

## **CONSENT AGENDA**

### **POSSIBLE MOTION**

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**I MOVE TO APPROVE THE CONSENT AGENDA  
CONSISTING OF ITEMS A & B**

**I wish to remove Item(s) \_\_\_\_\_**

**REMINDER – Read aloud a portion of each item being  
voted on that is included in the consent vote.**

Should this item be pulled from the Consent Agenda the following motion is suggested:

**POSSIBLE MOTION**

**I MOVE TO** approve the minutes of the  
April 15, 22, 23, 25, 30, and May 2  
Assembly meetings.



# CITY AND BOROUGH OF SITKA

ASSEMBLY CHAMBERS  
330 Harbor Drive  
Sitka, AK  
(907)747-1811

## Minutes - Draft

### City and Borough Assembly

*Mayor Gary Paxton*  
*Deputy Mayor Steven Eisenbeisz,*  
*Vice Deputy Mayor Valorie Nelson,*  
*Aaron Bean, Kevin Knox, Dr. Richard Wein, Kevin Mosher*

*Municipal Administrator: Keith Brady*  
*Municipal Attorney: Brian Hanson*  
*Municipal Clerk: Sara Peterson*

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Monday, April 15, 2019

6:00 PM

Assembly Chambers

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#### SPECIAL MEETING

#### I. CALL TO ORDER

#### II. FLAG SALUTE

#### III. ROLL CALL

Assembly Member Nelson left the meeting at 7:27pm.

**Present:** 7 - Eisenbeisz, Knox, Bean, Wein, Paxton, Mosher, and Nelson

#### IV. PERSONS TO BE HEARD

Richard Wein spoke to the devastating fire at the Notre Dame Cathedral in Paris.

#### V. NEW BUSINESS:

- A 19-076** Approve the City and Borough of Sitka / Southeast Alaska Regional Health Consortium Affiliation Documents: Asset Purchase Agreement, including the selection of a purchase option, and Facility Lease Agreement (*possible executive session*)

Knox disclosed his wife had been offered a job at SEARHC Clinic II. Assembly members discussed whether it was a conflict for Knox to participate. Knox stated he had not been approached by SEARHC saying they'd give a job to his wife if he voted a certain way. He also indicated the position was an open position in which anyone could have applied. Mayor Paxton ruled there was no conflict.

Municipal Administrator Brady and Mayor Paxton asked consultants Sarah Cave and Steve Huebner and outside counsel Sandy Johnson, to provide a status report on the hospital affiliation in particular, the asset purchase agreement. Cave noted in between the time of the March 20 "Public Q&A" session and the April 11 Assembly meeting,

the negotiating team had come up with a change to the agreement which would simplify the way the ownership of Sitka Community Hospital was transferred. The primary purpose in simplifying was to separate out the compliance review piece and any potential liabilities from the transaction. With the change, SEARHC was going to take the SCH provider numbers for long term care and home health, however, not for acute care. Cave stated the team thought they'd be coming forward this evening with an even more simplified version in which SEARHC would not assume any of the provider numbers and the primary implication, which would eliminate the need for a second City funded escrow account to fund future compliance related liabilities. Cave reported late Monday afternoon, SEARHC had notified the City of new developments as it related to the long term care facility. Huebner stated SEARHC had learned SCH had been grandfathered in on many different provisions (e.g. room size). SEARHC would be treated like a new owner and thus need to apply for a new license and provider number. Given the new development, SEARHC would immediately be out of compliance. The concern was SEARHC may not be able to operate long term care beds. Huebner said the new development put SEARHC back in the position of assuming the provider number for long term care and in doing so, the City may need to put additional monies into escrow. Huebner stated based upon preliminary compliance exposure, roughly \$4.5 million would need to be put into escrow. He noted the first purchase payment amount could be held until the liability was settled. Cave clarified, the version of the asset purchase agreement in place previously would be the option with \$4.5 million being set aside into escrow. Cave noted despite the new development, SEARHC would be working to obtain an exception to grandfather in the facility until a new facility was built.

