



City Manager
334 Front Street
Ketchikan, AK 99901

Phone (907) 228-5603
Fax (907) 225-5075

7a(3)

TRANSMITTAL MEMORANDUM

TO: The Honorable Mayor and City Council

FROM: Lacey G. Simpson, Assistant City Manager

DATE: February 25, 2020

RE: **Authorizing Amendment No. 2 to Contract No. 19-02, Consulting Services for the Lease of the Ketchikan Medical Center, ECG Management Consultants**

At its meeting of May 2, 2019, the City Council adopted a motion approving Contract No. 19-02, Consulting Services for the Lease of the Ketchikan Medical Center, between the City and ECG Management Consultants (ECG) in the amount of \$200,000. The proposed scope of work for this project provided for a phased approach pending the outcome of each prior phase as detailed below:

Phase 1	Conduct Situational Assessment Develop Negotiation Strategy
Phase 2	Contract Negotiations with PeaceHealth
Phase 3	Development of a Request for Proposals and Provider Selection
Phase 4	Contract Implementation and Transition to New Provider

At the meeting of October 3, 2019, City Council authorized Amendment No. 1 to Contract No. 19-02 in the amount of \$11,100 to account for the additional interviews conducted during the development of the situational assessment and any project contingencies. At this meeting ECG presented the situational assessment to the City Council and subsequently began developing the negotiation strategy for a successor lease agreement with PeaceHealth. By the date of this memo, ECG has nearly finalized the negotiation strategy to incorporate comments from the City Council and will have fulfilled the terms of Phase I of Contract No. 19-02.

In an effort to ensure the concerns and needs of the community are reflected in a successor lease agreement with PeaceHealth, Phase I of the project provided for two community forums and 25 community stakeholder interviews. An initial community forum was held on June 13, 2019, interviews were conducted with 34 community members, and numerous

public comments were received via an email address set up for this project. Both the City and PeaceHealth have expressed a desire to begin negotiations in earnest within the next few months with the hope of concluding negotiations in early 2021. In order to maintain this timeline, staff suggests that in lieu of the second community forum the City solicit final comments from the community on the direction of this project. Relevant project materials will be posted to the City's webpage for public review and comment. Once public comments have been received (deadline March 20, 2020) ECG will incorporate these into the final negotiation strategy to be considered by the City Council at the April 2, 2020 meeting.

In anticipation of the City Council adopting the finalized negotiation strategy and authorizing negotiations to begin with PeaceHealth in early May 2020, the attached proposal for Amendment No. 2 for Contract No. 19-02 has been prepared by ECG. The proposal outlines three components for Phase II involving City Councilmembers and staff: lead negotiations, develop definitive agreements, and assist with community engagement. Given the difficulty in predicting the cost of the negotiation phase due largely to the unknown amount of time necessary, ECG proposes Phase II be conducted on a time and materials basis billed monthly. It is anticipated Phase II costs will average \$30,000 per month, equating to \$270,000 over a nine-month negotiation period. If negotiations with PeaceHealth are quick and efficient, total project costs will be decreased. In addition, project out-of-pocket expenses are estimated at 15% of the professional fees, or approximately \$40,000. Staff recommends a 10% contingency of \$27,000 for Phase II, bringing the estimated total for this phase to \$337,000. In adopting the 2020 General Government Operating and Capital Budget, the City Council appropriated \$200,000 for the Public Health Department's 2020 Health Care Operations' Management and Consulting Services account (Account No. 640.04) for such lease negotiations. A transfer of \$137,000 from Appropriated Reserves of the Hospital Sales Tax Fund is required.

A motion has been prepared for City Council consideration.

RECOMMENDATION

It is recommended the City Council adopt the motion approving Amendment No. 2 in the amount of \$270,000 to Contract No. 19-02, Consulting Services for the Lease of the Ketchikan Medical Center, between the City and ECG Management Consultants; establishing \$40,000 for out-of-pocket project expenses and \$27,000 as project contingency, bringing the total contract amount to \$577,000; authorizing a budget transfer in the amount of \$137,000 from Appropriated Reserves of the Hospital Sales Tax Fund to the Public Health Department's 2020 Health Care Operations' Management and Consulting Services account (Account No. 640.04); and directing the City Manager to execute the amendment on behalf of the City Council.

