

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of September 18, 2019

UPDATE REGARDING THE NEW HOSPITAL UCSF HELEN DILLER MEDICAL CENTER PROGRAM AT PARNASSUS HEIGHTS INTEGRATED FORM OF AGREEMENT AND PROCUREMENT STRATEGY, SAN FRANCISCO CAMPUS

EXECUTIVE SUMMARY

The University of California, San Francisco campus (UCSF) presented a discussion item on this subject at the July 2019 Regents meeting. UCSF is presenting this update in advance of the November 2019 Regents meeting, when the campus plans to seek a determination by the Regents that its proposed i) qualifications-based procurement strategy followed by competitive negotiation of contract cost and ii) new form of agreement template, an Integrated Form of Agreement (IFOA) delivery model, to be used for the design, construction and development of the New Hospital UCSF Helen Diller Medical Center at Parnassus Heights Program, are in the best interest of the University. Such a determination is required pursuant to California Public Contract Code (CPC) Section 10503.

A Regents' determination in November 2019 is critical because UCSF must issue Requests for Qualifications (RFQs) for architects and contractors commencing winter 2019-20 to achieve the aggressive schedule required to complete the New Hospital UCSF Helen Diller Medical Center at Parnassus Heights Program by 2030. If the campus issues its qualifications-based RFQs prior to a Regental "best interest" determination, it would have insufficient time to develop new RFQs for an alternative procurement and delivery approach, if the determination was not, in fact, made by the Regents. (See Attachment 2 – Next Steps and Timeline). The IFOA would be executed only after the Regents approve the Program's Preliminary Plans funding (P-Funding), currently scheduled for Regents' approval in March 2020. Final design and budget approval would be requested at a subsequent Regents meeting.

For a full description of the proposed IFOA delivery model and related procurement strategy, please refer to UCSF's previous discussion item for the July 2019 Regents meeting. This update seeks to answer questions raised during the July 17, 2019 discussion before this Committee and to provide the Regents with the opportunity to complete a full discussion of the proposed delivery model.

RESPONSES TO REGENTS' QUESTIONS

At the meeting on July 17, 2019, the Regents raised certain questions regarding the IFOA to which UCSF hereby responds as follows:

Why is UCSF choosing a different project delivery model than that which was used for the UCSF Mission Bay Hospital?

UCSF Response:

The IFOA UCSF is proposing incorporates “Lessons Learned” from UCSF Mission Bay Hospital and seeks to evolve the delivery model and procurement strategy to optimize Program outcome. The IFOA enables direct access to trades/suppliers, thereby allowing the University transparent negotiation in pricing and communication with the subcontractors and suppliers. The IFOA creates stronger incentives for performance based on risk to profit and potential for shared savings. The benefit to the University is increased productivity, opportunities for value engineering, and cost savings to the University. The IFOA eliminates traditional hidden “pools” of contractor contingency and labor escalation, and results in increased savings to the University.

How are the budget and Program pricing developed and validated in order to insure a fair price for the University?

UCSF Response:

Under the IFOA, construction cost is established through a transparent 24-month validation process (through design development) that includes participation of the executive design professional, key design consultants, the CM/GC contractor and the major trades, along with the University. Prior to signing the IFOA for the construction phase, a thorough verification and audit by independent, third-party estimators and accountants is conducted to ensure a fair and competitive price. Validation confirms the appropriateness of charged rates and establishes the target cost and the amount of the “risk/reward” profit pool to ensure a transparent, open-book transaction and to confirm that only allowable costs are billed to the University.

How will the Program be bonded and insured to manage and mitigate risk to the University?

UCSF Response:

The IFOA contains a contractor payment and performance bond requirement. The Office of the President and UCSF Risk Services are tailoring a holistic insurance coverage plan for the Program to mitigate risks and obtain appropriate coverage that prevents any party from being disadvantaged through reduction of the profit pool by the default and/or lack of performance by a non-University party to the agreement. The insurance Program will be reflected in a separate Exhibit to the IFOA and is anticipated to include both subcontractor default insurance and owner’s protective professional indemnity insurance.

How does the IFOA model avoid disputes between designers and contractors and minimize construction claims?

UCSF Response:

The non-University IFOA participants agree in advance to contractually limit their respective rights to issue change orders and to file claims; at the same time, each provides indemnity in favor of the University. The University has, and does not relinquish, final decision-making authority.

Typical design errors and construction delay claims are not permitted under the IFOA. Under the IFOA, change orders are only permitted on a limited basis under the following circumstances: University-elected changes, University directive, unforeseen and differing site conditions, post-building permit changes, University suspension of the work, and unusual material escalation. This both reduces liability risks that may arise from collaboration and allows parties to move outside traditional boundaries in an effort to achieve greater creativity and productivity.

What has been the experience with IFOA in other major healthcare projects?

UCSF Response:

An IFOA has not previously been used in California public sector construction. Sutter Health has delivered 24 healthcare Bay Area projects, ranging from small to large in scope and size, utilizing IFOA (see [Attachment 1 – IFOA Case Studies](#)). Of those projects, the one that most closely represents the New Hospital at Parnassus Heights in scope and size, the California Pacific Medical Center Van Ness Campus in San Francisco, was completed at \$150 million under the \$2.1 billion project budget, which represented a seven percent savings.

IFOAs have also been successfully used by the University of Pennsylvania, Maine General, Lawrence & Memorial Hospital, Lifespan, Inspira Health Network, BayHealth, Cone Health System, Cook Children’s Hospitals, Nemours Children’s Hospital, Advocate Aurora Healthcare, Lakeland Healthcare, Universal Health Services, and others.

KEY TO ACRONYMS

CPCC	California Public Contract Code
IFOA	Integrated Form of Agreement
RFQ	Request for Qualifications

ATTACHMENTS:

[Attachment 1: IFOA Case Studies](#)

[Attachment 2: Next Steps and Timeline](#)