Paxton stated the viability of the long term care facility was important to the community and believed until the details were sorted out, making a decision would be inappropriate. Bean reminded with the new development, that the City was reverting back to the original plan of having to put money into an escrow account. Cave clarified there was option A and option B. Option A was the previous version of the asset purchase agreement, with more clarity about the number needing to go into escrow - \$4.5 million plus what was already in the language. Option B was, if within the next few days SEARHC was able to get the exception the City / SEARHC would be back at the new proposed option offered this afternoon. Cave reminded within the next two weeks, SEARHC Board would be meeting, reviewing, and approving which option the Assembly approved. Cave stated missing that timeframe was the biggest concern for the City. Cave noted it was up to the Assembly to determine the pathway forward.

Wein wondered if the long term care unit needed to be joint commission certified. Dan Neumeister, SEARHC Senior Executive Vice President, stated long term care did not need to be certified for SEARHC to be able to operate it and be reimbursed appropriately.

Wein stated there were a number of citizens not aware of the new developments and of the process as a whole. He stated he was unsure of what he was responding to given the different information. Cave reminded she and Huebner were hired to walk the City through this process and now had arrived at a place for the Assembly to proceed, however, it was ultimately the Assembly's decision. Mosher believed it was significant to know whether or not SEARHC could receive an exception before proceeding as there was significant money needed for escrow. Cave noted option B, presented this afternoon, was the preferred option assuming that in a very short timeframe SEARHC could obtain an exception and the facilities be grandfathered in. If not, the Assembly would have already approved option A, with the \$4.5 million set aside, so that the Assembly wouldn't need to come back prior to when the SEARHC Board met.



Neumeister expressed option B was the preferred option as it reduced the SEARHC liability assumption and allowed for the City not to have to put a significant amount of money into escrow. While not common for exceptions to be granted, Neumeister stated they would try.

Nelson stated she had received 93 pages by email at 4pm and didn't feel it was enough time to be responsible and take action. Cave clarified the substantive changes had been outlined in a one page summary and noted the substantive change was the provider number change. She noted the remaining changes were related to eliminating the second escrow account and clarity around long term care and home health.

**A motion was made by Bean to approve the CBS / SEARHC affiliation documents, specifically the Asset Purchase Agreement and Facility Lease Agreement and authorize the Municipal Administrator to execute these documents.**

Public Testimony on the Main Motion

Cynthia Dennis inquired of how long the money would stay in escrow.

Mark Walker, founder of Alaska Island Community Services, spoke to the positive effects of affiliation with SEARHC in Wrangell.

Carolyn Evans, SCH Board Member, spoke to the affordable care act being discussed in Washington DC and wondered if for some reason that was put on hold, and with the assumption that all emergency room cases would go to SEARHC, if the native healthcare facilities receiving federal funding would only be able to perform services to the beneficiaries therefore leaving nonbeneficiaries without emergency room care. Evans also wondered how existing payment plans with SCH would be handled after the transition to SEARHC.

Karen Lucas stated not enough of the issues had been discussed for a vote to take place.

Lucy Phillips spoke in opposition to the sale and stated SEARHC was not a viable option.

Dr. Marilyn Corruzi stated the entire process had problems and more had been brought forward this evening.

Assembly Discussion on the Main Motion

Mayor Paxton wished to respond to the questions asked under public testimony. Brady noted the money in escrow would be held until all claims or liabilities had been made. Regarding the availability of emergency room services to nonbeneficiaries if the affordable care act were to change, Johnson stated first she didn't see the act changing and secondly, hospitals had obligations to the public and if they were the only provider in the community they would not turn a patient away.

