

**VII. STANDING COMMITTEES****B. Finance, Audit and Facilities Committee****University of Washington Medical Center Expansion Project (Phase 1): Project Presentation, Establish Budget, Approve GC/CM, Issuance of Short-term Notes and Delegated Authority to Award Contract****RECOMMENDED ACTION:**

It is the recommendation of the administration and the Finance, Audit and Facilities Committee that the Board of Regents approve:

1. the Phase 1 project budget be established at \$170,000,000;
2. the use of alternative public works utilizing the General Contractor /Construction Manager (GC/CM) method of contracting;
3. the Phase 1 project schematic design;
4. financing the construction of the project through the issuance of up to \$170 million in short term notes (commercial paper) and the issuance of long term debt in the amount required to pay off the notes when UW General Revenue bonds are next issued; and
5. delegation of authority to the President or his designee to:
  - a. award the GCCM construction contract to Skanska USA Building Inc., subject to the scope, budget and funding remaining within 10% of the established budget,
  - b. execute documents as required to complete the interim and permanent financings, including the authority to set maturities and roll periods for the short term notes and enter into a rate lock prior to obtaining permanent financing.

**BACKGROUND:**

The University of Washington Medical Center (UWMC) has determined that it must undertake a physical expansion in order to provide critically needed inpatient units, teaching and resident support space to meet existing and planned patient care, training and medical school admissions requirements. A 2005 Comprehensive Facility Study determined that UWMC will require up to 260,000 GSF of new space to meet its needs through 2015.

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In order to meet the majority of its expansion needs, UWMC proposes to construct a new building addition spanning Columbia road to the south of and contiguous to the existing Medical Center.

At the May 2006 Board of Regents meeting, the President was delegated authority to award a design contract to Anshen & Allen. Following Predesign, the administration was unable to reach an acceptable design contract with Anshen & Allen. At its June 2007 meeting, the BOR approved the award of the design contract to NBBJ.

#### SCOPE OF THE PROJECT

The UWMC Expansion Project is envisioned in two phases, together coming as near as possible to the needs identified in the Comprehensive Facility Study.

Phase 1 (this project) includes a five-story hospital addition of approximately 163,000 GSF, including a mechanical/electrical mezzanine level and mechanical basement and penthouse spaces configured to accommodate a future vertical expansion; approximately 10,000 GSF of loading dock and interior renovations and connections to the existing hospital towers; and substantial on-site emergency power, chilled water and oxygen system infrastructure.

Phase 1 will provide a new Neonatal Intensive Care Unit, a 32 bed adult surgical oncology unit, diagnostic imaging expansion, shelled space for eight future operating rooms, a reconfigured loading dock, and mechanical and electrical infrastructure for current and future expansion needs..

Phase 2 (a future project) would add up to four additional floors for acute care nursing units.

See attachments 1 and 2 for a site plan and section through the proposed project.

#### SCHEDULE

A primary objective of this project has been to commence early construction activities prior to mobilization by Sound Transit for construction of its new University station. With this objective in mind, the president has previously authorized proceeding with the design pending approval of the project by the BOR. The General Contractor/Construction Manager (GC/CM) selection process

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has also been undertaken to ensure that the builder is able to join the project team as quickly as possible following project approvals. Key project milestones are as follows:

Current Architect Selection	June 2007
Pre-design	Completed September 2007
Schematic Design	Completed January 2008
GC/CM Selection	February 2008
Design Completion	January 2008 through July 2009
Construction	January 2009 through June 2011
Occupancy and Use	September 2011

### PROJECT BUDGET

The total project budget request is for \$170,000,000. This figure consists of the capital project budget of \$165,500,000, as outlined in Attachment 3, plus \$4,500,000 for UWMC equipment purchases outside of the capital budget. This project budget is based upon the Architect's Schematic Design estimate. In addition to the architect's estimate, this budget includes input from the contractor and a third party estimating firm. The budget has also been reviewed by CPO estimating staff.

### CONTRACTING STRATEGY

The recommendation of the Capital Projects Office (CPO) is to use the alternate public works contracting procedure, General Contractor/Construction Manager (GC/CM), authorized by RCW 39.10 for construction of this project. The use of a GC/CM has been absolutely critical to the success of the University's large and complex projects. During design the GC/CM will be able to provide detailed construction scheduling, input into procedures and specifications considering patient health and safety, input into design constructability issues, coordination of construction documents, determining construction logistics and needed lay-down areas, providing detailed cost estimates and investigation of existing construction as-built conditions. To help meet the overall project schedule, the GC/CM is able to bid out and start construction on early work packages before all of the project construction documents are 100% complete if there are compelling reasons to do so. In today's rapidly escalating construction costs market, the GC/CM has been integral in developing cost savings incrementally rather than waiting for a total construction bid number. The intent is to have a GC/CM chosen and under

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contract for preconstruction services very soon after the completion of the schematic design.