Recommended Motion: I move the City Council approve Amendment No. 2 in the amount of \$270,000 to Contract No. 19-02, Consulting Services for the Lease of the Ketchikan Medical Center, between the City and ECG Management Consultants; establish \$40,000 for out-of-pocket project expenses and \$27,000 as project contingency, bringing the total contract amount to \$577,000; authorize a budget transfer in the amount of \$137,000 from Appropriated Reserves of the Hospital Sales Tax Fund to the Public Health Department's 2020 Health Care Operations' Management and Consulting Services account (Account No. 640.04); and direct the City Manager to execute the amendment on behalf of the City Council.

**AMENDMENT NO. 2
TO
TO CONTRACT 19-02**

Consulting Services for the Lease of the Ketchikan Medical Center

Project Reference Original Contract (Agreement) No. 19-02, dated May 13, 2019

This Amendment No. 2 made and entered into this _____ day of March 2020, by and between the City of Ketchikan, a municipal corporation, 334 Front Street, Ketchikan, Alaska 99901, and ECG Management Consultants, a firm organized and existing under the laws of the State of Washington, whose address is 1111 Third Avenue Suite 2500, Seattle, Washington 98101, and licensed and qualified to do business within the State of Alaska.

The above referenced contract is modified as follows.

<u>Task</u>	<u>Scope</u>	<u>Previous Budget</u>	<u>Additional Budget</u>	<u>New Budget</u>
1	Phase I - Situational Assessment and Negotiation Strategy (original request and Amendment No. 1)	\$200,000	\$11,100	\$211,100
2	Phase I - Out-of-Pocket Expenses	\$0	\$25,000	\$25,000
3	Phase I - Contingency	\$0	\$3,900	\$3,900
4	Phase II – Lead PeaceHealth Contract Negotiations	\$0	\$270,000*	\$270,000
5	Phase II – Out-of-Pocket Expenses	\$0	\$40,000	\$40,000
6	Phase III – Contingency	\$0	\$27,000	\$27,000
TOTAL		\$200,000	\$377,000	\$577,000

*This amount represents the estimated amount needed for Phase II work on a time and materials basis during a projected nine-month negotiation period. Additional transfers and requests will be made as necessary.

Reference attached proposal and budget for additional services dated February 25, 2020.

The amount of Contract 19-02 in Sections 4 and 31 of the original Agreement is hereby changed to \$577,000.

Except as provided in this amendment, the terms and conditions in the original Agreement are hereby ratified and affirmed and remain in full force and effect without any other amendment.

ECG Management Consultants

City of Ketchikan

Daniel J. Merlino, Principal

Karl R. Amylon, City Manager



City of Ketchikan

PeaceHealth Ketchikan Medical Center Negotiation Support

February 28, 2020

Overview

ECG is pleased to present this proposal to assist the City of Ketchikan in negotiating a new arrangement with PeaceHealth for the lease and operation of Ketchikan Medical Center (KMC). The current lease is set to expire in 2023, and the city council is seeking consulting support to negotiate a more transparent, responsive, and accountable contract going forward. ECG would be engaged by the city to advise the city council on new contract terms and lead negotiations for a new arrangement. In addition, ECG would also support the city's public engagement efforts. The remainder of this document outlines our proposed approach, schedule, project team, and fees.

Project Objective

Based on the successful completion of the situational assessment and the development of a contract negotiation strategy, the objective of this engagement is to negotiate a new arrangement for the lease and operation of KMC with PeaceHealth. The future arrangement will:

- » Evolve beyond the current standard lease agreement to a more defined partnership that best serves the Ketchikan community.
- » Expand PeaceHealth's role in addressing the challenges patients face, improving the patient experience, and contributing to community health.
- » Hold both parties accountable for process coordination and measurement efforts in order to monitor progress and facilitate greater collaboration.

If a satisfactory partnership cannot be achieved with PeaceHealth, ECG will issue a separate scope of work to support a request for proposal process for a new provider.

Project Structure

As with most projects of this significance, negotiating a new hospital lease and operating arrangement is complex and highly participatory. Given our recent working relationship with the city, we envision working closely with the city council and multiple project teams to plan, manage, and conduct the negotiations. We will work with you to determine specific members of the steering committee, negotiating team, and work group, the roles and proposed compositions of which are described in table 1. So the city council is the ultimate arbiter, ECG does not recommend council members participate on the negotiating team.

