

To: SPH Board of Directors**From:** Bob Letson, CEO**CC:****Date:** June 19, 2012**Re:** PT Pediatric Clinic & Lease of Orthopedic Building Basement Memo

Attached is a business plan describing the benefit of establishing a formalized Pediatric Physical Therapy program. Administration proposes the expansion of the Pediatric Physical Therapy now and consideration of the Hydrotherapy program within two years. Regarding this Physical Therapy Pediatric Clinic proposal, the first step would be to make room for the necessary space near Physical Therapy by relocating offices. We could move offices and storage to the orthopedic building basement. Also, this Orthopedic building basement space could be used for future clinic space for new doctors.

Given the Orthopedic building basement is 3225 sq. ft. at a cost of \$1.20 per sq. ft., the lease of this space/month would be \$3,870. Considering storage relocation and the current cost of that storage at \$1,000/month, the additional cost to the hospital of the Orthopedic building basement would only be \$2,870/month, netting out to \$0.89 per sq.ft.

Which offices could we relocate?

- Plant operations move to duplex above IT
- Move IT storage to Ortho basement
- Move billers to Ortho Basement
- Move QI to Ortho Basement
- Move off-site storage to Ortho Basement

When renovation of the ortho basement occurs, the total cost would be \$170,000 which includes air conditioning, heating and ventilation. This includes total conversion to offices for 2,000 sq. ft. Storage could be relocated there for minimal cost much sooner. Office renovation could be delayed until next capital budget year.

The Orthopedic basement is the “tipping point” key to securing this building long term for SPH, and would give us first right of refusal if Raymond decided to lease or sell.

The proposed lease terms for 4201 Bartlett, Suite 101 (official designation for the Orthopedic basement)

- ~10-year lease space agreement with two 5-year extensions
- ~SPPS will provide four sewer and drain stubs and pour concrete slab to

engineered specifications

- ~SPH will lease the space for \$1.20 per square foot with an allowance to increase to \$1.50 per square foot on beginning on year six
- ~SPH would retain the option of building out the space to desired specifications
- ~SPH would be responsible for engineering, fire-marshall and build-out cost, the rent to SPPS would not change
- ~SPH will be given first right of refusal for 4201 Bartlett Building – Orthopedic Clinic and Dr. Raymond's Family Practice Clinic.
- ~SPH will assume responsibility for the plowing/sanding of the 2 parking lots that are used exclusively for the employees of the said leased space (the orthopedics, Suite 201 and the downstairs, Suite 101). These parking lots are physically described as the south and west parking lots
- ~SPH will assume its percentage of increase to electric and utilities already in the Suite 201 contract

The PT Pediatric proposal and ortho building basement proposal was approved at Finance Committee on June 15, 2012.

Recommended Motion: To approve the concept of the PT Pediatric proposal and enter into a 10-year lease for the Orthopedic building basement as proposed.

SPH PEDIATRIC CLINIC PROPOSAL

PROPOSAL OBJECTIVE

- Acquire a treatment space design specifically the unique therapeutic needs of our pediatric clients.
- Propose renovation of west storage into a dedicated pediatric treatment clinic.
- Develop a treatment space which will enable continued growth of Pediatric Therapy Services

OVERVIEW OF CURRENT PEDIATRIC THERAPY SERVICES

- SPH Rehabilitation Services currently provides pediatric Physical Therapy (PT), Occupational Therapy (OT) and Speech Language Pathology (SLP). Staff includes a full time SLP dedicating .8FTE of her time to pediatrics and a .5FTE OT who specializes in pediatrics. Physical therapy clients are shared among the PTs and a new pediatric PT is being recruited.
- A wide range of pediatric conditions and diagnosis are treated, including;
 - Autism
 - Sensory Processing Disorder (SPD)
 - Fetal Alcohol Syndrome (FAS)
 - Down Syndrome (DS)
 - Feeding Disorders
 - Cerebral Palsy (CP)
 - Juvenile Rheumatoid Arthritis (JRA)
 - Spinal Syring
 - Developmental Delay
 - Chronic Seizure Disorder
 - Muscular Dystrophy (MS)
 - Emotional Disturbance
- Pediatric clients treated in a hospital settings usually present with severe delays and significant needs. Unlike other clients treated in a rehabilitation clinic, these children frequently display the following characteristics;
 - Difficulty speaking or expressing themselves
 - Difficulty following directions
 - Lack of safety awareness
 - Easily distracted
 - Easily frustrated
 - Disruptive and loud
 - Personal space issues
 - Sensitive to large spaces and noise
 - Visual special deficits
 - Reduced body sense awareness
 - Oral sensitivity (frequently mouthing non-food items)

