



Budget and Audit Committee Report

915 I Street, 1st Floor

Sacramento, CA 95814

www.cityofsacramento.org

File ID: 2017-01564

December 5, 2017

Discussion Item 02

Title: City Auditor's Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement

Location: Citywide

Recommendation: Pass a Motion: 1) accepting the City Auditor's Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement; and 2) forwarding to City Council for approval.

Contact: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Presenter: Jorge Oseguera, City Auditor, (916) 808-7270, Office of the City Auditor

Attachments:

1-Description/Analysis

2-Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement

Description/Analysis

Issue Detail: This audit was approved as part of the 2017-2018 Audit Plan. According to the City Council Rules of Procedures, the Budget and Audit Committee shall receive, review, and forward to the council as appropriate, reports, recommendations, and updates from the City Auditor. This report documents the Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement.

Policy Considerations: The City Auditor's presentation of the Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement is consistent with the Mayor and City Council's intent to have an independent audit function for the City of Sacramento.

Economic Impacts: None

Environmental Considerations: None

Sustainability: None

Commission/Committee Action: None

Rationale for Recommendation: This staff report provides the Budget and Audit Committee with information that may be used to meet its responsibility to provide oversight and supervision of the City Auditor.

Financial Considerations: The cost of the Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement was funded out of the Fiscal Year (FY) 2016/17 and FY2017/18 Office of the City Auditor Budget.

Local Business Enterprise (LBE): Not Applicable

Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement

Report # 2017-09 | December 2017

Sacramento Downtown Arena, LLC Appears to Have Met the Golden1 Center Project's Local Hiring and Priority Apprenticeship Goals

Documentation Was Not Readily Available to Accurately Assess the Local and Small Business Involvement Results

The Golden1 Center Appears to Have Positively Impacted the Downtown Area

Lessons Learned from the Golden1 Center Project May Improve Future Project Goals



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SACRAMENTO
Office of the City Auditor

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Whistleblower Hotline

In the interest of public accountability and being responsible stewards of public funds, the City has established a whistleblower hotline. The hotline protects the anonymity of those leaving tips to the extent permitted by law. The service is available 24 hours a day, 7 days week, 365 days per year. Through this service, all phone calls and emails will be received anonymously by third party staff.

Report online at <https://www.reportlineweb.com/cityofsacramento> or call toll-free: 888-245-8859.

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Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement

December 2017

2017-09

BACKGROUND

On May 20, 2014, the City agreed to contribute land valued at \$32 million and \$223 million in cash towards the estimated \$477 million cost to construct a new entertainment and sports center (later named the Golden1 Center). Sacramento Downtown Arena, LLC; an affiliate of Sacramento Basketball Holdings, LLC; was responsible for the design and construction of the Golden1 Center and the adjacent public plaza. Sacramento Downtown Arena, LLC; committed to local hiring and business involvement goals for the design and construction of the Golden1 Center. In February 2016, our office released the *Audit of the Golden1 Center Local Hiring and Business Involvement* that contained two findings and eight recommendations for improving performance and increasing community impact. This is a follow-up audit to assess whether the local hiring and business involvement goals have been met. The following page contains an infographic of the local hiring and business involvement results.

FINDINGS

Finding 1: Sacramento Downtown Arena, LLC Appears to Have Met the Golden1 Center Project's Local Hiring and Priority Apprentice Goals

The Golden1 Center construction project attempted to encourage the hiring of disadvantaged individuals and provide them an opportunity to start a career in the construction industry by creating the Priority Apprentice Program. The project also attempted to encourage community involvement in the construction of the arena by setting goals for hiring of local area apprentices and journey-level workers. Our review found the project has met its goals for local hiring and priority apprentices. More specifically, our audit found:

- The Golden1 Center project appears to have exceeded its local hiring goals.
- The Golden1 Center project appears to have met its goal of ensuring apprentices perform at least 20 percent of the total hours on the project.
- The Golden1 Center project achieved 130 percent of its Priority Apprentice Program goal.

Finding 2: Documentation Was Not Readily Available to Accurately Assess the Local and Small Business Involvement Results

When we reviewed the documents available to assess business involvement, we found the processes for tracking local and small business involvement did not gather sufficient detail for us to fully validate the results. This is because established procedures on how to track the goals or how to account for change orders was not provided to contractors working on the project. Therefore, we had to rely on the information provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce to calculate the LBE, SBE, and LSBE involvement. By using information provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce, we found the local and small business involvement goals appear to have been met.

Finding 3: The Golden1 Center Appears to Have Positively Impacted the Downtown Area

In the year the Golden1 Center has been open, there have been many developments and building improvements in the area surrounding the Golden1 Center. Although we did not perform an in-depth economic impact analysis, the Golden1 Center appears to have had a positive impact on the downtown Sacramento area as it replaced a declining mall, resulted in the training and employment of many local and regional residents and businesses, and provided a new entertainment and sports facility for the community to enjoy. In the last few years, we have seen an increase in construction activity in the downtown area. However, establishing a direct correlation between a project such as this and concurrent development can be complicated as it is difficult to determine whether the development would have occurred without the Golden1 Center project.

Finding 4: Lessons Learned from the Golden1 Center Project May Improve Future Project Goals

The construction of the Golden1 Center was the first of its kind for a public-private construction project in the City. With the Golden1 Center now constructed, we reviewed lessons learned on the Golden1 Center project and how the program could be improved if it is used in future City capital projects. More specifically, we found:

- A key contract provision protected the City from sharing the over \$80 million in cost overruns.
- A survey of involved parties found some changes would improve community impact goals.



Golden1 Center

Local Hiring and Business Involvement

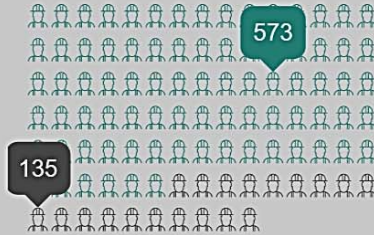
Local Hiring

Total Workers



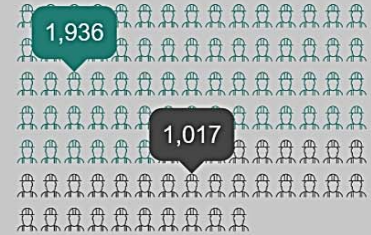
Local Workers (68.53%)
Non-Local Workers (31.47%)

Apprentices



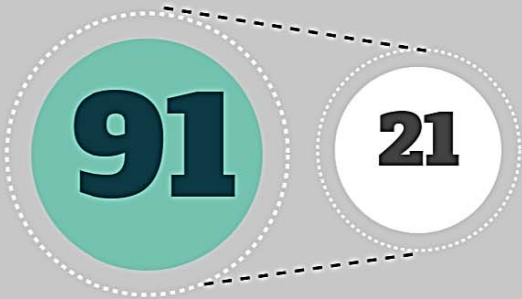
Local Apprentices (80.93%)
Non-Local Apprentices (19.07%)

Journey-Level



Local Journey-Level (65.56%)
Non-Local Journey-Level (34.44%)

Priority Apprentice Program



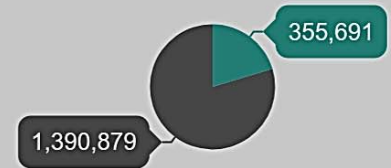
91 Priority Apprentices
21 New Priority Apprentices

\$24.46
Average Hourly Pay for Priority Apprentices

\$1.6 MILLION
Total Amount Earned by Priority Apprentices

Apprentice Hours

Total Workers



Apprentice Hours (20.37%)
Journey-Level Hours (79.63%)

Local and Small Business Involvement

Project Cost:
\$550+ Million

73% Local Business Involvement

20% Small Business Involvement

Biddable Work:
\$499 Million

92% of Small Business Involvement was Local

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Introduction

In accordance with the City Auditor's 2017/18 Audit Plan, we have completed the *Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement*. We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The City Auditor's Office would like to thank the City's Information Technology Department; Sacramento Downtown Arena, LLC; Turner Construction Company; Sacramento Employment and Training Agency; the Sacramento Metropolitan Chamber of Commerce; and the various other organizations involved in the audit for their time and cooperation during the audit process.

