A detailed site plan of the Laguna Honda Hospital campus. The plan shows various buildings, parking lots, and landscaping. Key buildings labeled include the West Clarendon Resident Building, East Clarendon Resident Building, Farm & Greenhouse, Link Building, Greenhouse South Resident Building, Childcare Center, Assisted Living, and Existing Hospital Building. There are also labels for a Muni Substation, Maintenance Shop, and a Re-fuel Station. The plan is overlaid with a topographic contour map. The text is centered over the plan in a large, green, serif font.

**Laguna Honda Hospital
Replacement Program
Update**

**Presented to the
Department of Public Health**

Health Commission

March 15, 2005

WOODSIDE AVENUE



City & County of San Francisco Laguna Honda Hospital Replacement Program

Gavin Newsom, Mayor
Mitchell H. Katz, MD, Director of Public Health
Edwin M. Lee, Director of Public Works

Laguna Honda Replacement Program Heath Commission Report Summary March 16, 2005

- Design began in 2000. Construction work that was bid in 2002 had come in on budget. In April 2003, the entire Replacement Program was on budget.
- Cost per bed in April 2003 was \$335,000.
- Escalation in healthcare construction in the last 12-18 months is in the range of 2-3% per month.
- The project had budgeted 3.8% per year based on historical averages and pre-2003 market conditions.
- First round of bids for the South, Link and East buildings was in October 2004.
- April 2003 to October 2004 is 18 months, which represents escalation in the range of 24-36%
- Re-bidding and soliciting contractor-proposed value engineering proposals between November 2004 and March 2005 saved over \$5.5 M.
- The bids for these buildings are \$84.5M over budget.
- These first three building contain 780 beds.
- Cost per bed for these 780 beds is \$521,000
- The following elements of the program have not been bid:
 - Remodel of the Existing Building
 - Site Work, and existing building demolition.
 - West Building (420) Beds
- Recommendation from the team is to proceed with the South and Link Buildings at full scope.
- Replacement Team will provide an updated cost on unbid work (listed above) taking the current market into consideration.
- Replacement Team to work with the Controller's Office to develop options for moving forward.

LAGUNA HONDA HOSPITAL REPLACEMENT PROGRAM UPDATE

By Michael Lane, Program Manager

March 15, 2005

The purpose of this report is to provide an update on the Laguna Honda Hospital Replacement Program, specifically, the accomplishments to date and the available bid results for the new buildings.

The replacement of Laguna Honda Hospital has been ongoing for almost five years. Much has been accomplished in that time and many challenges have been overcome in the process. As we prepare to begin the construction of the new buildings, yet another challenge presents itself in the form of the current bid market for healthcare facilities. In this report, I will review the bid results, explain their impacts on the program and what our team has done to mitigate those impacts. I will also make a recommendation for how to move forward which will retain all of our flexibility for realizing the full build out of the entire Replacement Program.

This report will be presented to the Health Commission on March 15, 2005. It will be an informational presentation with no action being requested. However, attached is a draft resolution for the Commission's consideration. It seeks your concurrence with the recommendation for how to move forward. I am respectfully requesting that a final version of this resolution be formally considered by the Commission at a future meeting.

Please note that because the bid process is ongoing, individual bid results are not disclosed in this report. The total costs of the first and second round of bids, plus an estimate of pending bid results are indicated.

The report will discuss the following:

Background

- Summary of our accomplishments to date
- Discussion of the construction cost estimating process
- Overview of current market conditions

Bid Results

- Review and analysis of first round of bid results
- Review and analysis of the second round of bid results
- Impact of these bid results on the scope of the Replacement Program

Next Steps

- Wait for a more stable market?
- Redesign the facility?
- Recommendation for moving forward with the current design and bids. Attached is a draft Resolution for consideration by the Health Commission.

Summary of Our Accomplishments to Date

In August 2000, the joint venture of **architectural firms** Anshen+Allen Architects and Gordon H Chong and Partners (A+A/GHCP) was selected to design the replacement facility. Both firms have **extensive experience in design of hospitals** and assisted living facilities. In September 2000, the design process began.

2000

In January 2001, the Initial Study was issued which defined what would need detailed study in an Environmental Impact Report. As the design proceeded in 2001, work began on the Preliminary Draft Environmental Impact Report (PDEIR).

2001

The PDEIR was issued in December 2001 and was approved by the Planning Commission in June 2002. A subsequent appeal was heard by the Board of Supervisors in August, not upheld and the **final legislation allowing the project to proceed was issued in September 2002.**

Construction of the first phase of the work, consisting of relocation of utilities began in November 2002.

Turner Construction Company/CPM was selected in 2002 as a consultant to the team, providing mainly logistics and cost estimating services. Turner is **one of the largest general contractors in the healthcare sector.**

2002

In December 2002, the **drawings for all the work** associated with the new buildings and the Remodel of the Existing Building were **submitted to the State and Local jurisdictions.** In doing so, the team had met a key legislative deadline. SB1953 and subsequently SB 1128 and 2046, require that the facility submit all drawings before January 1, 2003. By doing so, the **Hospital will qualify for potential reimbursement of capital costs** once the new facilities are in operation.

