

## City Council Report

915 I Street, 1<sup>st</sup> Floor

Sacramento, CA 95814

[www.cityofsacramento.org](http://www.cityofsacramento.org)

---

**File ID:** 2019-01065

July 23, 2019

**Discussion Item 50**

---

**Title: Funding for the North Natomas Community Center and Aquatic Complex Project  
(L19140410)**

**Location:** North Natomas Regional Park between Town Center Drive and Via Ingoglia, District 1

**Recommendation:** Discuss the options on funding \$14.4 million for the construction of the North Natomas Community Center and Aquatic Complex (NNCCAC). If City Council opts to proceed with construction, direct the City Manager and City Treasurer to: 1) prepare a report approving funding option two (interfund loan); 2) bring forward a reimbursement resolution for the planned capital investment program (City Treasurer); and 3) return to Council in August with the recommended transfer of funds, execution of a Funding Agreement with the Natomas Unified School District (NUSD), and award of the construction contract(s).

**Contact:** James Christensen, Facilities Manager, (916) 808-5863, Department of Public Works; Raymond Constantino, Parks Development Manager, (916) 808-1941, Department of Youth, Parks and Community Enrichment; Fran Halbakken, Project Executive, (916) 808-7194, Office of the City Manager

**Presenter:** Fran Halbakken, Project Executive, (916) 808-7194, Office of the City Manager; James Christensen, Facilities Manager, (916) 808-5863, Department of Public Works

**Attachments:**

- 1-Description/Analysis
- 2-Background
- 3-External Loan Option

## Description/Analysis

**Issue Detail:** The following list summarizes significant actions taken thus far for the NNCCAC Project (the “Project”). Additional background information is included in Attachment 2.

- October 24, 2017 – Council approved a professional services agreement with BCA Architects, Inc. for preliminary design of the Project (City Agreement 2017-1254 and Resolution No. 2017-0404). The agreement with BCA was amended on June 7, 2018 for completion of final design work.
- June 7, 2018 – Council approved the North Natomas Regional and Community Park Master Plan amendment and Schematic Design Plans for the Project (Resolution No. 2018-0215).
- August 31, 2018 – City staff in the Facilities Division issued a Request for Qualifications to select a design-assist contractor for construction of the Project.
- Through a selection process that included a rating system based on qualifications and interviews, Otto Construction was chosen as the most qualified contractor to construct the Project.
- February 1, 2019 – The City executed a design-assist construction contract with Otto Construction, for pre-construction services for the Project with the option for Guaranteed Maximum Price (GMP) construction services (City Agreement 2019-0184).
- June 20, 2019 – Otto Construction provided the City with a proposed GMP for construction of the Project. Otto Construction stated that its GMP proposal is guaranteed for 90 days.

The total estimated cost for the Project is \$45 million.

On June 19, 2019, the NUSD authorized \$10.6 million in funding for the Project, provided NUSD and the City enter into a joint use agreement and that the City Council approves full funding for the Project no later than July 31, 2019 (NUSD Resolution No. 19-16). The joint use agreement between the City and NUSD needs to be executed by December 18, 2019.

Regarding City funding, City Council previously transferred approximately \$5 million from the North Natomas Public Facilities Fee fund to the Project fund. Staff also proposes approximately \$12 million for the Project through the North Natomas Finance Plan. Staff has identified another \$2.6 million for the Project through an Internal Finance Plan to be paid from future revenues

from the Greenbriar and Panhandle Finance Plans. Finally, another \$542,000 for the Project can be transferred from the Community Facilities District 3 fund. The City funding described in this paragraph totals approximately \$20 million.

Despite the previously identified \$20 million in City funding and the \$10.6 million in funds committed by the NUSD, a Project funding shortfall in the amount of approximately \$14.4 million remains. On June 4, 2019, the Council directed staff to return to Council after the recess with financing options to address the shortfall over the short and long-term. The following summarizes the three options identified by City staff for short-term financing of the Project:

**1. Funding Option 1 - Available Fund Balance in the General Fund**

The available fund balance in the General Fund is approximately \$27.3 million. These funds are available for investment in one-time capital projects, future labor agreements and to address the fiscal challenges identified in the out-years of the General Fund forecast.

**2. Funding Option 2 - Interfund Loan from the Water Fund**

On June 9, 2015, the Council adopted an Interfund Loan Policy (Motion No. 2015-0141). This policy permits loans to be approved by Council between various City funds provided there is a repayment plan approved, including identification of the funds that will be used to repay the loan, and interest is imposed at a rate equal to the investment earnings the fund would have received if the loan had not been granted.

The Water Fund (Fund 6005) has available fund balance that could be used for a short-term loan. Provided the Council issues bonds for the larger capital investment program within the next 18 months and the Water Fund is repaid with interest, there won't be an impact on the Water fund. The estimated cost for an interfund loan to cover the loss of anticipated interest earnings is approximately \$457,000.

