



**LA24-203**

September 25, 2015

Ms. Stacy Sonnenberg  
Vice President  
Goldman, Sachs & Co.  
200 West Street, 33<sup>rd</sup> Floor  
New York, New York 10282

**E-mail:** stacy.sonnenberg@gs.com

**Re: Golden 1 Center (Formerly Sacramento Kings ESC)  
Sacramento, California**

Dear Ms. Sonnenberg:

Enclosed is our Site Observation Report 15 for the referenced project, based on our site visit of August 28, 2015. 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 Goldman Sachs. The monthly Executive Summaries are posted for information purposes only and cannot be relied upon by any other party.

This report was based on Summary Application and Certificate for Payment 21, prepared by ICON Venue Group on behalf of the Sacramento Basketball Holdings, LLC, dated September 17, 2015, including Turner Construction Company's Application and Certificate for Payment 14, and other project costs incurred during the month of August 2015.

Phase I of the project, encompassing Demolition excavation and make ready work has been substantially completed and close out is underway.

Costs incurred by Turner Construction and other vendors, include materials stored off site. The off-site materials were observed by Merritt & Harris, Inc. and ICON Venues personnel at Subcontractors' facilities in Sacramento, California (Bagatelos, Pan Pacific, and Turner Logistics); Stockton, California (Schuff Steel and Turner Logistics); Woodland, California (Clark Pacific); Eloy and Bellemont, Arizona (Schuff Steel); Chandler, Arizona (Kovacks)and Hector, Minnesota, Manteca, California, and North Canton, Ohio (Bagatelos).

A cost exercise between ICON, Turner and its Subcontractors has been favorable, and continues to progress, in order to reconcile the former 50% CDs to the 100% CD version, and address any cost increases and their impact on the Budget and Contingency. Although it was expected that the reconciliation exercise was to have been completed prior to the issuance of this report, we have been informed that the Construction Agent and General Contractor have agreed that a certain dollar value is owed to the Subcontractors, and that negotiations continue to progress, in order to quantify the amount of Contractor Contingency that would offset the exposure. The negotiations to settle costs related to the 50 to 100% CD reconciliation, should continue for the next 2-months.

The project Budget has increased from the original \$477,000,000 to the current \$509,437,507 via Equity contributions and reimbursements totaling \$32,437,507.

We will no longer be including funding notices and other documents such as complete Developer and Contractor Pay Applications as part of our monthly reports, since most of these documents are already included as part of the exhibits to the Master Draw Package Submittal (this Merritt & Harris, Inc., report is a part of the Development submittal). We will verify that all the pertinent documents are fully executed before we submit our report.

Please refer to **Section II - "Executive Summary"** for a brief overview of the project.

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

Very truly yours,

**MERRITT & HARRIS, INC.**



Ricardo Flores  
Principal - Los Angeles Branch Manager

RF:rf  
Enclosure

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**SECTION I - IDENTIFICATION**

**Project Name  
and Location:**

**Golden 1 Center**  
Sacramento, California

**Improvements:**

The project will entail the construction of a new enclosed multi-level approximately 780,931 gross sq. ft. basketball arena with a seating capacity of 17,731, 33 suites, 48 lofts, an adjacent interconnected multi-level practice facility/parking structure, and all associated site work.

**Prepared for:**

Goldman, Sachs & Co.  
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**Developer:**

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**General Contractor**

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**Construction Site  
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**Observation and  
Report By:**

Ricardo Flores, *Principal/Project Manager*  
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**Present During  
Observation:**

John Rinehart, Sacramento Kings  
Desmond Parrington, City of Sacramento  
Mark Posnick, City of Sacramento  
Art Salgado, Icon Venue Group  
Chris Smart, Turner Construction  
Rowena R. Vergara, Turner Construction  
Matt Hiser, Turner Construction  
Mike Del Sordo, AECOM

**Date of Site  
Observation:**

August 28, 2015

**Date of Previous  
Site Observation:**

July 31, 2015

**Date of Next  
Site Observation:**

October 5, 2015

## **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. It would be prudent to re-review the project documents based on the now available 100% CDs.