At the end of 2002, the Board of Supervisors approved legislation to allow the Program to utilize the Construction Manager-at-Risk (CM-at-Risk) approach for project delivery. The approach positions the City to better manage the risk associated with these inherently high-risk projects.

In 2003, an independent firm, Redicheck Pacific was hired to perform a review of the drawings for inconsistencies, specifically coordination between disciplines. Review of the documents continued at the State level and **construction work for the Access Improvement Project** (new roadway), **Utilities Modifications and the Site Work proceeded.** In April 2003, the final cost estimate for the remaining construction work was performed.

2003

In **January 2004, the State issued the first of two building permits** (Increment 1) for the new buildings. In April, Turner, in their new role as CM-at-Risk (General Contractor), did an update on the 2003 cost estimate prepared by the Architect's cost estimating consultant. As a result of the market conditions at that time, the **Commission was advised on June 1, 2004 of a possible \$25M overrun.**

Also at the beginning of 2004, an attempt was made to bid the structural steel and concrete work. Because of the volatility in the market, at that time, no contractors were willing to commit to a lump sum price. Bidding was set for July however, and structural steel and concrete numbers were received. Bids were significantly over budget. The remainder of the bids was scheduled to be received in August 2004. In late July, because of the California Superior Court's decision regarding State Proposition 209, the City's contracting process was put on hold while the City determined the impact on the M/WBE program.

2004

In September, in anticipation of a worsening bid market, **legislation was introduced to allow the City to accept sealed bids in an effort to better negotiate additional value engineering** that the bidders may bring forward. This legislation would work in tandem with the earlier CM-at-Risk Legislation to allow the City to leverage any additional savings through the bid process. It also allowed the City to identify and mitigate potential cost overruns in a competitive environment during the bidding process.

In October the bids were received and were significantly over budget. Analyses of these bid results and the subsequent re-bid results are included later in this report.

In February 2005, the State issued the building permit for Increment 2, completing the permitting process for the new buildings. Permits for the Remodel of the Existing Building and the future site work are still pending.

The second round of bidding has continued into March 2005. Key bid deadlines have been extended to accommodate bidders and maintain the competition. Bids will be valid 90 days from receipt. Current bidders are assuming an April start date. Preparation of the site is being completed in anticipation of the start of the new buildings.

2005

To summarize

Approximately \$56M has been expended to date. The following work has been completed:

- All required planning approvals have been secured.
- Design of the new buildings is complete.
- Legislation was approved to allow for a CM-at-Risk project delivery methodology. Subsequent legislation also allowed submittal of value engineering by bidders.
- All required building permits have been secured from the Office of Statewide Health Planning and Development (OSHPD) for the new buildings.
- Access Improvement Project (new road) at Woodside Avenue is complete.
- Utilities Modifications Project to relocate utilities out of the footprints of the new building is complete.
- Site Work Project to prepare the footprints for the first three buildings in the valley is nearing completion.
- The general contractor is under contract to build the new facility.
- Preliminary planning for the foundation work for the new facility has begun.
- Procurement of equipment to operate the new building is proceeding.
- Proposals for construction insurance have been received and are being evaluated by the Risk Manager's Office.
- A contract for code-required Special Testing and Inspection services to be performed during construction of the new buildings is being certified.
- Furniture, fixtures and equipment have been specified for the new facility.



New Roadway



Testing New Boilers



Footprints for the First Three Buildings

Discussion of the Construction Cost Estimating Process

Because of concerns about the budget from the onset of design, a very deliberate and detailed process was put in place to validate the budget at every stage of design of the project. Consequently, at every stage of design, the scope of the project has been modified to keep the project within budget. A summary of that process is provided here as background information.

Two independent estimates were performed at these stages of design:

- 100% Schematic Design
- 100% Design Development
- 50% Construction Documents

Estimates were performed by A+A/GHCP's cost estimating consultant, Hanscomb, Faithful and Gould (Hanscomb), and by Turner Construction Company (Turner). At each of these stages the two estimators were able to reconcile their costs within 5% of each other. This is an acceptable difference in the construction industry.

Approximately \$17M of utility relocations and site work was bid in 2002 and those bids have come in, at or under the Hanscomb's estimates.

In April of 2003, Hanscomb completed an estimate on the 100% Construction Documents for the new buildings and the Remodel of the Existing Building. The estimate indicated a slight decrease in the cost of the work from the previous 50% Construction Documents estimate. Consequently, a bid contingency was

added to the budget to account for minor market fluctuations on bid day. A second contingency was added for possible scope increases that may be requested prior to bidding. A log of these scope increases was maintained by the A+A/GHCP.

Turner did not estimate the 100% Construction Documents as we had released them from their pre-construction services contract in order to allow them to participate in the General Contractor selection process. Turner was subsequently selected to be the General Contractor.

The bid contingency that was added to the budget based on the Hanscomb 100% Construction Documents estimate approximately equaled the amount of the spread between the Hanscomb estimate and the Turner estimate at the 50% Construction Documents stage.

Therefore, we were confident that the difference that existed between the Hanscomb estimate and the Turner estimate at the 50% Construction Documents stage was being addressed in the 100% Construction Documents estimate. We had also satisfied ourselves that we had taken all reasonable steps to make sure that we were on budget.

