



DATE: September 14, 2016

TO: Board of Commissioners

FROM: Kimberly Branam, Executive Director

SUBJECT: Report Number 16-49

Authorizing the Executive Director to Execute a Change Order to the Construction Management General Contractor Contract in an Amount Not to Exceed \$1,043,750 For the Selective Demolition of Centennial Mills

BOARD ACTION REQUESTED

Adopt Resolution 7208

SUMMARY

At the September 14, 2016 Portland Development Commission (PDC) Board of Commissioners (Board) meeting, staff will provide a briefing on the Centennial Mills project (Project), a PDC-owned property in the River District Urban Renewal Area (URA) (see an Aerial Project Site Map in Attachment A). In addition to an update on the status of demolition and the results of recent marketing efforts for the property, staff will also request that the PDC Board authorize a bid alternate to the contract with Northwest Demolition and Dismantling (NWDD) in an amount not to exceed \$1,043,750. If approved, this action will direct NWDD to demolish the Feed Mill building. The additional cost of this work is within the overall budget authority previously granted by the PDC Board and project management staff will coordinate with local stakeholders and regulatory organizations before the final change order is issued.

BACKGROUND AND CONTEXT

The PDC Board authorized acquisition of the Centennial Mills site (Property) through Resolution No. 5397 on February 17, 2000, for open space redevelopment pursuant to recommendations of the 1995 River District Plan and the 1998 River District Urban Renewal Plan. At the time of acquisition, the site contained a complex of twelve industrial buildings, constructed primarily between 1910 and 1940, and had known environmental and seismic concerns given its historic industrial use. However, a recommendation to demolish the complex for redevelopment as open space was met with opposition and in May 2005, the Portland City Council adopted Resolution No. 36320 directing PDC and the City of Portland (City) Bureau of Planning to work with stakeholders to develop a comprehensive plan for the Property.

In 2006, PDC led the creation of the City Council-approved Centennial Mills Framework Plan (Framework Plan) that outlined five principles to direct redevelopment of the Property. Between 2006 and 2014, PDC worked with development partners to advance redevelopment proposals consistent with the

Framework Plan principles; however, to date, no privately-proposed development project has been able to address the Framework Plan principles within the constraints of PDC's allocated budget.

More recently, in order to address rapidly deteriorating conditions of the Property, on December 11, 2014, the PDC Board acting as the Local Contract Review Board through Resolution No. 7089 instructed PDC staff to pursue an emergency procurement process for selective demolition of the Property. After a nationwide solicitation process, PDC entered into a multi-phased construction manager/general contractor contract with NWDD on April 7, 2015. The contract anticipated demolition of certain structures, including the above water wharf and related structures.

After completing the pre-demolition investigation phase of the Project, the PDC Board approved a Phase I contract through Resolution No. 7137 on July 16, 2015, which covered the selective demolition of all buildings except the Feed Mill building, the Flour Mill building, and the Portland Police Bureau's Mounted Patrol Unit (MPU) facilities. The MPU facilities, which were constructed in 2001, include two structures at the southern portion of the Property that were excluded from Phase I to allow the Portland Police Bureau to operate them into the future. The Feed Mill and Flour Mill buildings were exempted from the Phase I contract to allow for the possibility of preservation of one or both of these structures. When the PDC Board authorized the Phase I contract, it requested that staff investigate i.) whether private developers could/would redevelop these buildings and at what cost, and ii.) in the alternative, what would be the costs of removing the buildings, if necessary.

Upon completion of Phase I, the PDC Board approved Phase II through Resolution No. 7177 on April 20, 2016, which authorized the removal of the remaining above-water wharf structures; Phase II is proceeding on schedule and under budget. Demolition of the wharf structure is approximately 50 percent complete, with two months remaining on the federal permit that authorizes NWDD to work in the Willamette River. As demolition has progressed and various structures have been dismantled, NWDD has been able to uncover certain areas that were previously unreachable. Specifically, the foundation of the Feed Mill has become exposed and is now accessible to further inspection. Unlike the Flour Mill, which is resting firmly upon driven friction piles, the Feed Mill's foundation only consists of a shallow stemwall and concrete footings built on fill material. Since daylighting the foundation, KLK Consulting, NWDD, and PDC's structural engineering consultants KPFF have observed a significant difference between the level of the other surrounding foundations and that of the Feed Mill. Their collective assessment is that the building has settled approximately six inches at the building's northwest corner, resulting in the five-story structure leaning slightly in that direction (see Property Photos in Attachment B). In addition to the issue of settlement, there is justified concern by the engineers and NWDD that the building may be unstable. The team has confirmed that the east side of the Feed Mill building rests upon the existing seawall. There is no evidence that the seawall, once deprived of the structural support provided by the wharf itself, will be able to support the weight of the building without buckling and collapsing into the Willamette River. As such, PDC's consultants have deemed that the Feed Mill constitutes a hazard. This is a significant setback to the challenging feasibility of preserving and restoring the Feed Mill, which was already known to require significant modification to allow for structural upgrade and reuse.

