MEMORANDUM

TO: Petersburg Borough Assembly

FROM: Philip Hofstetter, Petersburg Medical Center CEO

SUBJECT: New Hospital Project Status and Pre-Construction Services

DATE: April 11, 2023

CC: Steve Giesbrecht, Borough Manager
Jody Tow, Finance Director
Debbie Thompson, Borough Clerk
Jerod Cook, PMC Board Chair

Borough Resolution 2021-04 directed PMC to pursue external sources of funding for the new hospital project, bring the project to a shovel ready status, and work with potential contractors on a phased approach to the project. Accordingly, PMC has taken the following actions.

FUNDING: PMC secured an $8M HRSA grant in August 2022, and has also secured a position on the State's list of 10 projects being funded via a $112M allocation from the US Department of Treasury's Coronavirus Capital Projects Fund (CCPF). The State requested $20M for the PMC Project via the CCPF. PMC is also requesting funding from the following sources.

SFY2024 Capital Budget (Stedman): $20M [submitted]
FY2024 Congressionally Designated Funding (Murkowski): $15M - $30M [submitted]
FY2024 Community Project Funding (Peltola): $15M [submitted]
FY2023 Denali Commission Grant: $975,000 [application being submitted on 14 April]

DESIGN: In September 2022 PMC selected *Bettisworth North* (*BN*) through an open, competitive RFP process to design the project. Programming and concept design documents were completed in January 2023. The site plan approved by the PMC Board and presented to the Borough at a February work session is shown below. The HRSA grant is being used for design and other project planning/support costs.

During the next phase of design (Schematics) when individual departments are actually configured within the building, and the architect begins to explore options for things like windows and exterior materials, PMC plans to conduct a community involvement workshop.

PROJECT BUDGET: The approximate total budget for the project is $85 million. This assumes a 70,000 sf two-story building. The budget is based on a preliminary estimate of direct construction costs prepared for the 2020 Master Plan adjusted for escalation to $62 million. The total budget includes all soft costs such as geotechnical investigations, environmental clearances, design, project management, medical equipment, inspections, contingency, etc. The construction estimate needs validation by a general contractor.

PHASING PLAN: The following phasing plan has been developed for construction of the project.

Phase 1a *– Site Work ($8 million, Summer/Fall 2023):* Earthwork (mass excavation and import of structural fill) to make the site truly shovel ready. Completing Phase 1 in 2023 will provide time for the fill to settle during the winter of 2023/2024 and allow for an early spring 2024 Phase 2 start. Site work will be accomplished using the CCPF grant and Denali Commission grant (if approved).

Phase 1b *– Off-site Improvements ($640,000, 2024):* Upgrade and extensions of water, sewer, power and communication lines to the new site. This phase also includes improvements to Excel St. between North 10th St. and the new driveway on the north side of the new hospital site. Denali Commission funds (if approved) will be used for design and direct construction costs. Soft costs (inspection/testing, construction administration, contingency, etc.) will be funded via the CCPF grant.

Phase 2 *– Building Shell & Core ($39 million, 2024):* Foundations, building envelope and roofing. Due to the wet weather in southeast Alaska, it is imperative that the envelope including the roof assembly be completed by fall 2024. This will lead to overall savings (e.g., reduce low value expenditures like dehumidification) and improve overall quality control by working in the dry as soon as possible. During Phase 2 it will also be important to procure certain long lead items needed for Phase 3. In today's market, many mechanical and electrical equipment items have extremely long procurement times (e.g., air handling units are 30 - 40 weeks out and electrical switch gear is 36 – 80 weeks).

Approximately $12 million from the CCPF grant should be available for Phase 2. The balance needed for Phase 2, including several million dollars for long lead items, will be funded via a State Capital Budget grant if it is approved during this legislative cycle.

Phase 3 *– Interior Fit-Out ($29 million, 2025 - 2026):* Interior fit-out and finish work, including the installation of long lead equipment. Funding for Phase 3 will be via the federal FY2024 CDS and CPF requests (if approved).

