



Zoo Oversight Budget Subcommittee

Meeting #2

A subcommittee of the Oregon Zoo Bond

Citizens' Oversight Committee

Sunset Room, Oregon Zoo

Thursday, Feb. 16, 2017

11:30 a.m. – 2 p.m.

AGENDA

ITEM	ACTION	ANNUAL REPORT	LEAD	TIME
A. Welcome / Introductions / Lunch served <ul style="list-style-type: none"> • Agenda overview • Guiding Principles 	Review		Robyn Pierce	11:30 -11:55
B. Minutes of Sept. 8, 2016, Budget Subcommittee meeting	Approve		Robyn Pierce	11:55 – 12:00
C. Evaluate remaining project scope, schedule and budget, and recommend adjustments	Review style="color: red;">Recommend	Page 31, 36	Heidi Rahn	12:00 – 12:30
D. Evaluate recommended budget allocation	Review style="color: red;">Recommend	Page 31, 36	Heidi Rahn	12:30 – 1:00
E. Identify additional questions or suggestions for staff to analyze prior to next meeting	Identify	Page 31, 36	Robyn Pierce	1:00 – 1:30
F. Open Discussion/Questions	Discuss		Robyn Pierce	1:30 – 1:40

Upcoming meetings

Budget Subcommittee Meeting #3

Tuesday, Feb. 28, 2-4 p.m., Kalahari Room (next to the concert lawn), Oregon Zoo

Full Oversight Committee special one-hour meeting

Regarding allocation of remaining unbudgeted bond program funds

TBD—Possibly Wednesday or Thursday afternoon, March 8 or 9

Budget Subcommittee of the Oregon Zoo Bond Citizens' Oversight Committee Guiding Principles

Sept. 15, 2016

- 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 Integrated Conservation Action Plan framework, 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 non-bond sources.



Oregon Zoo Bond
Citizens' Oversight
Budget Subcommittee
Meeting
Feb. 16, 2017
Agenda item B

Zoo Oversight Budget Subcommittee Meeting #1

A subcommittee of the
Oregon Zoo Bond Citizens' Oversight Committee
Sunset Room, Oregon Zoo
Thursday, Sept. 8, 2016
2 to 3:30 p.m.

MINUTES

MEMBERS PRESENT

Robyn Pierce, Subcommittee Chair
Susan Hartnett
Ruth Shelly, Committee Chair
Kevin Spellman
Dick Stenson
Karen Weylandt

AFFILIATION

Pierce, Bonyhadi & Associates
Spectator Facilities and Development, City of Portland
Portland Children's Museum
Spellman Consulting, Inc.
Retired healthcare executive; community volunteer
Providence Health & Services

MEMBERS ABSENT

None

AFFILIATION

STAFF

Caleb Ford	Metro Assistant Finance Director
Jim Mitchell	Oregon Zoo Bond Construction Manager
Joel Morton	Metro Senior Attorney
Linnea Nelson	Oregon Zoo Bond Program Coordinator
Heidi Rahn	Oregon Zoo Bond Program Director

A. Welcome / Introduction

Heidi Rahn, zoo bond program director, opened the meeting at 2:03 p.m. and reviewed the agenda. She used a PowerPoint presentation, a copy of which is included with the record. The group agreed to select a subcommittee chair at the end of the meeting.

B. Subcommittee purpose and work plan

Ms. Rahn reviewed the subcommittee purpose and work plan. The goal is to recommend a strategy to the Oregon Zoo Bond Citizens' Oversight Committee regarding allocation of the remaining bond funds. This group will make a strategic difference for the bond program in prioritization of funds, and is not just a "rubber stamp." The group reviewed the five subcommittee objectives and tasks for the three planned meetings, as outlined in the draft work plan. The Oversight Committee charter outlines the committee's role to "consider and recommend project modifications if inflationary increases in construction costs exceed current budget estimates."

C. Budget allocation process

The Zoo Bond Steering Group is the internal bond executive team that prioritizes project needs and budget recommendations. That group will work through an analysis of options over the next few months, and will bring those options and their recommendations to the subcommittee for guidance.

The subcommittee is to identify scope, schedule and budget recommendations and make a recommendation to the full Oversight Committee, which will vote and make a final recommendation. Bond staff will take that feedback to the Metro Council, whose approval is required to make changes to scope, schedule or budget of zoo bond projects. Staff hopes to complete that process by January or February 2017. This is planned as a one-time process that the Oversight Committee will not need to repeat. Ruth Shelly noted that there may be flexibility within the newly recommended budgets for each project to accommodate some changes.

D. Bond program remaining scope, schedule and budget

One member suggested that the work plan state that the project allocation be within the bond law and objective. Robyn Pierce suggested that the subcommittee prepare the financial portion of the 2017 Oversight Committee annual report. All agreed, but have the option of declining later. Ms. Rahn noted that four to six new members will be joining the Committee in the coming months, some of whom will attend the Sept. 14, 2016, Committee meeting, and many of them come with financial backgrounds. It may be beneficial to add in some new people to the report preparation process.

