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Senator Joe S. San Augustine; Chairman
Committee on General Government Operations,
Appropriations and Housing
36th Guam Legislature
Ran Care Bldg. Suite 3
Tamuning, Guam 96931

Re: Testimony in Support of Amended and Substituted Bill 121-36 (COR)

Dear Senator San Augustine, Members of the Committee on General Government Operations, Appropriations and Housing and All Senators:

I. Introduction

I am pleased to submit this written testimony in support of Amended and Substituted Bill 121-36 (COR) relative to the Design, Build, Finance, Lease, Transfer and Maintenance of the Twenty-First Century Healthcare of Excellence which title was amended to be "The Twenty-First Century Healthcare Center of Excellence Construction Act of 2021." Please accept this testimony from me in my personal capacity and as a resident on Guam that has demonstrated over the years a significant passion to improve the standard of healthcare care for our people. This is especially the case with respect to significant improvements and sustainability of the delivery of hospital care for our people.

I unfortunately was off-island during the most recent public hearing but subsequently was able to view the public hearing on-line, as well as certain media reports which focused attention on some concerns by certain members of the legislative body. I would like to express my gratitude for accepting this written testimony and having it become part of the record as provided under procedural rules of our legislature.

II. Subjects Addressed in This Testimony

I would like to be a positively contribute to the discussion about Bill 121 and thus would like to specifically address various points and provide responses to questions which

may have been unanswered. Thus, the following are the subjects that will be addressed in my testimony:

1. My Background in Healthcare and Hospital Development to Provide Credibility to This Testimony.
2. Why Time Is of the Essence Financially and For the Immediate Health, Safety and Welfare of the People of Guam. Hospital Design Alone Approximately 12 to 14 Months.
3. Example of Just One Existing Condition Compromising Life Safety Standards.
4. Why It is Impossible That the Leaseback Financing Will Cost \$70,000,000 Annually as Expressed and Why the Cost Will Be Substantially Less.
5. Bill 121 Already Provides for Energy Efficiency Technology: Dangers of Legislating Energy Efficiency Standards Not Applicable to Guam: Substantial Unnecessary Costs.
6. Why The US Army Corps of Engineers Estimate of \$743,000,000 for a New Hospital Should Be Used as a Benchmark for Planning and Not Conclusive: One Sentence Provides the Answer

III. Healthcare and Hospital Development Experience

Over the course of a seven-year period, I led the development of a new private hospital from the very early stages of the vision, selecting specific community members with various expertise to gather information to be used in the drafting of the business plan and every phase thereafter even years before investors and financing became a reality all the way to the grand opening day of what is now known as the Guam Regional Medical City. Over these years there was significant media reports about my efforts since the board members of my Foundation at the time felt that one of the key components to success was transparency with our community. But there has never been any published report about the details of my work to make this project a reality.

At the very early stages I was the Chairman of an organization known as the "Guam Hospital Development Forum." For a period of four months, while also tapping into the expertise of hospital development consultants, we gathered various information required

to prepare a business plan we then planned to subsequently present to potential investors. With the information gathered I personally wrote the business plan. I then presented the business plan to a variety of potential investors in the mainland and Asia including officers and directors of hospital and healthcare systems, equity fund managers, hospital and healthcare developers, faith based healthcare and hospital systems, officers of a pharmaceutical company and bond underwriters. I presented the business plan to these potential investors in Washington DC, Pittsburgh, Mitchell South Dakota, Denver, San Francisco, Seattle, Tokyo, Singapore, Seoul while attending a World Hospital Conference and also in Manila. Most think that GRMC is owned solely by a Philippine group of investors but that is not the case. Our work resulted in a Philippine corporation being the parent company of GRMC whose shareholders include a San Francisco based equity fund, Singapore equity fund, and various Philippine based individual and business investors. The equity financing involved in this \$400,000,000 project at the time was complex.

