

HARBORVIEW MEDICAL CENTER



Bond Project

Final

**Contractor Cost Negotiations Report
Scope, Schedule and Budget Review**



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VANIR

VANIR CONSTRUCTION MANAGEMENT, INC.

Harborview Medical Center Bond Project

Contractor Cost Negotiations Report

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INTENT

The intent of this report is to document our findings on the results of the Maximum Allowable Construction Costs (MACC) negotiations conducted between UWCPO and Turner Construction Company for the Harborview Medical Center Bond Program GC/CM contract. This includes providing observations to the Bond Oversight Committee (BOC) concerning Scope, Schedule and Budget and recommendations based on the results of the negotiations.

BACKGROUND

Vanir has participated in the following activities associated with the cost proposal, development of a pre-negotiation position and negotiation of costs and terms for the General Contractor/Construction Manager contract for Harborview Medical Center Bond Program:

- During the months of November and December of 2004 and January 2005, Vanir reviewed the Ninth & Jefferson Building (NJB) and Inpatient Expansion Building (IEB) Site Preparation construction documents and updated preliminary cost estimates for NJB, IEB, Harbor Hall demolition (HH) and East Clinic demolition (EC).
- Turner's MACC Proposal was received November 30, 2004 and reviewed during December and January. Comments were prepared on the Specified General Conditions, Reimbursables, Exceptional Escalation, Allowances, Assumptions, Alternates and Purchasing Plan. Comments were sent to all project team members for review and comment, responses were provided by Turner Construction Co. (TCCO).
- Vanir participated in an Audit and MACC Proposal review meeting at UWCPO offices December 14, 2004 and January 4, 2005 along with representatives from HMC, NBBJ and Navigant Consulting to help formulate UWCPO's response to the MACC Proposal.
- Following UW's proposal response, Vanir participated in the Initial Negotiations meeting at held at Turner's offices, January 6, 2005.
- Reviewed and commented on Navigant's audit findings.

- Vanir received an Adjusted Project Schedule, worked out by TCCO and UWCPO, in early February and sent comments to UWCPO February 14, 2005.
- Vanir personnel also participated in several Harborview Facilities Committee and Bond Oversight Committee meetings where pre-negotiation strategy and negotiation progress and final results were discussed.

DOCUMENTS CONSIDERED

Members of the bond program project team revised or developed documents that further refined the design and budget for the Harborview Bond Program. The key documents for that were considered by the Vanir review team include:

NJB Site Prep Demo Package - CD drawings	dated: 10/18/04
NJB Site Prep Package - CD drawings	dated: 10/18/04
IEB Site Prep Package – CD drawings	dated: 10/18/04
Guaranteed Construction Cost Proposal	dated: 11/15/04
Navigant’s Cost Proposal Review	dated 12/14/04
Adjusted Summary Schedule for MACC	dated: 02/09/05
Revised Draft Contract – Division 0/1	dated: 03/01/05

SCHEDULE REVIEW

The revised Summary Schedule, worked out by TCCO and UWCPO, shows NJB construction start by TCCO approximately three months earlier than the DD phase schedule. Commissioning (partial final completion) however has been extended by two months from 5/1/08 to 7/15/08. For IEB the scheduled start has also been moved up, from 8/26/05 to 6/28/05 with commissioning (partial final completion) remaining the same as the DD schedule, the first week of April, 2008.

It should also be noted that the initial site demolition and abatement work for NJB and the abatement work for IEB have been taken out of TCCO’s scope of work and have been contracted separately by UWCPO. This decision was made in order to preserve the approved DD phase schedule as much as possible and allow final MACC negotiations to be completed. The original plan was for Turner to do the preliminary demo work but a one month delay in submitting their cost proposal and the extensive effort required for review and negotiation would have delayed the start of this work.

The adopted schedule does not include the construction of parking level 5 in the NJB. If added by change order the construction schedule will be extended one month .

BUDGET REVIEW

Vanir reviewed various elements of TCCO's 11/15/04 GCC proposal and prepared questions on a number of line items which were forwarded to all HMC project team members and reviewed at the 12/14/04 MACC Proposal and Audit meeting at UWCPO's field office. Items of particular concern included costs shown in the Division 1 "Reimbursables" category that appeared to overlap costs items in Divisions 2 thru 16 of the MACC estimate. We also questioned many of the items in the proposal included under the "Allowance List" that appeared to be covered as Reimbursables under Division 1. Based on written responses from TCCO and the January 6th Initial Negotiation meeting all of our questions/concerns on these costs have been resolved.

Subsequent negotiations between UWCPO and TCCO were conducted and Vanir was informed January 27th, 2005 that TCCO's revised MACC proposal is now within budget (\$183,671,363) and has been accepted. A copy of TCCO's 03/01/05 Revised Draft Contract was received by Vanir 03/04/05 and reviewed for confirmation of the negotiated budget. It's our understanding that while the Specified General Conditions, fee and reimbursables, have increased somewhat Project Direct Costs have been reduced significantly.

