

Date of Hearing: March 26, 2025

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 533 (Flora) – As Introduced February 11, 2025

**SUBJECT:** Health care districts: design-build process.

**SUMMARY:** Allows health care districts that own or operate a hospital or clinic to use design-build contracting for the construction of a hospital or health facility buildings. Specifically, **this bill:**

- 1) Allows a health care district that owns or operates a hospital or clinic to use the design-build procedure to construct a building or improvements directly related to the construction of a hospital or health facility building, upon approval by its board of directors.
- 2) Provides that a health care district must use the design-build procedure that current law establishes for local agencies, as specified.
- 3) Requires a hospital building project using the design-build process authorized by this bill to be reviewed and inspected in accordance with the standards and requirements of the Alfred E. Alquist Hospital Facilities Seismic Safety Act (Hospital Seismic Safety Act) of 1983.
- 4) Provides that no reimbursement is required by this bill because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, or changes the definition of a crime, as specified.

**EXISTING LAW:**

- 1) Requires, pursuant to the Local Agency Public Construction Act (LAPC Act), local officials to invite bids for construction projects and then award contracts to the lowest responsible bidder under the traditional design-bid-build project delivery system. [Public Contract Code (PCC) §§ 20100 – 20929]
- 2) Authorizes, until January 1, 2031, cities, counties, and specified special districts and transit agencies to use design-build for their public works contracts in excess of \$1 million using either a low bid or best value process. (PCC §§ 20100 – 22199)
- 3) Provides for local health care districts, which govern certain health care facilities. Health care districts have specific powers and duties respecting the creation, administration, and maintenance of the districts, including the authority to purchase, receive, take, hold, lease, use, and enjoy property of every kind and description of property within and without the limits of the district. [Health and Safety Code (HSC) §§ 32000 – 32499.95]
- 4) Establishes, pursuant to the Hospital Seismic Safety Act, timelines for hospital compliance with seismic safety standards. (HSC §§129675 – 130070)

- 5) Authorizes the Sonoma Valley Health Care District, the Last Frontier Health Care District, and the Mayers Memorial Hospital District to use design-build for the construction of a building or improvements directly related to construction of a hospital or health facility. HSC §§ 32132.5, 32132.7, and 32132.8)

**FISCAL EFFECT:** This bill is keyed fiscal and contains a state-mandated local program.

**COMMENTS:**

- 1) **Background.** The LAPC Act generally requires local officials to invite bids for construction projects and then award contracts to the lowest responsible bidder. This design-bid-build method is the traditional approach to public works construction.

Under the design-build method, a single contract covers the design and construction of a project with a single company or consortium that acts as both the project designer and builder. The design-build entity arranges all architectural, engineering, and construction services, and is responsible for delivering the project at a guaranteed price and schedule based upon performance criteria set by the public agency. The design-build method can be set by the public agency. The design-build method can be faster and, therefore, cheaper, than the design-bid-build method, but it requires a higher level of management sophistication since design and construction may occur simultaneously.

Advocates for the design-build method of contracting for public works contend that project schedule savings can be realized because only a single request for proposals is needed to select the project's designer and builder. The more traditional design-bid-build project approach requires the separate selection of the design consultant or contractor, completion of design, and then advertising for bids and selection of the construction contractor. Proponents add that design-build allows the overlap of design and construction activities, resulting in additional time savings and lower project costs. By avoiding the delays and change orders that result from the traditional design-bid-build method of contracting, proponents argue that design-build can deliver public works faster and cheaper.

Detractors of design-build contend that it eliminates competitive bidding, allows the private contractor or consortium to inspect and sign off on their own work, and increases project delivery costs.

- 2) **Design-Build in California Law.** California's Legislature began granting design-build authority in the early 1990's, and has typically done so with specified parameters, such as the duration of the authority, the types of agencies allowed to use it, the types of projects for which it can be used, cost thresholds, and specified procedures that must be followed in preparing and awarding contracts. Over the years, this resulted in a number of statutes in a variety of code sections, which created confusion for public agencies and contractors alike.

In an effort to consolidate these statutes, SB 785 (Wolk), Chapter 931, Statutes of 2014, repealed existing law authorizing the Department of General Services (DGS), the Department of Corrections and Rehabilitation (CDCR), and local agencies to use the design-build procurement process, and enacted uniform provisions authorizing DGS, CDCR, and specified local agencies to utilize the design-build procurement process for specified public works projects (with some exceptions). SB 785 created one set of codes for DGS and CDCR, and a separate set for specified local agencies, but with similar parameters.

Since SB 785 was enacted, the Legislature has authorized numerous additional local agencies or types of local agencies to use SB 785 design-build authority for additional projects or types of projects.

- 3) **Design-Build and Healthcare Districts.** Health care districts are formed to “establish, maintain, and operate health care facilities,” including, but not limited to, hospitals. Health care districts are governed by elected boards of directors. Health care districts throughout the state need to retrofit existing buildings or build new facilities in order to comply with the Hospital Seismic Safety Act. These districts are faced with escalating construction costs and are looking for the most cost-effective ways to meet seismic standards and provide well-designed and built state-of-the-art facilities to provide health care to the people of the state. One of these methods is design-build contracting.