Table 1: Project Teams

	Work Group	Negotiating Team	Steering Committee	City Council
Role	» Preview materials for other project teams.	» Participate in the overall negotiation planning process.	» Discuss any major negotiating issues.	» Oversee all negotiating and public engagement activities.
	» Coordinate negotiating activities (e.g., schedule meetings).	» Represent the city in negotiations with PeaceHealth.	» Evaluate any potential changes to the draft term sheet.	» Assess any recommendations.
	» Track negotiating issues and progress.	» Report any progress and issues to the Steering Committee.	» Provide direction to the negotiating team.	» Approve the term sheet and definitive agreements.
	» Coordinate and monitor the progress of the project teams' activities.		» Elevate issues and bring any recommendations requiring key decisions to the city council.	» Provide direction at key junctures.
Members	» City manager	» City manager	» City manager	» City council (voting)
	» Assistant city manager	» Assistant city manager	» Assistant city manager	» Mayor (nonvoting)
	» ECG	» City attorney	» Legal council	
		» ECG	» Two city council members » ECG	

During the negotiating process, ECG will have the following responsibilities:

- » Communicate frequently with the work group to track progress on tasks and manage the timeline.
- » Attend negotiating team, steering committee, and select city council meetings.
- » Develop meeting agendas, perform any analysis and research requested by team members, and facilitate decisions by the steering committee and city council.
- » At the city council's direction, facilitate communication with the public through community engagement efforts.

Project Approach

Our project approach will include three components.

- » Component One: Lead Negotiations
- » Component Two: Develop Definitive Agreements
- » Component Three: Assist with Community Engagement

Specific activities associated with each component are described below.

Component One: Lead Negotiations

ECG will lead negotiations for a new contract with PeaceHealth, which includes the following steps:

- » Lead the overall negotiation process.
 - › Work with the city's negotiating team to determine roles, meeting strategies, and communication strategies.
 - › Schedule and facilitate contract negotiation meetings.
 - › Collaborate with the negotiating team and steering committee to identify and prioritize key issues.
 - › Develop analyses as needed to support the city's negotiating position.
 - › Prepare written correspondence.
 - › Attend various meetings and conference calls with PeaceHealth.
 - › Lead meetings and conference calls with the negotiating team, steering committee, and city council, as needed.
- » Establish contract terms.
 - › Refine the draft term sheet and obtain approval from the city council.
 - › Develop a living document based on the approved term sheet that includes the major negotiating issues and priorities and reflects the progress to date on each.
 - › Review and propose business terms and contract language, including attachments and relevant policies and procedures.
 - › Review and model the contract's financial proposals and scenarios, as needed, during the negotiations to forecast the impact of proposed modifications; the resulting financial model will be an internal decision-making tool throughout the negotiations.

Component Two: Develop Definitive Agreements

As terms are finalized, we will assist the steering committee and city council in determining whether the revised agreement reflects the healthcare needs and expectations of Ketchikan and the surrounding communities. If so, we will assist the city's legal counsel in drafting definitive agreements. Tasks will include the following:

- » Confer with the city's legal representatives to translate the agreed-upon term sheet into definitive agreements.
- » Evaluate the implications of the definitive agreements from a business perspective.

Component Three: Assist with Community Engagement

Given the high level of community interest in this topic, it will be important for the city to communicate regularly and transparently with key stakeholders. ECG will work closely with city representatives to develop, refine, and implement a communication plan. Our tasks will include the following:

- » Define elements of the plan, including communication channels, frequency, and responsibilities for drafting and approving messages.
- » Develop draft materials, including but not limited to a high-level situational assessment and overview of negotiation plans.
- » Assist in the city's planning efforts for a community forum and present the content described above, as required.

Schedule, Staffing, and Cost

Schedule

Based on your authorization to proceed, we are prepared to begin work on this project immediately. The duration of this engagement will be determined by a variety of factors, including negotiation schedules, any issues and the steps needed to resolve them, and response times. Initially, however, we anticipate providing support to you through the end of the contract negotiations in early 2021.