The phasing plan summarized above has several other inherent advantages. First, it levels the workforce required over the duration of the project, which will result in more local hire. Second, it results in less overall disruption (housing, traffic, etc.) to the community during construction of the facility. This is an important consideration since the project will span several fishing seasons. Third, it allows the contractor to lock in prices early for long lead items. And finally, it provides additional time to complete the funding stack.

PRE-CONSTRUCTION SERVICES: In accordance with direction in Resolution 2021-04 to work with potential contractors on a phased approach to the project, PMC decided to use the Construction Manager - General Contractor (CMGC) project delivery method (aka CM@Risk or CMAR). The CMGC project delivery method is the industry standard for complex, phased projects. It is being used by both private owners (e.g., Alaska

Native Tribal Health Consortium, Southeast Alaska Regional Health Consortium, Providence Alaska Medical Center) and public owners (e.g., Federal Government, State of Alaska DOT&PF, University of Alaska, and the Cities of Nome, Skagway, and Haines to name a few).

In the CMGC delivery method the Owner enters into a contract directly with an Architectural/Engineering (A/E) firm to design the project. Early in the design phase, the Owner then issues an RFP to interested general contractors. The contractors compete based primarily on their qualifications, but the selection criteria almost always also include a price component. Once a contractor is selected, the Owner enters into a contract for professional and technical services with the CMGC and their major subcontractors (typically mechanical and electrical) to assist with project development. Tasks under this contract include conducting constructability reviews, value engineering, risk assessments, cost estimating, assisting with third party coordination (utilities, roads, etc.) and working with the designers to optimize the cost benefits and the efficiency of the project. Having a CMGC on the team that can provide true market based cost estimates for the project throughout the design phase is extremely important in the current volatile marketplace with inflationary pressures. CMGC cost estimates are always more accurate than estimates prepared by the design team, and owners with funding constraints and/or who are debt adverse need this expertise on the project team. The Borough was wise to include wording in Resolution 2021-04 about working with contractors early in the process.

At an appropriate point during the design phase, the Owner and CMGC enter into open book negotiations for construction of the project. An <u>independent cost estimate</u> is completed to assist in validating the CMGC Guaranteed Maximum Price (GMP) proposal. GMP amendments to the original pre-construction contract are executed for actual costs plus a fee for overhead and profit. The CMGC guarantees a maximum price which protects the Owner with a ceiling contract amount. However, it is noteworthy that if final direct costs are actually less than those in the GMP, the savings revert back to the Owner.

If GMP negotiations are not successful, the Owner may then advertise and award the project using a different delivery method (e.g., Design-Bid-Build or Design-Build). Federal grants usually prohibit the original CMGC from participating in subsequent advertisements since they now have intimate knowledge about the project and therefore an unfair advantage. This motivates the CMGC to be a true partner with the Owner.

This delivery method allows the Owner and CMGC to negotiate and construct smaller work packages within the project. For example, the CMGC may see a need to procure items with long lead times (e.g., structural steel) in order to meet the schedule. Or, the CMGC may see a need to relocate utilities or complete site work in advance of construction of the larger project. The CMGC method allows for the advancement of these project components before the larger project begins, i.e., it is a tailor made model for phased construction.

By comparison, in the construction industry today the traditional Design-Bid-Build (low bid) model is typically limited to simple straight forward projects that employ standardized designs, e.g., retail outlets, utility extensions, etc. For somewhat more complicated projects where the owner is willing to cede direct control of the design to a contractor, the Design-Build model is often used. But for very complex projects like hospitals, and even for facilities like museums and libraries, the current industry standard is CMGC. Entering into a low bid contract for a hospital project invites a change order environment. The advantages of CMGC are summarized below. Also reference the graphic prepared by the Project Architect (*Bettisworth North*) attached to this memorandum.

1. Design Team works directly for the owner
2. Contractor adds value to project during design
   - detailed phasing plans and overall schedule
   - value engineering
   - procuring qualified subcontractors
   - procurement of long lead materials and equipment
   - constructability reviews
   - more accurate market estimating
3. Allows for phased funding and construction
4. Lower overall risk for both owner and contractor
5. Savings at end of project revert back to owner

It is essential though, that the selected contractor have experience with the CMGC delivery method.

