



Oregon Zoo Bond Citizens' Oversight Committee Report

MARCH 2013

Who we are

We are the Oregon Zoo Bond Citizens' Oversight Committee ("the committee"). The committee was first appointed by the Metro Council in January 2010. We met four times in 2012: February, June, September and November. We currently have 13 members. Members bring to the committee skill sets from a diverse set of backgrounds (see Appendix A). The committee will experience membership changes in 2013, as the terms of 50 percent will expire at the end of the year.

The committee operates under a charter that incorporates the governance and reporting requirements of Metro Council Ordinance 10-1232. The charter creates a vice chair position in addition to the chair position called for by the ordinance. The vice chair position is currently unfilled.

The committee meetings typically involve interactive presentations by the zoo bond staff ("A Better Zoo program") team and Oregon Zoo staff. There is considerable discussion and question/answer time at each meeting.

The committee operates at a high oversight level. Our charge is to determine if the Better Zoo program is on the right path in terms of structure, expenditures and achievement of defined goals. In most cases, we do not make specific project decisions. We look at how decision making occurs and how business is conducted. We seek to help ensure that the right processes and controls are in place so that the best possible value can be realized from the voter-approved zoo bond funds. The attached organizational chart of the Better Zoo program (Appendix B), illustrates the many different levels of interaction and oversight.

Why we exist

The 2008 zoo bond measure titled, "Bonds to Protect Animal Health and Safety: Conserve, Recycle Water," (the "zoo bond") called for a citizen oversight committee to do the following:

1. Assess progress in implementing the Oregon Zoo bond measure project improvements.
2. Report on project spending trends and current cost projections, and review and report on the Annual Independent Financial Audit of spending.
3. Consider and recommend project modifications intended to account for increases in construction costs in excess of budget estimates, to ensure that the purpose and promise of the Oregon Zoo bond measure is fully realized.

The committee's reporting requirement

We are required to report annually to the Metro Council regarding the progress of the Better Zoo program. This document satisfies that requirement.

REQUIRED REPORTING ITEM 1

Assessment of progress

- The Better Zoo program has a clear organizational and governance structure, and processes appear to be in place to ensure that Metro will be a good steward of the bond money.

ITEMS COMPLETED IN 2012:

- Metro completed three land use applications with the City of Portland: (1) an amendment to the existing Conditional Use Master Plan (CU MS) to allow work to proceed on the Onsite Elephant Habitat and Related Infrastructure project and the Condor Habitat project; (2) West Lot land use application; and (3) an application for a new CU MS for the remainder of the specific bond projects and overall master plan improvements.
- The Penguin Life Support System Upgrade was completed in 2012. The goal of the upgrade was to conserve water and improve water quality. The penguins have moved back in and the facility is fully operational.
- The Comprehensive Capital Master Plan (CCMP) was completed and approved by the Metro Council in September 2011. The CCMP addresses project sequencing, scope, programming and budgeting for bond projects. The CCMP continues to provide a clear blueprint for the process to realize bond goals.
- The grand opening of the Veterinary Medical Center was celebrated in January 2012. The Veterinary Medical Center replaced the substandard veterinary and quarantine buildings with a new facility that meets standards set by the Association of Zoos and Aquariums.
- Elephant Lands: In recognition that elephants are the Oregon Zoo's signature species, Metro prioritized the Onsite Elephant Habitat (known as "Elephant Lands") project in terms of timing and the financial resources dedicated to it. The project will significantly expand the habitat, allowing for an evolution in the way the elephants use their space in support of the zoo's vision for elephants to live in family herds. The project will provide the elephants a new barn and indoor habitat.

The elephant habitat expansion has implications for other parts of the zoo. Related sub-projects include: 1) relocation of the train loop, 2) a new perimeter service road, 3) relocating the Wild Life Live program, and 4) water and energy sustainability measures, including LEED Silver certification for the elephant buildings, and a new campus geothermal loop to reduce the use of

fossil fuels for heating and cooling. Metro has contracts in place for design and Construction Management/General Contractor for this project. The project is expected to be completed in 2015.

