



Date: September 12, 2018 (Revised)  
To: Oregon Zoo Bond Citizens' Oversight Committee  
From: Heidi Rahn, Metro Asset Management and Capital Planning Program Director  
Subject: **Polar Passage, Primate Forest, Rhino Cost Estimate**

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The purpose of this memo is to update the Oregon Zoo Bond Citizens' Oversight Committee on the most recent cost estimate (50 percent construction documents) for the Polar Passage, Primate Forest, and Rhino project and seek direction on how to proceed. 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 current construction budget for the project is \$33 million. Despite significant value engineering and scope reduction over the past six months, the current cost estimate is 7 percent (\$2.2 million) more than our existing budget. The zoo bond program currently has \$3.68 million in unallocated program contingency. This puts us in a strong position to ensure we deliver on the bond measure promise to the community.

At the September 12, 2018 meeting, staff will review our design, budgeting, and value engineering processes to date. Staff will seek input from committee members regarding their needs for additional information to inform a recommendation for project modification or budget allocation in November 2018. Background information is outlined below.

### **Background on Program Financial Status and Guiding Principles**

The Oregon Zoo Bond Program's total resources are \$152 million; we have invested \$104 million to date, and implemented the first five projects within approved budgets. We have leveraged additional resources from grants, donors, energy efficiency rebates and premiums on our bond sales. We have always maintained a solid project contingency in each project budget and have ultimately needed most of it on our projects due to unforeseen challenges (e.g., underground vaults, archeological recoveries, geotechnical risks, etc.).

In 2016, the Oversight Committee set up a subcommittee to analyze fund availability and propose budget allocations to remaining projects. At that time, the program had \$12.5 million in unallocated program contingency. The Metro Council supported the following guiding principles defined by the Oversight Committee to address fund allocation:

- 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.

In 2017, the subcommittee recommended to the overall committee reallocation of funds to the final projects to address cost escalation as well as scope modifications that support the ballot measure commitments. The committee also recommended to the Metro Council that they keep some of those funds unallocated in program contingency (\$1.8 million) should they be needed for the final projects, infrastructure or master plan updates. The Metro Council approved these recommendations.

Since then, the unallocated program contingency has continued to grow due to an additional premium on the sale of the final bond for the program, interest earnings, contributions from the Oregon Zoo Foundation, Energy Trust of Oregon incentives, and savings on the Education Center project. The current zoo bond program budget has \$3.68 million in unallocated contingency. The program also has \$1 million currently allocated to close out bond-funded projects. Of this amount, less than \$100,000 has been indentified for expenditure. This puts us in a strong position to ensure we deliver on the bond measure promise to the community.

### **Current Status on Polar Passage/Primate Forest/Rhino**

#### **Cost Estimating and Value Engineering Background**

The current construction cost estimate for the project is \$35.2 million; the current construction budget is \$33 million.

Per our contract with the design team and general contractor, Metro has received cost estimates at the following stages of the project:

- 100 percent schematic design cost estimate \$36.2 million
- 100 percent design development cost estimate \$42.9 million
- 50 percent construction documents cost estimate \$37.7 million

The team collectively value engineered significant programming and design elements out of the project between the 50 percent and 100 percent design development phase. The following major components were removed or redesigned to save costs on the project:

- Deferred the maternity den and yard (\$1 million)
- Simplified building structures (\$1 million)
- Revised site work (\$3 million)
- Reduced general conditions (\$1.3 million)
- Reduced design and estimating contingency (\$300,000)

Despite these reductions, we did not hit our goals in the budget options log between 100 percent design development and 50 percent construction document estimates. The team has continued to reduce costs since the most recent estimate.

As the designs become more detailed and more information is available in the drawings, the general contractor is able to get a more accurate and current cost estimate from subcontractors. Previous cost estimates had limited subcontractor review due to their workload and lack of focus on a project scheduled further out.

### **Market Conditions**

Given the current market conditions for construction in the region and potential tariffs on construction materials, the cost of construction continues to increase. The Portland region's construction cost escalation over the past year at 6 percent is the second highest in the country behind San Francisco. Any delay in our construction schedule will continue to result in additional costs to 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 27-31 percent from 2011-2018.

We are currently seeing a number of factors that contribute to the cost increases for the zoo:

- Extremely constrained subcontractor market for projects that are unique or perceived as having higher risk
- Higher unit pricing for structural steel (specifically affects caging/enclosures)
- Higher unit pricing for precast wall systems

### **Schedule Extension and Labor**

The additional design time needed to value engineer has resulted in a schedule extension of four months. Labor projections have been updated to align with the schedule extension. We are committed to ensuring the program has accurate resources needed to successfully complete the projects.

Although the value engineering and redesign has extended our schedule, we are still seeing efficiencies (labor, the design process and construction coordination) in combining the final three projects into one design and construction project.

### **Projected Costs**

Currently, our cost estimate for construction of Polar Passage, Primate Forest and the Rhino project is \$2.2 million over our existing construction budget, which is 7 percent of our construction budget.

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. See Administrative Cost Overhead memo for more information.

### **Next Steps and Recommendations**

Staff will continue to gather information and assess options. We are proceeding with caution through construction documentation and continue to identify cost saving opportunities. The general contractor will be seeking subcontractor bids on the project in late October, which will provide us with more cost certainty. In November, staff will return to the committee to assess use of the remaining unallocated contingency funds for the final projects, as needed.