

**DATE:** July 16, 2015  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 15-49

Authorizing the Executive Director to Execute a Guaranteed Maximum Price Amendment to the Construction Management General Contractor Contract with Northwest Demolition and Dismantling in an Amount Not to Exceed \$8,589,228 for Phase One of the Selective Demolition of Centennial Mills

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7137

**ACTION DESCRIPTION**

This action by the Portland Development Commission (PDC) Board of Commissioners (Board) will authorize the Executive Director to execute a Construction Management General Contractor (CM-GC) Guaranteed Maximum Price (GMP) amendment with Northwest Demolition and Salvage (Contractor) of \$8,589,228 for the Phase I selective demolition and salvage of Centennial Mills (Property) in the River District Urban Renewal Area (URA).

**BACKGROUND AND CONTEXT**

For the past 21 months, PDC has been exploring a comprehensive redevelopment of the Centennial Mills property (Property) with a development team selected through a competitive solicitation process, Harsch Investment Properties. See Attachment A for an aerial photo of the Property.

In order to address the rapidly deteriorating conditions on the Property, on December 11, 2014 the PDC Board acting as the PDC Local Contract Review Board instructed staff to pursue an expedited procurement process for selective demolition of the Property. Due to the complex nature of the demolition contract, the PDC Board approved a selection process that considered factors such as past performance, capabilities, and demonstrated history of completing projects on time and on budget. A CM-GC Request for Proposals (RFP) was issued on December 29, 2014, and responses were delivered to PDC on January 27, 2015. PDC staff conducted interviews with proposal teams and ultimately selected Contractor based upon their capacity, qualifications, safety record, and project approach. The Executive Director entered into a phased CM-GC contract with Contractor on April 7, 2015.

Contract Structure. The CM-GC contract is divided into four parts:

1. Pre-demolition engineering, site preparation, and creation of comprehensive selective demolition plans for the Phase I demolition;
2. Early work site preparations;
3. Phase I selective demolition above the Ordinary High Water; and

4. Phase II demolition below the Ordinary High Water.

PDC entered into the pre-construction services phase of the CM-GC contract with the Contractor on April 7, 2015, in an amount not to exceed \$34,100. PDC entered into the Early Work phase on June 30, 2015, in an amount not to exceed \$445,295. The pre-construction services are now complete; PDC has reviewed and approved the Contractor deliverables (Selective Demolition Plan, Salvage Plan, Environmental Compliance Plan, and Safety and Security Plans). PDC now has enough detailed information about project requirements to enter into a GMP contract for Phase I of the selective demolition work.

The action before the PDC Board is to authorize the Executive Director to amend the CM-GC contract to authorize the Phase I Selective Demolition for a Guaranteed Maximum Price of \$8,589,228. The following is a summary of the major components of the GMP:

General Conditions	\$1,003,145
Work	\$5,477,176
Overhead	\$740,701
Fee	\$361,051
Contingency	\$758,207
Insurance	\$94,500
Bond	\$83,193
Bid Alternates	\$71,255
<b>Subtotal Phase I Selective Demolition</b>	<b>\$8,589,228</b>
<i>Salvage Credit</i>	<i>(\$511,700)</i>
<i>Total Phase I Cost</i>	<i>\$8,077,528</i>

The pre-construction phase scope of work called for the Contractor to propose a GMP for selective demolition of all buildings on the site except the Mounted Police Unit (MPU) headquarters and paddock, the Flour Mill, and the Feed Mill. A preliminary estimate from the Contractor to demolish these structures would be an additional \$1,450,000. PDC staff excluded the demolition of these buildings from the scope of work because: i) the costs of finding and relocating the MPU facilities is greater than available resources, and ii) the Feed and Flour Mills are contemplated for potential future reuse.

This cost summary does not include the Phase II in-water demolition, nor does this PDC Board action include approval of the Phase II demolition. The scope and cost of the second phase cannot be accurately determined at this time but is estimated to be substantially less. A subsequent amendment to the GMP will be needed to include the second phase (in-water) scope of work and will be brought to the PDC Board for consideration at a future date. The amendment will be executed only after PDC has received detailed permitting requirements from state and federal jurisdictional agencies, and a detailed scope of work is determined.

*Equity Goals.* All work for all phases under the CM-GC contract is required to comply with PDC's Equity Policy. The overall goal is to enable 20 percent of all qualified work on this project to be performed by such firms. As bid, the total participation rate for all work through the completion of Phase I is anticipated to be 26 percent.