#### GC/CM SELECTION PROCESS

A solicitation for GC/CM proposals was issued by CPO in October 2007. Five firms responded to the solicitation. Four of the firms were invited to interviews conducted on December 6, 2007. Following the interviews, three firms were invited to submit final proposals. The three firms on the shortlist were:

Hoffman Construction Company  
Mortenson Construction  
Skanska USA Building Inc.

Final proposals were received from the three shortlisted firms on February 1, 2008. Based on the final tabulation of scores, as shown on Attachment 4, the highest scoring firm is Skanska USA Building Inc. Subject to BOR approval, CPO intends to enter into preconstruction and construction agreements with Skanska. Skanska's bid for Fee and Specified General Conditions was \$8,059,000, which is approximately 20% below the CPO budget estimate.

Skanska USA Building Inc. is a highly capable construction manager and builder. They have a depth of experience in complex hospital and laboratory construction, including the UWMC Pacific Tower Renovation, UW Health Sciences' G and H-Wing Renovations, and Virginia Mason's 10-story hospital addition. In addition, they have completed other UW projects such as Johnson and Guggenheim Halls and a large number of local high profile projects, including McCaw Hall at the Seattle Center.

#### FINANCING PLAN AND CREDIT ANALYSIS

The \$170M project will be funded with \$160M in General Revenue Bonds and \$10M from Medical Center reserves. The debt will be repaid over a 30 year term from medical center patient revenues. Debt service coverage is expected to average about 2.5 to 3.0 times over the ten year planning period. The operating margin percentage is projected to average just under 3% over the same period.

In May 2007, UW Treasury Office, in conjunction with UW Medicine, performed a credit analysis for UW Medicine as part of the due diligence for this borrowing. The analysis was updated in January 2008.

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The May analysis highlighted the potential impact of four risks in addition to the project itself. They are:

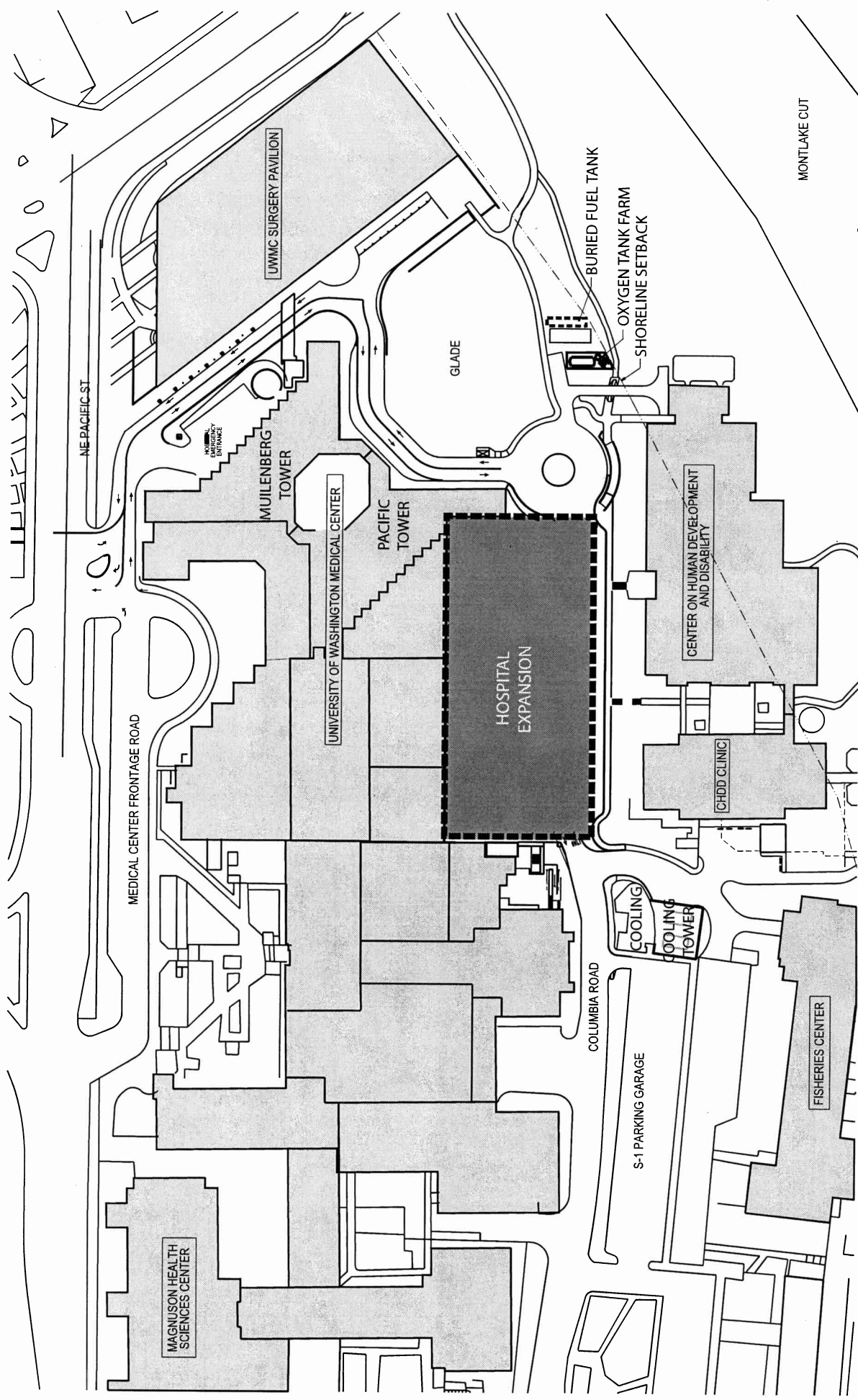
- 1) Disruption associated with Sound Transit construction lowers outpatient growth by 5%, recovering over 5 years.
- 2) The billing system implementation is delayed causing 25-day increase in accounts receivable for 2 years.
- 3) UWMC captures only 75% of planned revenue and expense initiatives.
- 4) SLU Phase 2 achieves only 75% of planned occupancy.