Finally securing the equity investors was just the beginning since we all knew we needed debt financing to raise the capital to develop the hospital before we could even start to think about the design. This was the most critical turning point and actually Bill 121 provides the financing mechanism to make the new hospital and other healthcare facilities a reality. At this juncture I meet for months with the investors financial analyst, its investment bank and even personally made presentations to five Philippine based banks that provided the initial loans for the project. It was critical for the equity and debt financing that these funders know details relative to not just the Guam economy but the Guam healthcare system.

After all funds were secured, we then entered into the design phase. It is important to note that it is commonly known in the healthcare and construction industry that a hospital is the most difficult development to design and costs substantially more to construct per square foot. In the case of GRMC, it took just over 12 months just for the design. I was involved in various phases of the design including the organization of local focus groups to meet with architects since for various reasons, including financial sustainability reasons, the design had to incorporate the unique chronic disease profile of our community. For example, the start of the design of the operating rooms involved sessions between six local surgeons and architects. In designing the Oncology Department local focus groups included cancer patients, cancer survivors, families that lost a loved one to cancer and the likes of the University of Guam Cancer Research Center.

So the design phase was extremely detailed which resulted in hundreds of pages of architectural drawings that also required the need to retain Medicare and Joint Commission consultants to insure that design met both Medicare and Joint Commission standards. I would be more than happy to speak to any one of you about all the work and experience I had in developing what is now the Guam Regional Medical City.

In 2013 I was a member of the Stanley Setiadi Joint Venture that won a Department of Interior RFP to do a "Needs Assessment Study" for the Chuuk State Hospital. The federal government needed a study so it could determine whether it should provide Chuuk with

the funding to develop a new hospital. Our team consisted of healthcare development advisors, civil engineers, electrical engineers, mechanical engineers, architects and information technology experts. While in Chuuk we met daily with the various hospital department heads, doctors, nurses, radiologist, surgeons as well as representatives of our equivalent of land management since we found the existing hospital encroached on private land and that it may be possible we would have to identify an alternative site. We submitted our study on May 24, 2013.

Last, I worked for the Guam Memorial Hospital for a time and was its Director of Strategic Planning. At that time my role included the preparation of a report which critiqued a modernization plan, interfacing with various department heads to arrive at conclusions to either retrofit or build a new hospital, gain an understanding into the various building systems that needed funding for the health, safety and welfare of patients, doctors, nurses and staff as well as raising of private funds to purchase needed equipment by the hospital

IV. Time Is of the Essence to Pass Bill 121: Adverse Financial Impact If Delayed

We all know that our people deserve a new state of the art hospital. I am sure there is no disagreement on that point. But there does seem to be some that feel our people have the comfort of time to wait even more years before a new hospital is completed, furnished, equipped, staffed and ready to begin the transfer of patients from the existing hospital to the new hospital. The US Army Corps of Engineers Facilities Condition Assessment of the Guam Memorial Hospital dated April 8, 2010 ("USACE Report"), confirms what many have known for many years now. These findings should come as no surprise since clearly there has been prior knowledge of these deficiencies.

During a breakout session on hospital developments at a World Hospital Conference in Seoul I attended, engineers and architects from various countries stressed that the useful life of a hospital is 40 years. The USACE Report acknowledges this useful life period which is commonly known in the hospital development and construction industry. We all know that the Guam Memorial Hospital is over 11 years past its useful life. I have to pose one question. Would any of us have our homes pass its useful life with deficiencies as cited in the USACE Report? Would any hotel owners or owners of commercial buildings have these assets past their useful lives with deficiencies as cited in the USACE Report? Of course we know we would not so why would we chose not to take immediate steps to pass Bill 121? The standards of use of our homes, commercial buildings, hotels and other structures should never go beyond the standards of a hospital that services the healthcare needs of our community.

Financial Impact: The design phase alone for a new hospital will take approximately 12 months. It is literally one of the most difficult developments to design. It is important to consider that time is of the essence from a financial point of view since we must keep in mind that from the date of the first day of the design phase all the way to the date the new hospital being ready to have patients transferred to it, we are realistically looking at a period of 5 years. During those five years between \$25,000,000 to \$30,000,000 in subsidies. On top of this, the USACE Report states on page 4 at the second paragraph the following:

”GMH will require \$21 M immediately for repairs to support repairs the reaccreditation process of the facility and to eliminate hazards to to life, health and safety.”