For the remainder of 2003, OSHPD continued their review of the documents. Scope was added to the drawings as a result of the State reviews and also as a result of refinements in the design that were discussed with the hospital staff. A+A/GHCP kept careful track of these revisions to the scope of the work. The estimated cost of these revisions was within the amount of the contingency that

had been established for that purpose at the 100% Construction Documents stage.

Prior to beginning the bidding process for the new buildings, we became aware of unprecedented spikes in material prices, particularly, steel. We requested that our General Contractor update their estimate. Their opinion was that the estimated cost of the new buildings is \$40M over budget.

As a result of this information we requested that Hanscomb update their 2003, 100% Construction Documents estimate. A preliminary update shows an overrun of approximately \$30M. The projected increase was a result of instability in material prices, insurance cost increases and scope increases.

Contingencies were included in the 2003 estimate in order to allow for a reasonable and expected escalation, bid fluctuations and scope increases. However, the

amount included, \$22M, was insufficient to deal with what the project is currently experiencing.

A summary of these cost overruns is shown below.

Turner prepared a 100% Estimate submitted in April 2004.

To summarize

- Two independent estimates were prepared at every phase of design.
- \$17M in bids in 2002 came in on budget.
- Project was estimated to be on budget in April 2003.
- \$25M Overrun in construction costs projected in April 2004 because of market conditions and minor scope increases.

SUMMARY OF COST OVERRUNS

Hanscomb updated estimate received in April 2004:

2003 Estimate with Updated Pricing	\$35M
Additional Design Scope/GC's	\$12M
Insurance Premium Increase	<u>\$ 5M</u>
	\$52M

Existing Contingencies:

Assumed Escalation 2003-2004	(\$10M)
Bid Contingency	(\$9M)
Additional Scope Contingency	<u>(\$3M)</u>
	(\$22M)

NET OVERRUN **\$30M**

PROPOSED VALUE ENGINEERING **(\$5M)**

REMAINING OVERRUN **\$25M**

Overview of Current Market Conditions

At the beginning of 2004, our general contractor advised us of volatility in the structural steel market. In March, we attempted to bid the structural steel bid package but bidders were unwilling to commit to a lump sum price because of the unstable material market conditions.

This volatility soon spread to other construction materials. By mid-summer, significant cost increases were being predicted as a result of not only material

cost increases but also because of labor costs increases.

When the Laguna Honda Hospital Replacement Program began design, the cost per square foot for conceptual estimating for a skilled nursing facility was under \$300. Our general contractor, Turner Construction, is now advising clients to use \$450. Refer to Turner's letter excerpted below.

Based on bids results to date the cost per square foot for the facility is \$445. Refer to A+A/GHCP's letter excerpted below.

The healthcare marketplace has changed dramatically in the last 15-18 months. Given the cost pressures cited above, if an owner were to ask our opinion of the cost per square foot of a healthcare facility, in today's dollars, we would estimate a baseline of \$450/square foot versus to \$325/square foot costs we saw 15-18 months ago.

Excerpt from Turner's letter dated March 7, 2005

estimates developed nine to eighteen months ago elsewhere vary between 20% and 30%. This change affects public and private owners, every architectural-engineering team, different general contractors, a variety of project sizes, and all regions of the state. A few examples demonstrate the trend (prices exclude site work and remodeling):

Project	Owner	Location	Size	Last year's estimate	2004 cost	Change	Status
Laguna Honda	public	San Francisco	720,000 sf	4/03: \$285.4/sf	10/04: \$443.1/sf	55.2%	bid
Hospital A	private	Northern Cal	440,000 sf	4/04: \$404.5/sf	11/04: \$518.2/sf	28.1%	est.
Hospital B	public	Southern Cal	160,000 sf	'03: \$230.7/sf	'04: \$283.7/sf	22.9%	bid
Hospital C	private	Northern Cal	340,000 sf	12/03: \$315.8/sf	9/04: \$397.0/sf	25.7%	bid
Hospital D	private	Northern Cal	386,000 sf	12/03: \$312.6/sf	9/04: \$414.5/sf	32.6%	bid
Hospital E	private	Northern Cal	458,000 sf	12/03: \$288.9/sf	10/04: \$354.6/sf	22.7%	est.

% is higher because the time period is greater. See chart below.

Excerpt from Anshen+Allen Architects Gordon H Chong & Partners' letter dated November 4, 2004

BACKGROUND

The escalation rates shown in A+A/GHCP's letter above are recast below as an escalation rate per month. As you can see, the rate for Laguna Honda Hospital is close to the average.

Project	Date of Previous Estimate	Current Bid	Percent Escalation	Number of Months	Escalation per Month
Laguna Honda	Apr-03	Oct-04	52.2%	18	2.9%
Hospital A	Apr-04	Nov-04	28.1%	7	4.0%
Hospital B	Jan-03	Jan-04	22.9%	12	1.9%
Hospital C	Dec-03	Sep-04	25.7%	9	2.8%
Hospital D	Dec-03	Sep-04	32.6%	9	3.6%
Hospital E	Dec-03	Oct-04	22.7%	10	2.3%
Average monthly escalation					2.9%

The following chart from Rudolph and Sletten, another large healthcare general contractor shows an estimated 28.5% increase in healthcare construction costs in the last 14 months. This is an average

rate of escalation of 2% per month. Rudolph and Sletten is now using a cost per square foot of \$415 for conceptual estimating for skilled nursing facilities.

