

LA24-203A

September 29, 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 27 for the referenced project, based on our site visit of September 9, 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 33, prepared by ICON Venue Group on behalf of the Sacramento Basketball Holdings, LLC, dated September 15, 2016, including Turner Construction Company's Application and Certificate for Payment 27, and other project costs incurred during the month of August 2016.



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

Very truly yours,

MERRITT & HARRIS, a JLL COMPANY

Ricardo Flores
Senior Vice President, Construction

RF:rf
Enclosure

cc: City of Sacramento
Attn: Desmond Parrington
Cortland Products Corp.

E-mail: dparrington@cityofsacramento.org

Attn: John J. Budyak
Attn: Michael C. Dombai
Attn: Matt Kerhune

E-mail: john.budyak@cortlandglobal.com

E-mail: michael.dombai@cortlandglobal.com

E-mail: matt.kerhune@cortlandglobal.com

Sacramento Downtown Arena LLC

Attn: John Rinehart

E-mail: rinehart@kings.com

Icon Venue Group

Attn: Art Salgado

E-mail: asalgado@iconvenue.com

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 project is approaching substantial completion. The city of Sacramento has issued a Temporary Certificate of Occupancy for Arena and Practice Facility. 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 August 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 Applications and Certificates for Payment 27 and 28, for work performed through August 31, 2016:

| | | |
|-------------------------------------|-------|-----------------------|
| Current Contract Value | | \$390,725,313 |
| Total Completed and Stored to Date | 96.7% | \$377,844,387 |
| Current Amount Requisitioned | | \$ 19,169,399* |
| Balance to Complete | | \$ 12,880,926 |

* The amount requisitioned this period, \$19,169,399 is attributable to combining two pay applications. The amount requisitioned for Pay Application 27 is \$1,775,738, and \$17,393,661, for Pay Application 28

There is a balance to complete in the GMP contract of \$12,880,926. 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 \$57,959,299. 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 August 31, 2016:

| | Current Budget | Previously Paid | Payment Due | Total Paid to Date | Balance to Complete | Retention | Complete to Date |
|--------------------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|---------------------|
| Systems & Equipment | | | | | | | |
| Legends Hospitality | \$9,150,944 | \$3,982,698.00 | \$637,850 | \$4,620,548 | \$4,530,396 | \$0 | \$4,620,548 |
| AVDB Group | 4,990,454 | 2,246,843 | 1,729,284 | 3,976,127 | 1,014,327 | 209,270 | 4,185,397 |
| Panasonic | 11,716,185 | 7,075,007 | 0 | 7,075,007 | 4,641,178 | 372,369 | 7,447,376 |
| Video Prod. (Diversified) | 3,750,000 | 2,142,259 | 425,346 | 2,567,605 | 1,182,395 | 135,137 | 2,702,742 |
| Scoreboard Consultant | 50,000 | 66,000 | 0 | 66,000 | (16,000) | 0 | 66,000 |
| JCI | 2,309,834 | 1,299,583 | 155,977 | 1,455,560 | 854,274 | 162,771 | 1,618,332 |
| Deposit for Chairman Tile | | 25,650 | 0 | 25,650 | (25,650) | 0 | 25,650 |
| Skymaster | 975,943 | 767,232 | 0 | 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 | 8,647,181 | 1,769,267 | 687,346 | 2,456,613 | 6,190,568 | 0 | 2,456,613 |
| Total | \$54,776,270 | \$29,766,435 | \$3,635,804 | \$33,402,239 | \$21,374,031 | \$1,466,869 | \$34,869,108 |

The contracts above, have a cumulative balance to complete of \$21,374,031. 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 33

Icon Venue Group, representing Sacramento Kings Downtown Arena LLC, has presented its Application and Certificate for Payment 33, reflecting costs incurred through August 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 | 390,725,313 | 347,371,124 | 19,169,399 | 366,540,524 | 24,184,789 | 93.8% |
| 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 | \$392,296,822 | \$348,942,633 | \$19,169,399 | \$368,112,033 | \$24,184,789 | 93.8% |
| Subtotal Systems & Equipment | \$57,959,299 | \$30,092,715 | \$3,635,804 | \$33,728,518 | \$24,230,781 | 58.2% |
| Subtotal Soft Costs | \$71,366,026 | \$68,612,168 | \$971,160 | \$69,583,328 | \$1,782,699 | 97.5% |
| Subtotal Contingency | \$430,023 | \$0 | \$0 | \$0 | \$430,023 | |
| Total Project Budget | \$556,583,952 | \$482,179,298 | \$23,776,363 | \$505,955,660 | \$50,628,292 | 90.9% |

We reviewed the project's Summary of Invoices, and invoices generated through August 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 used to supplement additional costs needed to complete the project. In addition to the above, Turner 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 \$50,628,292, which include remaining Contingencies totaling \$430,023, 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 \$2,675,896.

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 33 is **\$23,776,362.84**, and the Sources under which funding will be provided are as follows: \$16,709,385 will be drawn from Arena Private Placement account; \$5,291,240 will be drawn from the Kings Team Equity account; and \$1,775,738 will be drawn from the City Contribution Account.

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 31, 2016 Critical Items Schedule. The Schedule is tracking Substantial Completion of the Practice Facility and Arena to August 30, 2016 and September 16, 2016. The city of Sacramento issued a Temporary Certificate of Occupancy on September 16, 2016, one day after its scheduled September 15, 2016 date. 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.

Open Issues/Comments

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

This Period

27.1 Project Close Out

Merritt & Harris, a JLL Company has issued a project closeout document checklist, which should be addressed by team ownership

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: Although 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, we have not been provided with a statement from the ownership. Nevertheless, the Arena construction is approaching its opening day event and based on our observations, it appears that the plaza will be completed on time. We will leave this note for one additional month and will remove it from the open issues at that time.