Staffing

Our project team will consist of the following individuals, plus additional staff as needed:



Dan Merlino

Principal

In a consulting career spanning more than 30 years, Dan has gained the trust and respect of physician leaders and healthcare executives throughout the United States. Dan's extensive experience has given him unique insights into the strategies and operations of large providers, so he understands the realities of his clients' environments and designs strategies and structures that meet their specific needs. His familiarity with all aspects of the healthcare industry, particularly the physician practice environment, allows him to offer a unique, well-rounded perspective in addressing issues

concerning strategic planning, operations analysis, and the financial feasibility of new ventures. Dan has assisted major health systems, medical centers, and physicians' organizations in developing business strategies and implementing organizational and operational improvements. Most recently, he has specialized in strategic planning, physician-hospital alignments, and subspecialty program development, assisting several hospitals in mergers, acquisitions, and new program development.



Kevin Kennedy

Principal

A 25-year consulting career has given Kevin a unique understanding of shifting trends in the healthcare industry. A member of ECG's Board of Directors and head of the firm's Northwest Healthcare practice, Kevin has guided hospital executives and physician leaders through periods of dramatic change, and he is highly regarded for his informed perspective on the industry's changing conditions and new models of care, as well as the business arrangements required to achieve clinical integration. He has helped dozens of hospitals, health systems, and medical groups solve their

most challenging strategic, financial, and operational problems, and clients value his thoughtful analysis of healthcare business decisions.

Kevin has particular expertise in hospital-physician relationships, physician compensation planning, and service line integration and development. Recently, he has been assisting hospitals with service line and enterprise-wide strategic planning; working with health systems to define their operational relationships with member hospitals; and facilitating multiple transactions, including hospital-hospital and hospital-physician acquisitions.

As the industry moves toward value-based care, providers throughout the healthcare continuum appreciate Kevin's critical thinking. His recent publication topics include the evaluation of joint venture issues, the changing landscape of hospital-physician relationships, and the physician customer service aspects of operations improvement. Kevin is a frequent speaker before industry associations and has received the Yerger/Seawell Article of the Year award from the Healthcare Financial Management Association for outstanding contribution to professional literature.



Kelly McFadden

Senior Manager

Kelly's expertise in hospital-physician alignment, physician network development, and physician compensation makes her a trusted partner to healthcare organizations seeking strategies to optimize their physician relationships and performance. As a member of ECG's Strategy and Business Advisory Division, she navigates clients through the complexities of alignment from planning to implementation, helping them understand market demands, assess practice performance and options for alignment, develop contract terms, and operationalize business units to maximize success. Her

efforts have resulted in the development of a new medical foundation and two hospital outpatient

department specialty clinics in California as well as optimized professional services agreements for primary and specialty care. Kelly has also performed numerous assessments of hospitalist coverage arrangements, advising hospitals and hospitalist providers on industry trends, optimal coverage models, alternative funding models, and compensation plans. Her solutions resulted in transformative partnerships that support integrated care delivery, expanded access for Medicaid patients, physician recruitment strategies, and aligned incentives for improved organizational performance.

Cost

Given the potential complexity and unknown factors that could affect the negotiation process, we have estimated the cost of this engagement on a monthly basis. The hours and professional fees assume that there will be several issues with a high level of difficulty to address. Costs are likely to fluctuate from month to month and will depend on meeting schedules and response times. Estimated monthly costs will range from approximately \$20,000 to \$45,000 and average \$30,000 over a nine-month period.

We charge for our services based on the professional fees and project-related expenses incurred. Our professional fees will be determined by the actual hours worked on the engagement at our standard hourly rates. Project-related expenses will include travel, phone, document preparation, and other out-of-pocket expenses. Our out-of-pocket expenses typically do not exceed 15% of professional fees.

[Retracted]

It is our practice to bill for our services monthly, in arrears, for the professional fees and project-related expenses incurred. If we are able to complete this assignment in fewer professional hours than anticipated, you will be billed a correspondingly lesser amount. Payment is expected within 15 business days of receipt of invoice.

This agreement shall be conducted subject to our standard policies and conditions, as outlined below.