Train Loop: Soils testing and analysis at the site has revealed that an elevated train trestle is not a viable option for the relocated train loop due to the unanticipated costs associated with the geological findings. The train will be on-ground through the majority of the loop, which will require enhanced crossing features for pedestrian safety.

Service Road: The service road design has proven to be challenging due to soil conditions and seismic concerns. The original design was modified and costs in excess of the originally anticipated budget will be paid with funds from the bond premium funds. The service road is proceeding through the design phase.

- **Remote Elephant Center:** Metro Council Resolution No. 11-4230 authorized Metro to enter into options to purchase property for the purpose of providing a remote elephant center. Metro decided to utilize non-bond funds from the Oregon Zoo Foundation (as part of their bond program commitment of \$5.2 million) for the initial property purchase. Work continues on planning and design for the offsite facility; development of funding strategies to meet additional capital and operating needs; clarification of the process to secure land use approvals; and needed communications to many stakeholders. The committee has concerns about spending bond funds on the offsite facility without an adequate assessment of the ongoing costs of operating the offsite facility.
- **Condor Habitat:** The design phase for the Condor Habitat project has been completed. Bids are out for the construction work and the project is expected to be completed in late 2013.
- **Portland Parks and Recreation's** decision to take parking management responsibilities during the land use process means Metro is no longer responsible for parking management. Impacted parties agreed to form the Washington Park Transportation Management Association. Although Metro is no longer responsible for parking management, we recommend that Metro ensure the transportation planning process receives adequate oversight and appropriate resources to ensure community access to the zoo and the new bond-funded exhibits and facilities.
- **Other projects** include the demolition of existing structures to make way for the new education facility, interpretive design projects, and meeting the one-percent-for-art requirement (being incorporated in a variety of projects).

REQUIRED REPORTING ITEM 2

Report on spending trends and current cost projections and independent auditors' report

- The Better Zoo program is divided into four main areas: construction, project planning, land use approvals and administration covering nine total projects. As of December 31, 2012, the total amount budgeted for all program activities is \$136.8 million. Funding sources total \$143 million and include \$125 million from general obligation bond measure proceeds, \$5.2 million from the Oregon Zoo Foundation, \$10.7 million from unanticipated bond sale premium proceeds and approximately \$2 million in anticipated investment earnings. The program is holding approximately \$5.8 million of unanticipated bond sale premium proceeds that are not budgeted to a specific project and considered an additional program contingency.
- The Comprehensive Capital Master Plan process is complete, as is the construction of the Veterinary Medical Center, the Penguin Life Support System Upgrade project, some of the water and energy projects, and the major land use approval processes. Completed projects represent \$14.1 million of the \$136.8 million total budget.
- Metro asked the Oregon Zoo Foundation to raise \$5.2 million to support the bond projects. The Foundation agreed to provide the funds and pledged their existing reserves to meet the commitment. The Foundation committed to providing the funds no later than the start of the last scheduled project. These funds are intended to support all the remaining program projects and are not restricted by project. As of December 31, the Foundation had raised approximately \$1.6 million towards a \$3 million capital campaign goal related to the upcoming onsite elephant project titled Elephant Lands. Further, in January 2013, the Foundation paid the zoo \$1.4 million from existing reserves towards the commitment, with \$950,000 of that amount utilized for the offsite elephant habitat purchase in 2013.
- We recommend that the program continue to review and validate budgets and the inflation and cost escalation assumptions on an ongoing basis. Of principal concern to this committee is Metro's ability to complete all bond projects without sacrificing bond program and animal welfare objectives with the remaining funding. The CCMP process has been and will continue to be a crucial element to ensure efficient and effective use of bond proceeds. It is critical that the bond program staff continue to use the CCMP and resulting budgets and schedules to manage the remaining project scopes. This will help ensure that funding and resources are available to complete all bond commitments.
- The planned construction projects for 2013-2015 include the Onsite Elephant Habitat and Related Infrastructure project (Elephant Lands), the Condor Habitat, and early demolition of existing campus structures within the footprint of the upcoming education center. In addition, the program is planning campus and program-level interpretive design and the one-percent-for-art requirement. The budget for these five projects represents \$64 million (47 percent) of the total forecasted program expenditures. As of December 31, 2012, \$4.4 million has been spent on these projects, primarily for planning and design.

