

CITY AND BOROUGH OF WRANGELL, ALASKA

ORDINANCE NO. 948

AN ORDINANCE OF THE ASSEMBLY OF THE CITY AND BOROUGH OF WRANGELL, ALASKA, REGARDING A PROPOSED TRANSACTION BETWEEN THE CITY AND BOROUGH OF WRANGELL AND SOUTHEAST ALASKA REGIONAL HEALTH CONSORTIUM CONCERNING FUTURE OPERATION OF THE WRANGELL MEDICAL CENTER AND THE CONSTRUCTION OF A NEW HOSPITAL IN WRANGELL

WHEREAS, the Wrangell Medical Center (“WMC”) is owned and operated by the City and Borough of Wrangell (Borough); and

WHEREAS, the WMC was originally constructed in 1967, with additions constructed in 1974, 1988, and 1994; and

WHEREAS, due to its age, and lack of funds for maintenance, WMC is potentially one system failure away from closure; and

WHEREAS, a recent report commissioned by Southeast Alaska Regional Health Consortium (“SEARHC”) estimated that it would cost \$24 million to bring the WMC in compliance with all current building codes; and

WHEREAS, previous cost estimates for construction of a new Borough-owned hospital range from \$40 Million to \$50 Million and if financed, range from \$90 Million to \$100 Million; and

WHEREAS, Medicare and Medicaid funded patients constitute the majority of patients served at WMC, and current reimbursement rates do not cover the full cost of their care; and

WHEREAS, a local critical access hospital is a fundamental component of Wrangell’s quality of life and as one of Wrangell’s largest employers, the WMC is also a vital part of the local economy; and

WHEREAS, these financial and economic realities led the Borough to seek a third party with which to partner so that the community can continue to have a critical access hospital and a long-term care facility; and

WHEREAS, SEARHC owns and operates the Alaska Island Community Services Clinic (SEARHC AICS Clinic) as well as other health care services and facilities in Wrangell; and

WHEREAS, SEARHC operates clinics in 26 communities throughout Southeast Alaska, in addition to its operations in Wrangell, such that the coordinated access to all such SEARHC services would potentially be available to the citizens of Wrangell potentially at lower cost; and

WHEREAS, the Borough previously entered into a letter of intent (LOI) with SEARHC to explore a partnership between SEARHC and the Borough to operate the WMC for an interim period and build a new hospital in Wrangell for several compelling reasons including but not limited to: 1) SEARHC is already an established healthcare entity in the community; 2) SEARHC expressed interest in operating the WMC and building a new hospital in Wrangell; 3) SEARHC already provides doctors who work at the WMC; 4) the SEARHC AICS Clinic has extra space that can be used in a “campus” type approach to a new hospital; and 5) SEARHC currently purchases services from WMC in the amount of \$4 Million – a third of the hospital’s gross operating revenue; and

WHEREAS, on March 13, 2018 the Assembly created the Community Healthcare Solution Steering Committee (Steering Committee) in Resolution No. 03-18-1399 for the purpose of: a) establishing the details associated with the exploration process discussed at the joint work session on February 26, 2018; b) serving on the Stakeholder Group that participated in the 2-3 day Feasibility Analysis Work Session; and c) making the formal recommendation to the Assembly following the outcomes of the Feasibility Study; and

WHEREAS, on April 7-8, 2018, the Stakeholder Group, including the Steering Committee and members from WMC, Wrangell Cooperative Association, the Borough, SEARHC and the community at large, engaged in a feasibility work session for a new critical access hospital for Wrangell; and

WHEREAS, the results of the feasibility work session were positive; thereafter SEARHC officially offered to assume operation of the WMC, and construct and operate a new \$30 Million critical access hospital and long-term care facility connected to the SEARHC AICS Clinic; and

WHEREAS, the Steering Committee voted unanimously on May 20, 2018 that the Borough should move forward with SEARHC’s proposal; and

WHEREAS, under the authority of the LOI, the Borough and SEARHC have negotiated an Asset Purchase Agreement (APA), a Lease and a Deed Amendment under which SEARHC would operate the existing hospital for approximately four years while building a new hospital in Wrangell on the AICS property and adjacent parcels; and

WHEREAS, during just the Interim Operating Period while SEARHC is operating Wrangell Medical Center in the existing hospital facility, SEARHC will be making significant financial and in-kind investments to maintain and improve baseline operations.

