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December 18, 2017

Office of the President

**PRESIDENT OF THE UNIVERSITY
CHAIR OF THE BOARD OF REGENTS
CHAIR OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE**

ACTION ITEM

**ACTION UNDER INTERIM AUTHORITY – AMENDMENT OF THE BUDGET,
OUTPATIENT PAVILION, SAN DIEGO CAMPUS**

EXECUTIVE SUMMARY

The total budget for the Outpatient Pavilion project at the San Diego campus was approved by the Regents at their November 2014 meeting for \$140 million funded from external financing (\$95 million), hospital reserves (\$12.5 million), gift funds (\$7.5 million), and operating leases to fund equipment (\$25 million). The project, nearly complete, provides approximately 88,000 assignable square feet (154,000 gross square feet) of new outpatient and clinic space on UC San Diego's East Campus. The project is necessary to expand and improve patient care within UC San Diego Health (licensed as UCSD Medical Center) and will house outpatient clinical services to complement the new Jacobs Medical Center, the existing Thornton Hospital, and the Sulpizio Cardiovascular Center. The Regents approved the design and associated California Environmental Quality Act documentation for the project in July 2015, and the scope and design of the project remain as originally approved. The costs have increased due to significant differing site conditions and cost overruns.

Approval is being sought for an augmentation to the project budget of \$12 million (8.6 percent increase), to be funded by hospital reserves, resulting in a total project budget of \$152 million.

Approval for this item is being sought under interim authority in order to keep the project on schedule and to meet required funding commitments. If the item were considered at the Regents meeting in January 2018, there is a risk of a funding shortfall prior to the January 24 meeting date.

Action under Interim Authority – Amendment of the Budget, Outpatient Pavilion, San Diego Campus

RECOMMENDATION

It is recommended that:

- A. The 2017-18 Budget for Capital Improvements and the Capital Improvement Program be amended as follows:

From: San Diego: Outpatient Pavilion – preliminary plans, working drawings, construction, and equipment – \$140 million to be funded from external financing (Century Bond) (\$95 million), hospital reserves (\$12.5 million), gift funds (\$7.5 million), and operating leases (\$25 million).

To: San Diego: Outpatient Pavilion – preliminary plans, working drawings, construction, and equipment – \$152 million to be funded from external financing (Century Bond) (\$95 million), hospital reserves (\$24.5 million), gift funds (\$7.5 million), and operating leases (\$25 million).

- B. The President of the University, or designee, be authorized, in consultation with the General Counsel, to execute all documents necessary in connection with the above.

APPROVED:

By: [Signature] Date: 1-5-18
Janet Napolitano
President of the University

By: [Signature] Date: 1-8-18
George Kieffer
Chair of the Board of Regents

By: _____ Date: _____
Hadi Makarechian
Chair of the Finance and Capital Strategies Committee

BACKGROUND

The Outpatient Pavilion (OPP) project is an 88,000-assignable-square-foot (154,000-gross-square-foot) new outpatient and clinic space on UC San Diego’s East Campus. OPP was approved for budget in November 2014 and for design pursuant to the California Environmental Quality Act in July 2015. The project expands and improves inpatient care within UC San Diego Health. The Outpatient Pavilion will house disease-specific, multi-specialty centers that focus on Orthopedics, Sports Medicine and Spine Care; Comprehensive Breast Care; Pain Management;

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APPROVED:

By: Jacet Napontano
 Jacet Napontano
 President of the University

Date: 1-5-18

By: _____
 George Kieffer
 Chair of the Board of Regents

Date: _____

By: Hadi Makarechian
 Hadi Makarechian
 Chair of the Finance and Capital Strategies Committee

Date: 1-6-18

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Urology; as well as the new Sanford Stem Cell Clinical Center. Specific comprehensive clinical services will also be available in the Outpatient Pavilion including Ambulatory Surgery; Outpatient Radiology and Advanced Imaging; Rehabilitation; Infusion, and Apheresis. As the project is nearing completion, the San Diego campus is requesting an augmentation to the approved \$140 million budget.

ADDITIONAL COSTS

Details of Budget Increase

The campus is requesting a budget increase of \$12 million, as a result of significant differing site conditions and cost overruns described below. Attachment 1 provides the cost breakdown of the original budget approval as well as the budget proposed with this action item.

The project is scheduled to obtain substantial completion on December 15, 2017, approximately a three-month delay from the scheduled contract completion date. After a three-month licensing period, the planned occupancy/first patient date is late February 2018.