The group reviewed the financial spreadsheet "Project Status and Financial Information at a Glance." The bond program has a little more than \$11 million to allocate, and is fortunate to be in this strong financial position. The program budget includes \$6,018,000 from the Oregon Zoo Foundation, which includes \$1.3 million that was not spent on the Remote Elephant Center project, which the Metro Council decided not to pursue. Those funds are unrestricted funds. OZF does not need to approve a new allocation of those funds, but staff will go before the OZF board as part of the process, to assure that the money is spent for the purposes of the bond, including animal welfare, conservation education and sustainability. (Some of the OZF funds were restricted to a project, such as a little more than \$3 million for Elephant Lands, but other funds were unrestricted.)

One of the items the subcommittee will address is an expected budget shortfall for bond program administration.

Members reviewed the "Unallocated amount held for contingency" column on the spreadsheet that breaks down the \$11,561,759 total to be allocated. Sources of the unallocated funds include the unspent bond funds from the Remote Elephant Center project, premium funds received on the bond sales, and donations from the Oregon Zoo Foundation. All of this program contingency of more than \$11 million is above and beyond the individual project contingencies, which are built into each project budget.

E. Cost escalation assumptions for remaining bond projects

Heidi Rahn reviewed cost escalation figures. The Polar Passage project was originally budgeted in 2011 with a cost escalation estimate of 6 percent. Actual escalation to date, plus forecasted escalation at the start of construction in 2017, is estimated to be 18 percent. This is 4 to 4.5 percent escalation per year for 2011 to 2017. Jim Mitchell, construction manager, indicated that both Mortensen Construction and Turner Construction are indicating 4.5 percent annual escalation. Rider Levett Bucknall, which is usually a little low, is indicating 4 percent per year cost escalation for Jan. 2012 to Feb. 2017.

Staff asked members if these cost escalations are the same as what they are seeing in their projects and the market. Kevin Spellman, a construction consultant and current chair of the Bond Accountability Committee for Portland Public Schools' bond program, and Karen Weylandt, chief planning and design officer for the five-state Providence Health & Services system, concurred that they are seeing similar annual cost escalation in their construction projects.

Mr. Mitchell noted that in 2015, there was 9 percent cost escalation. Structured steel and decking went up 19.5 percent in one quarter. It was not so much a labor increase as a materials increase. The next step is to verify cost escalation assumptions with the remaining project budgets. The current estimate for the bond Primate/Rhino project is 22 percent cost escalation. Staff will continue to closely monitor cost escalation on the Polar Passage and other bond projects.

Members asked if specific parts of remaining projects have unusual cost considerations. Mr. Mitchell said the remaining projects are not nearly as heavy on steel as Elephant Lands. They will have a lot of concrete, which does not fluctuate as much, and they will have a lot of civil work. Ms. Rahn added that some animal welfare standards are changing that could influence costs.

Mr. Spellman suggested looking at the broad market for cost escalation. When a project gets to bidding out the work, it is a matter of how hard the construction management/general manager works to get competitive bids. Some projects have unique aspects, so they have to use different strategies to get low bids. In a competitive market, some contractors do not want to hassle with public projects.

Susan Hartnett recommended checking with the city of Portland Bureau of Development Services and Bureau of Environmental Services for any upcoming code changes that could also affect project cost. Ms. Hartnett offered to check with the city on behalf of the bond program. City of Portland permitting timeframes are changing and affecting projects.

Members asked if the reservoir construction in Washington Park would be affecting the zoo bond construction. Staff agreed to check, but did not think it would be an issue because the bond program uses a different access, via Highway 26.

F. Project Modifications

Cost escalation for **Polar Passage** is forecast to be \$3.6 million above the amount originally budgeted for escalation in 2011. To date, the Metro Council has approved \$2.6 million of additional allocation. The Oversight Committee recommended adding the additional \$1 million in cost escalation to the project, if needed, after the 2016 bond sale. If \$1 million is not added to the Polar Passage budget, items will have to be cut. In addition to cost escalation, staff is analyzing a proposed project modification for increased saltwater. The preschematic design that was originally budgeted had just a small dipping pool with saltwater. Standards for animal welfare are changing, and the zoo is exploring the use of saltwater vs. freshwater in the larger pools, and assessing the cost difference. This could result in higher costs for the system and supporting infrastructure to handle the saltwater. The piping for saltwater has to be stainless steel, and the system has to be backwashed since saltwater cannot be dumped into the sewer system. Ms. Hartnett suggested checking what effect chlorinated water has, and to look at the operating implication of using saltwater (buying salt, operating the backwash, etc.). The equipment for saltwater is estimated to cost \$4 million, according to Mr. Mitchell. The goal is to have a facility with some flexibility for 20 to 25 years.