- **Pediatric clients are currently treated in the Rehabilitation Gym, OT Room and SLP Office. These spaces have shown to have the following limitations and challenges;**
 - **Disturbance to other clients, therapists and hospital staff**-This is a particular issue in the Rehab Gym where multiple clients are treated within one large open space. Frequently pediatric clients have disrupted adult clients by screaming, crying and running through the gym. Similar instances have occurred in entrances, hallways, outside conference rooms and in the cafeteria.
 - **Safety** - The Rehab Gym and the OT Room have equipment which is intended to be used by trained adults (pulley systems, free weights, exercise equipment). Even with continuous supervision it is challenging to redirect children from this dangerous equipment.
 - **Protection of medical equipment** - The Rehab Gym and OT Room have medical equipment not intended for the use of children and occasionally items have been broken or damaged by pediatric clients.
 - **Therapeutic Limitations**- Pediatric clients often need movement spaces for running and climbing. Others need quiet, confined spaces for focused treatment such as feeding therapy and sensory processing therapy. The current treatment spaces are not designed for such activities with pediatrics.

COMMUNITY AND MARKET NEED

- No multi-disciplinary treatment clinics in Homer (closest in Soldotna)
- Service Providers in Homer
 - Hear Say / Susan Bunting – Business primarily focuses on audiology, and she only takes on select SLP clients.
 - Physical Therapy – Kenai Physical Therapy offers pediatric services, but they do not accept Medicare or Medicaid. Homer Physical Therapy does not provide pediatric services.
 - Kenai School District – The school district provides SLP, OT and PT services, but these are limited in terms frequency and scope.
 - No private practices which provide OT services.
 - Sprout (Previously B23) – Provides service for children from ages 0-3, at which time they are exited from the program.
- There is a need for pediatric services in Homer and there is minimal or no direct competition from other services providers.