In light of this new information, and in the interests of public safety, staff recommends that the PDC Board approve the demolition of the Feed Mill. PDC's current Phase II contract included a bid alternate in the amount of \$1,043,750 for the Feed Mill. Currently, total budget approval for hard costs (preconstruction, early work, and both selective demolition phases) is \$13,712,350, with hard costs projected to be \$11,737,536. The additional cost of demolishing the Feed Mill remains within the overall \$13,712,350 hard cost budget already approved by prior PDC Board actions.

PUBLIC PARTICIPATION AND FEEDBACK

In November 2015, staff received feedback from both the Pearl District Neighborhood Association and a Citizens Advisory Committee to continue to seek a redevelopment solution that prioritized preservation and renovation of some of the original structures – with a particular focus on the northern portion of the parcel not tenanted by the MPU. In response to this feedback, PDC engaged in a concerted effort to market the northern portion of the Property for sale in an attempt to identify a buyer who could preserve and renovate the Feed Mill and Flour Mill buildings. After a competitive Request for Proposals process, in early 2016, PDC selected brokerage firm CBRE to market the property from April through June 2016. CBRE leveraged its national network to generate interest in the property, created online and print marketing materials, and contacted hundreds of individual potential buyers.

At the final call for offers, PDC received three responses. Two of the three respondents were only interested in new development or retaining the Flour Mill and did not elect to include the Feed Mill in their proposals. The third proposal included redevelopment of both the Feed and Flour Mills, with a de minimis land offer and requiring that PDC invest significantly in the buildings in order to provide them free of all structural and environmental issues and ready to tenant. This proposal required a PDC subsidy that was substantially greater than available PDC resources and was based on cost assumptions that were generated prior to newly discovered conditions outlined above. On September 6, 2016, staff discussed the results of the marketing effort and Feed Mill information with the Pearl District Neighborhood Association's (PDNA) Planning, Transportation, & Design Review Committee meeting; staff expects PDNA representatives to attend and testify at the September 14, 2016, PDC Board meeting.

Additionally, related to its in-water work, PDC will propose an amendment to the Memorandum of Agreement (MOA) between PDC, the United States Army Corps of Engineers and the Oregon State Historic Preservation Office (SHPO) which was originally signed in June 19, 2015 in anticipation of Phase I and II demolition. The amendment will relate to removing the Feed Mill from those buildings identified for preservation efforts. SHPO may require additional mitigation measures as the result of PDC's request. PDC is currently in full compliance with all other aspects of the MOA and current mitigation commitments, such as historic documentation and significant salvage efforts. Finally, staff will request a permit modification from the City of Portland's Bureau of Development Services, in light of their existing emergency demolition demand order for removal of dangerous buildings.

BUDGET AND FINANCIAL INFORMATION

The total project budget from fiscal year (FY) 2014-15 through FY 2016-17 is \$20,935,405. Total projected hard cost demolition expenditures, including the anticipated bid alternate, are budgeted at \$13,712,350. After counting \$1,728,330 of other demolition soft costs, this leaves a balance of \$5,494,725 for additional, future expenditures on improvements to the Property, including gateway, public realm, and/or Flour Mill preservation requirements.

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 have been further identified since the commencement of this project. PDC's consultant teams consider that the foundation conditions of the Feed Mill constitutes a potential hazard, and that it is in the interests of the city that the Feed Mill building be removed.

Permitting Risks. PDC staff and the consultant team will need to update the demolition permit regarding additional demolition and site restoration. Since the permit has not yet been updated, there is a risk that their issuance could affect the project timing, scope of work, and cost to PDC.