Background

On May 20, 2014, the Sacramento City Council approved the *Terms and Agreements for the Downtown Entertainment and Sports Center Project* between the City of Sacramento and Sacramento Basketball Holdings, LLC. The City agreed to contribute land with an appraised value of \$32 million and \$223 million in cash towards the construction of a new entertainment and sports center. Sacramento Downtown Arena, LLC, an affiliate of Sacramento Basketball Holdings, LLC, was responsible for the design and construction of the entertainment and sports center and public plaza adjacent to it. In June 2015, Golden1 Credit Union and the Sacramento Kings announced a naming rights partnership establishing *Golden1 Center* as the name for the entertainment and sports center. The Golden1 Center received its temporary Certificate of Occupancy in September 2016 and as of October 2017 had not yet received a final certificate of occupancy, as there were some minor items that needed to be completed. As of April 2017, construction costs for the Golden1 Center totaled nearly \$553 million¹.

To assess whether the Golden1 Center construction project was meeting established hiring and local and small business goals, the Office of the City Auditor conducted an *Audit of the Golden1 Center Local Hiring and Business Involvement* during the construction of the Center in February 2016. The Audit of the performance goals included two findings and eight recommendations for

¹During our review, the construction of the Golden1 Center had not been completed and additional costs were forthcoming. As of July 2017, the total construction cost of the Golden1 Center was estimated to be over \$559 million.

On May 20, 2014, the Sacramento City Council approved the Terms and Agreements for the Downtown Entertainment and Sports Center Project between the City of Sacramento and Sacramento Basketball Holdings, LLC.

improving performance and increasing community impact. This audit is a follow-up of the *Audit of the Golden1 Center Local Hiring and Business Involvement* to confirm that the performance goals were met, now that the project is near completion. See Appendix A for a summary of the local hiring and business involvement goals and results.

Local Hiring Goals

In August 2013, the project’s general contractor, Turner Construction Company, and the Sacramento-Sierra Building and Construction Trades Council and its affiliated local unions, entered into the Community Workforce and Training Agreement (CWTA) for the Golden1 Center project. The CWTA identified targets for hiring of local workers. Its goal was to hire local area residents for at least 60 percent of journey-level workers and at least 70 percent of all apprentices. The CWTA defined a local area resident as “an individual whose primary residence is within the region comprised of the following counties: Sacramento, Yolo, Placer, El Dorado, Amador, Sutter, Yuba, Nevada, Sierra and San Joaquin.” Figure 1 below identifies the counties included in the CWTA local hiring goals.

Figure 1: Counties Included in CWTA’s Definition of Local Area Residents



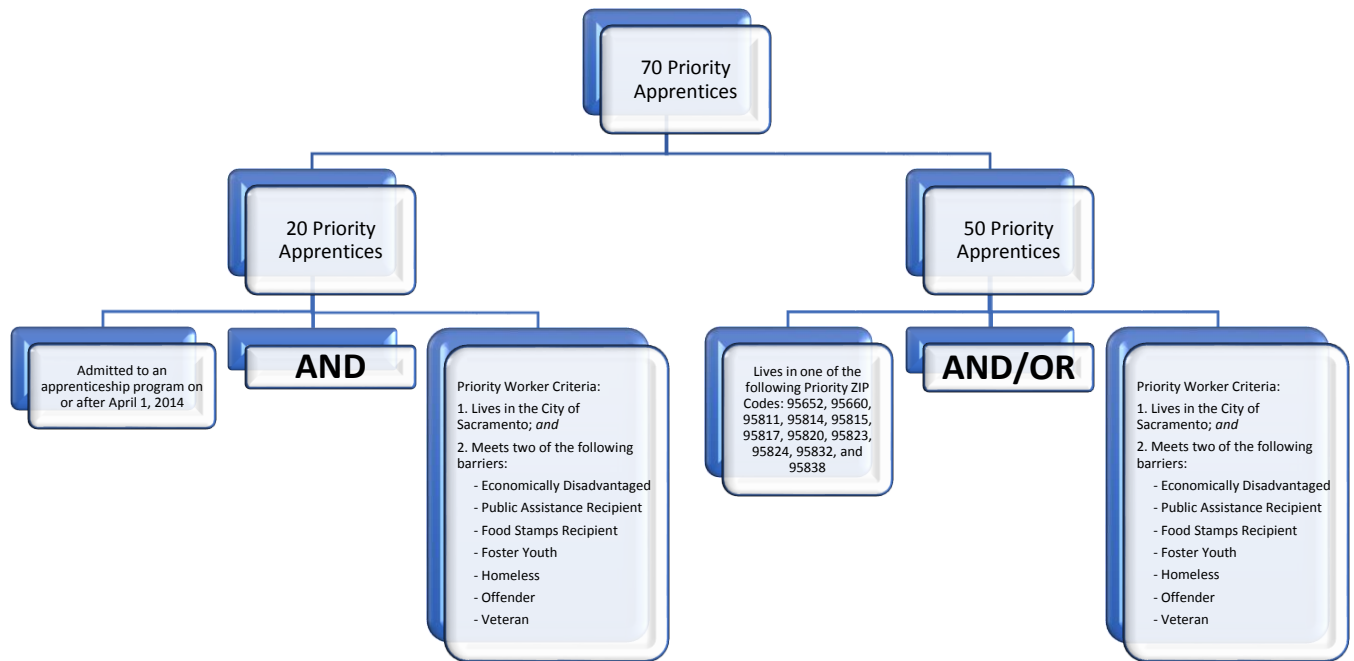
Source: Generated by the Information Technology Department from review of the Community Workforce and Training Agreement Supplemental Agreement.

In February 2014, Turner Construction Company and the Sacramento-Sierra Building and Construction Trades Council and its affiliated local unions, signed an addendum to the CWTA; the CWTA Supplemental Agreement outlined the Golden1 Center Priority Construction Apprentice Program (Priority Apprentice Program) criteria in which the parties of the CWTA agreed to hire at least 70 priority apprentices. At least 20 of the priority apprentices had to be *new* apprentices—apprentices admitted to an applicable apprenticeship program on or after April 1, 2014—that met the priority worker criteria. According to the CWTA Supplemental Agreement, “In order to satisfy the Priority Worker criteria,

The CWTA Supplemental Agreement outlined the Golden1 Center Priority Construction Apprentice Program criteria in which the parties of the CWTA agreed to hire at least 70 priority apprentices.

an individual must be a resident of the City of Sacramento and must satisfy applicable eligibility criteria maintained and enforced by the Sacramento Employment and Training Agency (“SETA”), including...meeting two or more of the following criteria: economically disadvantaged; public assistance recipient; food stamps recipient; foster youth; homeless; offender; and veteran” (barriers criteria). An additional 50 or more priority apprentices working on the project could either satisfy the priority worker criteria and/or live in one of the following *priority ZIP Codes*: 95652, 95660, 95811, 95814, 95815, 95817, 95820, 95823, 95824, 95832, and 95838. These priority ZIP Codes were identified by SETA as having extremely high rates of poverty according to data from the United States Census Bureau. Figure 2 below illustrates the Priority Apprentice Program requirements as outlined by the CWTA Supplemental Agreement.

Figure 2: Priority Apprentice Program Requirements



Source: Auditor compiled from review of the Community Workforce and Training Agreement Supplemental Agreement.

In addition to the requirements of the Priority Apprentice Program, the parties of the CWTA Supplemental Agreement agreed to ensure apprentices worked no less than 20 percent of the total number of building and construction trade hours performed on the project. During the construction of the Golden1 Center, Turner Construction Company requested monthly workforce reports from employers to ensure the project was meeting its CWTA goals.

