



LA24-203A

November 24, 2015

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 (Formerly Sacramento Kings ESC)
Sacramento, California**

Dear Mr. Wong:

Enclosed is our Monthly Executive Summary, as contained in our Site Observation Report 17 for the referenced project, based on our site visit of November 6, 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. This monthly Executive Summary is posted for information purposes only and cannot be relied upon by any other party.

This summary report was based on Summary Application and Certificate for Payment 23, prepared by ICON Venue Group on behalf of the Sacramento Basketball Holdings, LLC, dated November 16, 2015, including Turner Construction Company's Application and Certificate for Payment 16, and other project costs incurred during the month of October 2015.



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 horizontal flourish extending to the right.

Ricardo Flores
Principal - Los Angeles Branch Manager

RF:rf
Enclosure

cc: City of Sacramento
Attn: Desmond Parrington **E-mail:** dparrington@cityofsacramento.org
Goldman, Sachs & Co.
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Manny P. Kratsios



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 will review the 100% CDs and update 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 \$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 October 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
Current Amount Requisitioned	\$0	\$0	\$0
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 16 for work performed through October 31, 2015:

Current Contract Value		\$347,057,942
Total Completed and Stored to Date	66.0%	\$215,683,572
Current Amount Requisitioned		\$ 22,239,464
Balance to Complete		\$117,974,256

There is a balance to complete in the GMP contract of \$117,974,256. 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. Legends did not submit a pay application this pay period. The following summary is based upon the previously issued Legends Application and Certificate for Payment 3 for work performed through August, 2015:

Current Contract Value		\$10,000,000
Total Completed and Stored to Date	1.9%	\$ 186,422
Current Amount Requisitioned		\$ 0
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 Skymaster’s Application and Certificate for Payment 4 for work performed through October 31, 2015:

Current Contract Value		\$975,943
Total Completed and Stored to Date	41.8%	\$408,213
Current Amount Requisitioned		\$ 84,075
Balance to Complete		\$567,730

There is a balance to complete in the agreement of \$567,730. 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. Advantel did not submit a pay application this pay period. The following summary is based upon the previously issued Advantel 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
Current Amount Requisitioned		\$ 0
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 23

Icon Venue Group, representing Sacramento Kings Downtown Arena LLC, has presented its Application and Certificate for Payment 23, reflecting costs incurred through October 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, originally at \$477,000,000 currently stands at \$509,437,507, having increased via Equity Contributions totaling \$30,170,838, and a JMA reimbursement for the 5th St. bridge demo work and north wall cost of \$2,266,669. 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
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	347,057,943	197,698,144	22,239,464	219,937,608	127,120,335	63.4%
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	\$348,629,452	\$199,269,653	\$22,239,464	\$221,509,117	\$127,120,335	63.5%
Systems & Equipment	\$47,347,297	\$5,823,134	\$395,099	\$6,218,233	\$41,129,065	13.1%
Subtotal Soft Costs	\$69,050,544	\$60,972,105	\$656,154	\$61,628,259	\$7,422,285	89.3%
Subtotal Contingency	\$9,487,843	\$0	\$0	\$0	\$9,487,843	
Total Project Budget	\$509,437,507	\$300,596,674	\$23,290,717	\$323,887,391	\$185,550,116	63.6%

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

There are remaining funds of \$185,550,116, which include remaining Contingencies totaling \$9,487,843.

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 value of Pending Change Orders at \$15,114,104. Our Budget Analysis calculates the value of the project Contingency sources at \$17,947,745, which appear sufficient, at this time to cover the pending Change Orders. This statement is qualified, and contingent upon verification of the \$5,600,000 DGP reimbursement for the DAS Room, which may not be available for several months and the JMA reimbursements totaling \$522,977.

The total amount requisitioned under the Sacramento Kings Downtown Arena LLC, Construction Draw 23 is **\$23,290,716.82**, which will be funded from the City Contribution account.

Included in the total amount requisitioned are Turner's Construction Costs of \$22,239,464, and Other Project Costs of \$1,051,253.

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 October 2015 summary Schedule. The Schedule is tracking Substantial Completion of the Practice Facility and Arena to September 2, 2016 and October 3, 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.

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

There are no new open issues to report this period

Previous Issues

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: We will keep this advisory note as an open issue until this matter is resolved



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.

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: It has been reported that this exercise has been completed, awaiting integration of PCO's into the GMP. We will leave this item as an open issue until Change Orders related to the 100% CD reconciliation have been executed and integrated.