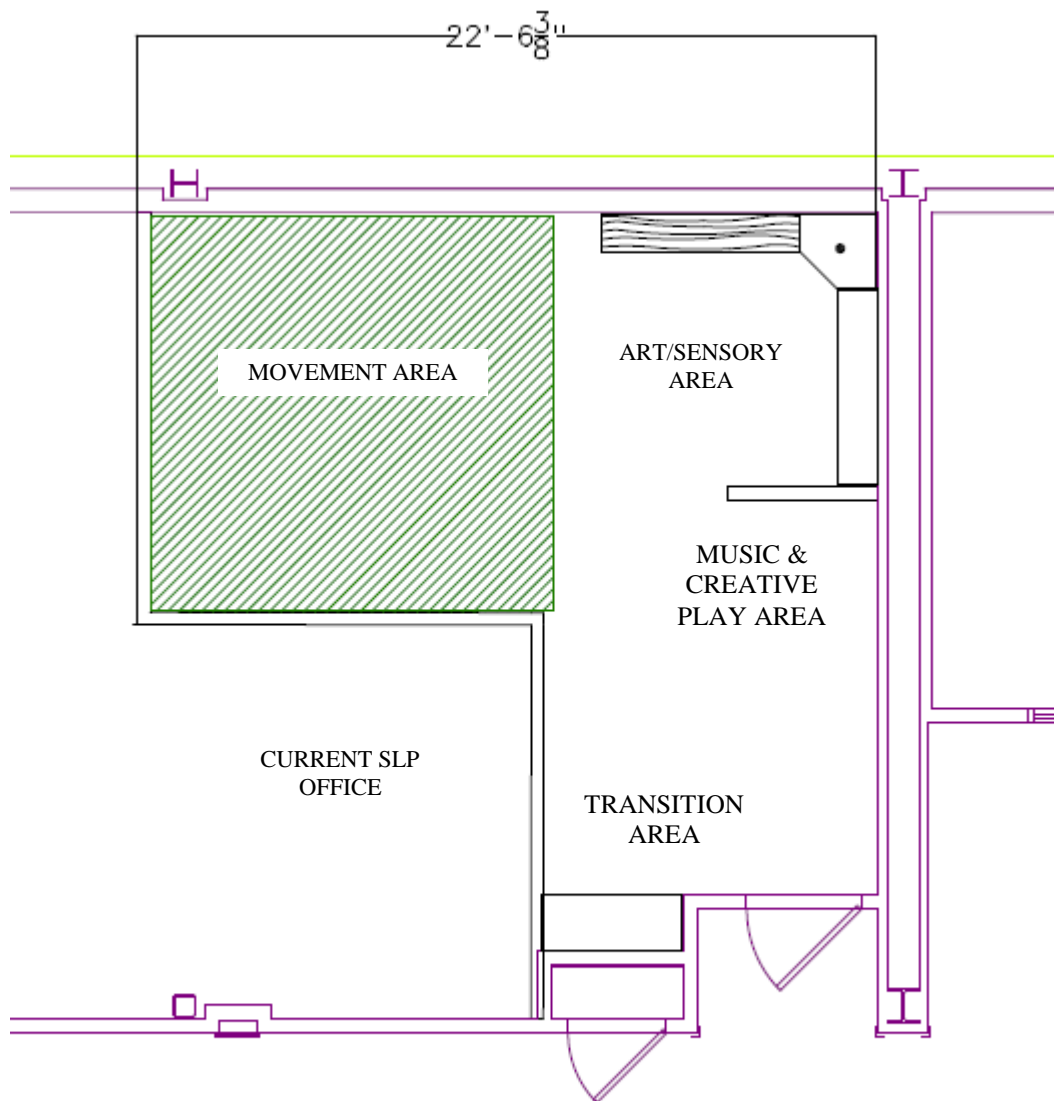
SUMMARY

- SPH Pediatrics Services is a profit generating program but does not fully meet the therapeutic needs of its clients. The development of a Pediatric Clinic would improve the quality of our care and increase the revenue of the department.

PEDIATRIC CLINIC VISION

- To meet the needs of our clients we propose the renovation of West Storage into a flexible treatment space which includes;
 - Pediatric gym and movement area
 - Art, sensory and feeding therapy space
 - Speech, music & creative play space
 - Storage and shelving
- By developing the pediatric clinic on-site space and in close vicinity of the rehabilitation department, we are able to utilize our current support staff and maintain flexibility of scheduling.
- A Pediatric Clinic would enable SPH to offer a wider range of pediatric services including group therapy, family and community oriented classes and aquatic therapy.

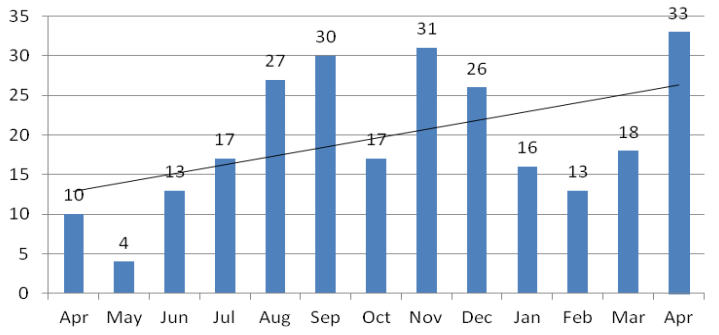
Proposed layout for renovation of West Storage into a Pediatric Treatment Clinic



FINANCIAL SUMMARY

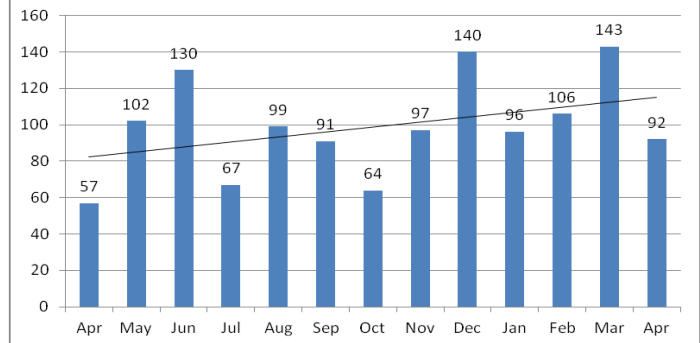
SPH currently provides services to 20-25 pediatric clients. The following graphs show the previous seven months of pediatric clients by billable units for each domain (PT, OT, SLP).