- The program received Metro Council approval to use an alternative general contractor procurement method called the Construction Management/General Contractor (CM/GC) approach for the Elephant Lands project. Given the complexity of the zoo bond-funded projects and the possibility of simultaneous construction projects, we support the continued consideration of alternative contracting methods such as this in order to reduce risk and achieve the most cost-effective and efficient use of the zoo bond funds.
- In November 2012, zoo project staff was informed by the design team and CM/GC that the budget for the Elephant Lands exhibit and related projects would be exceeded by approximately 30 percent due to unforeseen soil conditions and other issues. Staff proceeded through a value engineering exercise and formulated a response to this situation for action by the Metro Council. In December 2012, the Metro Council directed the program to allocate \$4.9 million of the unanticipated bond sale premium to these projects. The Council's direction included reducing the scope of some project elements. The Elephant Lands budget increased from \$53.8 million to \$58.7 million. The committee finds it troubling that these cost impacts were not identified during the early stages of the design and estimating process. Fortunately, the availability of the unanticipated bond premium funds and the program's approach of maintaining adequate contingencies and conservative assumptions allowed for recovery from this budget challenge with no impact on the bond program objectives
- Administration and bond issuance costs total \$2 million (9.7 percent) of the Better Zoo program's total expenditures through December 31, 2012, which is moving away from a planning phase and into heavy construction and project management. As expected with the completion of the CCMP, direct program administrative costs have declined as a percentage of total bond project costs. The overhead expenses allocated by Metro for support services has increased over the program's first years given the increased level of expenditures and activities as the program shifts to a construction focus from a planning focus. The methodology used for Metro support service cost allocation is consistent with other Metro programs. These costs should continue to be monitored as the bond program moves forward, but do not appear unreasonable.
- The zoo staff anticipates that the ongoing operating costs of the zoo will be neutral upon completion of the bond-funded projects, given the enhancements and efficiencies gained through new technologies and the modernization of zoo infrastructure. We believe it is important that staff continue to monitor this assumption as project planning matures to allow reasonable financial planning by Oregon Zoo staff.
- In May 2012, Metro issued \$65 million of the zoo's remaining \$105 million of bond authority. Metro previously issued a total of \$20 million of bonds across two prior sales. Given market conditions and Metro's excellent credit ratings, the recent bonds sold for a considerable premium that was not anticipated. A premium is a condition where bonds sell for an amount greater than the published value of debt issued and required to be repaid. In this instance, Metro sold \$65 million of bonds and received a \$10.4 million premium, with proceeds totaling \$75.4 million. The allowable use of premium funds is consistent with the use and restrictions on

the General Obligation bonds proceeds and must be used for capital uses identified in the 2008 bond measure. The previous two bond sales were private placement issues in December 2008 and August 2010 for \$5 million and \$15 million, respectively.

- Within the adopted CCMP, \$7.2 million has been budgeted for the Remote Elephant Center. We recommend that prior to moving forward and using bond funds on the project, the funding source of ongoing operating costs is identified. Metro is taking steps to acquire property for the Remote Elephant Center utilizing non-bond sources.
- The annual audit report was issued in December 2012 by Moss Adams. The auditors reported that nothing came to their attention that caused them to believe that Metro failed to comply with the provisions of the bond measure. No specific management letter comments were made and the audit report was published on February 7, 2013 in *The Oregonian*.

