2011 Sequoia Hospital Campus Redevelopment Project Annual Report

Executive Summary

In accordance with the Development Agreement between Catholic Healthcare West and Sequoia Healthcare District, dated Dec. 7, 2007, we are providing this annual report on the status of the Sequoia Hospital Campus Redevelopment Project for 2011. This report is required at the end of October of each year.

As of the end of October 2011, a new cost estimate has not yet been completed. A new estimate will be available in early 2012, but is not expected to exceed 7.5% of the current estimate of $240 million ($18 million increase) as noted in section 3.5(iii) of the Development Agreement.

In accordance with Section 8.1 (e), Extension of Projection Completion Deadline, we have identified in this 2011 report that the project deadline of January 1, 2013 is being delayed until as late as May 2013 due to numerous OSHPD delays in the permitting process. Per the table on page 5 of this report, OSPHD permit delays caused as much as 10 months delay in our schedule. Per the table on pages 3 and 4 of this report, the projected completion date for the Pavilion is showing a 6-month delay from the projected completion date in the 2010 Annual District Report and the project completion date for SPC 2, Incr. 1 is showing a 6-month delay from the 2010 report.

Section 8.1 (e) states "the project completion schedule in Section 2.2 shall be extended" for stated reasons. Section 8.1(e)(ii) provides that the project completion schedule is to be extended "for the period that any events beyond CHW's control cause the Project to be delayed, including *force majeure* events such as natural disasters, labor stoppages, materials shortages and delays in the permitting process, including OSHPD approvals, that are not caused by CHW." The detailed report herein clearly demonstrates that the extension requirements of Section 8.1(e)(ii) have been met. We are very excited that a "Topping Off" celebration occurred on October 13, 2011 and work will soon begin on the interior of the Pavilion. Work is also under way on various seismic upgrades to the existing hospital building.

Project Milestones

Entitlement Process

Zoning for the redevelopment project was completed with adoption of a Precise Plan by the city of Redwood City. An amendment to the Precise Plan has been prepared to allow flexibility in the 2940 Medical Office Building development, to clarify several points on distance measurements, and to recognize the addition of the Dining Pavilion to the Project. This amendment was submitted to the city of Redwood City on August 5, 2010. In September 2009, a supplemental Parking Analysis and Management Plan, prepared by Fehr & Peers to support the amendment, were also submitted. Additional parking studies were requested by the city of Redwood City. The revised parking analysis is complete and submitted to the city. An addendum to the

Final Environmental Impact Report recognizing the proposed changes to the Precise Plan has also been submitted to the City of Redwood City. On October 13, 2011, we were informed by our EIR Outside Counsel that the City has determined that they will grant approval without the need to present to the Planning Commission or City Council, so this matter is now resolved.

Project Approvals

CHW Board of Directors approved the Development Agreement with the Sequoia Healthcare District and approved the project for $240 Million on June 28, 2007. Final documentation was completed on December 7, 2007. Additional funding was secured for the renovation of the Mental Health unit which increased the approved project budget to $241.6 Million. The project has since been canceled and the additional funding has been removed from the approved project budget.

Parking Garage

The new parking garage, with the exception of the south entrance ramps is complete. The garage was put into service in October 2009, with golf cart shuttles providing service to the main hospital. Completion of the garage access from Whipple will coincide with pavilion completion.

Loading Dock Improvements

Construction began on September 8, 2009 and was complete in November 2010. This project was constructed in two phases, the eastern half of the new loading dock is complete and now in use. The western half of the dock was complete and in use in November 2010.

Jurisdictional Permits

We received the following OSHPD permits during the Year:

1. Existing Facilities Fire Alarm Upgrade Permit on 1-14-2011; Time in OSHPD 172 days
2. SPC Buildings 1, 2 & 3 Seismic Upgrade Permit on 4-20-2011; Time in OSHPD 925 days
3. NPC 3R Seismic Upgrade Permit on 8-21-2011; Time in OSHPD 966 days
4. New Pavilion Increment 2, Interior Finishes on 8-31-2011; Time in OSHPD 931 days

Hospital Pavilion

The successful bidder for the New Pavilion addition as well as the required Seismic SPC upgrades was Hunt Construction Group, (Hunt) based in Phoenix AZ. The excavation for the building site pad for the pavilion construction was completed in July 2010. The building pad for the new dining building was turned over to Hunt in July 2010. The Increment 1 of the pavilion project, (plans for the foundations, structure and roofing) was permitted by OSHPD on August 3, 2010. Foundation footings and soil anchors were completed in October 2010. The pavilion concrete structure is topped-out on October 20, 2011.

We received the OSHPD permit for the interior finishes for the pavilion on August 31, 2011. The Pavilion finishes construction started on September 1, 2011. In preparation for the permit, Hunt and the Medical

Equipment Designer, GBA, have submitted the majority of the construction material and equipment and Medical equipment submittals and the A&E team have approved them. The Project Team has released all of the approved material & equipment long lead items for fabrication and site delivery to coincide with the issuance of the OSHPD permit.

SPC/NPC Seismic Retrofit

SPC Increment 1 Documents for Buildings 1, 2 and 3 were complete and submitted to OSHPD on October 7, 2008. This permit has been received and the construction start date of April 2011 is 14 months behind the schedule presented in the 2009 District report. The architectural and engineering group received from OSHPD the early release of the first floor of the project to minimize additional delay to the overall project timeline. As the approval process for the SPC-2 Increment 1 package was delayed, rework of the phasing plan to maintain overall project schedule has been undertaken two additional times this past year. This permit delay translated into direct overall tower construction completion delays. We have had to create an additional increment, SPC 2 Inc 4, at the request of OSHPD which is the detail design of all of the corridor connections and interfaces with the new pavilion and the existing hospital.