3/7/2005



Hospital Construction

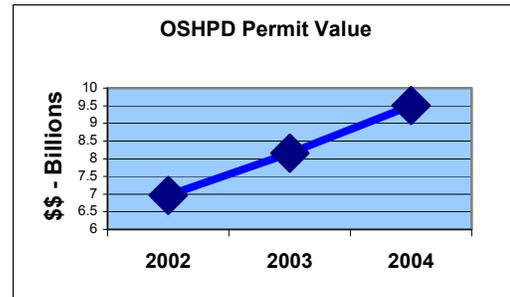
MATERIAL & MARKET TRADE PRICE IMPACT SINCE NOVEMBER 2003 to JANUARY 2005

MAJOR TRADES	Material Price Increase	Material % To Trade Value	% Increase of Matl. On Trade Value	% of Total Building Cost	Trade Value at 100% C.D. Estimate	% Increase to Total Bldg. Cost Due to Material Price Hike	% Increase to Total Bldg. Cost Due to Trade Conditions	Theoretical Building Cost Impact Due to Material Inflation Only	Theoretical Building Cost Impact Due to Market Trade Hike
Steel Reinforcing	48%	50%	20%	1.5%	2,455,976	1.02%	0.10%	409,329	123,416
Structural Steel	40%	35%	14%	10%	17,200,000	1.40%	0.30%	2,112,281	434,535
Metal Deck	25%	60%	15%	0.8%	1,350,840	0.12%	0.15%	176,197	190,133
Steel Stairs Misc. Metals/Supports	50%	20%	10%	2%	3,200,000	0.2%	0.71%	290,909	766,063
H.M. Windows, Doors & Frames	20%	20%	4%	0.6%	917,166	0.024%	0.06%	35,276	80,544
GFRC	45%	10%	4.5%	1.9%	3,132,209	0.086%	1.83%	134,880	1,468,769
Interior Metal Studs & Drywall	115%	35%	40.25%	10%	23,666,603	4.025%	5.35%	6,792,020	5,884,695
Exterior Metal Studs Lath & Plaster	110%	32%	35.20%	1.6%	2,700,000	0.563%	0.69%	702,959	604,353
Architectural Sheetmetal	38%	35%	1.33%	0.48%	807,349	0.006%	0.14%	10,597	178,571
Acoustical Ceiling	40%	15%	6%	1.3%	3,075,145	0.078%	0.43%	174,065	725,998
Plumbing & Medical Gases	40%	28%	11.2%	9.1%	15,200,000	1.019%	0.78%	1,530,935	1,076,485
Fire Protection	45%	25%	11.25%	1.1%	1,825,000	0.124%	0.31%	184,551	358,296
HVAC	35%	20%	7%	16.1%	26,853,873	1.27%	5.96%	1,756,795	6,780,598
Electrical	150%	5%	7.5%	10.4%	17,281,646	0.775%	1.77%	1,205,696	2,338,590
IMPACT ON BUILDING COSTS BY MAJOR TRADES				66.88%	110,684,143	9.99%	18.59%	13,269,452	21,011,046

28.58%
INCREASE

Some of the factors that are driving the costs are

- Inflation in the general construction market.
- Construction material costs have increased 10%-60% in 2004.
- Labor increases are anticipated in 2005.
- Demand for contractors has significantly increased. Total construction volume is up 16% this year approaching 1999-2000 levels.
- Inflation in the healthcare construction market.
- 450 Acute Care Hospitals in California are required to comply with SB 1953.