Differing Site Conditions (approximately \$4 million)

Project construction began in September 2015. The number of actual rain days during the fall/winter of 2016 exceeded the number of non-excusable rain days in the contract. Most importantly, there was an extraordinary “100 year” rain event on February 27, 2017 that resulted in extensive damage to the site and the building and had cumulative and costly impacts to the work, including creating work out of sequence, inefficiencies, lost availability of workers, and loss of productivity. The cumulative impact of these rain events delayed completion of the project by approximately three months. Although typical rain delays and consequent impacts are not compensable under the terms of the standard University construction contracts, the extraordinary nature of the adverse weather and its effects in this case may justify compensation as a differing site condition, defined in the contract as, “Unknown physical conditions at the site, of an unusual nature, which differ materially from those ordinarily encountered and generally recognized as inherent in work of the character provided in the Contract.” The campus is currently reviewing and negotiating the costs and responsibilities of the parties involved, including the possibility of reimbursement from the builders risk insurance carrier.

Cost Overruns (approximately \$8 million)

In 2013, during the programming and planning phase, UC San Diego leadership chose to implement a fast-track project delivery method for the OPP. Fast-track construction is a strategy in which construction is started before design is complete, with the primary goal of shortening time to completion, approximately six months, and avoiding rising costs in a very active construction market. Fast-tracking would also facilitate an earlier date for opening of a revenue-generating project. This delivery model can be extraordinarily

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effective in saving time if the inherent risks are addressed at project inception through higher contingencies.

Due to a rapidly escalating local labor market, and strong internal and external pressures to contain the project costs, the project contingency was compressed to approximately \$5.9 million, or 4.2 percent of the overall project cost. For a highly complex, fast-tracked, health care project, a project contingency of closer to ten percent would have been more realistic and would have covered the risks of carrying out construction based on documents that are, by intent, incomplete. Other factors that compounded the problem of a very limited contingency were evolving technology, medical equipment advances requiring infrastructure modifications, and California Department of Public Health licensing interpretations/requirements.

Environmental Considerations

The budgetary changes described in this item do not affect the previously approved design, and therefore do not change the conclusions in the environmental analysis of the Environmental Impact Report prepared in accordance with the California Environmental Quality Act, nor do they change the corresponding Mitigation Monitoring Program and Findings.

FINANCIAL FEASIBILITY

The project cost increase is from \$140 million to \$152 million to be funded with hospital reserves (\$12 million). UC San Diego Health projects days' cash on hand to remain above the recommended floor of 60 days. UC San Diego Health ended FY 2017 with 91 days' cash on hand.

KEY TO ACRONYMS

JMC	Jacobs Medical Center
OPP	Outpatient Pavilion

ATTACHMENTS:

Attachment 1:	Project Sources and Uses
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**PROJECT SOURCES AND USES
OUTPATIENT PAVILION
CCCI 5959**

PROJECT SOURCES	Approved Nov-2014	Proposed Change	Proposed Dec-2017
External Financing	\$ 95,000,000		\$95,000,000
Hospital Reserves	12,500,000	12,000,000	24,500,000
Gift Funds ¹	7,500,000		7,500,000
Operating Leases	25,000,000		25,000,000
Total	\$140,000,000	\$12,000,000	\$152,000,000

¹ All gift funds are in hand.

PROJECT USES	Approved Budget Nov-2014	Proposed Change	Proposed Budget Dec-2017	% of Total
Cost Category				
Site Clearance	\$ 680,000		\$ 680,000	0.6
Building Construction	77,198,000	12,000,000	89,198,000	73.1
Exterior Utilities	1,200,000		1,200,000	1.0
Site Development	4,340,000		4,340,000	3.6
A/E Fees	7,183,000		7,183,000	5.9
Campus Administration	2,470,000		2,470,000	2.0
Surveys, Tests, Plans, Specs	980,000		980,000	0.8
Special Items (excl. financing)	5,392,000		5,392,000	4.4
Financing Costs	4,640,000		4,640,000	3.8
Contingency	<u>5,917,000</u>		<u>5,917,000</u>	<u>4.8</u>
<i>Total P-W-C</i>	\$110,000,000	\$12,000,000	\$122,000,000	100.0
Groups 2 & 3 Equipment	30,000,000		30,000,000	
Total Project	\$140,000,000	\$12,000,000	\$152,000,000	

PROJECT STATISTICS

	Approved Nov-2014	Proposed Dec-2017
GSF	154,000	154,000
ASF	82,400	88,000 ¹
Efficiency Ratio: ASF/GSF	54%	57%
Building Cost/GSF	\$501	\$579

¹ The project ASF increased at the time of design approval at the July 2015 Regents meeting.