Local and Small Business Involvement Plan

The Golden1 Center project included a local and small business utilization program to ensure participation by local business enterprises and small business enterprises. The program sought to award 60 percent of biddable work related to Golden1 Center design, construction, and professional services to local business enterprises; and 20 percent to small business enterprises, of which 75 percent must be *local* small business enterprises.

In order to meet the requirements of a local business enterprise, a business must:

1. Be a sole proprietorship, partnership, limited liability company, corporation, or any other business entity that provides services required for the Golden1 Center's development; *and*
2. Have held a legitimate business presence for at least twelve consecutive months prior to bidding in one of the following counties: Sacramento, Yolo, Placer, El Dorado, San Joaquin, Sutter, and Yuba.

Figure 3 below identifies the local counties included in the local business involvement goals.

Figure 3: Counties Included in Local Business Enterprises Requirements



Source: Generated by the Information Technology Department from review of the Local Business and Small Business Utilization Program criteria provided by the Sacramento Kings ownership group.

In order to meet the requirements of a small business enterprise, a business must satisfy any of the following criteria:

1. Is a certified small business with the California Department of General Services; or
2. Meets the California Small Business Procurement and Contract Act's definition of a small business; or

The Golden1 Center project includes a local and small business utilization program in order to ensure participation by local business enterprises and small business enterprises.

3. Meets the U.S. Small Business Administration’s definition of a “small business concern” and its principal office and officers are located in California.

With the help of Turner Construction Company, the Sacramento Metropolitan Chamber of Commerce tracked the Golden1 Center’s business involvement goals.

Objective, Scope, and Methodology

The objective of the *Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement* was to confirm that the project’s performance goals were met near project completion. To accomplish this, we evaluated the project’s priority apprentice, local hiring, and business involvement performance and reviewed the processes for monitoring project achievements. Our scope included local hiring and priority apprenticeship commitments made for the construction of the Golden1 Center between the beginning of the project in July 2014 and July 2017, when we obtained the most recent data available for our testing. Our scope also included payments made to businesses between December 2013 and April 2017 to calculate local and small business involvement.

In performing our audit, we met with the various stakeholders involved in the Golden1 Center project and discussed the project’s performance goals. In addition, we reviewed the various community impact goals, summarized payroll and payment data, and conducted data mining for potential issues such as payroll amount errors and potential fraudulent items. Further, we reviewed data provided to us by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce and performed internet research to determine the local and small business involvement in the project.

We also reviewed eligibility criteria for priority apprentices and utilized LCP Tracker, a City of Sacramento software system used for ensuring labor compliance on City construction projects, to run Payroll Detail Reports from July 2014 to July 2017. We used these reports to determine the number of hours worked and gross pay received by each priority apprentice. In addition, we analyzed LCP Tracker’s payroll data to determine local hiring percentages. We also reviewed the extent of various new construction developments occurring around the Golden1 Center to determine whether the Golden1 Center appeared to be a catalyst for growth in economic development in the City of Sacramento. Finally, we surveyed individuals involved in the community impact goals to identify areas of improvement and “lessons learned” for similar goals on future capital projects.

The objective of the Follow-Up Audit of the Golden1 Center Local Hiring and Business Involvement was to confirm that the project’s performance goals were met near project completion.

Finding 1: Sacramento Downtown Arena, LLC Appears to Have Met the Golden1 Center Project’s Local Hiring and Priority Apprentices Goals

The Golden1 Center construction project attempted to encourage the hiring of disadvantaged individuals and provide them an opportunity to start a career in the construction industry by creating the Priority Apprentices Program. The project also encouraged community involvement in the construction of the arena by setting goals for hiring of local area apprentices and journey-level workers. Our review found the project appears to have met its goals for local hiring and priority apprentices. More specifically, our audit found:

- The Golden1 Center project appears to have exceeded its local hiring goals;
- The Golden1 Center project appears to have met its goal of ensuring apprentices perform at least 20 percent of the total hours on the project; and
- The Golden1 Center project achieved 130 percent of its Priority Apprentices Program goal.

The Golden1 Center Project Appears to Have Exceeded Its Local Hiring Goals

The Community Workforce and Training Agreement (CWTA) for the Golden1 Center states, “The parties agree to a hiring goal of 60% Local Area Residents of all journey-level workers performing Covered Work on the Project.” In addition, the CWTA states, “The parties agree to a hiring goal of 70% Local Area Residents of all Apprentices performing Covered Work on the Project.” As shown in Figure 1, local area residents included residents from Sacramento, Yolo, Placer, El Dorado, Amador, Sutter, Yuba, Nevada, Sierra and San Joaquin counties.

To assess the project’s local hiring performance, we analyzed payroll information to determine the number of apprentices and journey-level workers that were local area residents. We found that from the beginning of the project in July 2014 to July 2017-the most recent payroll information available during our testing-81 percent of the apprentices and 66 percent of the journey-level workers were local area residents. Figure 4 below shows the number and percentage of apprentices and journey-level workers identified as local residents.

Local area residents include residents from Sacramento, Yolo, Placer, El Dorado, Amador, Sutter, Yuba, Nevada, Sierra and San Joaquin counties.

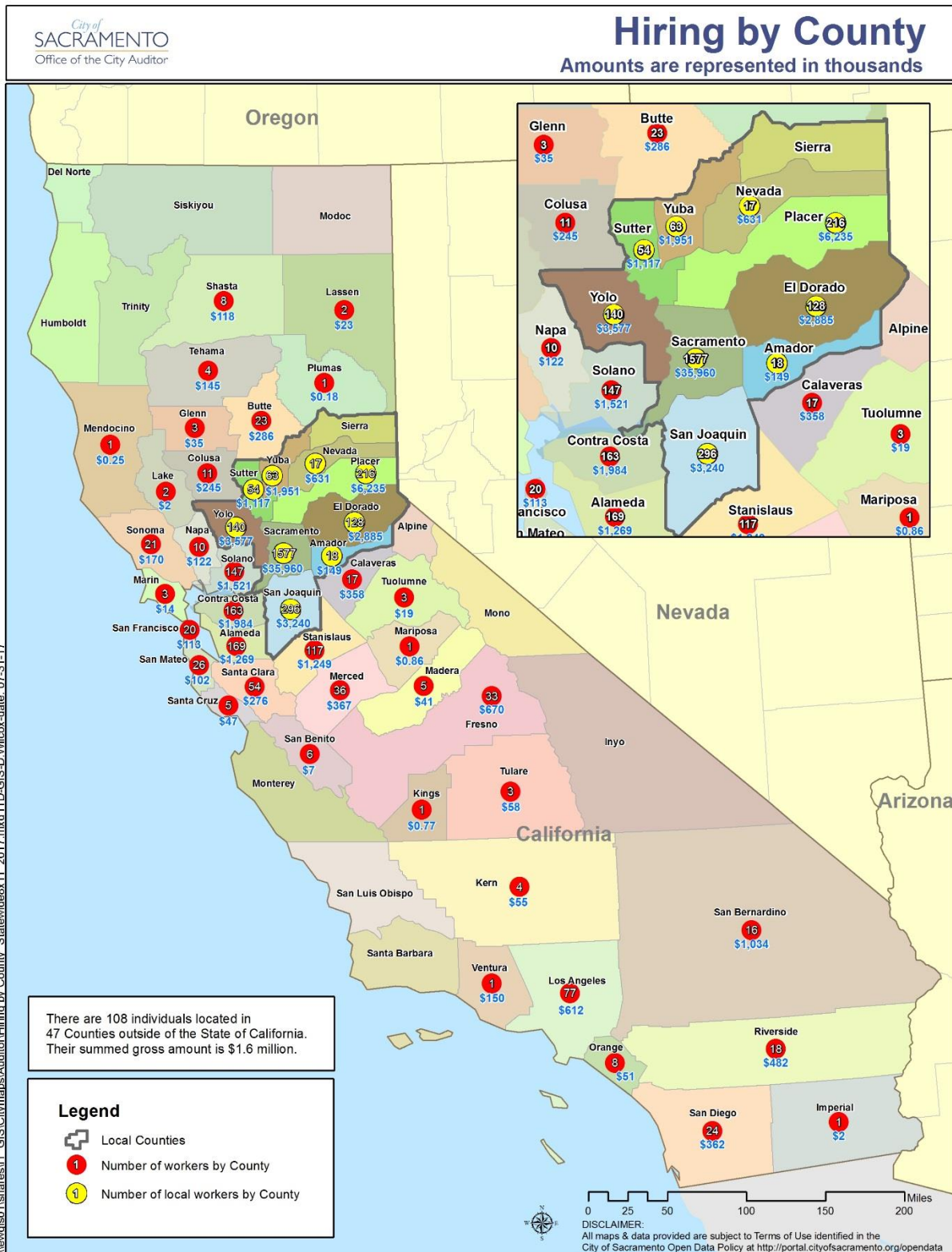
Figure 4: Local Hiring Percentages as of July 2017

	Number of Apprentices	Number of Journey-Level Workers	Total Number of Workers
Local	573	1,936	2,509
Not Local	135	1,017	1,152
Total	708	2,953	3,661
Percent Local	81%	66%	69%
Local Hiring Goal	70%	60%	-

Source: Auditor compiled based on LCP Tracker 'Payroll Details' Report.