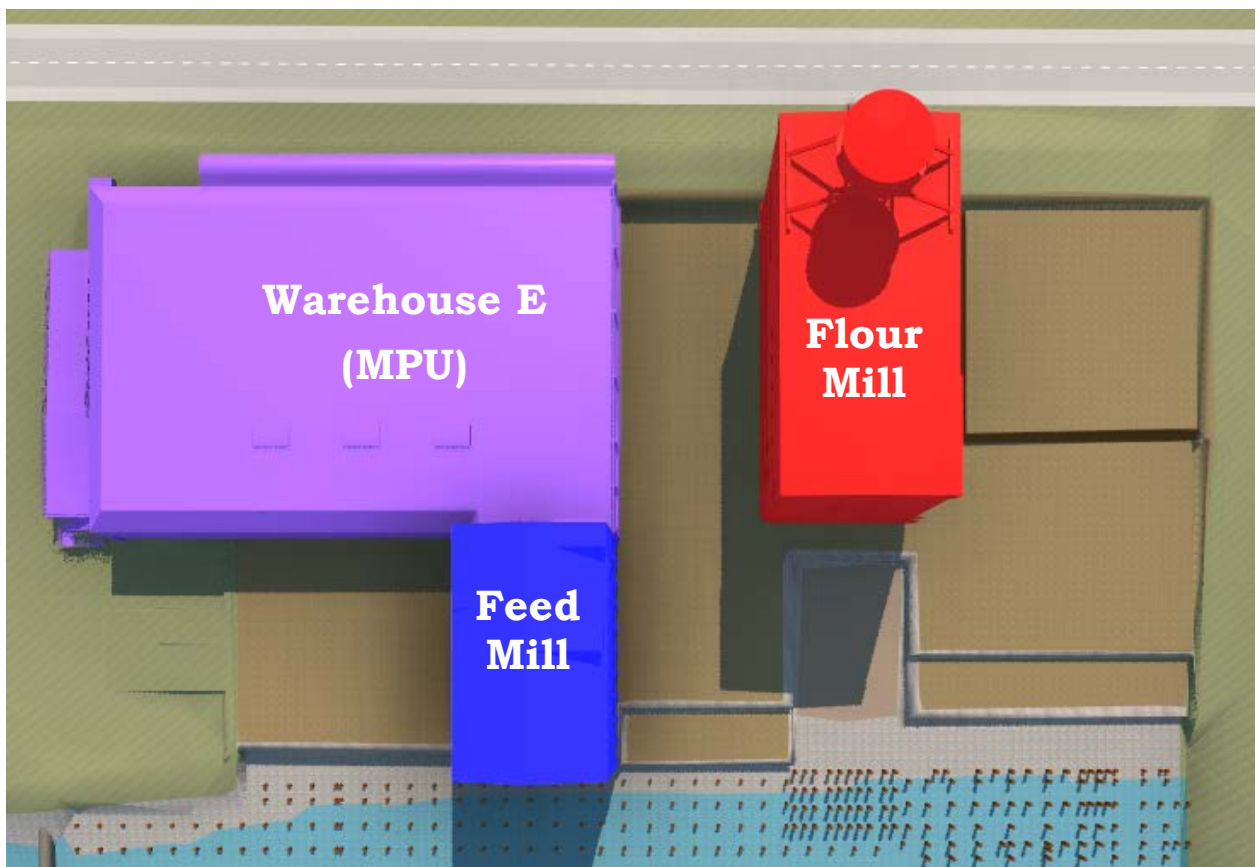
ATTACHMENTS

- A. Aerial and Project Site Map
- B. Property Photos
- C. River District URA Budget