SLP Units



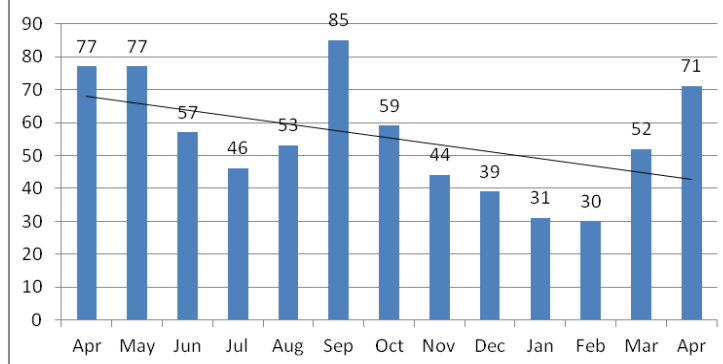
- 1 SLP unit = 1 session (30-60 min), 1 SLP unit = \$241

OT Units



- 1 OT unit = 15 Tx min, 1 OT unit = \$72

PT Units



- 1 PT unit = 15 Tx min, 1 PT unit = \$72

Financial Summary of Pediatric Revenue from April 2011 – April 2012

	Average Monthly Units	Charge Per Unit	Average Monthly Revenue
PT	55	\$72	\$3,960
OT	98	\$72	\$7,056
ST	19	\$241	\$4,579
Avg. Mthly Gross			\$15,595

FINANCIAL PROJECTIONS

Projected Pediatric Revenue for Fiscal Year 2013

	Projected Average Monthly Units – FY2013	Charge Per Unit	Average Monthly Revenue
PT	65	\$72	\$4,680
OT	120	\$72	\$8,640
ST	35	\$241	\$8,435

Avg. Mthly Gross	\$21,744
Est. Yearly Gross	\$261,060
Contractual Adjst	\$67,875
Net Revenue	\$193,185
Est. Salaries	(135,000)
Est. Yearly Net	\$58,185

CLINIC PROJECT PROJECTIONS

Estimated Cost of Renovation

Flooring: Rubber flooring at \$11 per square foot installed. (372*11)	\$4092
Plumbing: Sink/installation/water lines/drain/vanity	\$4000
Electrical: Multi-zonal lights and additional wall outlets	\$7500
Drop ceiling at \$2.75 per square foot installed (372*2.75)	\$1023
Pony wall Construction	\$400
Surface finishes (skim coat/paint/wall Paper)	\$1200
CoveBase	\$300
Crash rails	\$800
Overhead support structures	\$2500
Discoveries/contingency	\$2180
Renovation Total	<u>\$23,995</u>

Depreciated over seven years, the renovation cost would be \$3,428 per year in the cost report, partially paid for by Medicare/Medicaid. In November, renovation would be paid for out of Operations as cash flow permits.

Estimated Cost of Material and Equipment

Cabinets	1500
Shelving and Storage	500
Rugs and Floor Coverings	100
Tables and Chairs	500
Tumbling mats (Royal Blue 4x6)	1000
Jungle Gym	1000
Swings and Mounting Equipment	800
Crash Pad	400
Discoveries, contingencies	1000
Material & Equipment Total	<u>\$6,300</u>

This equipment would be claimed in cost report operations for 2012.

Pediatric Clinic Project Total	<u>\$30,295</u>
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**SOUTH PENINSULA HOSPITAL
BOARD RESOLUTION
2012-12**

**A RESOLUTION OF THE SOUTH PENINSULA HOSPITAL BOARD OF DIRECTORS
APPROVING A LEASE AGREEMENT FOR BASEMENT SPACE IN THE
KACHEMAK BAY PROFESSIONAL BUILDING
LOCATED AT 4201 BARTLETT, SUITE 101, HOMER, ALASKA, AND
AUTHORIZING AN AMENDMENT TO THE SUBLEASE AND OPERATING AGREEMENT
WITH KENAI PENINSULA BOROUGH TO INCLUDE THIS LEASE**

WHEREAS, the Kenai Peninsula Borough has entered into a Sublease and Operating Agreement ("SLOA") with South Peninsula Hospital, Inc. ("SPHI") for the sublease and operation of South Peninsula Hospital ("Hospital") and other Medical Facilities through the South Kenai Peninsula Hospital Service Area ("Service Area"); and,

WHEREAS, under the SLOA, SPHI shall endeavor to operate the Medical Facilities on a self-supporting basis while preserving the same or a better level of service to the residents of the Service Area, and may provide other authorized and approved health care programs, services and facilities, all for the benefit of the Kenai Peninsula Borough ("Borough") and the residents of the Service Area; and,