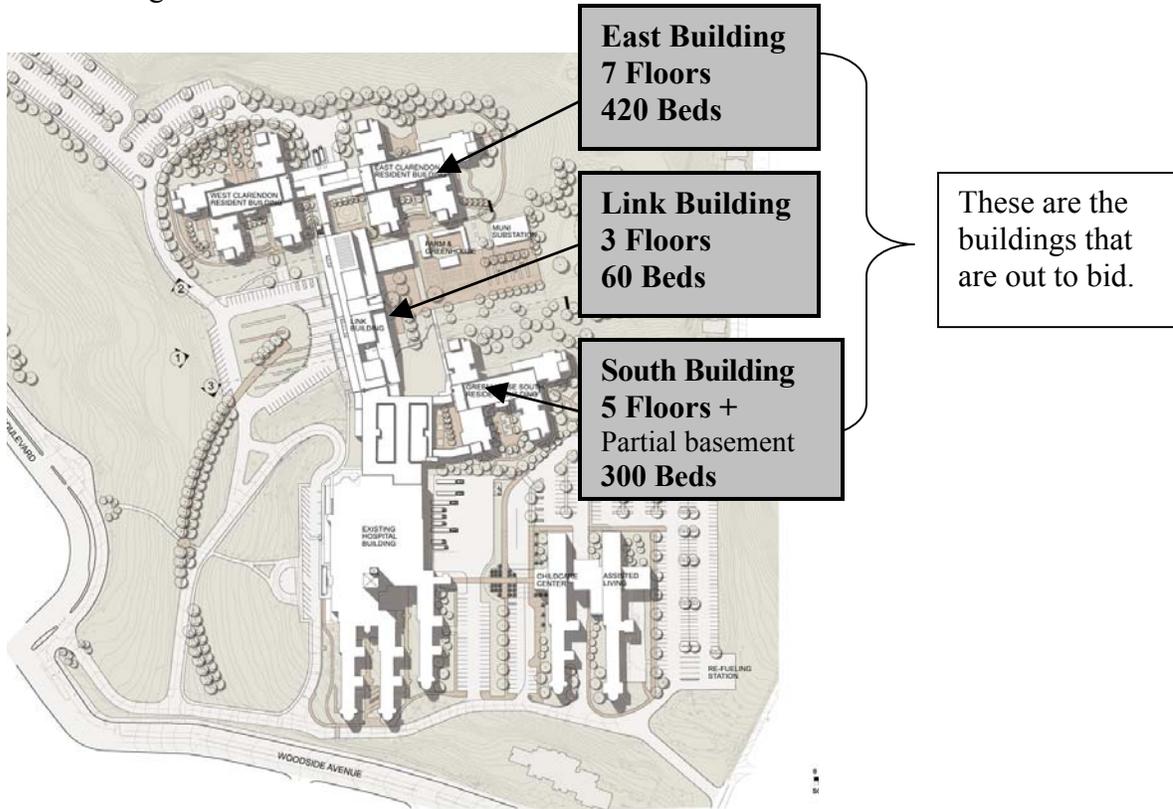


To Summarize

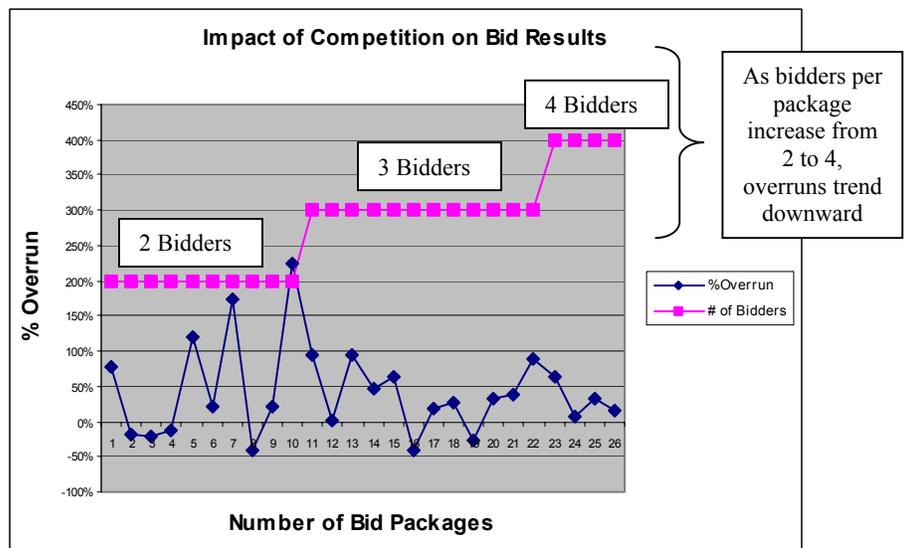
- Healthcare projects are seeing average increases in escalation of between 2% and 3% per month in the last 12-18 months.
- It is a bidders market for large, complex, hospital projects.
- Cost per square foot for skilled nursing facilities has gone from under \$300 per square foot in 2003 to over \$400 per square foot today.

Review and Analysis of First Round of Bid Results

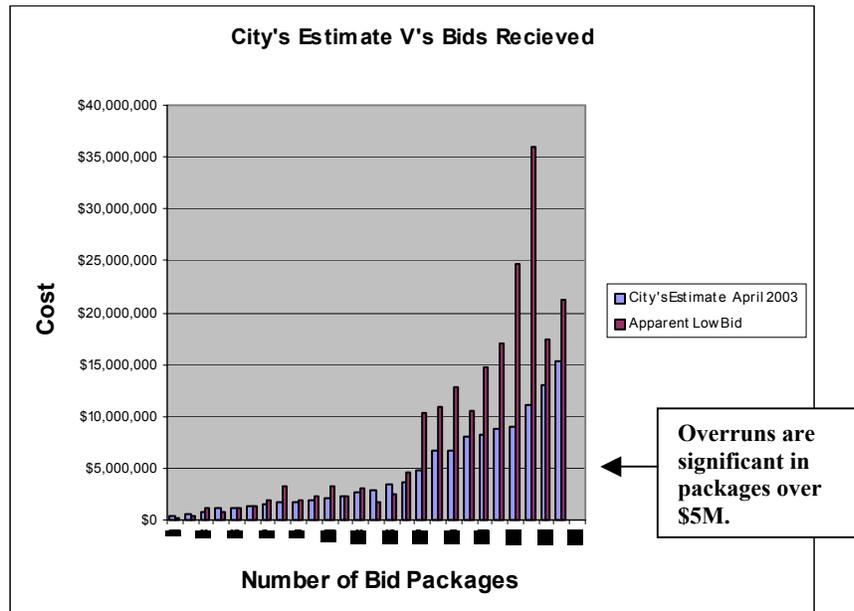
Of the 26 bids received in the first round, 13 were on budget and 13 were significantly over budget. In general, bids were trending 32% over the 2003 budget.



In general, the percentage overruns trend downward when more bidders are bidding on a package.