REQUIRED REPORTING ITEM 3

Consider and recommend project modifications intended to account for increases in construction costs in excess of budget estimates

- Other than the previously reported changes made to the Elephant Lands exhibit, no other project modifications are currently recommended.

Appendix A – Committee Membership

Deidra Kryz-Rusoff – Committee Chair

Deidra Kryz-Rusoff is a portfolio manager and a member of the fixed income team at Ferguson Wellman Capital Management, and serves as chair of the Oregon Zoo Bond Citizens' Oversight Committee. A native of Idaho, Deidra earned her B.A. in zoology from the College of Idaho. She serves on the board of directors of the Mt. Tabor PTA, is an active member of the Columbia Willamette YMCA Childcare Volunteer Board, and on several committees at Glencoe Elementary School. She is a past board member of the Northwest Taxable Bond Club and Junior League of Portland.

Marcela Alcantar

As president of Alcantar & Associates, Marcela Alcantar provides engineering support services in the community, producing quality construction documents and maps. She focuses on providing services for under-represented groups and students interested in the engineering field. Alcantar & Associates LLC was created to fulfill a personal and professional mission to provide exceptional engineering support services that result in effective, livable communities that are truly dynamic. The firm is certified in Oregon as a WBE/MBE/DBE/ESB (2395) design consulting and surveying support services firm. Its mission is to provide technical excellence in finding efficient and cost-effective solutions to meet its clients' needs.

Jacqueline Bishop

Jacqueline Bishop is an attorney and previously worked at Roberts Kaplan, LLP, where she participated in the real estate, business and sustainability practice groups. She is a board member of We Love Clean Rivers, Inc., a representative on the Oregon State Bar's Sustainability Task Force, and a LEED Accredited Professional. Before graduating from Lewis and Clark Law School, Bishop worked as a wetlands and fisheries biologist.

David Evans

Senior Vice President and Chief Financial Officer for The ODS Companies, Dave Evans is responsible for overseeing financial, treasury, regulatory, information services, underwriting and actuarial functions. Evans brings a broad knowledge of financial planning and budget management to his role. Previously, he served as Controller of The ODS Companies for nearly a decade, during which time he was responsible for day-to-day accounting and finance activities. Prior to joining ODS, Evans was an audit manager at PricewaterhouseCoopers, where he focused on financial services, including insurance and real estate.

Evans earned his bachelor's degree at Oregon State University. An active certified public accountant, he participates in the Oregon Society of Certified Public Accountants' mentoring program and is involved with the American Institute of CPAs. He is also active in the community, serving on the board of the Assistance League and Metro's bond oversight committee for Natural Areas.

Greg Gahan

Greg Gahan, owner of Northwest Construction Management, is a nearly lifelong resident of the Portland metro area. He has engineering and business degrees from Oregon State University and Portland State University in addition to 25 years of commercial construction experience in the region.

Appendix A – continued

Ann E. Gravatt

Ann Gravatt is the Oregon Director at Climate Solutions, a regional clean energy economy nonprofit working to accelerate practical solutions to global warming. Gravatt has more than a decade of energy experience, working as a consultant, policy advocate and attorney. From 2002-2010, Gravatt was the Policy Director for the Renewable Northwest Project, where she was involved with key victories throughout the Northwest, including passage of renewable energy standards in Montana, Washington and Oregon. She practiced natural resources and energy law for several years in Portland and Washington, D.C., and also has a background in candidate and ballot initiative campaigns and public affairs. Gravatt has a law degree from the George Washington University Law School and a bachelor's from the University of Richmond.