### **PUBLIC PARTICIPATION AND FEEDBACK**

PDC created an Evaluation Committee including community stakeholders and minority representatives to review the selective demolition proposals. The Evaluation Committee met February 20, 2015, and was unanimous in its recommendation to select the Contractor.

Moving forward, there will be significant public participation opportunities to solicit public feedback on the design of the proposed public improvements that could be constructed after selective demolition. PDC has delivered, and intends to continue to deliver, regular project updates to the Pearl District Neighborhood Association and other public partner entities.

### **BUDGET AND FINANCIAL INFORMATION**

The current River District URA budget for comprehensive redevelopment of the Property is \$20,506,271. For the CM-GC contract, \$34,100 has been encumbered or spent to date on pre-construction service costs, \$445,295 has been encumbered or spent to date under the early work amendment, and the GMP amendment is proposed at \$8,589,228. The total encumbrance at the completion of Phase I (including pre-demolition and early work) will be \$9,068,623. An estimated credit of \$511,700 will be provided via timber salvage proceeds, reducing the overall Phase I cost to \$8,556,923.

The following additional tasks will still be required:

1. Phase II in-water demolition
2. Restoration of MPU after demolition
3. Flour and Feed Mill roof repairs
4. Contaminated soil remediation
5. Tanner Creek outfall remediation
6. Riverbank restoration
7. Greenway design

There is adequate funding for these remaining tasks in the Proposed River District URA budget, \$1,874,708 in fiscal year (FY) 2014-15 and an additional \$18,631,563 in FY 2015-17 for a total budget of \$20,506,271 (see URA Financial Summary in Attachment B). There is not sufficient funding in the proposed budget to fully restore or renovate the Flour and Feed Mills.

### **RISK ASSESSMENT**

*Complexity of Project.* Given the complexity of the Project, PDC has hired experienced and specialized outside consultants to assist PDC in contractor selection and demolition contract negotiation. Specifically, PDC, after a comprehensive RFP process, hired KLK Consulting (KLK) as its Owners Representative. KLK provides a variety of development assistance services, with a specialty in land use entitlements and permit facilitation. KLK has played a critical role in selecting the Contractor, developing the construction contract, and reviewing the constituent demolition and safety and environmental remediation plans.

PDC also hired specialized outside legal counsel. Scott Fradin, a Chicago-based attorney experienced in drafting and negotiating demolition contracts, has represented PDC in the drafting and negotiation of the demolition contract. Mr. Fradin has represented numerous clients in negotiating demolition contracts and is the general counsel for the National Demolition Association.

PDC procurement, legal, and construction staff have worked closely to develop an agreement that is designed to maximize cost and schedule control while mitigating the critical risks that the Property presents. Because of the complexity of this project, PDC chose to use a CM-GC contract. This type of contract allows for more collaboration between PDC, the design team, and the construction team. Under this contract, the CM-GC is involved during the design phase of the project; this provides PDC with the CM-GC's professional expertise in the areas of cost estimating, value engineering, "constructability" review, scheduling of activities, procurement, safety, and construction coordination and supervision during the design phase. These are added capabilities that do not exist under a standard owner-contractor contract and provide added benefit to PDC.

**Damage, Health, and Safety Risks.** The Property is in an advanced state of disrepair and deterioration. The full extent of the existing damage, structural and environmental condition, and health and safety risks were not completely known at the commencement of this project. To address these issues, PDC has taken the following risk mitigation measures:

- PDC used an RFP contractor selection process that placed emphasis on experience, capability, and demonstrated safety record for similar complex projects.
- The CM-GC contract included an extensive, pre-demolition phase during which the selected Contractor conducted a comprehensive examination of the site and the building. Based on this examination, the Contractor has had time to better identify the unique health and safety risks associated with this project and has prepared a comprehensive demolition management plan to address these risks.
- PDC consulted with its outside insurance consultants to establish the insurance coverages and limits necessary to adequately protect PDC.

