CALL TO ORDER

A Regular Meeting of the Kenai Peninsula Borough's Health Care Task Force was held on January 25, 2011, in the Borough Assembly Chambers, Soldotna, Alaska. Chair Knopp called the meeting to order at 6:00 p.m.

ROLL CALL

There were present:

Gary Knopp, Chair
Duane Bannock
Jim Golden
Janet Hilleary
John Hoyt
Linda Murphy
Tim Peterson
Rick Ross

comprising a quorum of the Task Force.

Also in attendance were:

Linda Hutchings, Alternate
Margaret Gilman, Alternate
Charlie Pierce, Alternate
Johni Blankenship, Borough Clerk

APPROVAL OF AGENDA

MOTION:	Bannock moved to approve the agenda, seconded by Hoyt.
AGENDA APPROVED:	Unanimous.

APPROVAL OF SUMMARY

The January 11, 2011 Task Force meeting summary was approved by unanimous consent.

NEW BUSINESS

[Clerk's Note: the agenda was amended to address item 4. "Discussion regarding Foraker Group and proposed presentation by Dennis McMillian at the February 22, 2011 Task Force meeting", prior to item 1., "]

Discussion regarding Foraker Group and proposed presentation by Dennis McMillian at the February 22, 2011 Task Force meeting

The task force agreed to invite Mr. McMillian to give a presentation regarding anticipated changes and trends in the Health Care industry at the February 22, 2011 meeting.

Continued Discussion and Review of Non-Market Options

- **Amend Lease and Operating Agreement**

Mr. Ross stated all of the options had positives and negatives, and if changes were made to the operating agreement to allow for participation in joint ventures or integrated delivery service it may be workable. However, the downside risk was not mitigated as it would be if you went with one of the privation options. The Health Care bill had presented unknown variables for the future and there would be an effect on reimbursable services. The bundled payment plan of the future would challenge the efficiency of the hospital; because, the hospital was not able to control the patient's medical care once they leave the hospital. Ross stated that was the reason why stand alone facilities like Virginia Mason, were partnering with regional settings. He also stated the ability to enter into a joint venture with for-profit or not-for-profit entities was restricted under the current lease and operating agreement.

Murphy asked if the current lease and operating agreement could be amended to allow for participation with joint venture entities. Ross stated there was a possibility; however, it would probably involve code changes and meetings with the Attorney General and the Internal Revenue Service.

Hoyt stated access to capital was still going to present a problem in that situation and the process would still involve the bond process which was not contusive for engaging in a joint venture. He further indicated the changes in health care were going to appear on the revenue side of the formula and the hospital only had control over the expense side. He believed that was the reason for the review of the governance structure and the answer to the "why" question. Revenue was going to go down because the payment side was going to be less.

Ross added that Central Peninsula Hospital was essentially beyond the curve of what Virginia Mason initiated over five (5) years ago.

Hoyt reiterated the need for the hospital to be proactive on its approach to the trends in the health care industry.

Knopp asked for clarification on what else would need to change in the lease and operating agreement besides the length of the contract and what oversight should a government have if they had entered into a 50-year lease.

Ross indicated there were different models and gave the example of Puter Valley Hospital. He stated they operated in similar fashion to a port authority and were able to protect the equity of partners.

Hoyt stated there were other restrictions with the lease and operating agreement, and gave the example of not being a tax paying entity. He also indicated that if you had a 40-year lease and 25-years down the road you wanted to enter into a joint venture, the partner may not be comfortable with a long term partnership; because, there are only 15-years left on the lease and no guarantee it would be renewed.

Ross agreed that access to capital could be more cumbersome under a lease and operating agreement. He clarified that five (5) of the offers made to partner with the hospital only had capital to offer. He further addressed the payment in lieu of taxes or dividend possibilities.

Bannock asked if the borough code was changed, could access to capital be a non-issue in the lease and operating agreement. Ross indicated that in the smaller projects that may solve the problem; however, if you were entertaining a larger project, you would have to go to a bond which would have to be voted on by the citizens of the service area. Hoyt asked why you would want the citizens to pay for the expansion with tax dollars when you could have a tax paying entity that did not affect the citizen's tax rate.

Knopp asked if amending the lease and operating agreement was the only option that the administration was willing to consider, could it work? Hoyt indicated if the goal was to stay status quo, then yes, it could work. Ross stated it was impossible to know how long an amendment to the lease and operating agreement would work into the future.

Knopp asked if there were any specifics identified in amending the lease and operating agreement. Ross indicated the board did not identify specific amendments.

- **Privatization**

Ross indicated the privatization option was a total removal from the ownership of the hospital, it would be owned by a community non-profit.

Hoyt indicated there would be no access to capital as the community non-profit would not be able to purchase the hospital, the borough would have to essentially give them the hospital and they would have no ability to have access to capital if they wanted to expand or joint venture. Hoyt believe the privatization option was not a viable option.