Overruns are significant on bid packages over \$5M.



To Summarize

- The Laguna Honda Hospital Replacement Program is a large public works hospital project and as such is perceived as higher risk.
- There is a correlation between size of package and percentage overrun. Size of packages may be driving up the cost and the larger packages will be broken up. Re-bid larger packages by building rather than by phase.
- There is a correlation between the number of bidders and the amount of the overrun. An additional effort will be made to reach out to more bidders.

Review and Analysis of the Second Round of Bid Results

We have divided the first round of bids into two broad categories:

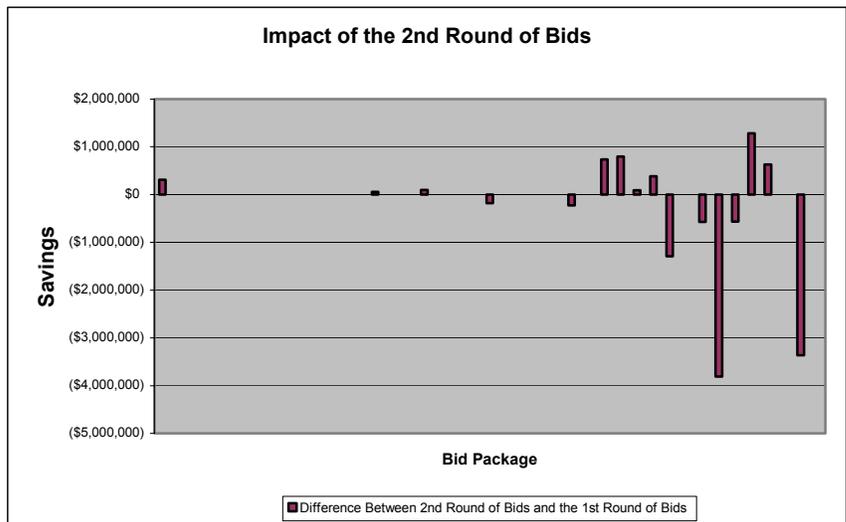
1. Packages where we felt we had adequate competition and wanted to pursue value engineering proposals and,
2. Packages where we felt we did not have adequate competition and it was necessary to repackage the work into multiple packages.

As can be seen in the chart on the right, to date, the second round of bids has reduced the cost of the work from \$205M to \$199.5M for a savings of \$5.5M. The second round total of \$199.5M still represents a \$50M increase over the \$149M original estimate. That overrun represents 34% of the original estimate.

LAGUNA HONDA HOSPITAL REPLACEMENT 1ST AND 2ND ROUND BID RESULTS

#	City's Estimate April 2003	1st Round	2nd Round	Overrun Amount	% Over
1	\$941,000				
2	\$25,658,500				
3	\$2,228,210				
4	\$2,017,940				
5	\$1,297,000				
6	\$1,300,000				
7	\$3,506,130				
8	\$1,174,000				
9	\$300,746				
10	\$1,072,540				
11	\$505,300				
12	\$1,422,175				
13	\$240,000				
14	\$65,200				
15	\$2,586,810				
16	\$9,154,000				
17	\$1,136,925				
18	\$753,060				
19	\$8,305,665				
23	\$8,761,287				
26	\$2,812,565				
27	\$1,503,675				
28	\$1,634,075				
29	\$3,693,580				
30	\$4,707,440				
33	\$13,061,000				
34	\$9,060,000				
35	\$1,632,445				
36	\$8,404,000				
42	\$2,176,865				
43	\$12,581,000				
44	\$6,762,870				
50	\$8,871,624				
	\$149,327,626	\$205,093,830	\$199,476,847	\$50,149,221	34%

As mentioned above and indicated in the chart to the right, there were savings resulting from the re-bid process. However, the re-bid process was not successful in mitigating the general market trends driving escalation in the healthcare sector.



BID RESULTS

IMPACT OF BID RESULTS ON THE FIRST THREE BUILDINGS

There are still trade packages for which we still have not received bids. These are pending.

The chart on the right shows this pending work.

In general, and these numbers are estimates, of the approximately \$326M of total work for Phases 1 through 3, the Program is trending \$84.5M or 26% over that budget.

Phases 1 through 3 as shown in this chart, include the South, Link and East Buildings; Professional Services, Permit and Fees, and the matching funds set aside for the Assisted Living.