**A motion was made by Bean to AMEND the motion to include Option A or B\*. The amendment PASSED by the following vote.**

**\*Option A - SEARHC assumes certain provider numbers and City puts money into escrow. Option B - SEARHC does not assume provider numbers and the City puts no money into escrow.**

**Yes:** 6 - Eisenbeisz, Knox, Bean, Wein, Paxton, and Mosher

**No:** 1 - Nelson

Public Testimony on Amendment

Karen Lucas suggested a motion be made to disapprove the entire affiliation.

Assembly Discussion

Johnson explained that the exhibits in the affiliation documents were blank because they were in the process of being developed; to proceed, tonight's outcome was needed. Wein wondered if once the lists and attachments were developed would there be anything included in them that would cause public concern. Johnson stated the schedules could only reflect the terms of the agreement. Wein believed it to be a leap of faith as the terms were not entirely clear. Wein noted the SEARHC mission was to give the highest quality care to its people, however beneficiaries felt like they were being pushed out and no surveys or questions had been asked of the them. In addition, he noted there were vagaries in hospital billing. He reminded from this point forward, SEARHC would have the responsibility of providing healthcare to all citizens of Sitka. He expressed concern with the affiliation process, noted he had read the variations of the asset purchase agreement and spoke unfavorably of last minute changes. Eisenbeisz reminded one of the goals of the affiliation process was top notch healthcare. Paxton reiterated the end game of the affiliation was better healthcare for all. He stated SCH had been an incredibly important part of Sitka history, however, there was evidence to show there was serious liability. Bean responded to Wein's comments of SEARHC not reaching out to beneficiaries. Bean stated this was not a divisive race bating opportunity to divide people. He stated this was a community issue and unfortunately one that had been divisive.

**The main motion as amended (to approve the CBS / SEARHC affiliation documents, specifically the Asset Purchase Agreement, option A or B, and Facility Lease Agreement and authorize the Municipal Administrator to execute these documents) PASSED by the following vote.**

**Yes:** 5 - Eisenbeisz, Knox, Bean, Paxton, and Mosher

**No:** 2 - Wein, and Nelson

Steve Huebner explained the three purchase options. Other than purchase option 3, with \$9 million on closing, the other options were paid out over time. Huebner stated in option 2, the purchase price was paid out over 22 years with payments of \$700,000 yielding a payment amount of \$15.4 million. In addition, upon closing, there was a \$700,000 payment and a PERS payment of \$646,000 on day one; total payments \$16,746,000. Huebner added a discount rate of 7.14% would make option 2 comparable to a \$9 million deal. Huebner noted the significance was \$9 million upfront, but that earnings would need to be at least 7.14% for the cash offer to be better than option 2. He stated if you were to look at investment policies and historical earnings rate, it would be very difficult to beat that 7.14% return. Huebner explained option 1 was \$8.3 million up front with payments of \$144,000 for 5 years; total payments of \$700,000. If discounted back, discounted at the same 7.14%, it was about \$572,000. If added up, the total net present value of option 3 was lower than roughly the \$9 million on these two options. Huebner stated option 3 was set aside, as it wasn't as good as the other options. In closing, Huebner stated option 2 was the best purchase option because over a long period of time it would be difficult to match the return of 7.14%. Wein wondered if there were stipulations in option 2 which could stop continued

payment until the \$16.7 million was achieved. Huebner answered that if the PERS program were terminated, the payments would stop at \$9 million.

**A motion was made by Mosher to approve purchase option 2 of the Asset Purchase Agreement. The motion PASSED by the following vote.**

**Yes:** 5 - Eisenbeisz, Knox, Bean, Paxton, and Mosher

**No:** 1 - Wein

**Absent:** 1 - Nelson

**VI. PERSONS TO BE HEARD:**

None.

**VII. ADJOURNMENT**

**A motion was made by Mosher to ADJOURN. Hearing no objections, the meeting ADJOURNED at 7:36pm.**

**ATTEST:** \_\_\_\_\_  
Sara Peterson, MMC  
Municipal Clerk