It is understood that the RCW permits the opening of fee negotiations if the cost of the project increases in scope 15% or more from the estimate provided by the owner to the GC/CM at project's inception. The increase in the size and cost of the NJB coupled with anticipation of change orders during construction prompt a projection that 15% cost growth will be exceeded. From the beginning of this issue, almost a year ago, Vanir has held firm in the belief that an increase in the profit portion of the fee percentage was not warranted. UWCPO agreed and this was their position going into the negotiations. The negotiations resulted in agreement on a 0.25% increase in the fee to cover a documented rise in the contractor's surety bond rate. We believe this was an equitable settlement.

The fact that construction costs typically escalate between the time of MACC negotiations and construction completion would ordinarily be accounted for in the contractor's proposal as part of the direct costs. Due to the exceptionally high escalation seen in the past year TCCO was not willing to take on the risk of that potential level of escalation continuing without adding significantly to their direct costs proposal. This would have undoubtedly put their cost proposal out of reach of the project budget. TCCO proposed to exclude the escalation from their proposal and have the risk carried by the Owner. It was agreed to use a building cost index to adjust the MACC if the buyout bids do not come within the negotiated MACC budget. The project management team proposes to use Management Reserve contingency dollars to fund this possible escalation. Therefore the costs for construction escalation are still somewhat within the project budget but no longer in the direct cost section of the budget. We do not disagree with this approach to use the contingency to fund this unforeseen level of construction cost increase but feel the amount currently set aside for this fund (3.6%) may not be adequate. We understand however that

other funding sources for the Management Reserve contingency have been identified and the need to augment the contingency will be evaluated throughout this year as the majority TCCO's contracted scope will be bid out in the next 12 months.

SCOPE REVIEW

The approved scope for the NJB, IEB and Demolitions projects are being maintained. As previously mentioned, a realignment of contracting strategy has occurred and only the construction of the NJB and IEB are to be included in Turner's GC/CM contract at this time. Initial site demolition and abatement scope is now being contracted for with others by UWCPO. A decision on contracting for demolition of Harborview Hall and East Clinic will be made later.

The NJB 5th level of parking will continue to be listed as an additive alternate bid item.

Vanir has received and reviewed the Construction phase documents for NJB and IEB Site Preparation packages. The scope for these portions of the bond program remain the same as during the Design Development phase.

The construction phase documents for the new NJB and IEB buildings are still in progress and will be reviewed by Vanir when completed.

CONCLUSIONS

- Vanir applauds the efforts of the entire HMC project team in reaching a mutually acceptable MACC agreement with Turner Construction for the new NJB and IEB buildings.
- There are some cost and scope risks that need to be recognized. To some extent coming to agreement on a Guaranteed Construction Cost with the GC/CM marks a shifting of risk for cost from the Owner to the contractor. However there are some issues associated with this that need to be understood.
 - To increase the likelihood of getting a GCC within budget, it was decided to eliminate one of the projects from the negotiations - the demolition of Harborview Hall and East Clinic. This provides flexibility in adding that work to Turner's contract in the future when costs are better known or to bid that work out to a specialty demolitions contractor – thus eliminating Turner's overhead and fee from the cost. However, since the cost of this work has not been nailed down there is some lingering cost risk to the Owner that will probably not be resolved for 3 to 4 years from now.
 - Provisions of the GC/CM Contract and RCW 30.10.080, allow negotiations (under certain circumstances) if the lowest responsive bid for a particular

bid package exceeds Turner's Final Bid Package Estimate. Also the contractor has the option to re-bid the construction package. For the negotiations or re-bid to be effective in getting the cost within budget, the contractor typically needs to make some owner approved changes in the subcontract work. Thus there is still a risk to the Owner that some details of the project, in terms of scope or quality, as currently designed may not be delivered.

- It should be recognized that none of the additive bid alternates may be affordable and all of the deductive bid alternates, if any are created, may need to be exercised to keep the buyout within budget.
 - To resolve the Exceptional Escalation issue it was agreed for the Owner to carry that risk up to an amount determined by the change in a published index.
 - While prospective sources of additional funds have been identified to augment the Management Reserve contingency to cover the potential extent of the escalation, there is still some risk to the Owner since these funds are not secured at this time.
- Vanir recommends proceeding with award of the GC/CM contract to Turner Construction Company.
 - Vanir's recommendation to proceed assumes that any additional funds acquired to supplement the budget will be added to the Management Reserve to fund the potential exceptional escalation. Further, if additional funds are not acquired reductions in scope or quality will be achieved through Value Engineering or deductive bid alternates such that at least 5% of construction cost is available to fund the potential escalation.