We also reviewed and analyzed the payroll reports to determine the total number of workers and calculate the total payroll amounts by the county in which the workers reside. The results are shown in Figure 5 below.

Figure 5: Number of Workers and Gross Pay Received as of July 2017



Source: Generated by the Information Technology Department from auditor's review of the LCP Tracker 'Payroll Details' report.

As shown in Figure 5, almost 1,600 of the workers live in Sacramento County and have received nearly \$36 million in pay. The number of workers from Sacramento County is significantly more than any other county.

The Golden1 Center Project Appears to Have Met Its Goal of Ensuring Apprentices Perform at Least 20 Percent of the Total Hours on the Project

The parties of the CWTA Supplemental Agreement agreed to ensure apprentices performed no less than 20 percent of the total number of building and construction trade hours performed on the project. Our review of the payroll reports from the beginning of the project in July 2014 to July 2017 found the project appears to have met its goal, with 20 percent of the hours performed by apprentices. Figure 6 below identifies the number of hours and percent of work completed by apprentices and journey-level workers between July 2014 and July 2017.

Figure 6: Hours by Journey-Level Workers and Apprentices as of July 2017

	Hours Worked	Percent of Total Hours	Apprentice Hours Goal
Apprentice	355,691	20%	20%
Journeyman	1,390,879	80%	-
Grand Total	1,746,569	100%	-

Source: Auditor compiled based on LCP Tracker 'Payroll Details' Report.

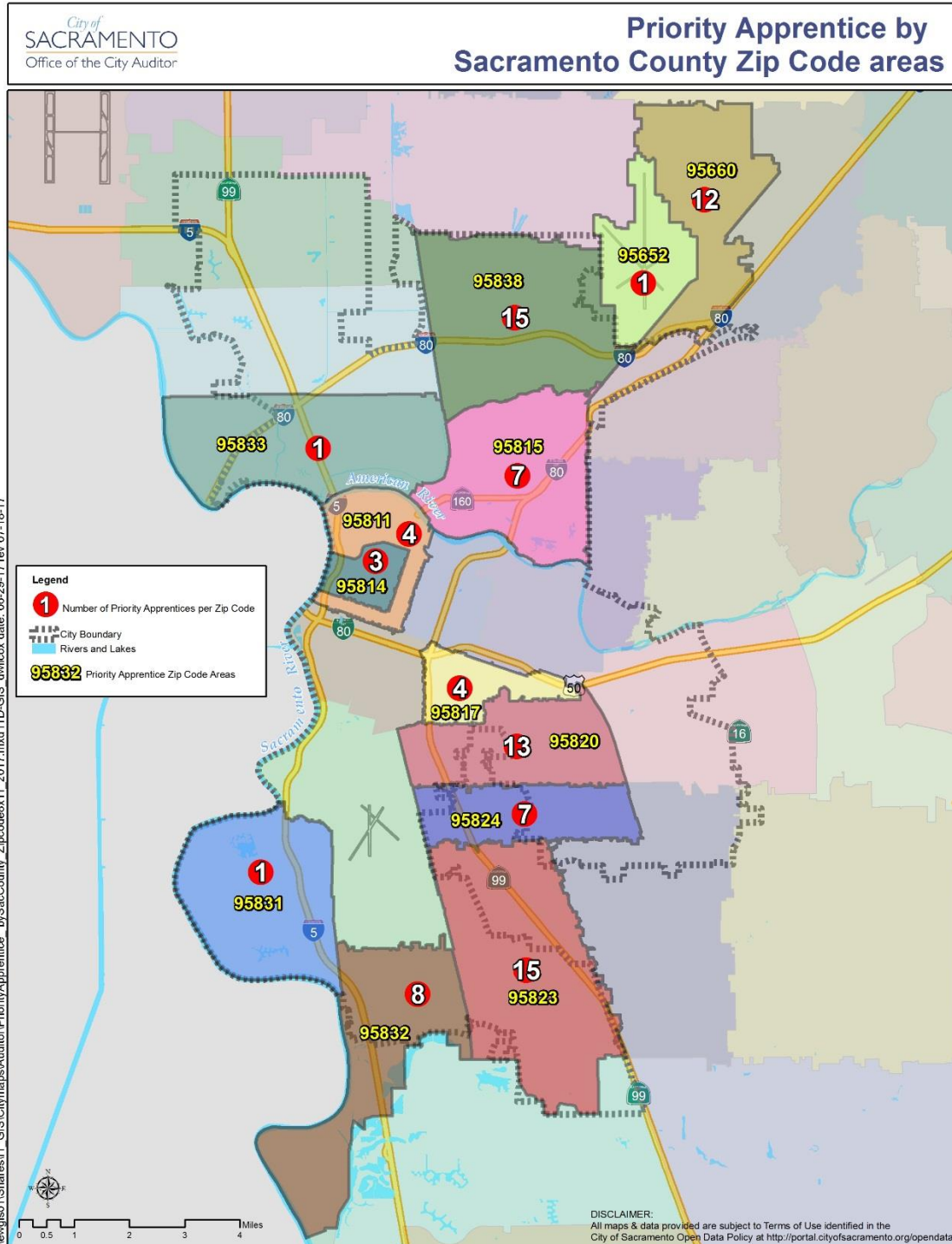
As shown in the figure above, as of July 2017, apprentices performed over 355 thousand hours of work on the construction of the Golden1 Center.

The Golden1 Center Project Achieved 130 Percent of Its Priority Apprentice Program Goal

The Priority Apprentice Program's goal was to hire at least 70 priority apprentices to work on the Golden1 Center project. As stated in the Background section, at least 20 of these apprentices must meet the *new* priority worker criteria-apprentices admitted to an applicable apprenticeship program on or after April 1, 2014. During a City Council meeting on September 30, 2014, Kunal Merchant, the former Vice President of Strategic Initiatives for the Sacramento Kings, stated, "on the apprenticeship side, we recognize that this is an opportunity to bring people who are historically unable to get high quality jobs into the middle class through the construction industry and that entry-level apprenticeship jobs are a really great way to do that." We found 91 individuals that met the Priority Apprentice Program criteria were employed on the construction of the Golden1 Center project from July 2014 to July 2017. This is

130 percent of the goal of 70 priority apprentices. Figure 7 below identifies the priority apprentices by priority ZIP Code.

Figure 7: Number of Priority Apprentices by ZIP Code as of July 2017



Source: Generated by the Information Technology Department from auditor's review of the Priority Apprentices provided by SETA.

We found 21 of the 91 priority apprentices met the *new* priority worker criteria. The priority apprentices appear to have contributed more than 67,000 hours on the construction of the Golden1 Center and plaza and received more than \$1.6 million in gross pay. On average, each priority apprentice worked more than 700 hours on the construction of the Golden1 Center and plaza with an average hourly pay of \$24.46 and more than \$18,000 in gross pay.

