



LA24-203A

March 29, 2016
Revised April 1, 2016

Mr. Brian Wong, MBA, CPFO
Debt Manager
City of Sacramento, Office of the City Treasurer
915 "I" Street, HCH – 3rd Floor
Sacramento, CA 95814

E-mail: bwong@cityofsacramento.org

Re: Golden 1 Center
Sacramento, California

Dear Mr. Wong:

Enclosed is our Monthly Executive Summary, as contained in our Site Observation Report 20 for the referenced project, based on our site visit of March 7, 2016. The site observation was performed and the report was written by the undersigned.

The Merritt & Harris, Inc. monthly Site Observation Reports are issued and can be relied upon, solely by the City of Sacramento and Cortland Products Corp. This monthly Executive Summary is posted for information purposes only and cannot be relied upon by any other party.

This summary report, which supersedes our report issued on March 29, 2016, was based on Summary Application and Certificate for Payment 27, prepared by ICON Venue Group on behalf of the Sacramento Basketball Holdings, LLC, dated March 16, 2016, including Turner Construction Company's Applications and Certificates for Payment 20 and 21, and other project costs incurred during the month of February 2016.



If you have any questions regarding this report, please call.

Very truly yours,

MERRITT & HARRIS, INC.

A handwritten signature in blue ink, appearing to read 'Ricardo Flores', with a long, sweeping underline.

Ricardo Flores
Principal - Los Angeles Branch Manager

RF:rf
Enclosure

cc: City of Sacramento
Attn: Desmond Parrington
Cortland Products Corp.
Attn: John J. Budyak
Attn: Michael C. Dombai
Attn: Matt Kerhune
Sacramento Downtown Arena LLC
Attn: John Rinehart
Icon Venue Group
Attn: Art Salgado
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SECTION II - EXECUTIVE SUMMARY

This section is intended to be a brief overview of the project, based on our current site visit. Please read the report in its entirety for a complete understanding of our comments and opinions.

Conformance to Plans and Specifications and Workmanship

The work at the project site is proceeding in general accordance with the construction documents and other pertinent documents that we have reviewed to date.

A set of 100% Design Development plans have been reviewed. These are the basis for the project's GMP contract. 100% CDs were issued in by late-December 2014. As requested by you, we have reviewed the 100% CDs and updated our Review Report.

The overall quality of workmanship appears to be good.

Summary of Total Project Costs

Project Budget and Requisition Review

The project budget has increased from the original \$477,000,000 to the current \$518,847,010 via previous Equity contributions and reimbursements totaling \$41,837,507, and a current \$9,503 city reimbursement. Please be aware that the project Sources exceed the Uses by \$55,857,357. These additional funds are destined for other project expenses such as financing costs not covered under the \$518,847,010 Budget. This current requisition includes soft costs, permit fees, and Turner Construction's construction costs for work incurred through February 2016.

A. Preconstruction Costs – Turner Construction Company

Pre-Construction and Preview Center contracts were awarded to Turner Construction Co. Turner's Pre-construction contract was established at \$700,000 to allow the Contractor to perform preconstruction activities prior to establishment of a GMP. Change Orders totaling \$525,228 increased the Contract sum to \$1,225,228.

Turner's Preview Center contract was originally established at \$1,500,000. The inclusion of Change Order 1 in the amount of \$55,604 increased the contract sum to \$1,555,604. The Preview Center contract includes the interior tenant improvement of office space in downtown Sacramento for the purpose of ESC Arena marketing activities. Although this work was not monitored by Merritt & Harris, Inc., we were able to tour the completed improvement during our initial visit to Sacramento as part of our Tri-Party Meeting. The work under the Preview Center contract has been completed.

Turner Construction did not submit Pay Applications for the Preview Center and for Pre-Construction costs. No funding is being requisitioned this period.



The following table summarizes the Pre-Construction and Preview Center work to date:

<u>Turner Construction</u>	<u>Pre-Con Pay App</u>	<u>Preview Ctr. Pay App</u>	<u>Combined</u>
Current Contract Value	\$1,225,228	\$1,555,604	\$2,780,832
Total Completed and Stored less Retain.	1,050,625	1,555,604	2,606,229
Less Previous Payments	<u>(1,050,625)</u>	<u>(1,555,604)</u>	<u>(2,606,229)</u>
Current Amount Requisitioned	\$0	\$0	\$0
Balance to Complete	\$174,603	\$0	\$174,603

Although there is a balance to complete in the Pre-construction contracts of \$174,603, we have been informed that this amount constitutes a savings, and a deductive Change Order will be issued to close out this contract.

B. GMP Contract – Turner Construction Co.

Turner Construction Company entered into a construction agreement with Sacramento Downtown Arena, LLC. The GMP consists of the initial contract and the First through Fourth Amendments to the contract.