The Capital Investment Program is a proposed concept whereby capital improvement revenue bonds (secured against City assets) will be issued for high-priority public projects to be paid back with future Measure U revenues. If the Capital Investment Program does not occur, the Water Fund would be repaid within 18 months from available fund balance in the General Fund.

**3. Funding Option 3 - External Short-Term Direct Placement Loan**

The City Treasurer's Office reached out to one of the City's bond underwriters regarding the possibility of obtaining a "direct placement loan" – similar to what the City obtained recently for the remarketing of the 1997 Lease Revenue Bonds (ARCO Arena

Acquisition) and the Golden 1 Center financing. A “direct placement loan” is a financing tool obtained from a financial institution such as a bond underwriter, bank, or other financial institution that may allow for more flexibility with respect to certain terms and conditions to better match the structure of an issuer’s capital financing needs. A “direct placement loan” is more advantageous in certain instances than a traditional public offering because proceeds from the financing may be obtained more expeditiously, and costs of issuance are generally lower. Both variable and fixed-rate direct placement loan options were evaluated. The preliminary terms are included in Attachment 3. The estimated cost for this borrowing would be approximately \$589,000 to \$734,000. An appraisal of existing City assets would be required for these loans though, so this financing would take approximately seven to eight weeks to complete. It is anticipated that this financing would not be in place in time to award the GMP within the desired timeline.

All three of these options are anticipated to provide short-term funding. The funds borrowed would eventually be replaced with proceeds from the City’s Capital Investment Program discussed during the FY2019/20 Budget hearings. Staff recommends Funding Option 2, the interfund loan from the Water Fund. However, whichever option is pursued, staff recommends that Council direct the City Treasurer bring a separate report to the Council that declares the City’s official intent to reimburse itself from the planned Capital Investment Program tax-exempt bonds (to be issued at a later date).

In an effort to limit the cost of borrowing, staff also recommends that the funds used to close the construction shortfall be repaid from FY2018/19 year-end resources, if adequate resources are available.

**Policy Considerations:** The City Council must allocate sufficient funds for the Project before the GMP change order with Otto Construction can be approved. As there are inadequate funds in the existing Project budget, it is necessary to identify an additional source of funds for the approximately \$14.4 million funding shortfall. Construction of the Project cannot begin until there are adequate funds in the Project to cover the anticipated construction cost.

**Economic Impacts:** The new NNCCAC facility is expected to create 142 total jobs, 82 direct jobs and 60 jobs through indirect and induced activities and is estimated to generate approximately \$21.9 million total economic output (\$13.8 million of direct output and another \$8.1 million through indirect and induced activities).

The indicated economic impacts are estimates calculated using a calculation tool developed by the Center for Strategic Economic Research (CSER). CSER utilized the IMPLAN input-output model (2009 coefficients) to qualify the economic impacts of a hypothetical \$1 million of spending

in various construction categories within the City of Sacramento in an average one-year period. Actual impacts could differ significantly from the estimates and neither the city of Sacramento nor CSER shall be held responsible for consequences resulting from such differences.

### **Environmental Considerations:**

**California Environmental Quality Act (CEQA):** On June 7, 2018, City Council adopted the Mitigated Negative Declaration and the Mitigation Monitoring Program for the North Natomas Regional and Community Park Master Plan Amendment and Community Center and Aquatics Complex Project (Resolution No. 2018-0215).

**Sustainability:** The NNCCAC design has been reviewed for consistency with the goals, policies, and targets of the City's Sustainability Master Plan, the Parks and Recreation Sustainability Plan, and the City's 2035 General Plan. The NNCCAC Project will advance the goals, policies, and targets of these plans by improving the health of residents through access to a diverse mix of wellness and recreation activities.

**Commission/Committee Action:** On December 6, 2018, a Design Review Director's hearing was held to review the design of the NNCCAC. The NNCCAC design received support from the City's Urban Design Director.

**Rationale for Recommendation:** Additional funding in the amount of \$14.4 million is required so that the NNCCAC can be constructed during the proposed time frame. If such funding is not approved, the City could lose the \$10.6 million NUSD has authorized for the construction of the NNCCAC. Additionally, the GMP proposed by Otto Construction is only valid until September 20, 2019. If the GMP is not approved by then, the GMP amount could potentially increase.

**Financial Considerations:** As part of the FY 2018/19 budget hearings, Council requested that staff provide funding options for the NNCCAC. The following provides a summary of the Project funding already identified. As noted above, additional funding in the amount of approximately \$14.4 million is still needed.