- » Any changes in this agreement shall be confirmed and agreed upon in writing by all parties.
- » The services performed in this engagement are intended solely for internal use and may not be used externally nor included in or referred to in any offering statement, purchase or financing agreement, or other documents without our approval. Depending on the proposed use, such approval may require additional work and associated expenses.
- » Should ECG be required to respond to any subpoena, reply to any request for production of documents or interrogatories, or appear for deposition in any hearing or civil proceeding arising from matters pertaining to this agreement, ECG shall be reimbursed for all expenses and professional time at standard rates.
- » Similarly, we will maintain as confidential all data and other information, either written or verbal, you provide to us in connection with our work on this engagement and will not disclose it to others, except in the case of a subpoena or court order, without your prior approval.

- » You acknowledge that in the course of this engagement ECG may provide third-party data that is used under license by ECG. No sublicense is created by the inclusion of this data in ECG documents, and you agree that this data may not be used for any purposes other than this engagement.
- » ECG's liability for damages will be limited to gross negligence, fraud, or willful misconduct and shall not exceed the total amount paid for the services described herein. You further agree that we will not be liable for any lost revenue or for any claims or demands against you by any other party. In no event will we be liable for incidental or consequential damages, even if we have been advised of the possibility of such damages. No action, regardless of form, arising out of the services described herein may be brought by either party more than three years after the date of the last services provided under this proposal.
- » It is also agreed that all disputes that may arise in connection with our engagement that cannot be mutually resolved shall be submitted to binding arbitration under the rules and procedures of the American Arbitration Association.
- » For the term of the agreement and one year after its expiration or termination, you agree that you will not hire any employee of ECG who worked on this engagement. In the event you hire an ECG employee from this engagement, you agree to pay ECG an amount equal to the employee's first-year base salary, provided that you may generally advertise available positions and hire ECG employees who either respond to such advertisements or who come to you on their own initiative without direct or indirect encouragement from you.
- » ECG's hourly rates are subject to adjustment annually on January 1 and upon promotion in rank of a particular consultant.

Proposal Acceptance

Please sign and return a copy via fax or email indicating your acceptance of this proposal.

Acknowledged and Accepted By:

Signature

Date

Name (Print)

Title

UNFINISHED BUSINESS

Approving Contract No. 19-02 - Consulting Services for the Lease of the Ketchikan Medical Center, ECG Management Consultants

The motion currently on the floor as deferred on February 21, 2019 is:

Moved by Coose, seconded by Zenge the City Council authorize the city manager to enter into Contract No. 19-02, Consulting Services for the Lease of the Ketchikan Medical Center, between the City of Ketchikan and ECG Management Consultants in an amount not to exceed \$200,000; approve funding from the Public Health Department's 2019 Health Care Operations' Management and Consulting Services Account No. 640.04; and direct the city manager to execute the contract documents on behalf of the City Council.

Moved by Zenge, seconded by Isom the City Council direct the city manager to cease further discussion with ECG Management Consultants regarding Contract No. 19-02, Consulting Services for the lease of the Ketchikan Medical Center and initiate the process of working with the City Council to develop a negotiation strategy for a new traditional building lease agreement.

Councilmember Zenge indicated PeaceHealth has all land leases and no operator leases, but in some cases they have side agreements to provide for periodic consultation or informational meetings. She felt the Council should approve a land lease with an addendum agreement for consultation and informational meetings.

Councilmember Flora questioned if it would include some measure of accountability the community would have with the hospital on specific items.

Councilmember Zenge indicated we could put whatever we want in the addendum agreement, like rent or in-kind services they provide to Ketchikan residents.

Councilmember Flora asked staff if there were any models for PeaceHealth with a land lease and accountability agreement that the Council could use.

Manager Amylon said the information conveyed to Councilmember Zenge came from Ron Saxton who is legal counsel for PeaceHealth. He informed he was not personally aware of other agreements they may have negotiated in other communities.

Councilmember Coose said he could support a split agreement, but didn't feel staff had the knowledge or the time to deal with a contract without professional services. He felt the consultant will give the best advice to the Council.

Councilmember Bergeron agreed with Councilmember Coose's comments on this issue. He felt there are many opportunities out there that we don't know about. He said he would support the motion to move forward with a consultant, and encouraged other Councilmembers to follow.