According to the Sacramento Employment and Training Agency (SETA), there were an additional 52² individuals that met the Priority Apprentice Program criteria but did not work on the construction of the Golden1 Center. These individuals were hired by contractors to work on other construction projects in the area. Although these individuals did not work on the Golden1 Center project, the Priority Apprentice Program appears to have positively impacted more than the 91 priority apprentices outlined in this report.

The priority apprentices appear to have contributed more than 67,000 hours on the construction of the Golden1 Center and plaza and received more than \$1.6 million in gross pay.

²These individuals were not included in our assessment of the Priority Apprentice Program as they did not work on the construction of the Golden1 Center.

Finding 2: Documentation Was Not Readily Available to Accurately Assess the Local and Small Business Involvement Results

In an effort to develop local business and spark economic growth, a small and local business utilization program was developed for the Golden1 Center project. The program's goal was to award 60 percent of the biddable work related to the Golden1 Center design, construction, and professional services to local business enterprises (LBE) and 20 percent to small business enterprises (SBE)—of which 75 percent must be local small business enterprises (LSBE). Established procedures on how to track the goals or how to account for change orders was not provided to contractors working on the project. Therefore, contractors attempted to track the business involvement goals to the best of their abilities. When we reviewed the documents available to assess business involvement, we found their process for tracking local and small business involvement did not gather sufficient detail for us to fully validate their results. Kunal Merchant, the former Vice President of Strategic Initiatives for the Sacramento Kings, acknowledged that although they knew there would be limitations on the ability to calculate the results of the goals, they deliberately designed the program in a way that would reduce the administrative burden and encourage businesses to get involved in the project. As a result, we relied on the information provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce to assess the LBE, SBE, and LSBE involvement, as it was the best information available.

Our ability to validate the amounts provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce was hindered by the following factors:

- Turner Construction Company had many prime contractors working on the construction of the project. Many of the prime contractors had their subcontractors that may also have had their own subcontractors (also known as second-tier and third-tier subcontractors). When Turner's prime contractor was found to be an LBE or SBE, Turner did not investigate further and the entire contract amount was determined to be LBE, SBE, or LSBE even if second and third-tier subcontractors were not. However, if a prime contractor was not an LBE or SBE, the second-tier subcontractors were reviewed to determine whether any of them were LBE or SBE to which they attributed at least a portion of the payments. Turner was not provided direction on how to track business involvement and how far down the subcontractor levels they were supposed to track. As a result, Turner Construction Company also did

not have complete information on second and third-tier subcontractors to calculate and determine the LBE, SBE, and LSBE status of the second and third-tier subcontractors.

- Turner Construction Company did not track the LSBE status of the prime contractors. Sacramento Metropolitan Chamber of Commerce used their best judgment to determine the LSBE status of contractors. However, as the data on second and third-tier subcontractor information was not available, information based on their judgment may not be accurate.
- Turner Construction Company relied on the LBE and SBE amounts provided by the prime contractors because they were not required to review the results for accuracy.
- Changes in the actual payments to the second and third-tier subcontractors were not required to be included in Turner's calculations and may have changed significantly from the amounts identified in Turner's bid documents for their prime contractors.
- Information provided by the Sacramento Metropolitan Chamber of Commerce to identify the addresses and SBE status of some of the businesses paid in the payment draws was not complete or up-to-date; there were many businesses that were not identified in the data provided by the Chamber of Commerce. For those businesses not identified in the data provided, we performed online searches to determine their addresses and SBE status to the best of our ability. We were unable to determine the address or SBE status of some of the businesses identified in the payment draws.

Based on the information provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce, it appears the project met its local and small business involvement goals. Figure 8 below identifies the business involvement results compared to the goals.

Figure 8: Local and Small Business Involvement as of April 2017

Program Category	Goal	Actual Involvement (Rounded to the Nearest Thousand)	Actual Involvement Percentage
Local Business Involvement	60% of Biddable Work	\$ 362,995,000	73%
Small Business Involvement	20% of Biddable Work	\$ 99,200,000	20%
Local Small Business Involvement	75% of Small Business	\$ 90,902,000	92%
Construction Cost	-	\$ 552,882,000	-
Biddable Work	-	\$ 499,447,000	-

Note: We were unable to determine the LBE, SBE, or LSBE status of some of the contractors identified in the payment draws. We assumed these contractors were not LBE, SBE, or LSBEs.

Source: Auditor generated using internet research and information provided by Turner Construction Company and the Sacramento Metropolitan Chamber of Commerce.

As shown in Figure 8 above, the project appears to have met its LBE, SBE, and LSBE involvement goals. Of the nearly \$500 million of biddable work, nearly \$363 million appear to have been paid to local businesses.

The local and small business involvement goals were indicators designed to monitor the effectiveness of the project's goals to have an economic impact on the local community. If this type of goal is desirable in the future, measurable and verifiable goals should be established and communicated so that all parties involved know what type of work will be included and what levels of subcontractors will be tracked in calculating the results. The goals should be established with economy of time and cost in mind, as tracking and monitoring the goals may prove to be administratively burdensome and costly.

Finding 3: The Golden1 Center Appears to Have Positively Impacted the Downtown Area

On May 20, 2014, when former City Manager, John Shirey, presented to the City Council the *Terms and Agreements for the Downtown Entertainment and Sports Center Project* for approval, he stated “this project represents an opportunity to reverse in a very significant, historical way what has been a slow but steady decline in our downtown plaza...” Shirey further explained “this plan also helps fulfill my commitment to you when you hired me that we would do something about reversing our fortunes and that we will bring about greater economic stability for our government and we would foster economic development in our City.” One of the main reasons for approving the construction of the Golden1 Center and providing public funds to construct the center was to foster economic development. In 2015, the City issued nearly \$273 million in lease revenue bonds to contribute its portion of the Golden1 Center construction costs. At the conclusion of the 35-year bond repayment period, the City will have paid a total of nearly \$626 million in principal and interest payments.

Whether to use public funds to construct sports facilities has been debated over time. Proponents argue that the economic benefits to the community generated by the facilities exceed associated costs. Opponents argue that they do not serve a public good or that they do not provide sufficient economic benefits for the communities in which they are built. This may be because economic impact studies are educated guesses that can produce dramatically different results based on changes in the many assumptions used in calculating impact³. Given the 35-year timeline for paying off the lease revenue bond debt, the true economic impact of the City’s investment will not be clear for many years. As a result, demonstrating a direct correlation between the current economic activity and the Golden1 Center is not something we set out to do. Instead, we attempted to highlight some of the subsequent projects that have moved forward that may have been encouraged by the development of the Golden1 Center. To do this, we reviewed data gathered from many internal City departments and external agencies. We would like to note that we did not perform an economic impact analysis, but rather a high-level review of emerging capital projects and some economic indicators in downtown Sacramento.

Although we did not perform an in-depth economic impact analysis, the Golden1 Center appears to have had a positive impact on the downtown

Given the 35-year timeline for paying off the lease revenue bond debt, the true economic impact of the City’s investment will not be clear for many years.

³ Crompton, John L. “Economic Impact Analysis of Sports Facilities and Events: Eleven Sources of Misapplication.” *Journal of Sport Management*, vol. 9, 1995, pp. 14–35., journals.humankinetics.com/doi/abs/10.1123/jsm.9.1.14.

Sacramento area as it replaced a declining mall, resulted in the training and employment of many local and regional residents and businesses, and provided a new entertainment and sports facility for the community to enjoy. In the last few years, we have seen an increase in construction activity in the downtown area. However, establishing a direct correlation between a project such as this and concurrent development can be complicated as it is difficult to determine whether the development would have occurred without the Golden1 Center project.

In the year the Golden1 Center has been open, there have been many developments and building improvements in the area surrounding the Golden1 Center. For example, a couple of the projects that appear to be a direct result of the Golden1 Center construction are the Kimpton Sawyer Hotel and the Downtown Commons area. These projects are being constructed by the Sacramento Kings ownership group. Figure 9 displays an image of the construction of the \$190 million Kimpton Sawyer Hotel⁴ that opened in October 2017 and features 250 hotel rooms, 45 condominiums, and retail and office space.