Sharon Harmon

Sharon Harmon is the executive director of the Oregon Humane Society and has been a professional in the field of animal care and welfare for almost 30 years. She has helped lead the Oregon Humane Society, the state's largest and oldest animal protection organization, for 24 years and has served as its Executive Director since 1998. She holds a Bachelor of Science, Zoology (Pre-Vet Med), from Oregon State University and a Certificate in Nonprofit Business Administration and Leadership from Johns Hopkins University, and is a Certified Animal Welfare Administrator. She has served on the Banfield Shelter Advisory Committee, and chaired the American Humane Association Shelter Advisory Committee. Recipient of the American Veterinary Medical Association's Humane Award for 2008, she is past chairman of the National Federation of Humane Societies.

Jim Irvine

Jim Irvine is chairman and CEO of The Conifer Group, a 65-year-old family-owned firm specializing in home building, land development and property management. The company is also a licensed real estate brokerage in Oregon and Washington, with practice in design development and construction. The Conifer Group has received national recognition for innovation and sustainable design and is a founding member of the U.S. Green Building Council.

Bill Kabeiseman

Bill Kabeiseman is an attorney at Garvey Schubert Barer specializing in land use and municipal law. He graduated from the University of Oregon School of Law and later served as an adjunct professor teaching land use law at the school. Bill chaired the Oregon State Bar Task Force on Sustainability and is on the Multnomah County Planning Commission.

Carter MacNichol

Carter MacNichol is a managing partner for local urban development and project management company, Shiels Obletz Johnsen, Inc. and a managing member for Sockeye Development LLC. He has 30 years experience in complex project management, and real estate management and development.

Appendix A – continued

Carter has worked as real estate director for the Port of Portland, and as a project manager for the Portland Development Commission. Early in his career, he taught sixth grade for the Oregon City School District. Carter has been active on several local boards, including The Nature Conservancy of Oregon, “I Have a Dream” Foundation, Oregon Zoo Foundation, Portland Children’s Museum and Portland Community Land Trust.

Ray Phelps

Ray Phelps is manager of Regulatory Affairs for Allied Waste Services, Inc. He has served as assistant to the secretary of state, where he was responsible for Oregon elections, administrative rules, uniform commercial code, and budgeting for the secretary of state’s office. He has also served as Metro’s Chief Financial Officer and director of administration.

