

**DATE:** April 20, 2016  
**TO:** Board of Commissioners  
**FROM:** Patrick Quinton, Executive Director  
**SUBJECT:** Report Number 16-18

Authorizing the Executive Director to Execute a Guaranteed Maximum Price Amendment to the Construction Management General Contractor Contract in an Amount Not to Exceed \$4,643,727 for Phase Two of the Selective Demolition of Centennial Mills

**BOARD ACTION REQUESTED**

Adopt Resolution No. 7177

**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) in an amount not to exceed \$4,643,727 for the Phase II selective demolition and salvage of Centennial Mills (Property) in the River District Urban Renewal Area (URA). If approved, the amendment will allow for the Contractor to complete final phase of a multi-year, complex, deconstruction project. The current Phase I portion of the project is nearing completion and is currently on time and under budget.

**BACKGROUND AND CONTEXT**

In order to address rapidly deteriorating conditions of the Property, on December 11, 2014, the PDC Board, acting as the Local Contract Review Board, instructed PDC staff to pursue an expedited procurement process for selective demolition of the Property. After a nationwide solicitation process, PDC entered into a multi-phased CM-GC contract with the Contractor on April 7, 2015. The contract included (i) a pre-demolition investigation phase, (ii) a Phase I demolition of structures above the high-water line, and (iii) a Phase II demolition of remaining structures requiring in-water work permits. The contract required PDC Board approval prior to commencing both Phase I and Phase II. After completing the pre-demolition investigation phase of the project, the PDC Board approved the Phase I CM-GC contract through Resolution No. 7137 on July 16, 2015.

For the past nine months, PDC has overseen Phase I of the selective demolition of the Property, including removing Warehouses A, B, C, D, and F as well as Grain Elevators A, B, and C. The Phase I contract did not call for demolition of the Feed and Flour mills, which remain standing on the Property (see Attachment A for a site map of the original structures and aerial photo of the Property's current condition.).

Phase II Selective Demolition

The second phase of the demolition project involves significant in-water work relating to the removal of structurally unsound basement decking and columns that are located in and over the Willamette River. Due to the environmentally sensitive nature of this work, permits are required by the United States Army Corps of Engineers, with reviews by regulatory agencies including the Department of Environmental Quality, Department of State Lands, and National Marine Fisheries Service. The permit application is currently under review, with an expected approval prior to the beginning of the in-water work window (July to October 2016). In addition to the wharf decking and support structures, the upland basement slabs of all previously demolished buildings will be removed, and appropriate erosion control measures will be enacted. Finally, minimal fire and life safety systems will be installed or upgraded in the remaining buildings to meet code compliance.

If approved, the action before the PDC Board will authorize the Executive Director to amend the CM-GC contract to include the Phase II Selective Demolition for a GMP of \$4,643,727. Following is a summary of the major components of the Phase II GMP:

General Conditions	\$631,473
Work	\$2,863,168
Overhead	\$399,437
Fee	\$194,704
Contingency	\$408,878
Insurance	\$96,067
Bond	\$50,000
<b>Subtotal Phase I Selective Demolition</b>	<b>\$4,643,727</b>
(Add) Salvage Credit	\$6,300
Total Expected Phase II Cost	\$4,637,427

Feed & Flour Mills Feasibility Assessment

At the PDC Board's direction, PDC staff has conducted further analysis of the feasibility of preserving the Feed and Flour mills. KPFF Consulting Engineers and R&H Construction Co. provided rough order-of-magnitude costing for preservation of the Feed and Flour mills. Based on the consultants' input, PDC staff estimates the cost to fully restore the Flour Mill is \$19,667,000 and the cost to fully restore the Feed Mill is estimated at \$10,830,000, for a total of \$30,497,000; these estimates do not include the additional costs of constructing parking for the buildings or completing the code-required greenway improvements.

In the event the PDC Board ultimately chooses not to proceed with restoration, PDC staff has also obtained estimates of the costs of demolition. The Contractor has provided a bid of \$1,358,426 to demolish the Flour Mill and a bid of \$1,053,750 to demolish the Feed Mill.

PDC staff has also sought public input regarding the Feed and Flour mills (discussed in more detail below). The general consensus of the public input is a desire to preserve the buildings if financially feasible.

In order to determine whether the costs of restoring the buildings can be accomplished without significant (currently unbudgeted) additional public investment funds, PDC has retained the brokerage firm of CBRE to market the Property and obtain offers to develop these buildings. Based on the information received from this marketing process, PDC staff will return to the PDC Board for a final decision on the two buildings.