If UW Medicine simultaneously experienced the impact associated with these risks, it would reduce their total free cash flows from \$24 million over the next five years to break even. Although this is possible it is very unlikely to occur and represents a worst case scenario.

Recent progress on the billing system conversion and other system projects, success in implementing hospital expense and revenue initiatives, and new tenant commitments at the SLU Phase II project has reduced the risks associated with the UWMC expansion project. As a result, the conclusions and recommendations outlined in the May report are unchanged. They are:

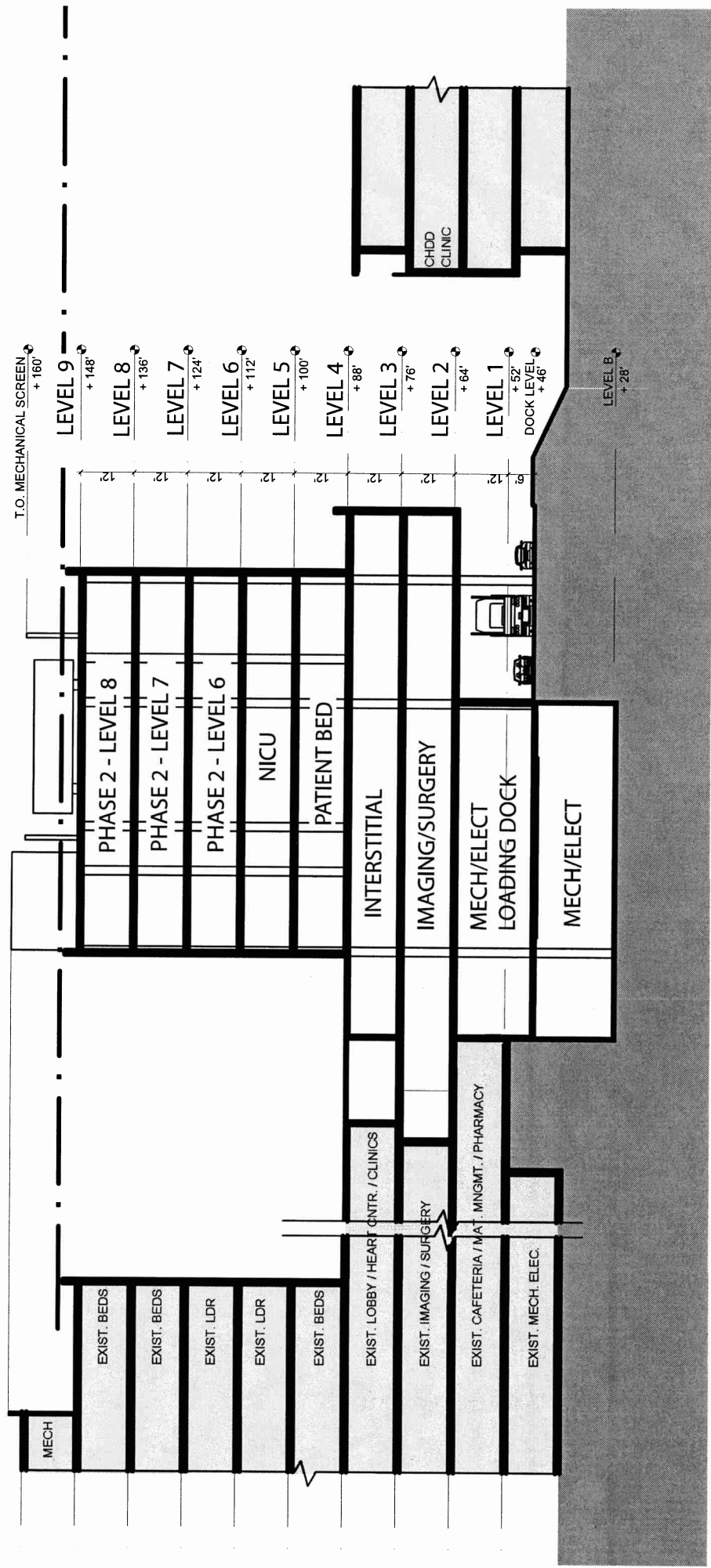
- 1) Senior management should recommend Board approval of the hospital expansion project, and
- 2) Undertake evaluation of alternative funding and business models to better position the hospital and the University over the long-term.

