



LA24-203A

August 26, 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 26 for the referenced project, based on our site visit of August 4, 2016. The site observation was performed and the report was written by the undersigned.

The Merritt & Harris, a JLL Company's 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 was based on Summary Application and Certificate for Payment 32, prepared by ICON Venue Group on behalf of the Sacramento Basketball Holdings, LLC, dated August 15, 2016, including Turner Construction Company's Application and Certificate for Payment 26, and other project costs incurred during the month of July 2016.



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

Very truly yours,

MERRITT & HARRIS, a JLL Company

William Hallinan Jr

Ricardo Flores
Senior Vice President, Construction

RF:rf
Enclosure

cc: City of Sacramento

Attn: Desmond Parrington

Cortland Products Corp.

Attn: John J. Budyak

Attn: Michael C. Dombai

Attn: Matt Terhune

Sacramento Downtown Arena LLC

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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 project is approaching substantial completion. The city of Sacramento has issued a temporary Certificate of Occupancy for the Event Level's Commissary. 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.

The overall quality of workmanship appears to be good.

Summary of Total Project Costs

The project Budget has increased from the original \$477,000,000 to the current \$556,583,952 via Equity contributions and reimbursements. The project Sources total \$563,598,819, which are in excess of the Uses. Overall, adjustments and Equity contributions totaling \$86,598,819 have been reflected in the Budget.

Please be aware that there additional funds available totaling \$49,164,459, that are destined for other project expenses, including financing costs not covered under the Construction budget.

This current requisition includes soft costs, permit fees, and Turner Construction's construction costs for work incurred through July 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, a JLL Company, 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 Application and Certificate for Payment 26 for work performed through July 31, 2016:

Current Contract Value		\$390,000,000
Total Completed and Stored to Date	92.3%	\$360,080,733
Current Amount Requisitioned		\$ 9,364,655
Balance to Complete		\$ 29,919,267

There is a balance to complete in the GMP contract of \$29,919,267. 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. Systems and Equipment Budget

We will consolidate the major Contracts under the Systems & Equipment Budget here. The total Systems & Equipment Budget totals \$55,438,468. The major contracts include Skymaster, Legends Hospitality, Diversified, Panasonic, JCI, Advantel and AVDB Group.

The following table reflects Trade Vendors request for funding of work performed through July 30, 2016:

	Current Budget	Previously Paid	Payment Due	Total Paid to Date	Balance to Complete	Retention	Complete to Date
Systems & Equipment							
Legends Hospitality	\$9,113,110	\$3,055,125.00	\$927,573	\$3,982,698	\$5,130,412	\$0	\$3,982,698
AVDB Group	4,911,194	1,913,438	333,405	2,246,843	2,664,351	118,255	2,365,098
Panasonic	11,608,909	2,919,589	4,155,418	7,075,007	4,533,902	372,369	7,447,376
Video Prod. (Diversified)	3,749,998	1,992,569	149,690	2,142,259	1,607,739	112,750	2,255,009
Scoreboard Consultant	76,000	66,000	0	66,000	10,000	0	66,000
JCI	2,237,389	1,299,583	0	1,299,583	937,806	145,441	1,445,024
Deposit for Chairman Tile	25,650	25,650	0	25,650	0	0	25,650
Skymaster	975,943	556,332	210,900	767,232	208,711	40,381	807,613
Advantel	13,185,729	10,391,896	0	10,391,896	2,793,833	546,941	10,938,837
Other FF&E	7,095,527	945,957	823,310	1,769,267	5,326,260	0	1,769,267
Total	\$52,979,449	\$23,166,139	\$6,600,296	\$29,766,435	\$23,213,014	\$1,336,137	\$31,102,572

The contracts above, have a cumulative balance to complete of \$23,213,014. 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 32

Icon Venue Group, representing Sacramento Kings Downtown Arena LLC, has presented its Application and Certificate for Payment 32, reflecting costs incurred through July 31, 2016.

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

The project Budget, originally \$477,000,000, currently stands at \$556,583,952, having increased via Equity Contributions and adjustments. The project Sources total \$563,598,819, which are in excess of the Uses. Overall, adjustments and Equity contributions totaling 86,598,819 have been reflected in the Budget.



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	\$34,531,782	\$34,531,782	\$0	\$34,531,782	\$0	100.0%
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	390,000,000	338,006,470	9,364,655	347,371,124	42,628,876	89.1%
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	\$391,571,509	\$339,577,979	\$9,364,655	\$348,942,633	\$42,628,876	89.1%
Subtotal Systems & Equipment	\$55,438,468	\$23,492,418	\$6,600,297	\$30,092,715	\$25,345,753	54.3%
Subtotal Soft Costs	\$71,102,374	\$68,148,820	\$463,348	\$68,612,168	\$2,490,207	96.5%
Subtotal Contingency	\$3,939,818	\$0	\$0	\$0	\$3,939,818	
Total Project Budget	\$556,583,952	\$465,750,999	\$16,428,299	\$482,179,298	\$74,404,654	86.6%

We reviewed the project's Summary of Invoices, and invoices generated through July 31, 2016, at our offices, and during a site visit with representatives of Icon Venue Group.

A cost exercise between the team ownership group, 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, and incorporate Pending Change Orders has been completed.

A global settlement agreement was reached, and incorporated into Change Order 29, with a value of \$19,245,016, which included a \$13.8-million was allocation to allow Turner to deal with their Subcontractors, and issue any necessary Subcontract Change Orders. Also included was \$4.6-million that Turner will use as a Construction Contingency to allow these monies to be utilized to supplement additional costs needed to complete the project. In addition to the above, Turner has reduced their fee by \$7.5-million, reallocating this sum to their direct costs for distribution to their Subcontractors.

In our opinion, the remaining funds of \$74,404,654, which include remaining Contingencies totaling \$3,939,818, and private placement sources totaling \$7,014,867, are sufficient to complete the work as currently defined and the Pending Change Order work estimated at \$2,353,659.

The Contingencies will need to be monitored carefully to ensure a balanced Budget.

The total amount requisitioned under the Sacramento Kings Downtown Arena LLC, Construction Draw 32 is **\$16,428,298.77**, and the Arena Private Placement Sources will be used to fund the requisition. Included in the total amount requisitioned are Turner's Construction Costs of \$9,364,655, and Other Project Costs of \$7,063,644.

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 August 10, 2016 Critical Items Schedule. The Schedule is tracking Substantial Completion of the Practice Facility and Arena to August 30, 2016 and September 16, 2016. Issuance of a Certificate of Occupancy is slated for September 15, 2016. The first event, a musical concert, is scheduled for October 4, 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 was 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

There are no new open issues/comments this period.

Previous Issues

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.



Resolved 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.

Resolved: The claim dispute has been settled, and is included in Change Order 19.

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.

Resolved: Although the anticipated DGP reimbursement (with phone carriers) is anticipated at \$17MM, and conclusion of pending negotiations with telephone carriers, would greatly improve the financial health of the Budget, the \$21MM Equity contribution made this period has improved the Budget and has overcome the need to rely on the DGP reimbursements for the time being.