With respect to financial impacts that would result from delays, the cost of constructing a hospital on Guam and healthcare facilities on Guam will continue to rise. Years ago when GRMC was at the financing stage, the investment required amounted to approximately \$400,000,000. I believe it would now take at at least \$600,000,000 to finance, design, construct, procure furnishings-fixtures-equipment-supplies, cover insurance expenses etc. if the identical structure was to start being developed today.

Current bond market conditions are “Hot” as one bond underwriter explained to me just two days ago. Bond financings at this time are resulting in very attractive terms. However, commonly known in the financial markets and also explained to me by this bond underwriter, that the “chatter of inflation is starting to happen in the market.” That’s all it would take is the issuance of a new Consumer Price Index that even suggests or projects inflation to affect the bond market. If such an index is issued, then the result would likewise be an increase in interest rates on most all financings. Bill 121 provides the financing mechanism to fund the development of the new hospital, the new public health facility and the new behavioral and wellness facility at very attractive terms

V. Example of One Existing Condition Compromising Life Safety Standards

I gave it a significant amount of thought prior to writing this section. Initially I felt I should not write it since I did not want to create any disharmony nor initiate any finger pointing or blame making. But then again I feel this issue truly involves the life and death of our people. Therefore, I felt transparency and honesty was the best route to take and in this section, will share a personal experience of when I was employed at GMH. I find comfort in knowing that the USACE Report contains significant findings which justified all my concerns at the time.

There are of course numerous deficiencies cited in the USACE Report but for purposes of this section, I want to provide just one example of a deficiency that has and continues to be a life, health and safety concern. And this will not come as a surprise to most of you since this particular issue was discussed at length during the previous legislature

and previous administration. The example involves the Electrical Distribution System of the Guam Memorial Hospital which three years ago was estimated to cost only about \$6,000,000 to replace.

But before I share my personal real life experience, let me point out what some parts of the USACE Report states about this very same matter,

Page 12 of the USACE Report is the first page of several that outlines deficiencies related to “Electrical Observations.” The following are some quotes from this section of the USACE Report which can be found on pages 12 and 13:

- ***“Main Distribution Equipment in Poor Condition and Inadequate for Hospital.”***
- ***“The Main Switchboard MS is over 40 years old.”***
- ***“The harsh tropical climate, combined with much leaking over the years, have taken a great toll on the components of all the normal and emergency electrical equipment in many areas of the hospital.”***
- ***“The fundamental components of the Emergency Power System are beyond their useful lifespan.”***
- ***“Code violations in the power plant and throughout the facility: In the power plant, old electrical equipment no longer in use is still utilized for routing feeders to new equipment. Electrical breakers such as breakers, panel board, and discount switches have been bolted on to existing equipment because of lack of space in the equipment or lack of free wall space. Many of these installations violate electrical code, and they could be overloading the equipment to which they are connected.”***

This one section speaks volumes of the life, health and safety risks that continue to exist with each passing day. I do not feel that any of us would live in our home if these findings were made about our home, what more the hospital of our people. Let us all ask ourselves a simple question. Would any one of us live in a home, apartment or condominium if the circuit breakers have not been replaced in over 40 years?

While I was with the Guam Memorial Hospital, there was a time that management in the Planning Division were expressing to me their frustrations relative to their serious concerns about the hospital’s electrical distribution system. After learning more about the situation I became very concerned and even wrote several emails of concern to a member of this legislative body that not only never replied, but would not meet with me. There is a very comprehensive set of codes at the Guam Memorial Hospital that staff are notified of in the event of various types of emergencies. In fact, there is even one for the presence of an active shooter. But there is also a code for a “Mass Evacuation of the Hospital.”