The following summary is based upon the Turner Construction Company's Applications and Certificates for Payment 20 and 21 for work performed through February 29, 2016:

Current Contract Value		\$355,744,820
Total Completed and Stored to Date	82.6%	\$293,981,566
Current Amount Requisitioned		\$ 16,714,133*
Balance to Complete		\$ 61,763,254

* Turner's Pay Applications total \$16,714,133 and consist of \$14,224,805 for Pay Application 20 and \$2,489,328 for Pay Application 21.

There is a balance to complete in the GMP contract of \$61,763,254. Please refer to our Project Budget and Requisition Review for our opinion on the adequacy of the remaining funds.

The GMP Budget was based on 100% Design Development documents, dated August 14, 2014.

The dollar amounts of each line item were reviewed at the time of our site visit, and the amounts were found to reasonably reflect the percentage of work in place.



B. Systems and Equipment Budget

We will consolidate the major Contracts under the Systems & Equipment Budget here. The total Systems & Equipment Budget totals \$53,594,400. The major contracts include Legends Hospitality, Panasonic, JCI, Skymaster, Advantel and AVDB Group.

This period, ADVD Group, Skymaster and Advantel are submitting a request for funding, for work performed through February 29, 2016. The pay applications are summarized below:

	Current Budget	Previously Paid	Payment Due	Total Paid to Date	Balance to Complete	Retention	Complete to Date
Systems & Equipment							
Legends Hospitality	\$10,000,000	\$186,422	\$0	\$186,422	\$9,813,578	\$0	\$186,422
AVDB Group	2,450,000	0	245,000	245,000	2,205,000	12,894	257,894
Panasonic	10,500,000	2,035,500	0	2,035,500	8,464,500	104,500	2,140,000
Scoreboard Consultant	50,000	50,000	10,000	60,000	(10,000)	0	60,000
JCI	2,237,389	400,741	0	400,741	1,836,648	44,527	445,268
Deposit for Chairman Tile	25,650	0	25,650	25,650	0	44,528	70,178
Skymaster	975,943	387,802	168,530	556,332	419,611	29,281	585,613
Advantel	10,579,998	5,638,862	864,377	6,503,239	4,076,759	342,276	6,845,515
Total	\$36,818,980	\$8,699,327	\$1,313,557	\$10,012,884	\$26,806,096	\$578,006	\$10,590,890

The contracts above, have a cumulative balance to complete of \$26,806,096. Please refer to our Project Budget and Requisition Review for our opinion on the adequacy of the remaining funds.

Review of Project Budget and Draw Request 27

Icon Venue Group, representing Sacramento Kings Downtown Arena LLC, has presented its Application and Certificate for Payment 27, reflecting costs incurred through February 29, 2016.

Work covered under the this draw request includes Turner construction costs, sales and marketing expenses, A&E fees, legal services, and permits.

The project Budget, originally \$477,000,000, currently stands at \$518,847,010, having increased via Equity Contributions totaling \$41,847,010 (\$9,503 contributed this period). The current project Sources (\$574,704,367) exceed the Uses by \$55,857,357. These excess funds are destined for use as expenses for financing costs.



The following table summarizes the Budget and the costs to date:

Description	Revised Budget	Prior Payment	Current Payment	Paid to Date	Remaining Balance	% Complete
Uses						
Land Acquisition	\$34,922,370	\$34,531,782	\$0	\$34,531,782	\$390,588	98.9%
Construction Costs						
Preconstruction - Services	\$700,000	\$700,000	\$0	\$700,000	\$0	100.0%
Preconstruction - Expenses	15,368	15,368	0	15,368	0	100.0%
Enabling Work	335,256	335,256	0	335,256	0	100.0%
Construction - GMP	355,744,821	267,728,298	16,714,132	284,442,430	71,302,392	80.0%
Downtown Plaza Enabling Work	101,710	101,710	0	101,710	0	100.0%
Electrical Mall Investigation	419,174	419,174	0	419,174	0	100.0%
Subtotal Construction Costs	\$357,316,330	\$269,299,807	\$16,714,132	\$286,013,939	\$71,302,392	80.0%
Subtotal Systems & Equipment	\$53,594,400	\$9,024,804	\$1,313,557	\$10,338,361	\$43,256,039	19.3%
Subtotal Soft Costs	\$70,135,656	\$62,969,640	\$1,698,417	\$64,668,057	\$5,467,599	92.2%
Subtotal Contingency	\$2,878,253	\$0	\$0	\$0	\$2,878,253	
Total Project Budget	\$518,847,010	\$375,826,033	\$19,726,105	\$395,552,139	\$123,294,871	76.2%

We reviewed the project's Summary of Invoices, and invoices generated through February 29, 2016, at our offices, and during a site visit with representatives of Icon Venue Group.