Aerial



Project Site Map



Property Photos



RIVER DISTRICT URA BUDGET

**Financial Summary
Five-Year Forecast**

River District URA Fund	Revised FY 2015-16	Adopted FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
Resources						
Beginning Fund Balance	52,655,293	82,465,148	27,320,799	17,900,648	34,640,158	20,177,482
Revenue						
Fees and Charges	10,000	7,579	11,203	10,244	6,686	2,110
Grants - Federal except HCD	1,969,511	1,088,734	630,248	-	-	-
Interest on Investments	200,000	200,000	-	-	-	-
Loan Collections	5,359,380	235,823	1,040,599	768,830	438,228	457,132
TIF - Short Term Debt	19,948,515	24,447,133	20,017,456	20,680,039	10,637,477	-
TIF - Long Term Debt	39,968,145	19,605,906	-	-	-	204,427
Other Debt	11,497,639	13,342,901	143,950	9,500,000	-	-
Miscellaneous	4,834	-	-	-	-	-
Property Sales	7,142,500	4,500,000	-	4,000,000	-	-
Rent and Property Income	2,406,249	2,314,264	2,466,015	2,466,015	2,466,015	2,466,015
Reimbursements	179,235	-	-	-	-	-
Transfers In	21,440	474,360	474,360	474,360	40,107,030	207,030
Total Revenue	88,707,448	66,216,700	24,783,831	37,899,488	53,655,436	3,336,714
Total Resources	141,362,741	148,681,848	52,104,630	55,800,136	88,295,594	23,514,196
Requirements						
Administration						
A00025-Debt Management-RVD	652,317	1,307,027	65,000	65,000	65,000	65,000
Administration Total	652,317	1,307,027	65,000	65,000	65,000	65,000
Economic Development						
Traded Sector						
A00056-Cluster Development-RVD	50,000	50,000	50,000	50,000	-	-
Community Economic Development						
A00084-OT/CT Action Plan-RVD	145,000	65,000	65,000	65,000	-	-
Business Lending						
A00204-BL -General-RVD	500,100	-	-	-	-	-
Economic Development Total	695,100	115,000	115,000	115,000	-	-
Housing						
A00166-Affordable Housing-RVD	7,930,070	21,055,906	13,003,533	928,468	-	5,500,000
Housing Total	7,930,070	21,055,906	13,003,533	928,468	-	5,500,000
Infrastructure						
Parks						
A00232-Nbrhd Prk(The Fields)-RVD	0	-	-	-	-	-
Transportation						
A00234-Pearl District Cir-RVD	1,128,738	-	-	-	-	-
A00436-District Parking-RVD	0	2,500,000	2,500,000	-	-	-
Public Facilities						
A00233-Union Station Grant-RVD	1,439,503	1,439,503	719,752	-	3,500,000	-
Infrastructure Total	2,568,241	3,939,503	3,219,752	-	3,500,000	-
Property Redevelopment						
Real Estate						
A00278-4th and Burnside-RVD	46,400	-	-	-	-	-
A00283-RD Enviro Reimb-RVD	4,500	-	-	-	-	-
A00285-Block Y-RVD	45,400	45,100	45,100	45,100	45,100	45,100
A00286-Union Station-RVD	1,368,757	892,971	1,363,757	1,363,757	1,363,757	1,363,757
A00287-Grove Hotel-RVD	0	-	-	-	-	-
A00288-Centennial Mills-RVD	10,706,976	9,853,355	48,355	48,355	-	-
A00289-Station Place Lot 5-RVD	204,000	504,000	-	-	-	-
A00290-Station Place Prkng-RVD	424,924	255,356	266,811	266,811	266,811	266,811
A00291-Block R-RVD	9,800	9,800	9,800	9,800	-	-
A00292-One Waterfront North-RVD	8,400	508,400	-	-	-	-
A00293-Old Fire Station Mgmt-RVD	23,000	18,000	-	-	-	-
A00295-Real Estate Mgmt-RVD	10,550	10,250	10,250	10,250	10,250	10,250
A00405-PNCA Contract-RVD	585	-	-	-	-	-
Commercial Property Lending						

**Financial Summary
Five-Year Forecast**

River District URA Fund	Revised FY 2015-16	Adopted FY 2016-17	Forecast FY 2017-18	Forecast FY 2018-19	Forecast FY 2019-20	Forecast FY 2020-21
A00361-CPRL-General-RVD	3,500,000	5,502,000	8,502,000	562,604	-	-
Redevelopment Strategy						
A00276-Post Office-RVD	2,192,318	-	-	-	20,795,580	-
A00277-Dtwn Retail Strat-RVD	30,000	30,000	-	-	-	-
A00279-Broadway Corridor-RVD	310,000	590,000	-	-	-	-
A00280-10th & Yamhill Redev-RVD	1,750,000	3,250,000	-	-	-	-
A00281-CC 2035-RVD	32,772	-	-	-	-	-
A00284-Multnomah County-RVD	16,948,460	-	-	9,500,000	-	-
Redevelopment Grants						
A00390-CLG-General-RVD	100,000	100,000	100,000	100,000	100,000	100,000
A00134-DOS-General-RVD	100,000	100,000	100,000	100,000	100,000	-
A00141-SIP-General-RVD	300,000	300,000	300,000	300,000	300,000	-
A00148-GFGP-General-RVD	25,000	50,000	50,000	50,000	-	-
Property Redevelopment Total	38,141,842	22,019,232	10,796,073	12,356,677	22,981,498	1,785,918
Total Program Expenditures	49,987,570	48,436,668	27,199,358	13,465,145	26,546,498	7,350,918
Personnel Services	624,464	630,035	590,529	603,535	625,320	638,452
Debt Service	0	-	1,249,224	1,724,224	35,346,602	-
Total Fund Expenditures	50,612,034	49,066,703	29,039,111	15,792,904	62,518,420	7,989,370
Interfund Transfers - Indirect Charges	5,085,559	4,694,346	5,164,870	5,367,074	5,599,692	5,761,738
Interfund Transfers - Cash Transfers	3,200,000	67,600,000	-	-	-	-
Contingency	82,465,148	27,320,799	17,900,648	34,640,158	20,177,482	9,763,087
Ending Balance	0	-	1	-	-	1
Total Fund Requirements	141,362,741	148,681,848	52,104,630	55,800,136	88,295,594	23,514,196