If the electrical distribution system fails even if the back up generators kick in during a power outage, the power generated by the generators would not be able to be “Distributed” throughout the hospital. The hospital would essentially have no power at all. To arrive at objective conclusions of what would happen in different departments if this happened, I personally met several key employees in various departments. This included the head of respiratory therapy, head of pharmacy, the head of the laboratory, the head

of the radiology department as well as a surgeon. The next paragraph describes exactly what they expressed to me in the event such an event occurred.

There is a bacteria free hood in the pharmacy. This hood is used as a sterile environment for making various IV bags of not just like electrolytes but anti-biotic. This hood requires power to keep the area the IV bags are made bacteria free. With no power the hood can no longer provide a bacteria free environment. Bacteria would easily enter IV bags. In fact, the head of pharmacy even provided me with a case study of a compounding facility on the mainland where bacteria entered IV bags. The result was over 15 deaths of patients. Obviously ventilator battery packs can only last a few hours and without power for not just the ventilators but to recharge the battery packs, ventilators would eventually shut down right in the middle of its use by patients. X-Ray and CT Scans would not be available and the laboratory would not even be able to do basic tests. The anesthesiologist explained to me that he heavily is reliant on power to keep a patient sedated and if the power went out, the generators kicked in but the electrical distribution failed, there would be risks of patients waking up in the middle of a surgical procedure.

Our people and our community deserve so much better.

VI. Why It Is Impossible for Annual Lease Rents to Be \$70,000,000 As Expressed in a PNC Broadcast

I watched a PNC television broadcast that showed one member of the legislative body stating to GMH Administrator Lilian Rapadas that the lease rents would essentially be \$70,000,000 annually. In this same broadcast this member also commented that if certain things were not done, Bill 121 would essentially die and be sent back to committee. For the reasons stated above why time is of the essence, for financial reasons and for the health, safety and welfare of our people, I believe that if Bill 121 is in fact sent back to committee especially at a time when the law requires a new budget to be in place before the end of next month, there will be no funding for a new hospital, new public health facility and new behavioral and wellness facility. In balancing any hardships in this case, it would literally be unconscionable for our people if this was to occur.

It is literally impossible for the member to arrive at a reliable figure of \$70,000,000 annually since no detailed cost breakdown of the projects were used. The comments were made without even knowing in the size of the hospital, the total square feet of the hospital, the number of Acute Care beds of the hospital, the number of Emergency Rooms, etc.

In order to have a real picture of what the lease rents would be, at least some of the following costs would have had to have been available for calculation at a minimum from a conceptual cost estimate. Costs such as the following

1. Design Costs
2. Construction Costs including site preparation and utility installation cost
3. Cost of fixtures and furnishings
4. Cost of Equipment
5. IT & Building Management System Costs
6. Insurance Cost based on a Fitch or Moody's rating
7. Annual Maintenance cost
8. Construction period interest
9. Capital Maintenance Reserve
10. Bond Issuer Fee
11. Bond Counsel Fee
12. Bond Trustee fee
13. Bond Rating Agency Fee
14. Insurance and Maintenance Reserve cost required under any bond financing.

The \$300,000,000 Factor: It appears that in arriving at an estimate of annual lease rents of \$70,000,000, the set aside of \$300,000,000 by the governor in America Rescue Act funds for the hospital project was not considered.

There are of course many factors that must be considered to arrive at detailed cost estimates for the complete development of a hospital. However, those details are arrived at during the design phase and then comparing each segment of the design phase to the overall budget for the hospital project. The design may reach points where changes are made to reduce cost so appropriate design changes are made. In the same breath, the design may reach points where changes are made to add features if it is determined the project is under budget at various points.

But just for some degree of comparison to the the \$70,000,000 stated annual lease rents, I would like to provide you with a conceptual cost estimate of a new hospital project. This conceptual cost estimate includes calculations of the various costs outlined in 1-14 above. This conceptual cost estimate also assumes a 350,000 square foot hospital with a 150 Acute Care beds. I of course understand that the healthcare

advisors may arrive at a different square footage and number of Acute Care beds, but use these number for lease rent comparisons.

