



PROSPER
PORTLAND
Building an Equitable Economy

DATE: February 14, 2018
TO: Board of Commissioners
FROM: Kimberly Branam, Executive Director
SUBJECT: Report Number 18-06

Adopting Findings in Support of a Contract-Specific Special Procurement to award the Convention Center Hotel Garage Office Expansion Design Contract to Mortenson Construction, Inc.

BOARD ACTION REQUESTED AND BRIEF DESCRIPTION

Adopt Resolution No. 7263

This action by the Prosper Portland Board of Commissioners (Board), serving in its capacity as Prosper Portland's Local Contract Review Board (LCRB), will adopt a resolution in support of an exemption from the general rule of low-bid solicitation for a Convention Center Hotel Garage Office Expansion (Office Expansion) Design Contract. If approved, the resolution will exempt an Office Expansion Design Contract for approximately \$477,593 with Mortenson Construction, Inc. (MCI) from a competitive solicitation process in accordance with Oregon Revised Statutes (ORS) 279B.085.

ORS 279B.085 and Prosper Portland's LCRB Administrative Rules (LCRB Rules) provide that the LCRB may approve a Special Procurement and exempt certain public contracts from a competitive solicitation process upon the LCRB finding the special procurement:

- (1) Is unlikely to encourage favoritism in the awarding of public contracts or to substantially diminish competition for public contracts; and
- (2)(a) Is reasonably expected to result in substantial cost savings to the contracting agency or to the public; or
- (2)(b) Otherwise substantially promotes the public interest in a manner that could not practicably be realized by complying with requirements that are applicable under ORS 279B.055, 279B.060, 279B.065 or 279B.070 or under any rules adopted thereunder.

By this action, the Prosper Portland Board will be adopting Findings, attached as Exhibit A to Resolution No. 7263, that the above conditions have been satisfied, and authorizing the Executive Director to enter into the Office Expansion Design Contract.

STRATEGIC PLAN ALIGNMENT AND OUTCOMES

Entering into this Design Contract will enable Prosper Portland to advance the Office Expansion to Conceptual Design and associated cost estimate, allowing the agency to examine overall financial feasibility. The effort to design and construct an approximately 100,000 square foot office building and two additional floors of parking on top of the Prosper Portland-owned Garage aligns with Prosper Portland goals for: (1) creating healthy, complete neighborhoods by contributing to the continued growth and tenancing of the Lloyd District and the Convention Center area as a mixed-use, transit-

oriented employment center; and (2) supporting the agency's financial sustainability, since this will maximize the development of the property's air rights and provide an opportunity for Prosper Portland to participate in the financial benefits of developing the air rights.

If the Office Expansion is determined to be feasible upon completion of this work, staff may seek Prosper Portland Board authorization to proceed to the next design and development phases, including entering into a Design Build Contract (or Contracts) with MCI for the following phases of work, or pursue a development partner who could assume these costs:

- Approximately \$1,100,000 for Schematic Design and Design Development necessary to pursue Design Review approval from the Portland Design Commission; and
- Approximately \$45,000,000 for final design and construction of the Office Expansion.

Should Prosper Portland be the contracting entity for certain scopes of work, subsequent contracts with MCI would also require LCRB exemption from low-bid solicitation for substantially similar reasons described for exempting this initial approximately \$477,593 Design Contract.

BACKGROUND AND CONTEXT

The Oregon Convention Center Urban Renewal Plan was adopted in 1989 with the primary goal of establishing "at least one headquarters hotel in the immediate vicinity of the Oregon Convention Center to capitalize on the convention center's capacity." Between 2004 and 2012, Prosper Portland partnered with Metro – the owner and operator of the Oregon Convention Center – to accomplish this goal. In May 2012, Metro issued a competitive Request for Proposals (RFP) for a development team to build, own, and operate a private Convention Center Hotel. The Metro Council selected Mortenson Development, Inc. (MDI) team, which includes MCI as the general contractor. This selection was supported on April 30, 2012 by the Prosper Portland Board through Resolution No. 6942. Metro subsequently entered into a binding Development and Financing Agreement with MDI for the construction of the 600-room Oregon Convention Center Hyatt Regency Hotel.