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 \$509,437,507 via Equity contributions and reimbursements totaling \$32,437,507. Please be aware that the project Sources exceed the Uses by \$48,954,947. These additional funds are destined for other project expenses such as financing costs not covered under the \$509,437,507 Budget. This current requisition includes soft costs, permit fees, and Turner Construction's construction costs for work incurred through August 2015.

#### **A. Preconstruction Costs – Turner Construction Company**

Two construction contracts, Pre-Construction, and Preview Center were awarded to Turner Construction Co. Turner's Pre-construction contract was established to allow the Contractor to perform preconstruction activities prior to establishment of a GMP.

Turner's Preview Center contract work includes the interior tenant improvement of office space in downtown Sacramento for the purpose of marketing activities related to the new ESC Arena. The work under the Preview Center contract has been completed.

Turner Construction did not submit Pay Application for the Preview Center and Pre-Construction costs. The Preview Center work has been completed. 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 Center Pay App</u>	<u>Combined</u>
Current Contract Value	\$1,225,228	\$1,555,604	\$2,780,832
Total Completed and Stored to Date	\$1,050,625	\$1,555,604	\$2,606,229
<b>Current Amount Requisitioned</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
Balance to Complete	\$174,603	\$0	\$174,603
Percentage Complete	85.7%	100.0%	93.7%

Although there is a balance to complete in the Pre-construction contract 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 for ESC Arena – 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 Application and Certificate for Payment 14 for work performed through August 31, 2015:

Current Contract Value		\$337,103,691
Total Completed and Stored to Date	54.7%	\$184,414,177
<b>Current Amount Requisitioned</b>		<b>\$ 17,047,304</b>
Balance to Complete		\$152,689,514

There is a balance to complete in the GMP contract of \$152,689,514. 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.

**C. Concession and Food Services Agreement – Legends, LLC.**

Legends LLC entered into an agreement with Sacramento Downtown Arena, LLC. The following summary is based upon the Legacy’s Applications and Certificates for Payment 2 and 3 for work performed through August, 2015:

Current Contract Value		\$10,000,000
Total Completed and Stored to Date	1.9%	\$186,422
<b>Current Amount Requisitioned</b>		<b>\$123,293</b>
Balance to Complete		\$9,813,578

There is a balance to complete in the service agreement of \$9,813,578. Please refer to our Project Budget and Requisition Review for our opinion on the adequacy of the remaining funds.

**D. Façade Access and Fall Protection – Skymaster, Inc.**

Skymaster, Inc. entered into an agreement with Sacramento Downtown Arena, LLC. The following summary is based upon the Skymaster’s Application and Certificate for Payment 3 for work performed through August 31, 2015:

Current Contract Value		\$975,943
Total Completed and Stored to Date	32.8%	\$319,713
<b>Current Amount Requisitioned</b>		<b>\$71,156</b>
Balance to Complete		\$656,230

There is a balance to complete in the agreement of \$656,230. Please refer to our Project Budget and Requisition Review for our opinion on the adequacy of the remaining funds.

**E. Networking and Technologies – Advantel Networks**

Advantel Networks entered into an agreement with Sacramento Downtown Arena, LLC. The following summary is based upon Advantel’s Application and Certificate for Payment 1 for the July 31, 2015 pay period:

Current Contract Value		\$9,500,000
Total Completed and Stored to Date	54.4%	\$5,165,798
<b>Current Amount Requisitioned</b>		<b>\$4,907,508</b>
Balance		\$4,334,202

There is a balance to complete in the service agreement of \$4,334,202. Please refer to our Project Budget and Requisition Review for our opinion on the adequacy of the remaining funds.

**F. Review of Project Budget and Draw Request 21**

Icon Venue Group, representing Sacramento Kings Downtown Arena LLC, has presented its Application and Certificate for Payment 21, reflecting costs incurred through August 31, 2015.