#### *Return of the Portland Police Mounted Patrol Unit (MPU)*

After the July 16, 2015, PDC Board meeting, staff from the Mayor's Office communicated the decision to return the MPU to the Property after demolition is completed. Due to the large area upon which the MPU conducts its operations, the projected return of the MPU will significantly reduce the future developable acreage of the Property. PDC has initiated lease negotiations with the Office of Management and Finance acting on behalf of the City of Portland Police Bureau.

#### *Expiration of the Harsch Investment Properties (Harsch) Memorandum of Agreement and Marketing the Property*

On March 20, 2013, PDC entered into a non-binding MOU with Harsch to explore possible future development of the Property. The Harsh MOU was allowed to terminate by its own terms on November 9, 2015. While both parties had the right to let the MOU expire for any reason, PDC's decision not to extend the MOU included the high cost of demolition, lack of adequate public funding to subsidize Harsch's preferred development concept, and the decision to return the MPU to the Property.

PDC has begun a new disposition and development process for a partial portion of the Property. As mentioned, CBRE is currently marketing the property, including soliciting offers to restore the Feed and Flour mills, on behalf of PDC. CBRE will present all buyers' offers to PDC for consideration. If and when an offer has been selected, PDC has agreed to offer Harsch an opportunity to match the selected offer term-for-term. If Harsch declines to match the offer, PDC will negotiate a disposition agreement with the previously selected buyer and submit any proposed agreement to the PDC Board for consideration.

#### **PUBLIC PARTICIPATION AND FEEDBACK**

In October 2015, PDC staff presented the seismic and structural cost estimates to preserve the Feed and Flour mills to a Citizens Advisory Committee (CAC), whose membership includes local architects, historic preservationists, developers, and the chair of the Pearl District Neighborhood Association. The CAC's recommendation was to continue pursuing preservation of the two buildings.

Additionally, PDC hosted a public open house on April 13, 2016, for the benefit of interested buyers and the general public. Approximately 50 individuals attended the event and provided feedback to PDC staff and its consultant team on open space and circulation, Feed and Flour mills preservation, and goals for activating the private redevelopment sites. Some of the feedback from open house attendees included the importance of multiple public connections to the Property (including the private redevelopment sites), a strong interest preserving the Feed and Flour mills (if financially feasible), and ensuring public access to the Willamette River.

Moving forward, PDC staff will continue to regularly attend Pearl District Neighborhood Association meetings to brief community stakeholders on the disposition process.

## **BUDGET AND FINANCIAL INFORMATION**

The total project budget is \$20,935,405 (fiscal year (FY) 2014-15 through FY 2016-17). Total hard and soft cost expenditures including Phase I demolition between July 1, 2014, and March 31, 2016, are \$6,010,344. Total additional expenditures including final Phase I expenditures and an approved Phase II demolition of \$4,643,727 are estimated to be \$9,083,656. This leaves a balance from the total budget of \$5,841,405 for additional, future expenditures.

## **RISK ASSESSMENT**

### *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 conditions, and health and safety risks was not completely known at the commencement of this project. To address these issues, PDC has taken the following risk mitigation measures:

- The CM-GC contract included an extensive, pre-demolition phase during which the Contractor conducted a comprehensive examination of the Property. 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, PDC entered into a CM-GC contract 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 the full condition of the Property. As such, the GMP has been established and cannot be increased due to the existing conditions of the Property. Consequently, 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 belong to PDC. PDC and its Owner's Representative will have access to all invoices and cost records, and payment will verify all invoiced costs. This same process was used in the Phase I portion of the project, and the actual PDC costs of Phase I are estimated to be less than the PDC Board-approved GMP.
- There is also a 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 (see above). The Contractor is incented to not use any of the contingency, since they will share 25 percent of any amounts not used, with 75 percent returning to PDC and reallocated to the River District URA budget.

### *Permitting Risks*

PDC staff and the consultant team are still in the process of procuring permits from federal and state regulatory agencies regarding in-water work window activities. Since these permits have not yet been issued, there is a risk that their issuance could affect the project timing, scope of work, and cost to PDC.