Attachment 1 Project Site Plan  
Attachment 2 Project Section  
Attachment 3 Project Budget  
Attachment 4 GC/CM Selection Tabulation Form  
Attachment 5 10 Year Financial Proforma



# Attachment 1

01 COMPOSITE SITE PLAN



# Attachment 2

**UNIVERSITY OF WASHINGTON  
CAPITAL PROJECTS OFFICE - SUMMARY PROJECT BUDGET  
ALTERNATIVE PROCUREMENT (GC/CM OR D-B)**

## Attachment 3

PROJECT: UW Medical Center Expansion Project

Project Number: 201385

ESTIMATED DATE OF COMPLETION:

<u>Project Budget</u>	<u>Total Escalated Cost*</u>	<u>% of TPC</u>
Pre-Schematic Design Services	\$ 1,977,000	1.19%
A/E Basic Design Services	\$ 10,250,000	6.19%
Extra Services	\$ 4,950,000	2.99%
Other Services	\$ 2,367,000	1.43%
Design Services Contingency	\$ 400,000	0.24%
<b>Consultant Services</b>	<b>\$ 19,944,000</b>	<b>12.05%</b>
GC/CM Construction Cost	\$ 99,836,000	60.32%
Other Contracts	\$ -	0%
Construction Contingencies	\$ 17,644,000	10.66%
Sales Tax	\$ 10,850,000	6.56%
<b>Construction</b>	<b>\$ 128,330,000</b>	<b>77.54%</b>
Equipment	\$ 10,000,000	6.04%
Artwork	\$ -	0.00%
Other Costs	\$ 3,767,000	2.28%
Project Management	\$ 3,459,000	2.09%
<b>Other</b>	<b>\$ 17,226,000</b>	<b>10.41%</b>
<b>Total Project Cost (TPC)*</b>	<b>\$ 165,500,000</b>	<b>100.00%</b>
<b><u>Included in Above:</u></b>		
Escalation through April 2010	\$ 17,000,000	10.27%
<b><u>Source of Funds:</u></b>		
Client Funds	165,500,000	100.00%
<b>Total</b>	<b>\$ 165,500,000</b>	<b>100.00%</b>