#	City's Estimate April 2003	1st Round	2nd Round	Overrun Amount	% Over	OVERRUN PROJECTION		
						PROJECTED ADDITIONAL COSTS	CUMULATIVE ESTIMATED OVERRUN	% OVERRUN
1	\$941,000							
2	\$25,658,500							
3	\$2,228,210							
4	\$2,017,940							
5	\$1,297,000							
6	\$1,300,000							
7	\$3,506,130							
8	\$1,174,000							
9	\$309,746							
10	\$1,072,540							
11	\$505,300							
12	\$1,422,175							
13	\$240,000							
14	\$65,200							
15	\$2,586,810							
16	\$9,154,000							
17	\$1,136,925							
18	\$753,060							
19	\$8,305,665							
23	\$8,761,287							
26	\$2,812,565							
27	\$1,503,675							
28	\$1,634,075							
29	\$3,693,580							
30	\$4,707,440							
33	\$13,061,000							
34	\$9,060,000							
35	\$1,632,445							
36	\$8,404,000							
42	\$2,176,865							
43	\$12,581,000							
44	\$6,762,870							
50	\$8,871,624							
	\$149,327,626	\$205,093,830	\$199,476,847	\$50,149,221	34%		\$50,149,221	34%
PENDING BIDS								
45	\$3,039,950							
46	-\$513,605							
47	\$2,777,000							
	\$1,500,000							
	\$11,929,000							
	\$2,160,622							
	\$214,345							
	\$259,170							
	\$267,000							
	\$21,633,482	\$51,722,695	\$51,722,695	\$30,069,213	139%		\$80,238,434	47%
FUTURE BIDS								
	\$197,203					\$100,000		
	\$590,875					\$600,000		
	\$1,575,395							
	\$17,115							
	\$1,916,880							
	\$189,080					\$100,000		
	\$8,335,057					\$0		
	\$0					\$3,014,395		
	\$1,989,788					\$500,000		
	\$6,469,631					\$0		
	\$11,197,538					\$0		
	\$1,768,333					\$0		
	\$30,714,174					\$0		
	PROFESSIONAL SERVICES, PERMITS					\$0		
	ASSISTED LIVING					\$0		
	\$15,000,000					\$0		
	\$325,922,177					\$4,314,395	\$84,552,828	26%

Impact of These Bid Results on the Scope of the Replacement Program

The chart below shows that Bid Phases 1, 2 and 3 were originally estimated at \$326M (April 2003).

Bid Phases 4, 5 and 6 were originally estimated at \$75.6.

Therefore, the combined budget of all phases 1 through 6 is the original total budget of \$401.6M.

Bid Phases 1, 2, and 3 are currently estimated to be \$84.5M or 26% over their budget of \$326M, bringing the new total for these phases to \$410.5M.

Bid Phases 4 and 5 contain elements that

facilitate operation of the new facility and therefore they must proceed. For example, the new loading dock for the entire campus is constructed in these phases.

The West Building in Bid Phase 6 could be deferred with relatively minor redesign effort and not impact the operation of the new facility.

The estimates for these phases, 4 through 6, were made in 2003 with historical escalation assumptions and have not been escalated to reflect current market conditions.

Therefore, excluding the West Residence, the estimate of work that must proceed so that the facility can operate as designed is \$433.5M, before escalation of Bid Phases 4 and 5. With escalation for these phases, the number is probably in the range of \$445M.

Scope Description					OVERRUN ANALYSIS			REVISED COST
	City's Estimate April 2003	2nd Round	Overrun Amount	% Over	PROJECTED ADDITIONAL COSTS	CUMULATIVE ESTIMATED OVERRUN	% OVERRUN	
PHASE 1 SOUTH, LINK AND EAST BUILDINGS								
1st and 2nd ROUND TOTAL	\$149,327,626	\$199,476,847	\$50,149,221	34%		\$50,149,221	34%	
TOTAL PENDING	\$21,633,482	\$51,722,695	\$30,089,213	139%		\$80,238,434	47%	
FUTURE BID	\$4,486,548				\$800,000			
PROJECT INSURANCE	\$8,335,057				\$0			
SUBCONTRACTOR BONDING (SUBGUARD)	\$0				\$3,014,395			
GENERAL CONTRACTOR BONDING	\$1,989,788				\$500,000			
CONTINGENCIES								
CONSTRUCTION	\$6,469,631				\$0			
CHANGE ORDERS	\$11,197,538				\$0			
CONSTRUCTION ADMINISTRATION	\$1,768,333				\$0			
OTHER CONSTRUCTION PROJECTS	\$30,714,174				\$0			
PROFESSIONAL SERVICES	\$75,000,000				\$0			
ASSISTED LIVING	\$15,000,000				\$0			
TOTAL FOR PHASES 1 THROUGH 3	\$325,922,177				\$4,314,395	\$84,552,828	26%	\$410,475,006
FUTURE CONSTRUCTION WORK								
BID PHASE 4 FUTURE								
Remodel	\$12,998,000							
BID PHASE 5 FUTURE								
Site 3 Package	\$10,082,000							
BID PHASE 6 FUTURE								
West Residence	\$52,393,000							
PROGRAM TOTAL	\$401,395,177							

Estimate of Work that must proceed for the facility to operate as designed is \$433.5M (before escalation of bid phases 4 & 5)

Wait for a More Stable Market?

The question is whether or not we think this bid market is likely to improve.

Material escalation, while not reversing, has at least leveled off. For this reason, we did, for example, re-bid structural steel and did see a slight improvement in the result.

Labor increases cannot be mitigated at the project level.

We have attempted to address the lack of trade contractors bidding the work by breaking down packages into smaller components in an effort to attract more bidders. However, while there has been financial benefits to this approach, as indicated earlier, we have not been successful in mitigating the general market trends driving escalation in the healthcare sector.

It is unlikely that the bid pool will increase in the near term. In fact, our general contractor has been informed that a major structural steel subcontractor and a major mechanical subcontractor have recently decided not to bid any future hospital projects.

Therefore, while we cannot predict future trends, it seems unlikely that the bid market will change for the better and it may continue to deteriorate.

Redesign the facility?