Ross indicated the risk to the non-profit would be much greater than a lease and operating agreement or a whole hospital joint venture.

Knopp questioned whether the public process was truly a hurdle for the non-profit board. Hoyt indicated the amount time spend dealing with the public information issues was neither productive nor efficient and had become a drain on the productivety of the board.

The Task Force discussed in great detail the difference between the lease and operating agreement and privatization with a long term lease. Essentially it was determined that the access to capital was the difference between a lease and operating agreement and privatization, as in a lease and operating agreement the borough could offer access to capital; however, with privatization the borough would not be part of the picture.

Bannock clarified that the borough could enter into a long term lease (privatization) with a for profit entity; therefore, access to capital would not be an issue.

Knopp asked if the borough administration were to choose the privatization option would the board support it. Hoyt and Ross indicated they would not support that option. Knopp stated there was no need to discuss the topic further.

Discussion regarding the Health Care Foundation

[Clerk's Note: the topic was not discussed, as there were no questions or concerns.]

Review of Market Options – Proposer #1 – Capella

Golden stated that he did not believe that he had the expertise to make a sound decision regarding the hospital as it was more than simply a business decision; it was a social and economic decision. Knopp agreed that it was a very complex decision and that it was imperative to ask questions and gather as much information as possible. Knopp hoped that the task force could answer the question as to "why" we need to change the governance structure of the hospital and come to an agreement as to which structure was in the best interest of the borough and the hospital.

[Clerk's Note: the task force decided not to discuss the proposers as that was outside of the task forces' scope of work. The agenda was amended to discuss the Outright Sale option.]

Outright Sale

Hoyt indicated that an outright sale was not an option from the CPGH, Inc. board's perspective; because, local control was lost and it only monetized the asset. Ross stated he agreed the outright sale was not a viable option because of the local control issue. Hoyt did state an outright sale would give the borough the best offer for its asset. He also indicated you would have a tax paying entity in the borough.

Murphy indicated there may be future fiscal responsibilities regarding employee retirement funds, etc. Murphy also indicated that an outright sale concerned her in that the purchaser's main goal would more than likely be to make money and social impacts may not be considered.

Gilman indicated that in an outright sale, local control would no longer be an issue, as the tax payers would no longer be liable for any fiscal shortfalls. She also agreed with Ms. Murphy's concerns regarding the social impact.

Hoyt argued the citizens of the service area may be less willing to subsidize the hospital if they were also paying for a new federally mandated health insurance.

Bannock asked what the highest tax burden to the citizens of the service area had been. Kenai Peninsula Borough Finance Director Craig Chapman indicated the highest mill rate had been approximately 2.9 mills. Bannock continued by stating that the past indicated the tax burden had not been onerous, which was why he did not favor the outright sale option.

Hoyt indicated that looking into the past was not a good indicator as to how the structure of the hospital should look like in the future.

Murphy indicated the hospital would not, in its current form, continue to make money into the future and it was incumbent upon the borough to address the issue before the hospital was no longer profitable.

Hoyt stated the profitability of the hospital was what created the value of the asset. He stated the proposers were looking at the current reimbursement rates in Alaska and the service area's demographics. He also mentioned Heritage Place and Serenity House and explained the vulnerability of those entities was too large if they were not tied to a hospital.

Whole Hospital Joint Venture

Hoyt explained the concept of the Whole Hospital Joint Venture. He indicated there was some form of local control. He indicated there would be an LLC board (half membership would be local, half membership would be corporate), a foundation board and an operating board. He stated it would be a fifty-fifty governmental split; however, the ownership was negotiated separately. Hoyt explained there were some entities that were willing to offer as high as fifty-fifty ownership split and the whole hospital joint venture option clearly offered the highest amount of local control and access to capital.

There was some brief discussion regarding the control of the funds that would be gained in the whole hospital joint venture option.

PUBLIC COMMENTS

Chairman Knopp called for public comment period.

Brenda Trefren, Soldotna, addressed the task force regarding medical expertise and opinions.

There being no one else who wished to speak, the public comment period was closed.

TASK FORCE MEMBER COMMENTS

Mr. Ross asked for the information regarding the whole hospital joint venture structure to be shared with the Task Force members.

Mr. Golden stated his appreciation for the expertise provided by Mr. Hoyt and Mr. Ross.

Ms. Hilleary asked for clarification regarding the Health Care Foundation.

Ms. Gilman agreed with Mr. Golden regarding the expertise of Mr. Hoyt and Mr. Ross.

NOTICE OF NEXT MEETING

The next meeting of the Health Care Task Force was set for Tuesday, February 22, 2011 at 6:00 p.m. in the George A. Navarre Borough Administration Building, Assembly Chambers.

ADJOURNMENT

With no further business to come before the Task Force, Chairman Knopp adjourned the meeting at 8:13 p.m.

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Johni Blankenship, Borough Clerk

Approved by Task Force ____________________________________