**Budget Risks.** On advice of PDC's specialized consultants and counsel, because of the complexity of the project and the risks of cost escalation, the CM-GC contract was designed with a GMP. It has the following features designed to mitigate cost escalation risk:

- Because of the extensive pre-construction design period, the Contractor has thoroughly examined the Property and has been able to discover its full condition. As such, the GMP has been established and cannot be increased due to the existing conditions of the Property. As such, there is substantially smaller risk of the discovery of still undiscovered conditions.
- The GMP structure sets a maximum price, not the final price. PDC only pays the Contractor for the actual cost of the work, which means that if the actual cost of the work is less than the GMP, the savings belongs to PDC. PDC and KLK will have access to all invoices and cost records, and payment will verify all invoiced costs.
- There is also a healthy 10 percent contingency in the contract budget. The contingency cannot be used to address known conditions of the Property, or to cover costs that the Contractor incurs above its GMP price; these additional costs must be borne by the Contractor. The contingency can only be used for unforeseen circumstances, the risks of which are substantially reduced due to the pre-construction work that has been performed. The Contractor is incented to not use any of the contingency, since they will share 25 percent of any amounts not used.

### **ALTERNATIVE ACTIONS**

The PDC Board may choose to:

1. Cease pursuit of the selective demolition and salvage of the Property;
2. Not approve the proposed GMP amendment and direct PDC staff to renegotiate the scope and/or contract with the Contractor; or

3. Decline to execute the GMP amendment with the Contractor, and direct PDC staff to issue an updated request for bids using the work product obtained during the pre-construction services phase.

**ATTACHMENTS**

- A. Property Aerial Photograph
- B. River District URA Budget

**Property Aerial Photograph**



**River District URA Budget**

**Five-Year Forecast Program Requirements Detail**

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
<b>River District URA</b>						
<b>Resources</b>						
Beginning Fund Balance	49,258,181	37,846,177	16,489,814	5,850,288	1,782,873	265,476
Fees and Charges	16,900	6,000	1,324	2,937	2,110	2,110
Interest on Investments	200,000	200,000	150,000	50,000	25,000	5,000
Intergovernmental Revenues	1,983,620	1,983,620	0	0	0	0
Loan Collections	14,664,000	5,211,777	704,564	1,214,497	940,948	4,516,616
Long Term Debt	0	21,000,000	21,066,380	9,000,000	2,900,000	0
Property Income	2,769,168	2,672,865	11,945,115	2,470,115	6,116,995	2,466,015
Reimbursements	918,311	0	0	0	0	0
Short Term Debt	20,472,169	19,948,515	12,542,954	16,575,087	17,437,825	18,543,087
<b>Total Resources</b>	<b>90,282,349</b>	<b>88,868,954</b>	<b>62,900,151</b>	<b>35,162,924</b>	<b>29,205,751</b>	<b>25,798,304</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101330 Debt Management-RVD	71,055	71,055	65,000	65,000	65,000	65,000
<b>Total Administration</b>	<b>71,055</b>	<b>71,055</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>	<b>65,000</b>
<b>Business Development</b>						
<b>Business Lending</b>						
L00210330 BL -General-RIV	50,000	500,100	500,100	500,100	500,100	500,100
<b>Small Business &amp; Community Dev</b>						
B55005330 OT/CT Action Plan-RVD	155,000	145,000	125,000	0	0	0
<b>Traded Sector Business Dev</b>						
B15100330 Cluster Development-RVD	50,000	50,000	50,000	50,000	50,000	0
<b>Total Business Development</b>	<b>255,000</b>	<b>695,100</b>	<b>675,100</b>	<b>550,100</b>	<b>550,100</b>	<b>500,100</b>
<b>Housing</b>						
<b>PHB Housing</b>						
H15900330 PHB Staff & Admin-RVD	858,960	0	0	0	0	0
H15931330 Block 26-RVD	1,402,138	0	0	0	0	0
H15930330 Fairfield Apartments-RVD	46,738	0	0	0	0	0
H15430330 Affordable Rental Hsg-RVD	0	12,455,583	8,369,756	3,253,533	2,428,468	0
H15136330 Erickson-Fritz-RVD	2,804,275	0	0	0	0	0
H15137330 The Abigail-RVD	9,254,109	0	0	0	0	0
<b>Total Housing</b>	<b>14,366,220</b>	<b>12,455,583</b>	<b>8,369,756</b>	<b>3,253,533</b>	<b>2,428,468</b>	<b>0</b>
<b>Infrastructure</b>						
<b>Parks</b>						
N33011915 Nbrhd Prk(The Fields)-RVD-Adm	9,170	400,000	0	0	0	0
<b>Public Facilities</b>						
N33022015 Union Station Grant-RVD-Adm	2,461,889	2,461,889	3,500,500	0	0	0
<b>Transportation</b>						
N33033415 Pearl District Cir-RVD-Adm	1,841,465	0	0	0	0	0
<b>Total Infrastructure</b>	<b>4,312,524</b>	<b>2,861,889</b>	<b>3,500,500</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Property Redevelopment</b>						
<b>Commercial Property Redevelopm</b>						
P33050215 4th and Burnside-RVD	1,559,662	0	0	0	0	0
A45997330 Superfund-RVD	25,000	0	0	0	0	0
P33050015 Post Office-RVD-Adm	250,000	1,700,000	10,000,000	10,000,000	14,000,000	0
P33050315 Broadway Corridor-RVD	65,000	310,000	125,000	0	0	0
P33060545 Station Place Prkng-RVD-Adm	278,165	351,106	271,106	271,106	271,106	271,106