The current cost per square foot for the facility appears in line with the market and given the Program's history of multiple value engineering reviews, there would be no gain in revisiting the design for further

economies. The additional design costs and delay while seeking regulatory approvals of a revised design would offset any potential gains.

Recommendation for Moving Forward With the Current Design and Bids

Therefore, if we eliminate the option of waiting for a more stable market and the option of redesigning the facility, this leads us to proceeding with the bids we have.

The question then becomes how do we proceed in a way that provides the most flexibility, recognizing that we have insufficient funds for a full build out now?

A key consideration is that we proceed with those elements of the Replacement Program that must be in place for the new facility to operate. These critical elements are:

- South Building, which contains the PBX room, the IT Server room and the acute care beds.
- Link Building, which contains the electrical switchgear, fire alarm panel, fire pumps, entry point for domestic water, kitchen, clinics, rehabilitation spaces, and public spaces.
- Remodel and Site Work 3 (Bid Phases 4 and 5), which contain the loading dock and the connection from the existing building to the new Link building.

As we discussed in the previous section, the estimated cost for the critical elements listed above (South, Link, Remodel and Site Work 3) plus the East Building, is in the range of \$445M. This exceeds our budget by over \$40M.

Therefore, our recommendation is as follows:

Proceed with the critical elements: South Building and Link Building now; (refer to the graphic on the right), Remodel and Site Work 3 in the future.

Defer the East Building. There would be insufficient funds to build the entire seven floors after funds were assigned to the critical elements above. This will leave some funding in the Program for the East Building but not enough for the entire seven floors. However, when additional funding becomes available, construction of the entire building could proceed at that time.

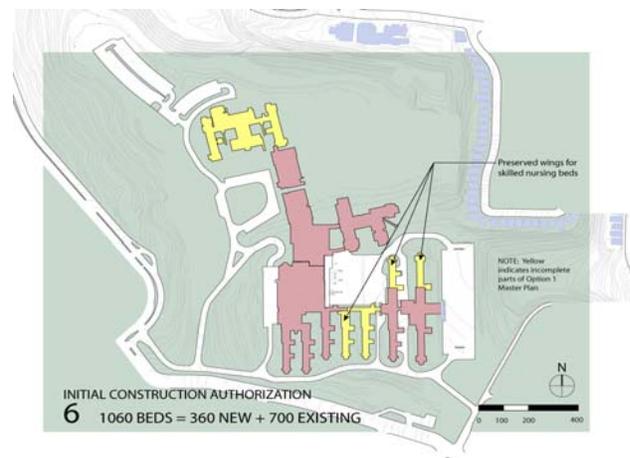
Defer the West Building until additional funding is available. Again, this approach preserves the options for a full build out should funding become available. The West Building is not scheduled to be built until after the South Building is complete. This would put the start date approximately in early 2008.

Current bidders were asked to price all three buildings (South, Link and East). They were also told to plan on an April start date. The recommended approach outlined above was not contemplated when these bid instructions were issued. Therefore, the Replacement Team will need to decide how best to implement this approach with the bidders.

Conclusion

This recommendation has the following advantages:

- Allows us to proceed with the South and Link buildings for which we have received bids.
- Allows us to proceed with the South and Link Buildings, which are critical



to the operation of the entire Replacement Program.

- Allows us to proceed with the other critical elements: Remodel and Site Work 3 in the future. In the meantime, we can update their estimates.
- Leaves some funding unassigned in the near term, which can be used for the East Building.
- Allows the opportunity to pursue additional funding to complete the Replacement Program.

Attached is a draft resolution for the Commission's consideration. It seeks your concurrence with this recommendation for moving forward. I would respectfully request that a final version of this resolution be formally considered by the Commission at a future meeting.

Resolution:

DRAFT

WHEREAS, Proposition A passed by a 73% majority of San Francisco voters in November 1999; and

WHEREAS, Proposition A stated that the City shall replace Laguna Honda Hospital; and

WHEREAS, the City, through the Department of Public Works (DPW) as the contracting officer, designed a replacement facility; and

WHEREAS, this replacement facility included 1200 beds located in four new buildings; and

WHEREAS, the budget for said replacement facility is \$401.6M; and

WHEREAS, market conditions in the healthcare construction sector have made it impossible to build a 1200 bed facility for this budget; and

WHEREAS, DPW is of the opinion that market conditions will not improve in the near term; and

WHEREAS, DPW is furthermore of the opinion that there would be no gain in revisiting the design for further economies; and

WHEREAS, DPW has determined that the best course of action is to proceed with the bids received; and

WHEREAS, DPW has determined that proceeding with the South Building and the Link Building with no reductions in their scopes can be achieved within the budget; and

WHEREAS, DPW has determined that proceeding in this manner will allow for future construction of the East Building and the West Building; and

WHEREAS, proceeding in this manner also allows time to identify additional funding for completing the East and West Buildings; and

WHEREAS, the Commission supports such efforts to investigate options for completing the East and West Buildings; now, therefore, be it

RESOLVED, that the Health Commission of the City and County of San Francisco concurs with the Department of Public Works' recommendation to proceed with construction of the South and Link Buildings and any associated work with no scope reductions; and be it

FURTHER RESOLVED, that the Department of Public Health will bring forward, as soon as possible, options on completion of the replacement facility, for the Health Commission to consider.