Funding Source	Fund Number	Amount
<b>Estimated Project Cost</b>		<b>\$45,000,000</b>
<b>Identified Funding Sources</b>		
North Natomas Public Facilities Fee <sup>1</sup>	3206	16,900,000
North Natomas Fee Interfund Loan (to be repaid by Greenbriar & Panhandle)	3207	2,600,000
Community Facilities District 3 (CFD3) - Landscaping only	2230	524,000
Natomas Unified School District (bonds)	3702	10,600,000
	<b>Subtotal:</b>	<b>\$30,624,000</b>
<b>Estimated funding shortfall</b>		<b>\$14,376,000</b>
<sup>1</sup> The NNCCAC budget is currently \$4.9 million (Resolutions 2017-0404, 2018-0215 and 2019-0039)		

As previously noted, this report does not include authorization to budget the Project or transfer funds. Staff will return to Council with a resolution authorizing the budget for the NNCCAC based on Council direction.

**Local Business Enterprise (LBE):** Eight sub-contractors and the general contractor, Otto Construction, are LBEs. Their bids account for 24.33% of the Project construction cost.

### North Natomas Community Center and Aquatic Complex (NNCCAC)

#### **Background:**

The NNCCAC includes a community center for recreational programs, meetings and events; a 50-meter pool that is suitable for swim competitions, three recreational pools, and three support buildings that contain restrooms, showers, and pool infrastructure.

The NNCCAC will be located at the southwest corner of the North Natomas Regional Park bounded on the west by Town Center Drive, south by the new extension of New Market Drive and on the east by Via Ingoglia, across from Natomas Unified School District's (NUSD) Inderkum High School.

The NNCCAC project was initiated on April 1, 2014, through the adoption of Resolution No. 2014-0077, when the City Council authorized a Multi-Year Operating Project (MYOP) for the NNCCAC and appropriated \$100,000 for a feasibility study.

On May 23, 2017, an oral report of the results of the feasibility study were presented to City Council for receive and file. The presentation described the major components of the NNCCAC, including the community center building, the 50-meter pool, the recreational pools, bleachers, locker rooms and offices, the pool equipment building, pedestrian drop off area and parking areas. The feasibility study of the NNCCAC provided a preliminary cost estimate of \$19.7 million for construction and a total project cost of \$24 million.

On July 25, 2017, the City Council passed Motion No. 2017-0204 accepting the feasibility study for the NNCCAC.

On October 24, 2017, the City Council passed Resolution No. 2017-0404, establishing a new capital improvement project for the NNCCAC and transferring \$400,000 into the NNCCAC Project CIP (L19140410) for schematic design and project management. BCA Architects, Inc. was awarded a professional services agreement for schematic design of the NNCCAC (Agreement No. 2017-1254).

On June 7, 2018, City Council passed Resolution No. 2018-0215 adopting the Mitigated Negative Declaration and the Mitigated Monitoring Program, approved the North Natomas Regional and Community Park Master Plan Amendment, approved the transfer of \$2,000,000 into the NNCCAC project (L19140410), approved the NNCCAC Schematic Design Plans, and approved Supplemental Agreement No. 1 with BCA for \$1,893,835 to complete the design, prepare a cost estimate, a financing plan, and assist with the bid process. As of June 2018, the estimated construction cost of the NNCCAC was \$31,500,000 and the total project cost was \$38,750,000 as provided by the architect and its cost estimating consultant. The June 2018 staff report further detailed that the estimated annual operations and maintenance costs may

range from \$1,400,000 to \$1,700,000 and the anticipated revenue from the NNCCAC may range from \$700,000 to \$1,000,000 per year.

On August 31, 2018, a Request for Qualifications (RFQ) Q1901454101 was issued for a design-assist contractor for pre-construction services and the construction of the NNCCAC. Four firms submitted proposals: The Boldt Company, Otto Construction (Otto), Roebbelen Contracting, Inc., and Turner Construction. A scoring system based on qualifications and interviews were used to rank the firms. Otto was chosen as the most qualified contractor to perform the pre-construction services and the construction of the NNCCAC.

To make way for the construction of the NNCCAC project, an existing dog park required relocation. On October 9, 2018, City Council passed Motion No. 2018-0326 approving the plans and specifications for the Dog Park Relocation project and awarded a contract to Abide Builders to relocate the dog park.

On February 5, 2019, City Council adopted Resolution No. 2019-0039 which approved the transfer of \$2,500,000 into the NNCCAC project (L19140410) for pre-construction expenses such as permitting, agency fees, and pre-construction management. Competitive bidding was suspended and a design-assist project delivery method was approved. As of February 2019, the estimated construction cost of the NNCCAC was \$35.5 million as provided by the architect and its cost estimating consultant. The total project cost was estimated to be \$44.9 million.