May 2, 2019

Manager Amylon indicated the first issue the Council needs to address is whether or not there is a majority interest in pursuing an operations lease. He said if there is not, and the Council wants to negotiate a building property lease with various aspects of communication, accountability, in-kind services and other factors he would recommended Motion No. 1. He agreed with Councilmember Coose that staff does not have the knowledge or experience in developing a type of lease for the next 20 or 30 years with the operator of the hospital at today's standards. He said even if the Council wants to do just a building lease it would be a prudent move to hire someone who is knowledgeable in this field and have them at the table with City staff.

Councilmember Gage indicated if you amortize the cost of the consultant over a 20 year period it's not that much money in comparison to having a bad lease like the one we have now. She felt it should be done right by hiring a consultant that is knowledgeable, and gives Ketchikan a lease with teeth. She said Ketchikan needs a hospital that works for the people and is accountable.

Councilmember Isom agreed we should use a consultant, and would support the motion on the table from February 21, 2019. She said the money is not the only reason the Council has not moved forward, and noted the end cost will be in the millions.

Councilmember Flora noted PeaceHealth has offered to pay \$55,000 of phase 1, which makes the City's portion \$145,000. He indicated this contract does not commit us to any future phases if the Council doesn't like the direction it's taking.

Manager Amylon explained to the Council the differences between the motion on the table from February 21, 2019 and the two alternate motions that were provided.

Councilmember Kiffer felt the Council is now coming to a realization an operator's lease may cost four times the initial cost. He said he wasn't worried about spending the \$200,000 at this point because the people who have been complaining about the cost are also complaining about the services from the hospital. He said we can either do the \$1 a year land lease or we move forward with an operator's lease. He is concerned about the teeth in the lease, and felt it should alleviate some of the issues that have been raised by the community. He agreed with other Councilmembers that we do not have expertise in this area.

Councilmember Zenge withdrew her motion with the consent of the second.

Manager Amylon answered questioned from the Council.

Motion passed with Isom, Bergeron, Gage, Kiffer, Flora and Coose voting yea; Zenge voting nay.

NEW BUSINESS

Contract No. 19-18 Update - Port Reconfiguration and Execution Strategy - Bermello Ajamil & Partners, Inc. (B&A)

This item was withdrawn by staff.

October 3, 2019

Motion Passed with Coose, Gage, Zenge, Williams and Flora voting yea; Kiffer and Bergeron absent.

Moved by Williams, seconded by Zenge the City Council approve Resolution No. 19-2754 authorizing participation in the Community Development Block Grant Program; and establishing an effective date.

Councilmember Coose questioned if the City will be required to fund any matching money for future grants.

Manager Amylon said in answer to Councilmember Coose it was his understanding WISH would not be coming to the City for funding. He stated the local match as far as the City is concerned is the property and building.

Councilmember Coose felt WISH needs to put in place an operational business plan. He said they need to plan ahead in order to be in a good financial position to run the facility at this new location.

Councilmember Gage informed there were state and federal grants to help them fund that part.

Motion Passed with Gage, Williams, Coose, Flora and Zenge voting yea; Kiffer and Bergeron absent.

**Amendment No. 1 to Contract No. 19-02 – Consulting Services
for the Lease of the Ketchikan Medical Center – ECG
Management Consultants**

Moved by Williams, seconded by Gage the City Council approve Amendment No. 1 in the amount of \$11,100 to Contract No, 19-02, Consulting Services for the Lease of the Ketchikan Medical Center between the City and ECG Management Consultants, bringing the total contract amount to \$211,100; provide funding for out-of-pocket expenses in the amount of \$25,000; establish a \$3,900 contingency; authorize the city manager to transfer \$40,000 from the Appropriated Reserves of the Hospital Sales Tax Fund to the 2019 Public Health – Health Care Operations Management & Consulting Services Account No. 640.04; and direct the city manager to execute the amendment on behalf of the City Council.

Motion Passed with Coose, Flora, Zenge, Gage and Williams voting yea; Kiffer and Bergeron absent.

APPROVAL OF VOUCHERS

Moved by Zenge, seconded by Flora for approval of vouchers to Ketchikan Daily News in the amount of \$3,982.78.

Motion passed with Coose, Gage, Zenge and Flora voting yea; Williams abstaining; Kiffer and Bergeron absent.