**Five-Year Forecast Program Requirements Detail**

	Revised- 3 FY 2014-15	Adopted FY 2015-16	Forecast FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20
P33092015 Real Estate Mgmt-RVD-Adm	8,069	2,000	2,000	2,000	2,000	2,000
P33060815 Old Fire Station Mgmt-RVD-Adm	80,086	17,747	0	0	0	0
P33050115 Dtwm Retail Strat-RVD-Adm	30,000	30,000	30,000	0	0	0
P33060615 Block R-RVD-Adm	10,550	8,750	8,750	8,750	8,750	0
P33060525 Station Place Lot 5-RVD-Adm	21,300	204,000	4,000	0	0	0
P33060415 Centennial Mills-RVD-Adm	3,883,713	5,536,355	12,766,287	0	0	0
P33060315 Grove Hotel-RVD-Adm	43,037	41,037	0	0	0	0
P33052115 10th & Yamhill Redev-RVD-Adm	50,000	3,250,000	1,750,000	0	0	0
P33060115 Block Y-RVD-Adm	48,404	45,100	45,100	45,100	45,100	45,100
P33055115 Multnomah County-PDV-Adm	0	16,948,460	0	0	0	0
P33054315 RD Enviro Reimb-RVD	1,000	0	0	0	0	0
P33060715 One Waterfront North-RVD-Adm	16,083	7,187	7,187	0	0	0
P33052815 PNCA Contract-RVD	9,049	0	0	0	0	0
P33052715 PNCA-RVD-Adm	7,907	0	0	0	0	0
P33052215 CC 2035-RVD-Adm	175,990	0	0	0	0	0
P33060215 Union Station-RVD-Adm	1,541,484	1,156,747	1,156,747	1,156,747	1,156,747	1,156,747
<b>Commercial Real Estate Lending</b>						
R01100330 CPRL-General-RVD	18,220,000	20,452,000	12,002,000	11,002,000	3,002,000	2,002,000
<b>Community Redevelopment Grants</b>						
G02100330 DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G03100330 SIP-General-RVD	308,000	300,000	300,000	300,000	300,000	300,000
G04100330 GFGP-General-RVD	0	25,000	0	0	0	0
G01100330 CLG-General-RVD	138,000	100,000	100,000	100,000	100,000	0
<b>Total Property Redevelopment</b>	<b>26,870,499</b>	<b>50,585,489</b>	<b>38,668,177</b>	<b>22,985,703</b>	<b>18,985,703</b>	<b>3,876,953</b>
<b>Total Program Expenditures</b>	<b>45,875,298</b>	<b>66,669,116</b>	<b>51,278,533</b>	<b>26,854,336</b>	<b>22,029,271</b>	<b>4,442,053</b>
Personal Services	532,505	624,464	595,584	625,363	656,632	689,463
Transfers - Indirect	6,028,370	5,085,559	5,175,747	5,900,352	6,254,373	6,066,742
<b>Total Fund Expenditures</b>	<b>52,436,173</b>	<b>72,379,139</b>	<b>57,049,864</b>	<b>33,380,051</b>	<b>28,940,276</b>	<b>11,198,258</b>
Contingency	37,846,176	16,489,815	5,850,287	1,782,873	265,475	14,600,046
Ending Fund Balance	0	0	0	0	0	0
<b>Total Requirements</b>	<b>90,282,349</b>	<b>88,868,954</b>	<b>62,900,151</b>	<b>35,162,924</b>	<b>29,205,751</b>	<b>25,798,304</b>