

## **STAFF REPORT**

### **IN CONSIDERATION OF RESOLUTION NO. 19-4960, FOR THE PURPOSE OF AMENDING THE OREGON ZOO BOND IMPLEMENTATION PLAN TO ALLOCATE PROGRAM RESERVES**

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Date: January 24, 2019  
Department: Oregon Zoo Bond  
Meeting Date: February 7, 2019

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Length: 15 minutes

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## **ISSUE STATEMENT**

The Oregon Zoo is confident in its ability to deliver on the public promise to the voters with the 2008 zoo bond ballot measure and complete construction of the final projects. Design of Polar Passage, Primate Forest and the updated rhino habitat is complete and construction bids have been received. The cost to construct the final projects exceeds the currently allocated project funding by \$3.2 million or seven percent. In addition, the updated schedule results in a need for an additional \$1.65 million in program administration and central service support. The team has spent the past year value engineering and reducing scope, resulting in more than \$6 million in savings. The final designs meet the needs of the animals, visitors and staff. Additional reductions would have significant impact on the zoo's business operations and mission focused efforts.

Sound fiscal policy and program management has resulted in funds available to ensure successful implementation of the projects. Program reserves are due to the following:

- ☐ Metro Council previously decided to hold program contingency and close out funds should they be needed toward the end of the zoo bond program; and
- ☐ Savings from recently completed projects, interest earnings on investments, and a premium on the most recent bond sale have increased the program contingency fund.

## **ACTION REQUESTED**

Staff is seeking support from the Metro Council to allocate available funds and ensure successful completion of the Oregon Zoo Bond Implementation Plan. In addition to the currently allocated project budgets, the zoo bond program has approximately \$5.7 million available in contingency and close out funds to support completion of the program. Staff recommends allocation of \$1,952,000 to the Polar Passage project budget, \$1,248,000 to the Primate Forest project budget, and \$1,650,000 to program administration. After the proposed allocation the remaining balance of the close out funds would be \$844,000. This action meets Metro's guiding principles for the zoo bond fund allocation (see below) and

maintains funds for additional program close out needs (e.g. evaluations, permit reporting, project fixes, etc.).

### **IDENTIFIED POLICY OUTCOMES**

Approval to allocate resources will result in successful implementation of the Oregon Zoo Bond Implementation Plan and completion of the projects outlined in the zoo bond ballot measure.

### **POLICY QUESTION(S)**

Does Metro Council support allocation of available resources to complete the Oregon Zoo Bond Implementation Plan?

### **POLICY OPTIONS FOR COUNCIL TO CONSIDER**

N/A

### **STAFF RECOMMENDATIONS**

Staff recommends that the Metro Council amend the Zoo Bond Implementation Plan portion of the Oregon Zoo Comprehensive Capital Master Plan to allocate zoo bond program reserves as follows:

- \$1,952,000 to the Polar Passage project budget and \$1,248,000 to the Primate Forest project budget for a total budget of \$47,002,256
- \$1,650,000 to program administration and central service costs for a total budget of \$8,850,000

The remaining balance in the close out fund will be \$844,000. This fund was previously approved by the Metro Council to support program completion and will provide sufficient funding to cover evaluations, required reporting, or other needs in the master plan.

### **STRATEGIC CONTEXT & FRAMING COUNCIL DISCUSSION**

In 2008, the community supported a public bond that funded eight major projects aimed at improving animal welfare, making the zoo more sustainable and expanding access to conservation education. Five of these projects have been completed and ground has broken on the final three projects - Polar Passage, Primate Forest, and Rhino. The eight projects constitute the first half of work identified in the zoo's 20-year master plan resulting in a remodel of nearly 40 percent of the zoo campus. The final projects are adjacent to one another in the center of the zoo, so the zoo is managing them as a single construction site to reduce construction time, cost and make the whole operation more efficient. These projects will significantly enhance the welfare of polar bears, chimpanzees, and rhinos by removing outdated facilities and replacing them with habitats designed to support social structure, physical needs, and enrichment.

Zoo bond projects support Metro's climate action goals and are designed to achieve or exceed U.S. Green Building Council Leadership in Energy and Environment Design (LEED) Silver certification. The polar bear project will connect to the geothermal "slinky" system installed during the construction of Elephant Lands to exchange heat and cooling between the habitats. Decommissioning the hippo pool as part of the Rhino project will save millions of gallons of water annually. In addition to creating a more sustainable zoo, the

development of these projects provides an opportunity to educate guests about conservation actions they can take to preserve habitat for polar bears, chimpanzees, orangutans, and rhinos.