WHEREAS, pursuant to the SLOA, the Borough may enter into a lease of property on behalf of the Service Area and may sublease the property to SPHI; and,

WHEREAS, in 2011, at the approval and recommendation of the SPHI Board of Directors and the recommendation of the Service Area Board, the Borough entered into a ten (10) year lease with South Peninsula Professional Services, LLC ("SPPS"), the owner of property, including the Kachemak Bay Professional Building ("Building"), located at 4201 Bartlett St., in Homer, Alaska; and,

WHEREAS, in 2011, the Borough subleased to SPHI the leased premises in the Building designated as Suite 201 for Medical Office Space for the Hospital's Orthopedic Clinic, and designated as Suite 203 for the Hospital's outpatient X-Ray Room and X-Ray Waiting Room, all being office space and built-out X-Ray Room in the Building, together with the right to use in common the Building's interior common areas and the exterior parking areas and grounds; and,

WHEREAS, SPHI intends to expand its Pediatric Physical Therapy Program; and,

WHEREAS, the SPHI Administration has identified 3,225 sq. ft. of space for lease in the basement of the Building, designated as Suite 101, which basement space is in close proximity to the Hospital, is available, and is suitable for use as business offices, as storage, and as a future additional health care clinic; and,

WHEREAS, the lease by the Borough and the sublease by SPHI of the basement of the Building, designated as Suite 101, from SPPS would allow SPHI to relocate offices in order to make room near the current Physical Therapy Department for the Hospital's expanded Pediatric Physical Therapy Program; the lease would also allow SPHI to move some business offices and storage to Suite 101, and space in Suite 101 is also suitable to be renovated in the future for additional outpatient clinic space for the Hospital; and,

WHEREAS, the SPHI Administration has negotiated terms for the Lease Agreement with SPPS, subject to the approval of the SPHI Board of Directors and the approval of the Borough Assembly, that include the following:

- (1) The lease will be of 3,225 s.f in the Building's basement, and the leased premises are described as follows:

Suite 101, containing approximately 3,225 square feet, located as the basement in the Kachemak Bay Professional Building that is situated on the real property described as follows:

LOT 1-A, BLOCK 9, Fairview Subdivision 2003 Addition, T 6S R 13W Sec. 18 Seward Meridian HM 2004101, located in the Homer Recording District, Third Judicial District, State of Alaska.

Street address: 4201 Bartlett Street, Homer, Alaska 99603

Assessor's Parcel No.: 17505509

- (2) The lease's term shall be ten (10) years, commencing on September 1, 2012, with the Borough and SPHI having the right and option to renew this lease for two (2) successive additional terms, with each individual additional term being a period of five (5) years; and,
- (3) The lease will allow the Borough to sublease the leased premises to SPHI for the term and for the two (2) successive additional terms, and to assign the lessee's obligations to SPHI as sublessee, subject to the terms and conditions of this lease and the SLOA; and if the SLOA terminates before this lease terminates, then the Borough may sublease the property to another entity subject to the approval of SPPS, the owner; and,
- (4) The lease's term is also subject to the appropriation and availability of funds, but the expenditures for this lease will be paid by SPHI for the term of the SLOA between the Borough and SPHI, including any extension or renewal of the term of the SLOA; and,
- (5) As sublessee, and subject to the terms and conditions of the SLOA, SPHI will perform the Borough's obligations under this lease for as long as SPHI is the sublessee; and,
- (6) The fair market value rent for years one (1) through five (5) will be at the rate of \$1.20 per s.f. for 3,225 s.f., for a monthly rent of \$3,870.00 and an annual rent of \$46,440.00; and,
- (7) The fair market value rent for years six (6) through ten (10) will be at the rate of \$1.50 per s.f. for 3,225 s.f., for a monthly rent of \$4,837.50 and an annual rent of \$58,050.00; and,
- (8) The lease will give SPHI the right to use in common the Building's interior common areas and the exterior parking areas and grounds with the other lessees; and
- (9) SPHI will assume responsibility for the snow removal and sanding of the two parking lots that will be used primarily by SPHI's employees. These parking lots are described as the south and west parking lots; and,
- (10) SPHI will pay an additional pro rata share of SPPS' monthly expenses for utilities (except for electric power due to the cost of power for X-Ray services), janitorial services in the common areas, landscaping, and lawn maintenance, with an adjustment to its share on snow removal and ice sanding due to SPHI's responsibility for the south and west parking lots. Under the existing lease of Suite 201 and Suite 203, SPHI pays its pro rata share of these costs, except SPHI pays a greater share of the cost of electric power; and,