**ALTERNATIVE ACTIONS**

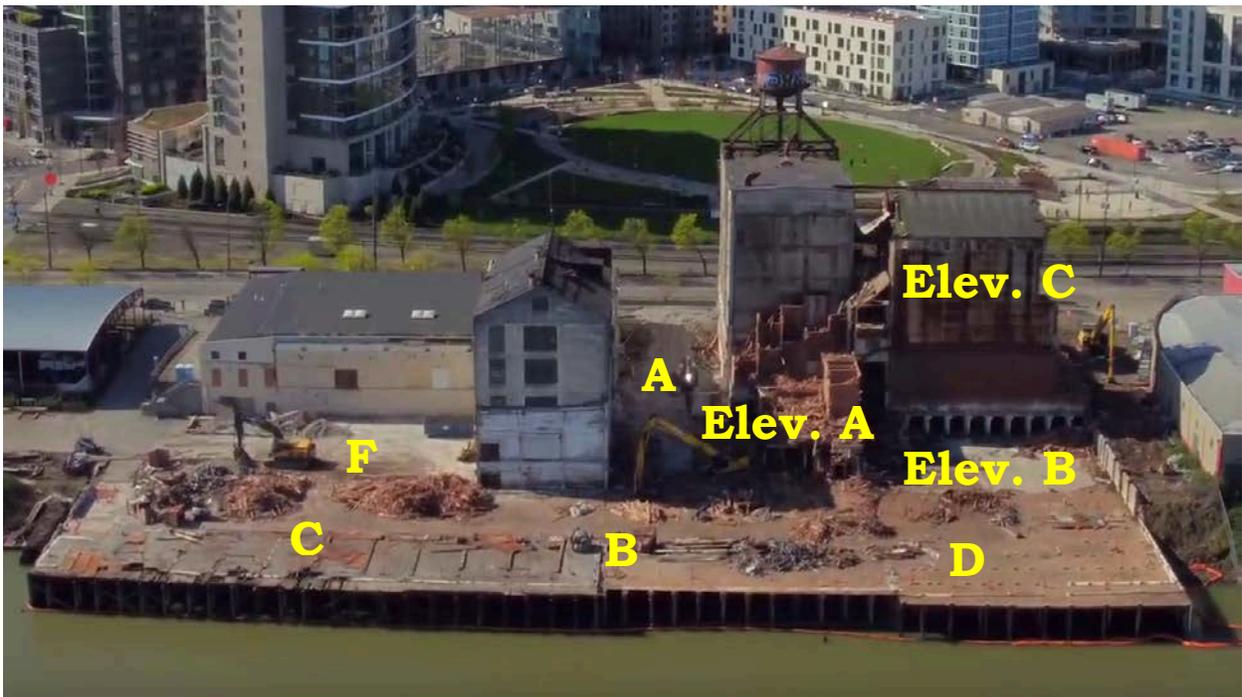
The PDC Board may choose to:

- 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 previous phases.

**ATTACHMENTS**

- A. Property Photos
- B. River District URA Budget

**PROPERTY PHOTOS**



**RIVER DISTRICT URA BUDGET**

**Financial Summary**

**Fund Summary - Five-Year Budget Projections**

	Revised FY 2015-16	Requested FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
<b>River District URA Fund</b>						
<b>Resources</b>						
Beginning Fund Balance	52,655,293	15,223,603	22,393,732	20,899,259	36,087,954	6,140,273
Debt Proceeds	11,673,378	14,277,183	157,562	9,500,000	0	0
Fees and Charges	8,000	7,579	11,203	10,244	6,686	2,110
Interest on Investments	200,000	0	0	0	0	0
Intergovernmental Revenues	1,969,511	1,088,734	630,248	0	0	0
Loan Collections	5,359,380	235,823	1,040,599	768,830	438,228	457,132
Long Term Debt	2,500,000	44,100,000	6,055,021	0	0	475,690
Miscellaneous	5,000	0	0	0	0	0
Property Income	9,701,190	6,966,015	2,466,015	6,466,015	2,466,015	2,466,015
Short Term Debt	19,948,515	24,975,000	20,658,101	21,094,766	16,511,226	0
Transfers In	0	0	0	0	39,900,000	0
<b>Total Resources</b>	<b>104,020,267</b>	<b>106,873,937</b>	<b>53,412,481</b>	<b>58,739,114</b>	<b>95,410,109</b>	<b>9,541,220</b>
<b>Requirements</b>						
<b>Program Expenditures</b>						
<b>Administration</b>						
<b>Financial Administration</b>						
A45101330-Debt Management-RVD	77,435	65,000	65,000	65,000	65,000	65,000
<b>Administration Total</b>	<b>77,435</b>	<b>65,000</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	500,100	0	0	0	0	0
<b>Small Business &amp; Community Dev</b>						
B55005330-OT/CT Action Plan-RVD	145,000	125,000	0	0	0	0
<b>Traded Sector Business Dev</b>						
B15100330-Cluster Development-RVD	50,000	50,000	50,000	50,000	0	0
<b>Business Development Total</b>	<b>695,100</b>	<b>175,000</b>	<b>50,000</b>	<b>50,000</b>	<b>0</b>	<b>0</b>
<b>Housing</b>						
<b>PHB Housing</b>						
H15430330-Affordable Housing-RVD	7,930,070	6,805,906	11,253,533	2,428,468	20,000,000	0
<b>Housing Total</b>	<b>7,930,070</b>	<b>6,805,906</b>	<b>11,253,533</b>	<b>2,428,468</b>	<b>20,000,000</b>	<b>0</b>
<b>Infrastructure</b>						
<b>Public Facilities</b>						
N33022015-Union Station Grant-RVD-Adm	2,461,889	1,360,917	787,810	0	3,500,000	0
N33033415-Pearl District Cir-RVD-Adm	1,100,000	0	0	0	0	0
<b>Transportation</b>						
N33030115-District Parking-RVD	0	2,500,000	2,500,000	0	0	0
<b>Infrastructure Total</b>	<b>3,561,889</b>	<b>3,860,917</b>	<b>3,287,810</b>	<b>0</b>	<b>3,500,000</b>	<b>0</b>
<b>Property Redevelopment</b>						
<b>Commercial Property Redevelopment</b>						
P33050015-Post Office-RVD-Adm	0	0	0	0	20,795,580	0
P33050115-Dtwn Retail Strat-RVD-Adm	30,000	30,000	0	0	0	0
P33050215-4th and Burnside-RVD	46,400	0	0	0	0	0
P33050315-Broadway Corridor-RVD	310,000	590,000	0	0	0	0