The **Primate Habitat** project also has project modifications under consideration. The bond language called for “more humane enclosures for apes and monkeys.” The first and current phase of the zoo master plan includes adding a new chimp and mandrill structure, without renovating the existing facility. The overall master plan does include demolishing the old building and replacing it with a new habitat, as part of an additional phase to be funded at a later date (not with the 2008 bond funds). But the existing primate building is not functioning well for the animals and the staff. It is original to the site, has been patched and modified over time, has developed leaks and is an old style of zoo design. A proposed bond project modification is to deconstruct the existing primate building and replace it with an upgraded facility. Staff is currently doing research and working on getting cost estimates and a new preschematic design for primate habitat and associated visitor amenities. The zoo wants the new space to allow flexibility of primate species over time. The zoo is also looking at the plan for primates as part of its current Integrated Conservation Action Plan (ICAP) development.

The **Rhino Habitat** project is a comparatively simple project, currently budgeted for \$450,000. It is mostly civil work that includes converting the existing hippopotamus pool to a rhinoceros habitat, grading and landscape changes to connect the rhino and hippo habitats, and taking down some separation walls in holding areas. Over time, the rhino habitat would become part of an Africa Savannah habitat. The Rhino and Primate projects will be done together, since the locations are adjacent and doing them at the same time creates efficiency in contracting. Currently this project does not have significant scope modifications. Staff is working on updating the cost escalation.

Another possible project modification is for **sustainable infrastructure**, which was part of the bond measure. The current bond scope includes water and electrical utility upgrades associated with the bond projects. A proposed scope change is to include additional water and electrical utility upgrades badly needed on the zoo campus. The zoo is in the process of identifying its priority needs to conserve water and energy. The zoo just had a facility assessment, and the data from that will be coming in over the next few months.

Caleb Ford, Metro Assistant Finance Director, spoke about **staffing and administration** program modifications. A year and a half ago he discussed administrative costs with the Oversight Committee. Administration costs include some staff, bond issuance and Metro central services, which are shared across the agency on a cost allocation. Some assumptions for that allocation were made at the start of the program, and then modified a year and a half ago. Now, an additional year is proposed to be added to the program schedule, resulting in additional support costs. The administrative budget needs to be updated to reflect the current cost projection of approximately \$7.2 million, which is about 5 percent of the total program budget. This is in the middle of the range of other local public bond-funded programs, which were 3.6 to 7.2 percent of the total budget.

Members asked about the accuracy of the new administrative spending estimate and the cost of the final bond issuance. Mr. Ford is confident that \$7.2 million is an accurate assessment. That projection includes conservative cost-of-living and health care escalation costs, and the final bond issuance costs will be minimal. The bond program budget does not include nonbond zoo staff and zoo operations staff that are part of the bond program planning and coordination. The original Metro overhead estimate had a straight-line increase, but should have been based on actual spending, which went from land use work (\$2 million) to Elephant Lands (\$57 million). Ms. Hartnett suggested including detail on the added values that are not charged to the bond, as a best way to communicate the changes.

Appropriate staffing is critical for the success of the bond program. Staff is preparing an updated administrative costs memo for the Oversight Committee. Joel Morton, Metro senior attorney, assured members that the bond spending is well within legal bond limits. The next step is to recommend allocation of additional funds to the administrative budget. When finalized, a budget amendment will be requested to allocate actual and anticipated spending for administration and overhead within the program budget (funding is available from the current unallocated bond funds).

G. Questions and highlights for larger Oversight Committee Sept. 14, 2016 meeting

This reallocation process puts some pressure on the Polar Passage project that is currently in design. Prior to adding resources to the Polar Passage project budget, staff needs to ensure that the primate and rhino projects can be successfully completed with remaining funds. Members asked whether some incremental decision or direction could be made to keep the Polar Passage project going on schedule. Members asked if fresh water is even an option for Polar Passage. Given the direction of animal welfare standards and the preference of the zoo's conservation and research partners, saltwater is definitely the preference. Members asked if using saltwater might open up the possibility of additional project funding, since it would benefit the federal research. Funds are limited from external partners, and the Oregon Zoo Foundation has minimal capacity to fundraise as they are in a staffing transition.

The Education Center contingency is approximately \$900,000, and it is expected that some of that will be going back into the unallocated funds. The Elephant Lands project is estimated to have \$250,000 to \$300,000 going back to the unallocated pool.

Members discussed the draft **Guiding Principles** for the subcommittee. They decided to add a first principle that the reallocation align with the requirements of the bond measure. Another principle was added to align the fund allocation with the zoo's ICAP and animal research, to the degree possible. Staff will send the revised draft guiding principles to the subcommittee members, for them to give feedback on the principles and the draft work plan before the Sept. 14 meeting, when the full Oversight Committee can give its feedback.

Ms. Hartnett reminded members that the subcommittee may be somewhat uncomfortable with what they have to decide, and to recognize that going into the process.

Robyn Pierce volunteered to serve as the subcommittee chair going forward.

The staff needs time to analyze the estimated cost of the remaining projects and proposed modifications prior to the next subcommittee meeting, so the second meeting will likely be in late November or early December.

H. Adjournment

Ruth Shelly adjourned the meeting at 3:32 p.m.

Upcoming meetings (schedule uncertain):

Meeting #2: November/December 2016--??

Meeting #3: January/February 2017??--??