- (11) Before SPHI's occupancy, at SPPS' sole expense, SPPS will provide improvements in the Building's basement, including four (4) sewer and drain stubs and a concrete slab to engineered specifications; and,
- (12) After SPHI's occupancy, at SPHI's sole expense including architectural, engineering, fire-marshall and build-out costs, SPHI will have the right to construct improvements and alterations in the Building's leased basement space, to renovate and build out the space to desired specifications, subject to any Borough approval that may be required by the SLOA; and,
- (13) The rent payable to SPPS would not change due to SPHI's construction of improvements, alterations and renovations; and,
- (14) SPPS will grant the Borough and SPHI a right of first refusal and an option to purchase the real property and Building; and,

WHEREAS, the SPHI Administration has prepared and reviewed the financial projections of this transaction and lease, and finds that the financial projections are favorable to SPHI; and,

WHEREAS, this transaction aligns with the following strategy from the Strategic Plan: "Provide services that increase utilization of SPHI as a first choice medical facility and service point in Service Area. Patient focused functions: SPHI must identify those programs and services which meet the healthcare needs of the community, are consistent with the clinical expertise of the medical staff, promote utilization and financial growth, and support the achievement of the hospital's mission;" and,

WHEREAS, pursuant to the SLOA, this lease of property requires the approval of the Borough Assembly; and,

WHEREAS, this lease of property requires an amendment to the SLOA at Section 2 DESCRIPTION OF THE LEASED FACILITIES to include the leased premises as subleased property subject to the terms and conditions of the SLOA, with the amendment to be approved by the SPHI Board of Directors and the Borough Assembly; and;

WHEREAS, a draft of the Lease Agreement, as described in subparagraphs (1) through (14) of this resolution, with SPPS as Lessor, the Borough as Lessee, and SPHI as Sublessee, has been prepared and approved by SPHI's legal counsel; and;

WHEREAS, the SPHI Administration recommends that the SPHI Board of Directors approve a Lease Agreement, as described in subparagraphs (1) through (14) of this resolution, with SPPS as Lessor, the Borough as Lessee, and SPHI as Sublessee, and that the Board approve an amendment to the SLOA at Section 2 to include this lease as subleased property subject to the terms and conditions of the SLOA; and,

WHEREAS, at its July 17, 2012 meeting, the SPHI Finance Committee reviewed and approved this resolution, and forwarded this resolution to the Board with a recommendation for approval;

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF SOUTH PENINSULA HOSPITAL, INC., A NOT-FOR-PROFIT ALASKA CORPORATION, THAT:

1. The SPHI Board of Directors approves the draft of the Lease Agreement, as described in subparagraphs (1) through (14) of this resolution, with SPPS as Lessor, the Borough as Lessee, and SPHI as Sublessee, subject to the approval of the Borough.
2. The SPHI Board of Directors authorizes the Chief Executive Officer to execute a Lease Agreement as described in subparagraphs (1) through (14) of this resolution, with SPPS as Lessor, the Borough as Lessee, and SPHI as Sublessee, that is substantially in the form of the

draft Lease Agreement in the board packet, which draft Lease Agreement is incorporated herein by reference, subject to the approval of the Borough.

3. The SPHI Board of Directors approves an amendment to the SLOA at Section 2 to include this lease as subleased property subject to the terms and conditions of the SLOA, subject to the approval of the Borough.
4. The SPHI Board of Directors authorizes the Board President to execute an amendment to the SLOA at Section 2 to include this lease as subleased property subject to the terms and conditions of the SLOA, subject to the approval of the Borough.
5. The SPHI Board of Directors directs the SPHI Administration to (1) forward this resolution to South Kenai Peninsula Hospital Service Area Board with SPHI's request for the Service Area Board's recommendation of approval to the Borough Assembly, and (2) forward this resolution to the Borough Assembly with SPHI's request for the Assembly's approval.
6. This resolution takes effect immediately upon its adoption.

I CERTIFY THAT THE ABOVE RESOLUTION WAS PASSED AND ADOPTED BY VOTE OF THE BOARD OF DIRECTORS OF SOUTH PENINSULA HOSPITAL, INC. THIS 25th DAY OF JULY, 2012.

Julie Woodworth, Board President

ATTEST:

Bernadette Wilson, Secretary