Figure 9: Construction of the Kimpton Sawyer Hotel



Source: Photo taken on November 9, 2016 by the City Manager's Office.

Figure 10, displays an image of construction on a portion of the Downtown Commons. The Golden1 Center and the Kimpton Sawyer Hotel are in Downtown Commons which also includes a large shopping center that is planned to have 630,000 square feet of shopping, dining, and entertainment space.

⁴ The cost of the Kimpton Sawyer Hotel reported on October 17, 2017 by the Sacramento Business Journal article titled "Kimpton Sawyer Hotel part of a new downtown, Ranadive says".

Figure 10: Construction of the Downtown Commons Area Near Macy's



Source: Photo taken on November 1, 2017 by the Office of the City Auditor.

We could not determine whether other developments in the downtown area were directly tied to the construction of the Golden1 Center. However, there is reason to believe that some of the additional activity surrounding the Golden1 Center was encouraged by the construction of the Center in downtown. For example, several restaurants have opened or are under construction around the Golden1 Center. In addition, Kaiser Permanente opened the Sports Medicine Center in the practice facility of the Golden1 Center. The Sports Medicine Center serves both Sacramento Kings players and the public and includes a 7,000-square-foot gym, onsite imaging, 9 physical therapy rooms, and sport-specific rehabilitation with simulated environments. Kaiser Permanente is also currently redeveloping another 210,000-square-foot building across from the Golden1 Center that will be used for medical offices. Figure 11 below displays the Kaiser Permanente medical offices that are currently under construction.

Figure 11: Kaiser Permanente Medical Offices Under Construction



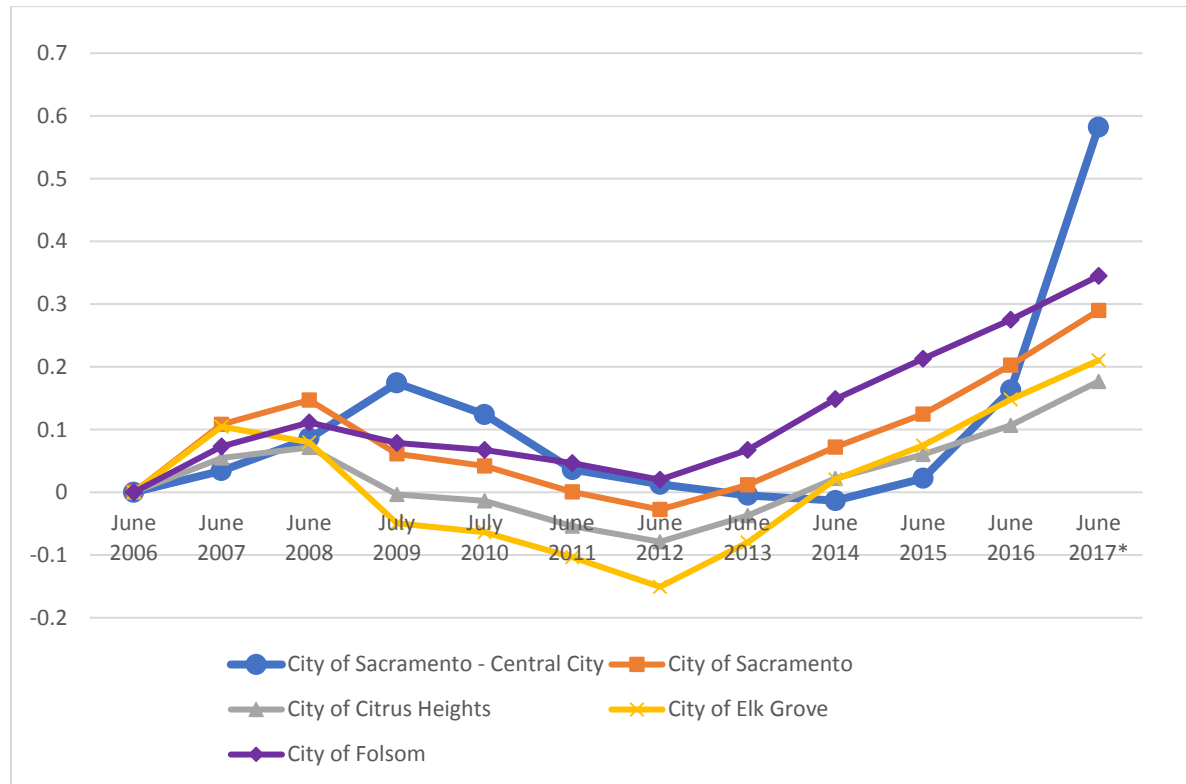
Source: Photo taken on November 1, 2017 by the Office of the City Auditor.

The City modernized its parking program from fiscal year 2014 to 2017, the same time period as the construction the Golden1 Center. Parking modernization included meter rate increases; tier-based pricing, extended operating hours for parking meters; and the establishment of special event rates for parking meters, garages, and lots. According to the City's Parking Services Division, parking revenue has increased since fiscal year 2013. Total revenue was nearly \$31 million in fiscal year 2013 and over \$37 million during fiscal year 2017. Given that some of the City's modernization efforts coincided with the construction of the Golden1 Center, it is difficult to determine how much, if any, of the increase in parking revenue is attributed to the opening of the Golden1 Center. However, increased events in downtown and emerging night life that may have resulted from the Golden1 Center appear to have some impact on parking revenue.

We reviewed the Sacramento County Assessor's Office's property values to assess the direction of the local economy. Property values in the City of Sacramento increased 29 percent from June 2006 to June 2017. We found that in the central city, the area of the City the Golden1 Center is located, property values increased by 58 percent during the same time period. Some of the increase is likely due to the valuation of the Golden1 Center. The Golden1 Center was valued at \$353 million and the plaza was valued at \$17 million in the County's 2017 valuation. To compare the increase in property values and

provide context on whether the increase in the City of Sacramento and the central city was significantly different from the region, we also reviewed the change in property values in the cities of Elk Grove, Folsom, and Citrus Heights during the same period. We found that property value trends have been similar for the cities we compared. Figure 12 below identifies the percent change in property values each year relative to the June 2006 values for the central city, City of Sacramento as a whole, and the other cities we reviewed.

Figure 12: Sacramento County Assessor’s Office Property Values Change Relative to June 2006



* City of Sacramento – Central City for June 2017 includes the valuation of the Golden1 Center and plaza.
 Source: Auditor compiled from Sacramento County Assessor’s Office’s Secured Roll District Valuation Reports.

It is difficult to determine what portion, if any, of the increase in property values for the central city, other than the value of the Golden1 Center and plaza itself, can be attributed to the Golden1 Center project.

Other indicators that the City’s local economy has improved can be found in revenue collected by the City. According to the Finance Department, the City’s transient occupancy tax⁵ collection has increased by nearly \$5 million in the last three fiscal years. The City collected \$23.8 million during fiscal year 2015, \$26.0 million during fiscal year 2016, and \$28.5 million during fiscal year 2017.

⁵ A Transient Occupancy Tax of 12 percent is charged for all people who occupy a hotel in the City of Sacramento. They are considered transient if they stay for a period of 30 days or less.

Although it is difficult to determine what portion of the increase in the tax collected is due to the construction of the Golden1 Center, it is an indicator that the local economy has improved, which was a goal in approving the construction of the Center.

Due to our limited time and resources, we did not perform an in-depth economic impact analysis. However, the City's Economic Development Department plans to conduct an economic impact report for the Golden1 Center in the upcoming year. This report may provide a more detailed look at the economic impact of the Golden1 Center on the City and downtown area.