Between 2008 and 2015, the Legislature authorized four health care districts to use design-build (Sonoma Valley Health Care District, the Last Frontier Health Care District, the Marin Healthcare District, and the Mayers Memorial Hospital District). This authority was restricted to the construction of a building and improvements directly related to a hospital or health facility building.

- 4) **SB 957 of 2016.** SB 957 (Hueso), Chapter 212, Statutes of 2016, expanded the authority for health care districts to use design-build to include all health care districts that own or operate a hospital or clinic. The authority was limited to the construction of a building or improvements directly related to the construction of a hospital or health facility building. The bill required districts to use the procedures outlined in SB 785 that apply to local agencies' authority to use design-build. A hospital building project using the design-build process authorized by SB 957 was required to be reviewed and inspected in accordance with the Hospital Seismic Safety Act. SB 957 contained a sunset date of January 1, 2025.

According to the sponsor of this measure, the Association of California Healthcare Districts, this sunset date in SB 957 inadvertently went into effect this year. They and other supporters of this bill are seeking to reinstate this prior law in order to continue using the authority. The sponsor reports that the following healthcare districts have used, or are planning to use, design-build for the following projects:

- a) San Bernardino Mountains Community Hospital District – Hospital
- b) Southern Mono Health Care District – Mammoth Hospital
- c) Last Frontier Healthcare District/Modoc Medical Center – Hospital and Skilled Nursing Facility
- d) Plumas Healthcare District – Skilled Nursing Center
- e) Salinas Memorial Heath Care District – Parking Structure
- f) Mayers Memorial Heath Care District – Hospital
- g) Seneca Healthcare District – Hospital

- 5) **Bill Summary and Author's Statement.** This bill re-instates the provisions of SB 957 that inadvertently sunset this year. This bill is sponsored by the Association of California Healthcare Districts.

According to the author, “Healthcare districts serve the most vulnerable and underserved throughout the state. This measure allows healthcare districts that own and operate a clinic or hospital to utilize design build for construction projects.”

- 6) **Previous Legislation.** SB 957 (Hueso), Chapter 212, Statutes of 2016, was nearly identical to this bill, with the exception of its sunset date of January 1, 2025.

AB 1290 (Dahle), Chapter 34, Statutes of 2015, allowed the Mayers Memorial Hospital District to use the design-build contracting method for the construction of a building or improvements directly related to construction of a hospital or health facility building at the District.

SB 268 (Gaines), Chapter 18, Statutes of 2014, allowed the Last Frontier Health Care District to use the design-build process when contracting for the construction of a building and improvements directly related to a hospital or health facility building at the Modoc Medical Center.

SB 785 (Wolk), Chapter 931, Statutes of 2014, enacted uniform provisions authorizing DGS, CDCR, and most local agencies to utilize the design-build procurement process for specified public works projects.

SB 1005 (Cox) of 2010 would have authorized the Tahoe Forest Health Care District and a health care district authorized by the Office of Statewide Health Planning and Development to use a design-build procedure when assigning contracts for the construction of a hospital or health facility building. SB 1005 was held in the Assembly Appropriations Committee.

SB 1699 (Wiggins), Chapter 415, Statutes of 2008, authorized the use of design-build for the Sonoma Valley Health Care District.

- 7) **Arguments in Support.** The Association of California Healthcare Districts, sponsor of this measure, writes, “In 2016, the legislature granted healthcare district that own clinics and hospitals the ability to utilize the design and construction process known as design build. Unfortunately, the authority sunset January 1, 2025. This leaves district hospitals and clinics that require this authority to leverage financing without the ability to do so. Specifically, AB 533 would explicitly allow a qualifying healthcare districts to use the design-build process for hospital and health facility construction projects.

“The design-build process allows a single entity to be responsible for both the design and construction phases of a project, streamlining the process and reducing costs. Hospitals and clinics operated by healthcare districts utilize USDA or other federal financing mechanisms. In order to secure this financing, the district requires a firm number on cost up-front, a feature of design-build that distinguishes it from its other public contracting and construction counter parts. In addition, the design build method requires that the cost be maintained through the process, ensuring that our public projects come in at budget.

“AB 533 is critically important to ensure that healthcare districts can continue to meet their state mandates and build and maintain quality health care infrastructure for the communities they serve. For these reasons, ACHD strongly supports this bill and respectfully requests your ‘AYE’ vote.”

8) **Arguments in Opposition.** None on file.

**REGISTERED SUPPORT / OPPOSITION:**

**Support**

Association of California Healthcare Districts [SPONSOR]  
Antelope Valley Healthcare District  
California Special Districts Association  
Del Puerto Health Care District  
Desert Healthcare District  
District Hospital Leadership Forum  
Fallbrook Regional Health District  
Mayers Memorial Healthcare District  
Morongo Basin Healthcare District  
Petaluma Healthcare District  
Tulare Local Healthcare District

**Opposition**

None on file

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