A design-assist contract was awarded to Otto on February 19, 2019 in the amount of \$69,200 for pre-construction services. A GMP change order authorizing construction of the NNCCAC will be brought to City Council at a later date for approval.

On June 11, 2019, City Council adopted Resolution No. 2019-0236 which approved the plans and specifications for New Market Drive Extension and authorized the City Manager to enter into agreements with the Los Rios Community College District and the NUSD, receiving \$1,007,456 from each (total \$2,014,912) for the construction of New Market Drive extension. Funds were transferred from multiple locations to fully fund the New Market Drive Extension Project and a contract with McGuire & Hester for construction of the New Market Drive Project was executed. Extension of New Market Drive provides access to the proposed located for the NNCCAC.

On June 19, 2019, the NUSD approved Resolution No. 19-16 which authorized NUSD to commit \$10,600,000 towards the construction of the NNCCAC, or 23.5% of the total cost, whichever is less, provided NUSD and the City enter into a joint use agreement, and that the City Council approves full funding for the NNCCAC no later than July 31, 2019. As part of the agreement, the City would transfer to NUSD a 5.76 acre portion of a parcel of land located on the corner of Via Ingoglia and New Market Drive, APN# 225-0040-089-0000 (portion).. Resolution No. 19-16 further states that NUSD will negotiate with the City the terms of the

funding agreement and the terms of the joint use agreement, including the operating and maintenance costs of the NNCCAC.

From October 2018 through June 2019, Otto provided design assist, pre-construction services for the NNCCAC project. They coordinated with BCA Architects and City staff, providing detailed cost estimates, constructability review of plans and specifications, value engineering input to manage and align the construction budget, coordination of the anticipated construction schedule, a site logistics plan to manage on site activities to minimize impacts to the community, and solicited trade specific bid packages to establish a GMP change order.

Otto solicited and then accepted bids from approximately 40 trades (subcontractors) required for the construction of the NNCCAC. Multiple bids were received for the majority of the trades. Otto and the City carefully reviewed all of the bids and selected the lowest responsible bidder for each trade. Each of the subcontractors has committed to complying with the City's Community Workforce and Training Agreement (City Agreement No. 2018-1634).

On June 20, 2019, Otto provided the City with a proposed GMP for the construction of the NNCCAC, which includes the following:

Guaranteed Maximum Price	
Direct Construction Costs:	\$28,939,860
General Conditions	\$1,944,750
Bonds and Insurance	\$516,220
Contractor Fee	\$1,544,728
Contingency (5%)	\$1,621,442
<b>Base Bid GMP</b>	<b>\$34,567,000</b>
Alternate 1: Bleachers (Building E)	\$833,000
<b>Total GMP (Base + Alternate 1)</b>	<b>\$35,400,000</b>

If approved by City Council, construction of the NNCCAC would start in late summer of 2019 and be completed in the winter of 2020/21.

## External Short-Term Loan For the NNCCAC Project

At the request of the City Manager's Office, the City Treasurer's Office reached out to one of the City's bond underwriters for the possibility to obtain a direct placement loan – similar to what the City obtained recently for the remarketing of the 1997 Lease Revenue Bonds (ARCO Arena Acquisition) and the Golden 1 Center financing.

Both variable and fixed-rate interim financing options were evaluated. The preliminary terms provided include:

### 1. Variable rate options

- A. 18-month variable rate option w/ soft option to redeem (1.5-year term out period): 80% of 1-month LIBOR + 0.35% or about 2.268%\*
- B. 18-month variable rate option w/ soft option to redeem (3.5-year term out period): 80% of 1-month LIBOR + 0.45% or about 2.368%\*

### 2. Fixed rate options

- A. 3-year indicative fixed rate (callable after 18-months): 2.60 – 2.65%\*
- B. 5-year indicative fixed rate (callable after 18-months): 2.80 – 2.85%\*

For either the variable rate or fixed rate options, the City would need to cover bank counsel fees and other issuance costs.

In either scenario, a lease structure similar to the master lease structure the City established in 1999, would need to be established to work around the Constitutional Debt Limit.

\*Interest rates as of mid-June 2019. Assumed flat or stable interest rate curve.

### Summary of Estimated Financing Costs/Timeline and Assumptions:

- Cost of issuance = \$100,000 - \$120,000 (*rates as of mid-June 2019*)
- Financing Cost<sup>1</sup>
  - Option 1B = \$510,000 in total interest
  - Option 2A = \$571,000 in total interest
  - Option 2B = \$614,000 in total interest
- Timeline = 7 to 8 weeks for appraisals and financing (*end of September 2019*)

---

<sup>1</sup>Interest is calculated on an actual day count basis, with principal amount due at the end of the 18-month term. If the City opted to go with external loan financing, the negotiated structure – including potential periodic principal payments and the agreed upon interest calculation method could materially affect estimated interest figures above.