Finding 4: Lessons Learned from the Golden1 Center Project May Improve Future Project Goals

In a presentation to the City Council to obtain approval for the construction of a new entertainment and sports complex in downtown, former City Manager, John Shirey stated, “it is certainly one of the largest, if not the largest, economic development project ever brought before a City Council in Sacramento and I just want to say that I think tonight is a defining moment for this City.” The construction of the Golden1 Center was the first of its kind for a public-private construction project in the City. With the Golden1 Center now constructed, we reviewed “lessons learned” on the Golden1 Center project and how the community impact goals could be improved if used in future City capital projects. More specifically, we found:

- A key contract provision protected the City from sharing the over \$80 million in cost overruns; and
- A survey of involved parties found some changes would improve community impact goals.

Utilizing “lessons learned” from the Golden1 Center project may improve similar goals for City projects in the future.

A Key Contract Provision Protected the City From Sharing Over \$80 Million in Cost Overruns

On March 26, 2013, the Sacramento City Council approved the *Sacramento Entertainment and Sports Center Term Sheet* for the development of an entertainment and sports center in downtown Sacramento. The term sheet outlined the public-private partnership for the then-estimated \$448 million cost of the arena. The City would contribute \$258 million in cash and land while the Sacramento Kings ownership group would contribute the remaining \$190 million. In this term sheet, the City would contribute 57.6 percent of the estimated total cost of the project.

When the *Arena Finance and Funding Agreement* was approved by City Council on May 20, 2014, the City’s contribution rate was reduced to 53.5 percent as the estimated cost of the project increased to \$477 million and the City agreed to contribute land valued at \$32 million and \$223 million in cash. The Sacramento Kings ownership group, ArenaCo, agreed to pay all other project costs. The Agreement states “the City is not obligated in any manner to fund more than \$223,130,100, or to convey property other than the City Parcels, to pay, or help ArenaCo pay, for Project Costs.”

“The City is not obligated in any manner to fund more than \$223,130,100...for Project Costs.”

The City negotiated a favorable provision in the contract for this project as the project's contract as of July 2017 was more than \$559 million—over \$82 million more than estimated in the *Arena Finance and Funding Agreement*. The City's ability to negotiate the contract terms described above saved the City money as it did not have to contribute to the cost overruns of the project and reduced the City's contribution rate to 45.6 percent.

A Survey of Involved Parties Found Some Changes Would Improve Community Impact Goals

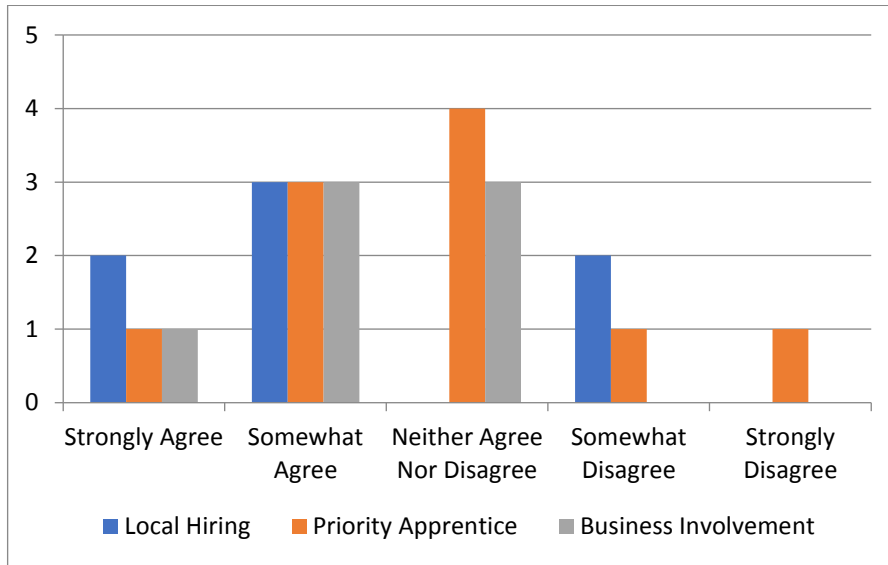
Many organizations were involved in tracking and monitoring the community impact goals for the construction of the Golden1 Center. We surveyed some of those involved in the goals to determine whether there were areas of improvement. Respondents believed the priority apprentice, local hiring, and local and small business involvement goals were set appropriately and were challenging to meet. They also tended to believe the goals were successful in ensuring participation on the construction of the Golden1 Center and that a sufficient number of people and businesses were available to employ on the construction project. In addition, they stated that they would likely participate in similar goals for other City of Sacramento projects. The goals appeared to cost some organizations money, but they did not delay the construction project. Respondents identified some of the challenges they faced in implementing and tracking the goals and provided some information on how to improve the programs for future projects. Based on the feedback of those survey respondents, some changes could improve local hiring, priority apprentice, and local and small business involvement goals and results.

We sent a survey to 26⁶ people we believe were involved in monitoring the Golden1 Center construction goals from various organizations. After multiple attempts to obtain responses, we received responses from 14 individuals that were involved in one or more of the goals. Seven respondents were involved in the local hiring goals, ten were involved in the priority apprentice goals, and seven were involved in the local and small business involvement goals. Some respondents were involved in more than one goal and four stated that they were involved in all three of the goals.

The figures below provide the responses to some of the questions survey recipients were asked.

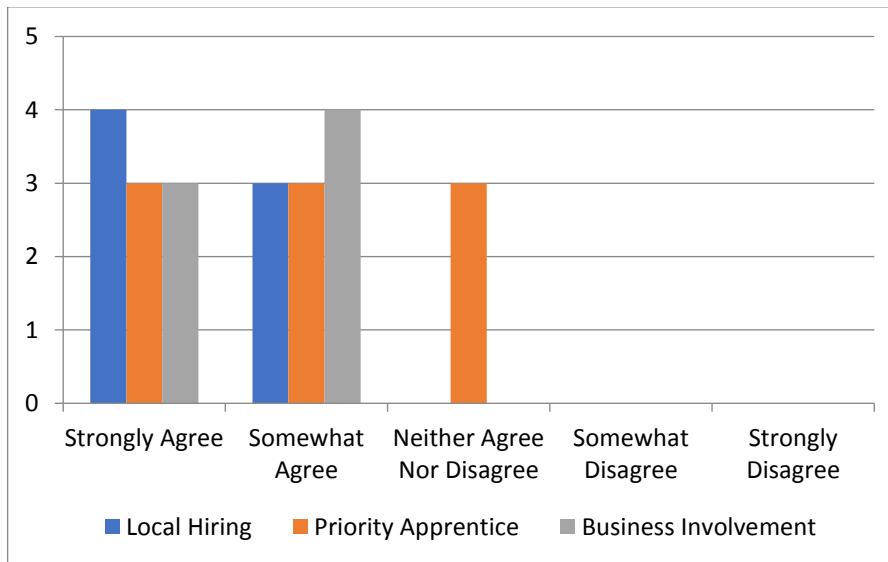
⁶ This was not a statistically significant sample. We judgmentally selected 26 individuals who were involved in monitoring the community involvement programs.

Figure 13: Survey Response to “Your Organization’s Process for Tracking the Local Hiring/Priority Apprenticeship/Business Involvement Goal Was Easy and Effortless.”



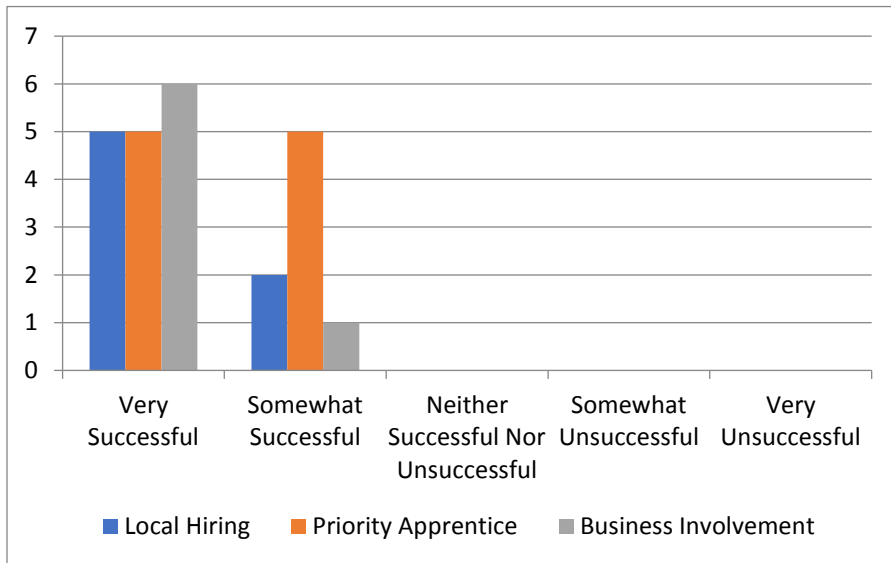
Source: Auditor compiled from survey responses.