The charter of the Oregon Zoo Bond Citizens' Oversight Committee calls for the Committee to make recommendations regarding significant project modifications and budget allocation. The committee is currently reviewing the budget allocation request and will make a recommendation to the Metro Council at the February 7 meeting.

## **BACKGROUND**

### **Background on Polar Passage, Primate Forest, and Rhino Budget, Program Financial Status and Guiding Principles**

Due to significant construction cost escalation in the Portland metro region, the cost to construct Polar Passage, Primate Forest and the Rhino habitat exceeds the current combined budget allocation by \$3.2 million or seven percent. In addition, the project schedule will require an extension of project management, administrative, and central service support staff.

The zoo bond program currently has \$4.7 million in unallocated program contingency, due to premiums received on bond sales, project savings and reallocations, interest on investment earnings, and Oregon Zoo Foundation contributions. The program also has \$1 million currently allocated to close out bond-funded projects, resulting in a total of \$5.7 million available in unallocated or close out contingency.

The Oregon Zoo Bond Program's total resources are \$153 million; we have invested nearly \$105 million to date and implemented the first five projects within approved budgets. The scope and budget for each project was originally developed in 2011 as part of the Oregon Zoo Comprehensive Capital Master Plan. Funds were allocated to each project to ensure successful completion. Previous Oregon Zoo Bond Citizens' Oversight Committee recommendation and Metro Council direction was to hold unallocated funds for remaining projects and future planning, as needed. **This wise fiscal planning means that bond program resources are available to cover the estimated remaining project costs.**

Previous Council Actions regarding the project scope and allocations is as follows:

- On Feb. 4, 2016, the Metro Council approved the bond team's recommendation to increase the Polar Passage project budget by \$2.6 million to cover escalation costs exceeding the original estimated escalation.
- On March 16, 2017, the Metro Council approved additional bond fund resources increasing the Polar Passage project budget by \$3,248,334 (\$2,200,000 from OZF and 1,048,334 from the program contingency) and increased the Primate Forest/Rhino project budget by \$2,605,848 to offset escalation costs.
- On April 6, 2017, the Metro Council approved an exemption to competitive procurement by combining Polar Passage and Primate/Rhino projects under the existing design and Construction Management/General Contractor contracts to save

an estimated \$1.3 million in construction costs. Project budgets and schedules have been combined.

The Oregon Zoo Foundation is contributing significantly to support the projects and is fully funding the rhino habitat upgrades.

### **Administrative costs**

Metro's Finance and Regulatory Services team conducted an updated administrative cost allocation forecast to assess the additional administrative and central service costs through the duration of the program. Current estimates are an additional \$1.65 million, which would need to be allocated from the currently unallocated program contingency. The Oregon Zoo's bond program administrative costs (approximately 6 percent of total expenditures) are comparable to other local public bond-funded capital construction programs.

### **Market conditions**

The general contractor received subcontractor bids on the Polar Passage, Primate Forest and Rhino project on December 14, 2018. Cost escalation of 6 percent (second highest in the country) over the past year due to current construction market conditions in the region continues to impact the project. The zoo's 2011 master plan defined our scopes, project sequencing and budgets. Our cost escalation assumption at that time was 6 percent total for these final projects. Today's market has resulted in a regional cost escalation on construction of 27 to 31 percent from 2011-2018.

### **Guiding principles**

The guiding principles to address fund allocations, defined by the Oversight Committee and supported by the Metro Council in 2016, also apply to the current budget consideration:

- ☐ Align fund allocation to comply with the requirements and commitments of the original zoo bond ballot measure 26-96 and any other applicable legal restrictions or requirements.
- ☐ Recommend fund allocation that aligns with zoo conservation programming, anticipated species focus, and animal welfare priorities to the greatest degree possible and based on the best information available – including the zoo's conservation priorities, zoo staff input, anticipated changes to Association of Zoos and Aquariums standards, financial forecasts, and cost estimates.
- ☐ Consider and be sensitive to public perceptions, seek to provide transparency about allocation changes, and highlight "value-added" contributions from nonbond sources.

### **Remaining resources**

The zoo bond program has approximately \$5.7 million available in contingency and close out funds to support completion of the program. Of that, staff recommends allocating \$1,952,000 to the Polar Passage project budget, \$1,248,000 to the Primate Forest project budget, and \$1,650,000 to program administration and central service costs through the

end of bond program construction. After the proposed allocation the remaining balance of the close out funds would be \$844,000, which ensures resources are available to cover final permit reports, project fixes, evaluations, etc.

**Project contingency**

The Polar Passage, Primate Forest, and Rhino project budgets have significant contingency built into various line items. Staff recommends holding the contractor and owner contingency to manage risk throughout the project.

**ATTACHMENTS**

Draft resolution