**Financial Summary**  
**Fund Summary - Five-Year Budget Projections**

	Revised FY 2015-16	Requested FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
P33052115-10th & Yamhill Redev-RVD-Adm	1,750,000	3,250,000	0	0	0	0
P33052215-CC 2035-RVD-Adm	32,772	0	0	0	0	0
P33052715-PNCA-RVD-Adm	22,000	0	0	0	0	0
P33054315-RD Enviro Reimb-RVD	4,500	0	0	0	0	0
P33055115-Multnomah County-PDV-Adm	16,948,460	0	0	9,500,000	0	0
P33060115-Block Y-RVD-Adm	45,400	45,100	45,100	45,100	45,100	45,100
P33060215-Union Station-RVD-Adm	1,368,757	1,363,757	1,363,757	1,363,757	1,363,757	1,363,757
P33060415-Centennial Mills-RVD-Adm	9,750,476	10,803,355	48,355	48,355	0	0
P33060525-Station Place Lot 5-RVD-Adm	204,000	4,000	0	0	0	0
P33060545-Station Place Prkng-RVD-Adm	347,106	266,811	266,811	266,811	266,811	266,811
P33060615-Block R-RVD-Adm	9,800	9,800	9,800	9,800	0	0
P33060715-One Waterfront North-RVD-Adm	8,400	508,400	0	0	0	0
P33060815-Old Fire Station Mgmt-RVD-Adm	23,000	18,000	0	0	0	0
P33092015-Real Estate Mgmt-RVD-Adm	10,250	10,250	10,250	10,250	10,250	10,250
<b>Commercial Real Estate Lending</b>						
R01100330-CPRL-General-RVD	9,302,157	5,502,000	8,502,000	562,604	0	0
<b>Community Redevelopment Grants</b>						
G01100330-CLG-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
G02100330-DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	0
G03100330-SIP-General-RVD	300,000	300,000	300,000	300,000	300,000	0
G04100330-GFGP-General-RVD	25,000	50,000	50,000	50,000	0	0
<b>Property Redevelopment Total</b>	<b>40,738,478</b>	<b>22,951,473</b>	<b>10,796,073</b>	<b>12,356,677</b>	<b>22,981,498</b>	<b>1,785,918</b>
<b>Total Program Expenditures</b>	<b>53,002,972</b>	<b>33,858,296</b>	<b>25,452,416</b>	<b>14,900,145</b>	<b>46,546,498</b>	<b>1,850,918</b>
Debt	583,669	1,297,528	1,305,406	1,780,406	36,498,326	0
Personnel Services	624,464	630,035	590,529	603,535	625,320	638,452
Transfers - Indirect	5,085,559	4,694,346	5,164,870	5,367,074	5,599,692	5,761,738
<b>Total Fund Expenditures</b>	<b>59,296,664</b>	<b>40,480,205</b>	<b>32,513,221</b>	<b>22,651,160</b>	<b>89,269,836</b>	<b>8,251,108</b>
Contingency	15,223,603	22,393,732	20,899,259	36,087,954	6,140,273	1,290,112
Transfers	29,500,000	44,000,000	0	0	0	0
Ending Fund Balance	0	0	1	0	0	0
<b>Total Requirements</b>	<b>104,020,267</b>	<b>106,873,937</b>	<b>53,412,481</b>	<b>58,739,114</b>	<b>95,410,109</b>	<b>9,541,220</b>