

Cutting Construction Costs to Maximize Available Funds for Healthcare Services

The Los Angeles County (County) Department of Health Services (DHS) is the second largest public hospital system in the nation, responsible for treating and caring for more than 750,000 patients annually across its four hospitals and 26 clinics. DHS' maintenance and infrastructure needs are constant and immense. Currently, DHS has more than 140 deferred maintenance and capital projects that are vital to its ability to safeguard the health and well-being of patients entrusted to its care. The estimated cost of these projects exceeds \$2.8 billion.

As we have seen nationally, construction costs have risen dramatically, largely because of the COVID pandemic's impact on the nation's supply chain. Between April 2020 and February 2021, the nation's non-residential construction inflation rate was 12.8%. Post the "Great Recession" through 2020, that rate averaged 3.7%. Given the magnitude of DHS' maintenance and construction portfolio, it has felt the painful brunt of these escalating costs.

As a County department, DHS typically works with the Department of Public Works (DPW) and the Internal Services Department (ISD) for most renovation, planning, design and construction. DHS capital projects often require a very specialized understanding of the unique regulatory and operational needs of a hospital system, including familiarity with Office of Statewide Health Planning and Development (OSHPD) requirements, as

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well as infection control procedures for construction occurring in existing hospital spaces. Contractors' unfamiliarity with these special regulatory requirements can sometimes lead to avoidable cost overruns and increased capital expenditures.

On [December 17, 2019](#), the Board attempted to alleviate some of DHS' cost concerns by directing ISD to modify its application of the "70/30 rule" which permits ISD to bundle equipment and services purchases together, so long as the cost of services does not exceed 30% of a project's total cost. Because of this rule's adverse financial impact on DHS, the Board approved a two-year pilot project that would allow ISD to purchase medical equipment and allocate up to 45% of a project's total purchase order amount to services. However, because of the need to focus on the pandemic, ISD and DHS were unable to fully realize the benefits of the pilot.

It is critical that the County operate as efficiently as possible to maximize available taxpayer funds for critical health care services, especially as we continue to battle the pandemic.

I, THEREFORE MOVE THAT THE BOARD OF SUPERVISORS:

1. Direct the Chief Executive Office (CEO) to work with DPW, ISD, DHS, and County Counsel and report in writing within 90 days with options to reduce capital project costs with continued Board oversight. This report back should include:

A. An analysis of DHS' capacity to directly hire and manage contractors with appropriate advance Board approval and whether hiring more facilities maintenance staff would reduce its reliance on more costly contractors, with this analysis also addressing whether DHS would be able to expedite the completion of capital and deferred maintenance projects and enhance service levels through these measures; and,

B. An analysis of any policies, laws, rules, regulations and ordinances that would need to be adopted or amended, including any legal impediments, to permit DHS to more directly control certain capital projects, meet timelines and enhance service levels;

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C. Recommendations on the types and sizes of capital projects that would be more appropriately directly managed by DHS given its existing project management capacity;

D. Recommendations on the collection of data necessary to validate DHS' cost-savings and efficiencies, as well as any measures necessary to maintain and/or improve accountability;

E. Recommendations on how CEO and DHS can collaboratively work to harness state-of-the art IT solutions to enhance the "visibility" of DHS' capital projects without adding administrative burden; and

F. Other options that better ensure capital projects costs are controlled or reduced, while ensuring quality and project completion goals continue to be met.

2. Instruct the Director of ISD to extend the existing pilot project, which allows ISD to purchase medical equipment and allocate up to 45% of a project's total purchase order amount to services, an additional two years and provide a written report to the Board within 60 days of its expiration with appropriate data on its outcomes and results.

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