Optional approaches, under the state HAZUS program, for SPC 2 seismic strengthening for Buildings 5, 6, 8, 9, & 10 have been submitted to OSHPD and have received preliminary approval. The buildings are being re-engineered, based on the HAZUS approach and will be submitted to OSHPD as a Voluntary Seismic Improvement (VSI) package. The project team is working with OSHPD to have Building 5 re-rated to an SPC 2 rated structure which would eliminate any strengthening in that building. A decision on that effort was expected to be received by October 1, 2011, however it is still pending. Buildings 4 and 7 are currently SPC 2 rated and acceptable for use until January 1, 2030.

Project Construction Schedule and Projected Completion Dates

Project Description	Construction Start Date	Certificate of Occupancy (Forecast)	Construction Complete %	Change in projected completion date since 2010 Annual District Report
Parking Structure	April 2008	October 2009	100%	Complete
Loading Dock	September 2009	November 2010	100%	Complete
Exterior Prep and Make Ready inc Site Work	March 2010	(October 2012)	98%	-1 Months
Sitework	June 2009	(July 2012)	73%	4 Month delay
Pavilion	July 2009	(May 2013)	24%	6 Month delay
Kitchen/Dining	May 2010	(July 2012)	61%	4 Month delay
SPC 2, Inc 1	November 2010	(November 2013)	11%	6 Month delay

SPC 2, Inc 2				Project Cancelled - HAZUS evaluation
NPC 3, Inc 3	March 2011	(April 2013)	2%	2 Month delay
Emergency Dept.	February 2012	(September 2013)	0%	12 Month delay **

** reprogramming due to budget constraints

The most important aspect of the project, the new patient tower pavilion scheduled completion has been delayed by 10 months, as of October 2011. Delay in receipt of the SPC-2 Inc 1 project approval further delayed the project. In the 2008 report, we estimated construction would be done in April 2012. The May 2012 date in the 2009 report reflected the additional time to commission the building systems. The current completion date reflects the impact of OSHPD delays in issuing permits.

The Project Team again had to refine the phasing and disruption planning, to try to minimize further overall impact of the OSHPD delays. This has led to numerous significant revisions in the SPC and NPC projects schedules and work areas. In order to minimize the impact of the permitting issues, we have had to move departments that were not anticipated to be moved in our original phasing plan. This has both added cost and complexity to this project .

It is important to note that during this effort, the California State financial crisis has required OSHPD to periodically furlough staff and a major reorganization of OSHPD moved the review of the Sequoia project into completely different regional offices twice. CHW has been unsuccessful at working with OSHPD to ensure the previously agreed-upon approval timetables are honored.

The table below shows the delays as they currently stand, in the OSHPD approval process. The final project impact will be assessed when the remaining permits are issued.

Project	Original OSHPD Submission Date	2010 Projected Permit Date as of last District Report	Permit Received Date	Current Projected Permit Date	Project Delay due to Agency Approval
Loading Dock	November 2007	Permitted	October 2008	Permitted	5 Months, due to EIR
Exterior Prep and Make Ready	May 2009	Permitted	March 2010	Permitted	5 Months
Pavilion, Inc 1 (foundation and shell)	December 2008	Permitted	August 2010	Permitted	10 Months
Pavilion, Inc 2 (interiors)	February 2009	February 2011	August 2011	Permitted	10 Months

Kitchen remodel and Dining Addition	December 2008	Permitted	May 2010	Permitted	9 Months, W/SPC Inc 1 permit
SPC-2 , Inc 1 Bldg's 1,2, & 3	October 2008	November 2010	April 2011	Permitted	10 Months
SPC-2, Inc 2 Bldg's 5,6,8,9 &10	December 2009	October 2011	Cancelled - HAZUS evaluation	Cancelled – replaced w/VSI	Cancelled – replaced w/VSI
NPC-3R, Inc 3	December 2008	May 2011	August 2011	Permitted	8 Months
Voluntary Seismic Upgrades (VSI)	December 2010	N/A	TBD	November 2011	None
Voluntary Seismic Upgrades (VSI)	December 2010	N/A	TBD	May 2012	None

Project Budget Estimate

In the 2009 Annual Report, the possibility that the downturn in the overall economy would translate into savings on the cost of materials and labor was mentioned. This has proven to be correct and the bids for the kitchen, dining, pavilion, SPC and NPC construction have come in below the estimates. The negative impact on the OSHPD delays have, however, caused the Project Consultant teams and Hunt, and their Sub-Contractors, to re-forecast their General Conditions/General Requirements for the project. This will add cost to the project due to these extensions of staff costs due to the extended schedule. We will have these additional costs identified and resolved by December 1, 2011. A recast Opinion of Probable Costs will be generated after these negotiations are complete. The Project Team continues to work closely with all Consultants and Contractors on managing the project budget and schedule appropriately.

CHW will continue to report on schedule and cost issues as provided in the Development Agreement. The OSHPD permit delays have been troubling and the final impact on both the project schedule and budget will be carefully assessed as the process progresses.

As the Project Team receives the individual OSHPD permits, they have constantly re-scheduled and re-phased the available work scope, both on the new Pavilion and the Seismic Mandated projects, to minimize the impacts of this issue on the project budget and schedule.