Penny Serrurier

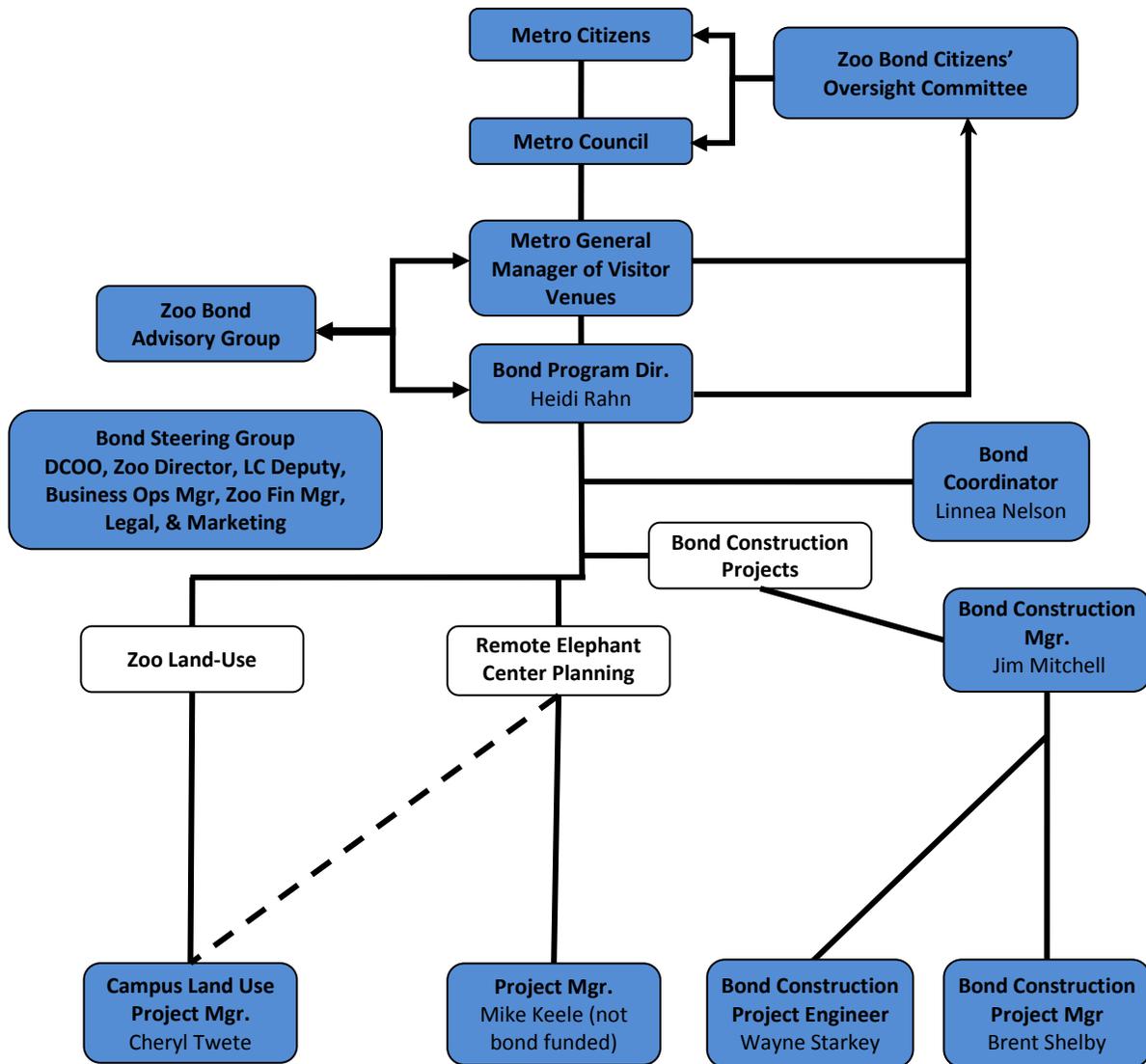
Pendleton (“Penny”) Serrurier is a member of Stoel Rives LLP, practicing in the areas of tax-exempt organizations, charitable giving, estate planning and administration, business succession planning, and personal tax planning. Serrurier represents tax-exempt organizations and advises them on all aspects of governance, compliance, and tax-related matters. She has served on several local boards and is a past chair for The Oregon Zoo Foundation board of trustees.

Bob Tackett

Bob Tackett is the Executive Secretary-Treasurer for the Northwest Oregon Labor Council, AFL-CIO. He has been active in the labor movement for more than 38 years. Bob’s duties include proposing, supporting and promoting legislation favorable to the interest of workers and organized labor, and opposing legislation detrimental to the interest of working people. Bob serves on several boards, including Worksystems, Inc., a nonprofit agency that accelerates economic growth in the City of Portland and Multnomah and Washington counties by pursuing and investing resources to improve the quality of the workforce, particularly unemployed and underemployed people. Bob also serves on the board of United Way of the Columbia-Willamette.

Appendix B

A Better Zoo Program Organization Structure*



External Consultant Contributions

Zoo Land Use: Multidisciplinary consulting team primarily supporting effort that is led by Cheryl Twete.
 Bond Construction Projects: Design consultants and construction contractors managed by bond project managers. Jim Mitchell, group manager: Brent Shelby, project manager and Wayne Starkey, project engineer.

Zoo Staff Contributions

Animal Welfare, Guest Experience, Facilities Impacts, Conservation Education, and Public Relations and Involvement.

Metro Contributions

Governance, Civil Engineering, Planning/Permitting, Historical Investigations, Legal, Finance, Human Relations

- Dark boxes = Actors
- White Boxes = Work efforts
- Solid Lines = Primary responsibility for or relationship to
- Dashed Lines = Secondary/support for or relationship to

* Updated April 30, 2013