According to *Associated General Contractors of Alaska*, Central Region ADOT&PF has been working CMGC projects since 2005, when they used this delivery method for the Anchorage Airport South Terminal Project. Since that time, the Central Region has completed approximately 20 CMGC projects. ADOT&PF currently has 13 active CMGC projects in all three regions (Central, Southcoast, Northern), plus 3 that are either advertising or pending award.

CONTRACTOR RFP FOR THIS PROJECT: On December 20, 2022 PMC issued an open, competitive Request For Proposals (RFP) to add a CMGC partner to the project team. The RFP included both qualification and price criteria. It was consistent with Federal procurement standards. It also included a draft contract based on national CMGC template language developed by the *American Institute of Architects*, with edits by the law firm *Hall-Render*, plus input from the PMC Project Manager and myself. The Borough attorney from *Heideman Law Offices* has now also provided input for the final contract. Note that the contract includes a provision that allows the GMP to be converted to a traditional Lump Sum if desired; it also includes an owner friendly Termination for Convenience clause.

The RFP was posted with the Anchorage Plans Room, Alaska Associated General Contractors, and Builders Exchange of Washington. The PMC Project Manager also directly contacted 20 contractors in Alaska and the Pacific Northwest with known hospital construction experience and encouraged them to propose. Most responded that they had resource issues and/or were uncomfortable working in an off-road market they were unfamiliar with. Proposals were received on February 10, 2023 from the following contractors.

- *ASRC-SKW Eskimos, Inc.*
- *Dawson Construction, LLC*

A five-member Selection Committee comprised of the following evaluated the proposals.

Philip Hofstetter, CEO
Jerod Cook, Board Chair
Jennifer Bryner, Chief Nurse Officer
Mike Boggs, Plant Supervisor
Roy Rountree, Bettisworth North Architects

The Committee used a two-step process. First, the written proposals were evaluated and scored; then both firms were interviewed and rescored. The proposed lump sum price for pre-construction services was exactly the same from both firms ($175,000). There was less than a 2% difference between the two proposals with respect to the other price criteria. After final scoring, Dawson Construction received 39% more points than ASRC-SKW. On February 22nd the Committee made a unanimous recommendation to the PMC Board that a contract be awarded to Dawson Construction, LLC for $175,000 for pre-construction services, and that the contract include a provision that allows PMC to negotiate Guaranteed Maximum Price (GMP) Amendments for construction phase services. On February 23rd the PMC Board approved the Committee's recommendation. Dawson has been informed that the Borough must also approve their selection.

RECOMMENDATION: That the Borough Assembly, (a) approve the competitive proposal process for the selection of a CMGC for the New Medical Center Project; (b) approve Dawson Construction, LLC for the CMGC role on the Project; and (c) authorize PMC to finalize a $175,000 contract for pre-construction services with Dawson Construction, LLC, with a provision that allows PMC to negotiate and manage Guaranteed Maximum Price (GMP) Amendments for construction services, provided that GMP Amendments are presented to the Borough for final approval.

Thank you for your consideration.

15 What contract delivery method would you recommend for construction?

Construction Delivery Methods	Strengths	Weaknesses
Design-Bid-Build	• Simple price based on selection process • Relationships are simple • Familiar method for procurement and PM staffs	• No ability to qualify contractors • Potential adverse atmosphere • No front-end cost guarantee • Potential for numerous change orders and litigation
Design-Build	• Single point of responsibility • Minimizes litigation • Schedule performance • Less owner cost for inspection and contract administration	• Very expensive for contractor to bid • Weeds out some top professionals • Quality control Issues: • *Contractor Controls Quality, minimal Owner QA* • Minimizes owner input
CM @ Risk • CM/GC (Construction Manager/General Contractor) • GC/CM (General Contractor/Construction Manager)	• Early guaranteed price (as soon as possible after completion of 35% Design) • Committed monitoring of price by CM @ Risk • Simple relationship • Team atmosphere • High participation by owner • Schedule and speed benefits • Project construction can be phased • Minimizes litigation • Includes qualifications and experience as basis for selection of contractor	• Requires hands on involvement of owner • There is a high demand on CM @ Risk • *Meetings* • *Collaboration with project team during design*

BETTISWORTH NORTH

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