Through the Hotel design and development process, Prosper Portland, Metro, MDI, and Hyatt determined that the Hotel's parking needs would best be met through construction of a stand-alone parking structure on the adjacent 0.88 acre Prosper Portland property known as Block 49. Through Resolutions No. 7165 (February 10, 2016) and No. 7222 (December 14, 2016), the Prosper Portland Board of Commissioners authorized entering into a Parking Structure Development Agreement with MDI for the purpose of constructing a 442-stall, seven-story parking garage (Garage) on Block 49 for an amount not to exceed \$32,200,000 to support the development and operation of the adjacent Hotel. Resolution No. 7222 and the related not to exceed cost included a superstructure within the Garage to support future development of an office tower above. On December 14, 2016, the Prosper Portland Board also approved Resolution No. 7223, which authorized the conveyance of a condominium unit in the Garage to TriMet for \$9,000,000, and, acting as the LCRB, approved Resolution No. 7224 which exempted the Design Build contract with MDI from competitive bidding. The justification for the findings of that LCRB action was that MDI had been selected through a competitive process and development and operation of the Garage is integral and necessary to support the adjacent Hotel and must be delivered and ready for operation concurrent with the opening of the Hotel. The most efficient way to accomplish this was for MDI to be responsible for delivery of both the Hotel and Garage and to proceed with integrated staging and sequencing of construction. Construction of the Hotel began in December 2017 and construction of the Garage is expected to begin in early 2018. Both the Hotel and Garage are anticipated to be completed and operational in late 2019. See Attachment A for a Project Summary.

During the Garage design and development process, the site was identified to have additional development capacity beyond the Garage. Based on this, Prosper Portland directed MDI to prepare a

preliminary plan to develop an approximately 100,000 square foot office building served by two additional levels of parking on top of the Garage. MDI completed this work and incorporated into the Garage design the systems and foundation superstructure necessary to support the proposed office building. MDI's application material submitted as part of the City's Land Use and Design Review approval processes anticipates the buildout of a future office tower (Land Use Review #15-274415 and Design Advice Review #14-194555). With the Garage design complete and ready to begin construction, Prosper Portland intends to advance the proposed Office Expansion through Conceptual Design.

EQUITY IMPACT

Prosper Portland has a compelling interest to ensure that the agency's owned and sponsored projects provide opportunities for State of Oregon Certified firms (Minority-Owned, Women-Owned, Disadvantaged, and Emerging Small Businesses or M/W/D/ESBs). Prosper Portland has established 20 percent utilization goal for professional services costs and a 20 percent utilization goal for a project's hard construction costs. For the \$477,593 in professional services costs awarded through this special procurement, Prosper Portland anticipates 20.4 percent will be awarded to M/W/D/ESB certified firms. In developing the Design Contract proposal, MCI solicited for and selected a local architectural team, ZGF Architects, to lead the Office Expansion Project. Although the contract to construct the Office Expansion is not included as part of this exemption and will be awarded at a later date, in terms of past and ongoing performance on Prosper Portland construction projects, MCI achieved 24.1 percent M/W/D/ESB utilization on construction of the AC Marriott Hotel and is anticipated to achieve 21 percent M/W/D/ESB utilization on construction of the Garage.

Based on MCI's results regarding both professional services and hard construction costs, Prosper Portland intends for MCI to perform at a comparable or better level during construction and to continue to take all reasonable and necessary steps to optimize opportunities for Certified Firms and achieve Prosper Portland's social equity goals.

COMMUNITY PARTICIPATION AND FEEDBACK

Prosper Portland staff recently presented the Prosper Portland Fiscal Year (FY) 2018/19 Requested Budget to the Go Lloyd Board and described the agency's intent to proceed with a design and feasibility analysis of building on top of the Garage. In general, feedback was supportive to making the Garage a mixed-use project and maximizing development adjacent to MAX light rail. The Office Expansion concept was also publically discuss as part of the Prosper Portland actions related to the Garage and Design Commission's consideration of the Hotel and Garage design. Public comments during those discussions expressed support for maximizing development on the site and pursuing a mixed-use project above the Garage. During the upcoming Concept Design phase, staff will solicit feedback from the Go Lloyd and Lloyd EcoDistrict boards on the Office Expansion design and financial feasibility.

BUDGET AND FINANCIAL INFORMATION

The FY 2017/18 Revised Budget includes \$2,000,000 for Project Development which is available to fund the approximately \$477,593 Design Contract which will advance the Office Expansion through Concept Design (see Attachment B).

If the Office Expansion is determined to be financially feasible at the conclusion of Concept Design, and should Prosper Portland elect to continue to directly hold the design contract, the next design and development phase of work is estimated to cost approximately \$1,100,000. Funding for this additional work is available in the remaining FY 2017/18 Revised Budget for Project Development together with \$3,500,000 in Project Development from the Requested FY 2018/19 budget.

Based on preliminary estimates, the total design/build costs of the Office Expansion are estimated to be approximately \$47,000,000. Prosper Portland does not have financial resources to fund full construction the Office Expansion. If the Office Expansion is determined to be financially feasible, parallel with subsequent design and development phases Prosper Portland anticipates soliciting a financial and development partner and entering into agreements to finance and construct the Office Expansion.

RISK ASSESSMENT

The primary risk of approving this action and entering into the Design Contract is that the Office Expansion project may be determined to not be financially feasible. To mitigate this risk, Prosper Portland is in the process of hiring an office broker and has already hired a real estate advisor to provide advice on market conditions and trends, office lease rates, a tenanting strategy, and structuring a partnership with a financial and development partner.