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 currently stands at \$509,437,507, having increased via Equity Contributions totaling \$30,170,838, and a current JMA reimbursement for the 5<sup>th</sup> St. bridge demo work and north wall cost of \$2,266,669, from the original Budget of \$477,000,000. The current project Sources, \$558,392,454 exceed the Uses by \$48,954,947. 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
<b>Uses</b>						
<b>Land Acquisition</b>	<b>\$34,922,370</b>	<b>\$34,531,782</b>	<b>\$0</b>	<b>\$34,531,782</b>	<b>\$390,588</b>	<b>98.9%</b>
<b>Construction Costs</b>						
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	337,103,692	160,283,448	17,047,303	177,330,751	159,772,941	52.6%
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%
<b>Subtotal Construction Costs</b>	<b>\$338,675,201</b>	<b>\$161,854,957</b>	<b>\$17,047,303</b>	<b>\$178,902,260</b>	<b>\$159,772,941</b>	<b>52.8%</b>
<b>Systems &amp; Equipment</b>	<b>\$47,347,297</b>	<b>\$666,165</b>	<b>\$5,106,969</b>	<b>\$5,773,134</b>	<b>\$41,574,164</b>	<b>12.2%</b>
<b>Subtotal Soft Costs</b>	<b>\$69,222,106</b>	<b>\$58,662,145</b>	<b>\$1,335,469</b>	<b>\$59,997,614</b>	<b>\$9,224,492</b>	<b>86.7%</b>
<b>Subtotal Contingency</b>	<b>\$19,270,532</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$19,270,532</b>	
<b>Total Project Budget</b>	<b>\$509,437,507</b>	<b>\$255,715,049</b>	<b>\$23,489,741</b>	<b>\$279,204,790</b>	<b>\$230,232,717</b>	<b>54.8%</b>



We reviewed the project's Summary of Invoices, and invoices generated through August 31, 2015, at our offices, and during a site visit with representatives of Icon Venue Group.

There are remaining funds of \$230,232,717, which include remaining Contingencies totaling \$19,270,532.

A cost exercise between ICON, Turner and its Subcontractors has been underway for the past several months in order to reconcile the former 50% CDs to the 100% CD version, and address any cost increases and their impact on the Budget and Contingency.

As part of our Pending Change Order review, it was determined that the new Pending Change Orders totaling \$17,380,537 could be absorbed by the remaining Contingencies/Credits/Reimbursements totaling \$20,040,935, although this statement would have to be qualified because the reconciliation exercise has not been completed, as was expected, however, we have been informed that the Construction Agent and General Contractor have agreed that a certain dollar value is owed to the Subcontractors, and that negotiations continue to progress in order to quantify the amount of Contractor Contingency that would offset the exposure. The negotiations to settle costs related to the 50 to 100% CD reconciliation, should continue for the next 2-months.

We will continue to work with the Administrative Agent and the Owner's Representative, through the monthly draw process to evaluate the Budget status. Based on our previous evaluation of the May 2015 draw request, it was recommended to increase monies available in the project Contingency by an additional \$5,595,838 through an Owner Equity contribution.

The total amount requisitioned under the Sacramento Kings Downtown Arena LLC, Construction Draw 21 is **\$23,489,741.10**, which will be funded from the City Contribution account.

Included in the total amount requisitioned are Turner's Construction Costs of \$17,047,303, and Other Project Costs of \$6,442,438.

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 an August 2015 summary Schedule. Although the completion milestones remain generally unchanged, we had reported previously that changes in high roof design had challenged production of structural steel and delaying delivery of steel to the project and holding off erection from April 20 to May 11, 2015 as the steel shops worked overtime to recover the lost time. Their momentum has caught up and milestones are being achieved. The recovery Schedule is tracking Substantial Completion of the Practice Facility and Arena to August 4, 2016 and September 26, 2016 and issuance of a Certificate of Occupancy on October 7, 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.

Based on the delays noted above, the 28 ½ month construction term planned, under normal conditions would not appear to be achievable, however, considering the team involved, the targeted completion date is achievable, 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**

#### 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 and is complete within the timetable for Arena Construction. Delays in construction of the Plaza will impact the completion of the Arena.

### **Previous Issues**

#### 6.1 Budget

A Budget reconciliation exercise is underway between the Construction Agent and the Contractor. We have asked the Construction Agent to maintain us informed of the status of the reconciliation, and to provide us with the revised costs.

**Update:** Although this exercise was to be available as part of this current review, it appears that resolution of the reconciliation will be delayed as the Construction Agent and General Contractor continue to negotiate the cost of the 100% CD reconciliation.