner Ruffner asked if staff would elaborate on the short term lease option. Mr. Mueller deferred to Mr. Letson who is the South Peninsula Hospital CEO.

Bob Letson, South Peninsula Hospital CEO

Mr. Letson explained the three lease proposals. The 9,000 sq foot lease is a very large medical office that can accommodate approximately five physicians, three or four midlevel and their staff. The 1,500 sq foot lease is a smaller treatment facility specializing in OB GYN. Those two leases are 5 year leases. He stated they felt that would be sufficient time for them to either exercise a purchase option or continue to lease depending on how well the business was going. The third lease of approximately 1,000 sq feet is a business office that they may or may not need after two years. It is possible that the clinic business office operations could be absorbed into the hospital which would mean that they would no longer need that facility however they wanted two years to evaluate it. If there is an increase in physicians that affiliate with the hospital then that building may become more of centralized billing operations for doctors.

Commissioner Foster asked if the hospital would rent and manage the facilities and then lease it to the doctors. Mr. Letson replied that this will be in an alignment of the hospital with the physicians where these physicians would be employees of the hospital. He stated this will end up being an alignment of family medicine between a number of the doctors and hospital. It will actually become a hospital provider clinic. Commissioner Foster asked if it was where Homer Medical was located now. Mr. Letson replied yes.

Commissioner Carluccio asked for clarification of there being only one lease included in the lay down packet. Mr. Mueller replied they only included one lease in the packet to pare down the information that was being put in front of the commission. The three leases follow the similar form. Commissioner Carluccio asked if the lease price of \$9,808 was just for one building. Mr. Mueller replied that was correct. The terms of each lease is explained in the resolution under Sections 1, 2 and 3. The amount for the lease located at 4136 Bartlett St is \$9,808 for a term of five years; the lease at 4117 Bartlett St is \$3,000 for a term of five years and the lease amount for 309 W. Fairview is \$1,500 for a term of two years. The two five year lease terms would have two one-year renewal options. Commissioner Carluccio stated that the total lease amounts would be approximately \$14,500 a month. Mr. Mueller replied yes, that was correct and those costs are borne by South Peninsula Hospital.

Commissioner Tauriainen asked if these properties were currently for sale. He felt it may be wiser to purchase these properties rather than lease. Mr. Letson replied that these properties are not for sale. This is something that the hospital has talked about with the present owner. At this time, it is in the hospital's best interest to lease however they did want a purchase option.

Commissioner Ruffner understood that South Peninsula Hospital has a board who agreed that these leases were in the best interest of the hospital with all the costs associated with this being borne by the hospital. Mr. Letson replied that is true. This proposal and leases have been approved by the operating board of the hospital and the hospital service area board. He agreed that all the costs would be handled through the hospital. Mr. Letson explained that by joining together they are able to achieve a better operation for these outpatient clinics; they can improve their reimbursement and can stabilize their medical staff. He felt they will be able to retain and recruit doctors much better by working together with the clinic operations.

Commissioner Carluccio asked for clarification that the hospital will be responsible for all costs involved. She asked if there would be any possibility that the hospital would not be able to cover the costs and if so would the Borough be responsible for the costs. Mr. Letson replied that he did not foresee a situation where they would not be able to handle it. If they couldn't handle it then they would look for a way to terminate the leases. He reiterated that the hospital would be responsible for the costs of these leases.

Commissioner Foster asked if the doctors at the clinic would become employees of the hospital and if it would expedite the billing process. Mr. Letson replied that it would be seamless. The providers that are there now are planning to stay where they would become hospital employees. There would still be the laboratory and the X-ray service as it is. It would be easier for the hospital to recruit additional providers and provide better benefits.

Commissioner Ruffner suggested that the actual square footage of the third lease be noted in the resolution under Section 3.

AMENDMENT MOTION: Commissioner Ruffner moved, seconded by Commissioner Tauriainen to amend the resolution under Section 3 to include the square footage of the third lease located at 309 W. Fairview and to make Section 3 as consistent as possible with Sections 1 and 2.

AMENDMENT VOTE: The motion passed by unanimous consent.

BRYSON YES	CARLUCCIO YES	COLLINS ABSENT	ECKLUND ABSENT	FOSTER YES	GROSS YES	HOLSTEN ABSENT
ISHAM YES	LOCKWOOD YES	MARTIN YES	RUFFNER YES	TAURIAINEN YES		9 YES 3 ABSENT

Commissioner Ruffner supported the motion since it has been determined that these leases are in the best interests of the hospital.

Commissioner Carluccio also supported the motion because it will better the medical facilities in Homer.

MAIN MOTION VOTE: The motion passed by unanimous consent.

BRYSON YES	CARLUCCIO YES	COLLINS ABSENT	ECKLUND ABSENT	FOSTER YES	GROSS YES	HOLSTEN ABSENT
ISHAM YES	LOCKWOOD YES	MARTIN YES	RUFFNER YES	TAURIAINEN YES		9 YES 3 ABSENT

AGENDA ITEM G. ANADROMOUS STREAM HABITAT PROTECTION (KPB 21.18)

AGENDA ITEM H. VACATIONS NOT REQUIRING A PUBLIC HEARING

AGENDA ITEM I. SPECIAL CONSIDERATIONS - None

AGENDA ITEM J. SUBDIVISION PLAT PUBLIC HEARINGS

Chairman Ruffner reported that the Plat Committee reviewed and conditionally approved 3 preliminary plats.

AGENDA ITEM K. OTHER/NEW BUSINESS

1. New Plat Committee – April, May, June 2012
(5 members; 2 alternates)

Members

- a. Paulette Bokenko-Carluccio, City of Seldovia
- b. James Isham, Sterling
- c. Blair Martin, Kalifornsky Beach
- d. Robert Ruffner, Kasilof / Clam Gulch
- e. Jason Tauriainen, Northwest Borough

Alternates