**UWMC Expansion 201385  
GC/CM Selection- Tabulation Form  
Attachment 4**

Capital Projects Office

<b>GC/CM Name</b>	<b>Skanska</b>	<b>TCCO</b>	<b>Mortenson</b>	<b>Hoffman</b>	<b>Lewis</b>
	<b>Proposal Evaluations - 11.16.2007</b>				
Reviewer A	44.0	38.0	50.0	43.0	24.0
Reviewer B	47.0	48.0	46.0	46.0	44.0
Reviewer C	40.0	42.0	43.0	42.0	36.0
Reviewer D	45.0	45.0	47.0	49.0	41.0
Reviewer E	43.0	42.0	42.0	41.0	32.0
Reviewer F	49.0	47.0	47.0	45.0	47.0
<b>Average Score (max. 50)</b>	<b>44.67</b>	<b>43.67</b>	<b>45.83</b>	<b>44.33</b>	<b>37.33</b>
<b>Interviews - 12.6.2007</b>					
Reviewer A	35.0	30.0	35.0	35.0	
Reviewer B	33.0	31.0	32.0	33.0	
Reviewer C	29.0	29.0	32.0	31.0	
Reviewer D	31.0	28.0	32.0	30.0	
Reviewer E	30.0	25.0	30.0	31.0	
Reviewer F	31.0	29.0	33.0	32.0	
<b>Average Score (max. 35)</b>	<b>31.50</b>	<b>28.67</b>	<b>32.33</b>	<b>32.00</b>	
<b>Total Proposal and Interview</b>	<b>76.17</b>	<b>72.33</b>	<b>78.17</b>	<b>76.33</b>	
<b>Final Proposals - 2.1.2008 (\$90,000,000 MACC)</b>					
Contractor's Fee Percentage	4.50%		5.60%	5.90%	
Contractor's Fee Amount	4,050,000		5,040,000	5,310,000	
Specified General Conditions Amount	4,009,000		4,398,226	3,575,000	
Final Proposal Bid Number	8,059,000		9,438,226	8,885,000	
Low Conforming Proposal	8,059,000		8,059,000	8,059,000	
Difference	0		1,379,226	826,000	
Percentage Within Low Proposal	0.00%		17.11%	10.25%	
<b>Proposal Score* (max. 15)</b>	<b>15</b>		<b>5</b>	<b>9</b>	
<b>Total Score (max. 100)</b>	<b>91.17</b>		<b>83.17</b>	<b>85.33</b>	

**Final Proposal Scoring Key\***

Low Conforming Proposal	<b>15 points</b>
Proposals within 5% of Low Proposal	<b>14 points</b>
Proposals within 10% of Low Proposal	<b>12 points</b>
Proposals within 15% of Low Proposal	<b>9 points</b>
Proposals within 20% of Low Proposal	<b>5 points</b>
Others	<b>0 points</b>

**Final Ranking**

<b>1st</b>	<u><b>Skanska</b></u>
<b>2nd</b>	<u>Hoffman</u>
<b>3rd</b>	<u>Mortenson</u>
<b>4th</b>	<u></u>

**UW Medical Center - Ten Year Proforma 2007 - 2017**

(\$ in millions)	Audited	Budget	UWMC Projected								
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Operating revenue	621.4	651.4	685.0	718.0	759.0	803.0	848.0	897.0	950.0	1,006.0	1,065.0
Operating expense	588.6	624.3	658.0	692.0	728.0	775.0	817.0	861.0	907.0	962.0	1,019.0
Interest expense	5.2	7.8	4.8	5.0	5.0	13.5	13.2	12.8	12.4	11.9	16.3
<b>Operating Margin</b>	27.6	19.3	22.2	21.0	26.0	14.5	17.8	23.2	30.6	32.1	29.7
<b>Operating Margin %</b>	4.4%	3.0%	3.2%	2.9%	3.4%	1.8%	2.1%	2.6%	3.2%	3.2%	2.8%
Nonoperating income	9.9	5.6	6.5	6.6	7.2	8.4	8.8	9.5	10.6	10.8	10.9
<b>Net Income</b>	37.6	24.9	28.7	27.6	33.2	22.9	26.6	32.7	41.2	42.9	40.6
<b><u>Debt Service Coverage</u></b>											
Net income	37.6	24.9	28.7	27.6	33.2	22.9	26.6	32.7	41.2	42.9	40.6
Depreciation & amortization	36.6	39.1	42.0	43.4	45.4	51.6	57.1	59.3	59.3	62.7	68.3
Interest expense	5.2	7.8	4.8	5.0	5.0	13.5	13.2	12.8	12.4	11.9	16.3
<b>Revenue Available for DS</b>	79.4	71.8	75.5	76.0	83.6	88.0	96.9	104.8	112.9	117.5	125.2
<b>Total Debt Service</b>	15.8	18.8	14.8	20.9	27.3	29.3	29.8	30.3	35.8	37.9	37.5
<b>Debt Service Coverage</b>	5.0	3.8	5.1	3.6	3.1	3.0	3.3	3.5	3.2	3.1	3.3