Figure 14: Survey Response to “A Sufficient Number of Local Workers/Priority Apprentices/Local and Small Businesses with the Necessary Skills Were Available to Employ on the Golden1 Center Construction Project.”



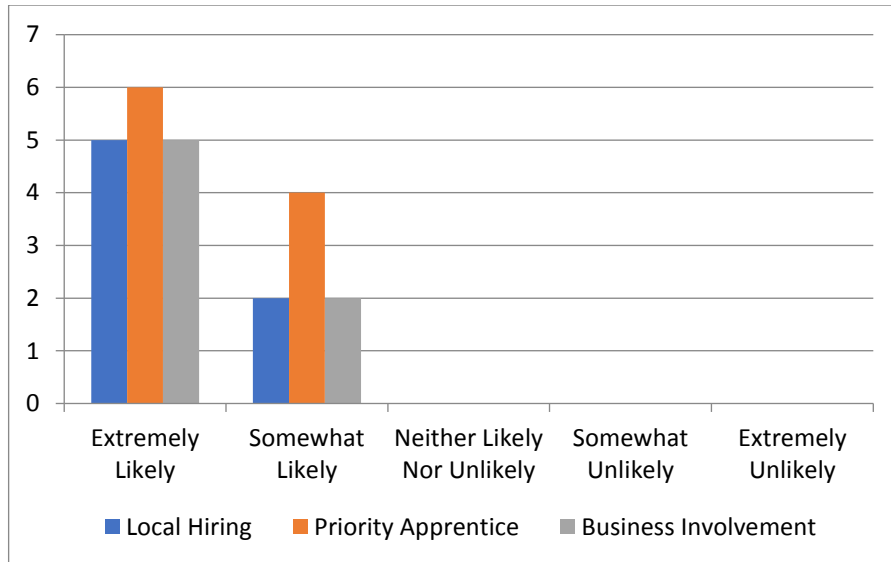
Source: Auditor compiled from survey responses.

Figure 15: Survey Response to “Were the Local Hiring/Priority Apprentice/Business Involvement Goals Successful in Ensuring Strong Participation by Local Residents on the Construction of the Golden1 Center?”



Source: Auditor compiled from survey responses.

Figure 16: Survey Response to “What is the Likelihood You Would Participate in a Similar Local Hiring/Priority Apprentice/Business Involvement Program for Future City of Sacramento Projects?”



Source: Auditor compiled from survey responses.

Below are some areas of improvement identified by survey respondents regarding the local hiring, priority apprentice, and local and small business involvement goals.

Local Hiring Goals

Challenges faced by respondents include collecting data regarding workers from the various trade unions due to membership privacy; inconsistency in reporting results because of the multiple parties involved; and utilizing local hiring for unique, arena-specific trades. Survey respondents believed that the local hiring goals may be improved for future City of Sacramento construction projects by:

- Determining the capacity of local resources to hire before developing and implementing the plan;
- Involving all parties in the early phases of the strategic planning for the goals and the way they will be monitored; and
- Implementing clear and attainable goals and procedures for tracking and meeting the goals.

Priority Apprenticeship Goals

Some challenges identified by respondents regarding the priority apprenticeship goals include coordination across multiple stakeholders; ZIP Codes not being aligned within City limits; inability to share information among partners; and contractor tardiness of reporting workers on payroll reports. Respondents believe the priority apprenticeship goals may be improved for future projects by:

- Having a clear eligibility criteria and validation process in place;
- Ensuring availability of certified priority apprentices and maintaining a database to be shared among contractors by industry for faster recruitment and good faith outreach;
- Having meetings with all parties involved, including unions and contractors, to ensure roles, expectations, and responsibilities are clear; and
- Having a dedicated program administrator and more involvement from the City of Sacramento.

Local and Small Business Involvement Goals

Some challenges faced by respondents regarding the local and small business involvement goals include recruiting sufficient local small businesses that met qualifications; enforcing local and small business use and participation with major subcontractors; unclear tracking processes defined by the City and Kings ownership group; and unique arena-specific trades that did not have qualified local businesses available. Surveyed respondents believe the local and small business involvement goals may be improved by:

- Training and developing a pipeline to help small businesses meet qualifications prior to the start of the project;
- Clearly defining 'biddable' work;

- Conducting a capacity study of local and small businesses for the project as some entities may not always exist in the local area; and
- Clearly establishing what should be tracked and developing a system to track the goals.

Based on the results of the survey, it appears that overall, the community involvement programs established for the Golden1 Center construction were well received, established reasonable goals, made an impact on the local community, and its use should be strongly considered on future City capital projects.

Appendix A: Golden1 Center Local Hiring, Priority Apprentice Program, and Business Involvement Summary

Program Category	Goal ⁷	Achievement to Date	Calculations as of:
Worker Programs			
a) Local Hire: Journey-Level	60% of Journey-Level	66%	July 2017
b) Local Hire: Apprentices	70% of Apprentices	81%	July 2017
Apprentice Hours	20% of Total Project Hours	20%	July 2017
Priority Apprentice Program			
a) By Priority ZIP Code/Priority Worker Criteria	50 Priority Apprentices	70	July 2017
b) By Priority Worker Criteria & New Criteria	20 Priority Apprentices	21	July 2017
Total Priority Apprentices	70 Priority Apprentices	91	July 2017
Business Programs			
Local Business	60% of Biddable Budget	73%	April 2017
Small Business	20% of Biddable Budget	20%	April 2017
Local Small Business	75% of Small Business	92%	April 2017

Source: Auditor compiled through review of the CWTA, CWTA Supplemental Agreement, Local Business and Small Business Utilization Program, LCP Tracker Payroll Reports, and reports provided by SETA, Turner Construction Company, and the Sacramento Metropolitan Chamber of Commerce.

⁷ See the *Background* section of the Audit Report for specific requirements of the program goals.

MEMORANDUM

DATE: November 20, 2017

TO: Jorge Oseguera, City Auditor

FROM: Kunal Merchant on behalf of Sacramento Downtown Arena, LLC and Program Partners¹

SUBJECT: City of Sacramento Audit of the Golden1 Center Local Hiring and Business Involvement

Sacramento Downtown Arena, LLC (SDA) and our community partners have reviewed the City of Sacramento Audit of the Golden1 Center Local Hiring and Business Involvement (“Audit”). We thank the City Auditor’s office for the opportunity to share the below feedback.

The parties involved in the Golden 1 Center Audit support the results. We take great pride that, thanks to the efforts of many members of the Sacramento community, the Golden 1 Center did in fact deliver on its commitments in terms of hiring local and priority workers as well as local and small businesses.

As with many facets of the Golden 1 Center, we believe these programs should serve as a demonstration of Sacramento’s considerable promise and potential when different stakeholders in our community rally together behind common goals. Moving forward, we are hopeful that the successes we achieved, and lessons we’ve learned, can be instructive to future efforts to replicate and improve upon our efforts.

We thank the City Auditor’s Office for their professionalism and diligence throughout the process, and thank the Mayor and City Council for their consideration as well.

¹ These include the Sacramento Employment and Training Agency, Turner Construction, the Sacramento-Sierra Building Trades Council, Diversified Contract Management, the Sacramento Metropolitan Chamber of Commerce and Strategic Contract Solutions.