There are remaining funds of \$123,294,871, which include remaining Contingencies totaling \$2,878,253.

A cost exercise between ICON, Turner and its Subcontractors which had been ongoing for the past several months in order to reconcile the former 50% CDs to the 100% CD version, has been completed (refer to **Section VII – Change Orders and Pending Change Orders**), taking into account the 100% CD reconciliation and quantifies the current value of Pending Change Orders at \$27,834,136. Our Budget Analysis calculates the value of the project Contingency sources at \$28,438,856, which appear sufficient, at this time to cover the pending Change Orders. This statement is qualified, and contingent upon verification and receipt of the \$17,000,000 DGP reimbursements for the DAS Room, which may not be available for several months; favorable negotiations on the Schuff. Settlement, and the inclusion of \$6,692,894 of private placement costs which have not been incorporated into the Budget.

Additionally, it was brought to our attention that the Turner/Schuff settlement of \$4,971,518 could be reduced even further to a potential cost to the team of \$561,931, which would increase the available sources, should any further savings be realized.

The total amount requisitioned under the Sacramento Kings Downtown Arena LLC, Construction Draw 27 is **\$19,726,105.40**, and the Sources under which funding will be provided are the Arena Private Placement account (\$14,528); and the City Contribution Account (\$19,711,577).

The Construction Sources of \$525,539,909 exceed the Uses by \$6,692,899, and the overall Sources exceed the uses by \$55,165,383. Included in the total amount requisitioned are Turner's Construction Costs of \$16,714,132, and Other Project Costs of \$3,003,745.

We have reviewed the corresponding back-up and we concur with the amount requisitioned. Please ensure that the conditions of the Disbursement Agreement are met prior to funding.



Scheduled Completion

A Summary Schedule, prepared by Turner Construction, dated May 20, 2014 was provided for review. This Schedule indicated site mobilization to have commenced May 21, 2014, with substantial completion of the arena anticipated by September 23, 2016, and project Closeout by December 1, 2016.

We have been provided with the Contractor's March 8, 2016 Critical Items Schedule. The Schedule is tracking Substantial Completion of the Practice Facility and Arena to July 20, 2016 and September 8, 2016. Although not indicated, closeout is expected to continue through the end of 2016.

Phase I of the project encompassing site demolition, excavation and make ready work were substantially complete on July 23, 2015, and building substantial dry-in has been achieved.

Previously noted delays with dewatering operations and high roof steel erection have been resolved, and the 28 ½ month construction term is tight but achievable, considering the team involved, and provided there are no further holdups such as strikes, material shortages, and/or delays in procurement, and adequate manpower is maintained throughout the construction term.

Open Issues/Comments

The following items are referenced by Report Number and Item Number:

This Period

21.1 Budget

The Construction Budget should incorporate the additional Sources of \$6,692,899, increasing the Private Placement account.

Previous Issues

18.1 Budget

The Contractor is negotiating a settlement with Schuff Steel. An unfavorable settlement could cause the Budget to be out of balance. The Ownership has been informed that the Lending group expects a settlement by the next pay request. At that time, it will be determined if additional equity will be required.

Update: The Schuff Steel settlement negotiations continue to progress, and it appears that an agreement has been reached between Turner and Schuff, reducing the claim from \$8.3MM to \$4.9MM. Negotiations are now underway between Turner and the Ownership group to share the claim costs, and a path has been established that could reduce the teams share to \$561,931. We will continue to monitor the claim negotiations



16.1 Budget

The project Budget is assumed to utilize a \$5.6-Million reimbursement from DGP for DAS Room. Should the expected reimbursement be delayed beyond the next several months, Budget could be insufficient if cost savings elsewhere are not identified. The Ownership should provide necessary assurances that this money will be reimbursed promptly, otherwise an Equity contribution may be necessary.

Update: It has come to our attention that the DGP reimbursement is anticipated at \$17MM, pending negotiations with telephone carriers, which would greatly improve the financial health of the Budget. We will keep this advisory note as an open issue until the Budget' Sources are replenished.

15.1 Plaza Construction

It has been reported that the construction of the Plaza surrounding the Arena will be performed under a separate Contract and Budget. Please ensure that Plaza construction is performed in a timely manner, and is completed within the timetable for Arena Construction. Delays in construction of the Plaza will impact the completion of the Arena.

Update: We have requested that the ownership address this issue in writing, outlining their phasing plan to demonstrate that their work will not interfere with Arena opening. Although previously requested, we have not been provided with a statement from the ownership.