



## **KENAI PENINSULA BOROUGH**

### ***Capital Projects Department***

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**DAVID R CAREY  
BOROUGH MAYOR**

6/24/2010

Mayor Carey, Assembly members and Administrative Staff

Subject: South Peninsula Hospital MRI Project

#### **History:**

On March 25, 2009 The SPH Board unanimously passed a resolution to support the appropriation of \$625,000 in interest to account 401.81211.07SHB.49101 for the costs associated with the construction of a permanent facility for the housing of MRI equipment to replace the portable unit being leased.

On March 26, 2009 A memo was prepared and signed by Milli Martin – Assembly President, Bill Smith- Assemblyman, Mayor - Dave Carey, and Craig Chapman – Finance Director signed a Memorandum stating:

In 2007, bonds in the amount of \$14,555,000 were issued as part of the South Peninsula Hospital expansion project. Since that time, interest income of approximately \$625,000 has been earned on the bond proceeds and is available to support project expenditures associated with the expansion project.

The hospital's current MRI is located in a trailer. As part of the Service Area's FY2010 budget, funds are being requested for a replacement MRI. The hospital has requested that the MRI be housed in a permanent facility attached to the hospital. The Service Area board and the South Peninsula Hospital, Inc. board will consider this ordinance at their April 2009 meetings, and the assembly will be advised of their recommendations prior to the May5, 2009 assembly meeting.

**On May 5, 2009 the Borough Assembly approved unanimously the Ordinance appropriating the \$625,000 of interest monies toward the construction of a permanent MRI facility.**

#### **Since that time the following has transpired:**

In the spring 2009 the KPB Assembly appropriated \$625,000 of remaining Phase 2 project funds toward the cost to build a permanent MRI building for this facility. KPB tasked the project designers, RIM Architects to design a structure to meet the needs of the hospital for a new MRI machine they had recently committed to purchase. RIM was tasked to provide design documents to serve as the basis of a change-order with this remaining Phase 2 money the Phase 2 contractor on site, Jay-Brant General Contractors. Design and Management costs came to approximately \$67,000 and reduced the allocated

interest funds to approximately \$558,000. These plans were sent to the State Fire Marshall and received subsequent approval.

Jay-Brant had been selected for the Phase 2 work through a very competitive and thorough competitive bid process. In part, due to their excellent performance on this phase, staying on budget, on schedule and providing quality work, these funds are available.

The contractor prepared a cost estimate for the additional 1366 Sq. Ft. MRI structure as designed. Jay-Brant's preliminary estimate of \$1.1 million exceeded the available budget. The estimate was not based on actual bids but was established using conventional cost estimating practices. It was apparent additional funding would be needed as well as some value-engineering for the proposed plans. While funds were being sought other options were explored through a second contractor to provide a 1016 sq. ft. modular building, to be built in Portland Oregon and barged to the site. The cost proposal for the modular in the amount of \$800,000 also exceeded currently available funds. Rim Architects also provided a reduced square footage site built version of the modular, but this version was never priced out.

After much considering stake holder input, the decision was then made to do a value-engineering effort on the original site-built design. The site built design had the size and features the SPH Imaging Department desired for their immediate and projected 20 year needs. The hospital has since identified funds that could be allocated to finish the project. The value engineering effort reduced the original cost estimate to a price proposal of \$986,134 bringing it within the reach of available funds, contingent upon summer construction.

Should this modification to this Phase 2 construction need to go to bid, then funds would need to be allocated for bid documents and the bid process. The schedule would slip and require winter construction. The hospital would need to extend their existing Portable lease fee by up to \$180,000. An additional cost of \$350,000 could be added to the project, less any savings realized by the public bid process. When considering the proper stewardship of borough funds, the schedule, summer construction, a contractor already mobilized and onboard with the design, MRI Purchase and lease expenses, Jay-Brant's current well respected working relationship at the Hospital, we strongly recommend the project be handled as a change order rather than utilizing the public bid process.

#### **MRI Cost Comparisons**

- Original RIM design, site built 1366 Sq. Ft. addition prior to value engineering: \$1,200,000. **\$878.48 per sf.**
- 'MedBuild' modular 1016 Sq. Ft.: \$800,000. **\$787.40 per sf.**
- Our current value-engineered RIM design, site built 1366 Sq. Ft.: \$986,134. **\$721.91 per sf.**

The original RIM design included items desired by the hospital but not in the Med-Build modular. The value engineered RIM design substituted or pulled these items out. All facets of the site built are known in the plans. Various aspects of the modular are detailed after the contract is signed.

Postponing the project by three months could cost \$350,000. This is estimated as follows:

- \$180,000 additional mobile MRI lease fees at \$30,000 per month for up to 6 months.
- \$45,000 additional Architect fees for; bid documents, time & effort during the bid process, and costs required to review approximately 2000 pages of currently approved submittals detailing every aspect of materials and techniques that a new contractor has the privilege to propose.

- If construction can start in July, additional winter costs of \$100,000 can be avoided.
- \$25,000 additional borough administration fees for the extended time.

The need for the proposed MRI unit has been established. The State of Alaska will require a new Certificate of Need for any item of work exceeding \$1,300,000. The additional costs discussed above put the project near that limit. The Certificate of Need process would further delay and cost this project.

Respectfully submitted,

Daniel Park  
Capital Projects Director

Jack Cushing  
Project Manager