For a 150 acute care bed hospital with 350,000,000 square feet, a conceptual cost estimate of \$590,000,000 is reasonable. If we followed this conceptual cost estimate, then annual lease rents would be approximately \$38,000,000 annually and not \$70,000,000. Again, this number is based on a conceptual cost estimate but it does factor in real costs for such items as equipment alone that will cost upwards to \$100,000,000.

VII. Bill 121 Already Provides for Energy Efficiency Technology

I understand there are questions relative to the energy efficiency of the various projects. In the planning and designing of GRMC, energy efficiency was always considered especially because of our high rate of power on Guam. In fact, during the initial design phase, various computer modules were used that shifted the position of the hospital building on the property. Slight shifts of the placement of the hospital building was done together with computer modules that factored in the actual locations of the sun from sunrise to sunset. This alone was done as an energy saving design technique so that the hospital was built in the best way on the property that limited the amount of heat generated by the sun from hitting the hospital building.

GRMC like most new hospitals, maintains very sophisticated IT systems including a "Building Management System." A building management system not just for a hospital but for any building they are designed for and is primarily an energy efficiency system. It monitors all the electrical, mechanical and HVAC systems of a building and insures energy efficiency.

I know that the term "LEED Technology" can be a popular name but much caution must be used in the use of LEED Technology on Guam. LEED has always been a standard for states and not for Guam. We of course know that there are large fluctuations in weather temperatures in states with many states having ranges of temperature that can go below zero degrees and as high as 100 degrees or more. However, the annual temperature on Guam is relatively stable with minimal changes in temperature.

I suggest keeping the language of Bill 121 as is requiring a building management system. I would caution legislating any detailed energy efficiency technologies including LEED technologies since the costs are extremely high and truly will have no energy saving benefit. It is best that energy efficiency measures be determined during the initial design phase.

VIII. Why The US Army Corps of Engineers Estimate of \$743,000,000 For A New Hospital Should Be Used as a Benchmark for Planning and Not Conclusive

As you all know the US Army Corps of Engineers arrived at an estimated cost for a new replacement hospital at \$743,000,000. It is very important to consider though that this number is probably higher because of one sentence in the USACE Report that most have not considered. Please note the following one sentence in the USACE Report that appears on page 29 at the second paragraph:

“This cost is developed on the basis of a typical DOD Military type cost estimate using the Parametric Area Cost Estimating System Software (PACES)...”

Military and certain federal projects are much more expensive with software that estimates high because of certain military related specifications. Consider for example Naval Hospital which has substantially less Acute Care beds compared GRMC. It's cost however was substantially higher compared to GRMC. Consider also the United States District Court of Guam building which was designed under guidelines required by the United States Department of Justice just after the Oklahoma City Bombing. This court house cost at least 50% more to build compared to a normal commercial building since its design includes a collapsible preventive system. It was built to be virtually bomb proof. In just the mailroom alone there is a sophisticated air exhaust system in the event any mail is found to have such material as anthrax. The size of rebar, beams and columns are much larger compared to other buildings. Most all military developments cost much more per square foot compared to generally all out of base projects.

Also, on page 28 of the USACE Report it does not have a breakdown of cost but does state the ...***“new facility can be sized and shaped to meet the projected healthcare needs of the island”***.

Allowing for flexibility in the development of a hospital is extremely important since it is a development that requires under its useful life, 24-7 operations for at least 40 years. Short term and long term considerations must be made especially during the design phase since also the type of equipment to be procured is also dependent on design. In addition, unlike all other developments, a hospital is where life and death decisions are made constantly.

Bill 121 provides for the financing mechanism of three critically important projects for our people.

In closing, there is a significant distinction in the cost of the hospital, public health facility and behavioral and wellness facility. The hospital will cost substantially more when you consider that just the equipment and supplies alone will cost over \$100,000,000. Plus, the construction cost per square foot for the new public health facility and behavioral and wellness facility will be substantially less compared to the cost per square foot for the hospital. I believe that for both the new public health facility and new behavioral wellness facility each will cost no more than \$50,000,000.

Thank you very much for this opportunity to submit this testimony in favor of Bill 121.

Regards,

Peter R. Sgro, Jr.