WHEREAS, because the value of the sale and lease of Borough real and personal property provided for in the APA, the Lease and the Deed Amendment are more than \$1 Million, the transactions contemplated in the APA, the Lease and the Deed Amendment require approval of the voters in accordance with Section 5-14 of the Borough Charter; and

WHEREAS, for all of the above stated reasons, the Borough Assembly finds that the transactions contemplated in the APA and Lease are in the best interests of the community of Wrangell.

NOW THEREFORE, BE IT ORDAINED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF WRANGELL, ALASKA:

SEC. 1 **Approval of the APA.** The Borough Assembly hereby approves the Asset Purchase Agreement By And Between Southeast Alaska Regional Health Consortium And The City And Borough Of Wrangell (APA), attached to this ordinance as Exhibit A and authorizes the Mayor to execute it on behalf of the City, if the voters ratify this ordinance at the October 2, 2018 regular election.

SEC. 2 **Approval of Exhibits and Schedules to the APA.** The Borough Assembly hereby approves the Lease Agreement (Lease) attached to this ordinance as Exhibit B, the Restrictive Covenant Agreement and Termination and Release of Reversionary Interest (Deed Amendment) attached to this ordinance as Exhibit C, and all other exhibits and schedules referenced in the APA, and authorizes the Mayor to execute them on behalf of the City if the voters ratify this ordinance at the October 2, 2018 regular election.

SEC. 3 **Ordinance Ratification Ballot Question.** The Borough Clerk shall place the following question on the ballot at the October 2, 2018 regular election for the City and Borough of Wrangell.

PROPOSITION 1

Ratification of Ordinance 948

Section 5-14 of the Borough Charter and Section 5.10.035.A of the Wrangell Municipal Code require that any ordinance which provides for “the sale or lease of any Borough property, real or personal, or the sale or lease or other disposal of any interest therein, the value of which property, lease or interest is more than \$1 Million,” be ratified by a majority of voters who vote on the question. Ordinance 948, enacted by the Assembly on August 28, 2018, provides authority to the Mayor to enter into an agreement (including a lease and a deed amendment) with Southeast Alaska Regional Health Consortium (SEARHC) to lease the Wrangell Medical Center and operate it for approximately four years and to build a new hospital adjacent to the AICS Clinic, on the AICS Clinic property and adjacent property

conveyed to SEARHC by the Borough. The value of the entire transaction is approximately \$1.618 Million. Shall Ordinance 948 be ratified?

Yes No

SEC. 4 **Classification.** This ordinance is not permanent in nature and shall not be codified in the Wrangell Municipal Code.

SEC. 5 **Severability.** If any portion of this ordinance or any application thereof to any person or circumstance is held invalid, the remainder of this ordinance and the application to other persons or circumstances shall not be affected thereby.

SEC. 6 **Effective Date.** This ordinance shall become effective immediately upon adoption. Sections 1 and 2 shall have retroactive effect back to the first date that the Borough administration began to negotiate the terms and conditions of the APA and the Lease.

PASSED AND APPROVED BY THE ASSEMBLY OF THE CITY AND BOROUGH OF WRANGELL, ALASKA this 28th DAY OF AUGUST 2018.

CITY & BOROUGH OF WRANGELL



David L. Jack, Mayor

ATTEST:



Kim Lane, Borough Clerk



PASSED IN FIRST READING: August 14, 2018.

PASSED IN SECOND READING: August 28, 2018.

Yes:	<u>6</u>
No:	<u>0</u>
Absent:	<u>1</u>
Abstaining:	<u>0</u>