Not approving this action and, instead, pursuing a competitive selection could result in selection of a different design build team. The risks associated with this include higher costs, schedule delays, and construction defect risks, as more particularly described in the Findings.

ATTACHMENTS

- A. Project Summary
- A. Oregon Convention Center URA Financial Summary

PROJECT SUMMARY

Project Name:	Convention Center Hotel Garage Office Expansion
Description:	Adopt Findings in Support of and Exempting a Convention Center Garage Office Expansion Design Contract with Mortenson Construction, Inc. from Competitive Bidding
Location:	Bounded by NE Holladay Street, NE 1 st Avenue, NE Multnomah Street, and NE 2 nd Avenue
URA:	Oregon Convention Center
Current Phase:	Concept Design
Next Milestone:	Financial Feasibility Determination based on Concept Design and Cost Estimate
Completion Target:	June 2018
Outcome:	Decision whether to advance office expansion; the approach and schedule for seeking a development partner; and whether to move forward with a Schematic Design and Design Development Contract with Mortenson Construction, Inc.



URA Financial Summary

**Financial Summary
Five-Year Forecast**

<u>Convention Center URA Fund</u>	<u>Revised 1 FY 2017-18</u>	<u>Requested FY 2018-19</u>	<u>Forecast FY 2019-20</u>	<u>Forecast FY 2020-21</u>	<u>Forecast FY 2021-22</u>	<u>Forecast FY 2022-23</u>
Resources						
Beginning Fund Balance	38,305,125	27,213,289	6,717,466	11,234,748	7,595,916	4,002,662
Revenue						
Fees and Charges	3,350	7,678	6,074	4,998	4,998	-
Interest on Investments	375,442	5,000	-	-	-	-
Loan Collections	669,992	1,056,264	825,880	681,378	681,378	681,378
Other Debt	0	-	8,000,000	-	-	-
Property Sales	12,200,000	-	-	-	-	-
Rent and Property Income	2,616,656	4,023,240	5,500,153	5,572,241	5,646,130	5,646,130
Total Revenue	15,865,440	5,092,182	14,332,107	6,258,617	6,332,506	6,327,508
Total Resources	54,170,565	32,305,471	21,049,573	17,493,365	13,928,422	10,330,170
Requirements						
Administration						
A00027-Debt Management-CNV	12,121	12,121	12,121	12,121	12,121	12,121
Administration Total	12,121	12,121	12,121	12,121	12,121	12,121
Business Lending						
A00206-BL-General-CNV	110,000	150,000	150,000	150,000	150,000	150,000
Economic Development Total	110,000	150,000	150,000	150,000	150,000	150,000
Housing						
A00168-Affordable Housing-CNV	5,122,839	66,463	8,061	-	-	-
Housing Total	5,122,839	66,463	8,061	-	-	-
Infrastructure						
Transportation						
A00521-Sullivan's Crossing Bridge-CNV	0	1,000,000	1,000,000	-	-	-
Infrastructure Total	0	1,000,000	1,000,000	-	-	-
Property Redevelopment						
Real Estate						
A00301-Block47-CNV	4,000	-	-	-	-	-
A00306-910 NE MLK Building-CNV	32,056	16,600	16,600	16,600	16,600	16,600
A00307-Frmr B&K Car Rental-CNV	10,500	-	-	-	-	-
A00309-Inn at Conv Ctr Mgmt-CNV	2,336,987	2,437,516	2,437,516	2,437,516	2,437,516	2,437,516
A00310-Block 49-CNV	3,350	550,760	1,050,408	1,631,216	1,651,209	1,671,603
A00312-Real Estate Mgmt-CNV	5,000	5,000	5,000	5,000	5,000	5,000
Commercial Property Lending						
A00363-CPRL-General-CNV	500,000	500,000	500,000	500,000	500,000	500,000
Redevelopment Strategy						
A00298-Eco District-CNV	2,500	2,500	-	-	-	-
A00303-Rose Qtr Master Plan-CNV	0	250,000	500,000	1,000,000	1,000,000	1,000,000
A00311-Project Development-CNV	2,000,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
A00437-Hotel Garage-CVN	15,330,619	15,958,121	-	-	-	-
Property Redevelopment Total	20,225,012	23,220,497	8,009,524	9,090,332	9,110,325	9,130,718
Total Program Expenditures	25,469,972	24,449,081	9,179,706	9,252,453	9,272,446	9,292,839
Personnel Services	105,159	178,078	116,930	119,138	120,919	122,659
Total Fund Expenditures	25,575,131	24,627,159	9,296,636	9,371,591	9,393,365	9,415,499
Interfund Transfers - Indirect Charges	1,270,413	960,846	518,189	525,859	532,396	539,302
Contingency	27,325,021	6,717,466	11,234,748	7,595,916	4,002,662	375,369
Total Fund Requirements	54,170,565	32,305,471	21,049,573	17,493,365	13,928,422	10,330,170