



REPORT TO COUNCIL

City of Sacramento

915 I Street, Sacramento, CA 95814-2671
www.CityofSacramento.org

CONSENT

September 4, 2007

Honorable Mayor and
 Members of the City Council

**Title: Crocker Art Museum Expansion and Renovation Project (CF60)
 Construction Financing Strategy**

Location/Council District: 216 O Street, Council District 1

Recommendation: Adopt a **Resolution:** 1) authorizing staff to develop and return to City Council with an alternate construction financing strategy for the Crocker Art Museum Expansion and Renovation Project; and 2) directing staff to return to City Council in advance of the Council's approval of the Crocker Art Museum Expansion and Renovation Project guaranteed maximum price with a construction contract for: a) detailing, fabrication, and installation of steel; b) disconnecting the fire alarm, security, and electrical systems in the Herold Wing; c) re-routing water pipes; d) demolishing the Herold Wing; and e) site de-watering to prepare for construction of a basement.

Contact: Cynthia Kranc, Facilities Manager, 808-2258

Presenters: Not applicable

Departments: General Services

Division: Facilities & Real Property Management

Organization No: 3289

Description/Analysis:

Issue: This report recommends that the City Council authorize staff to develop, in conjunction with the Crocker Art Museum Association (CAMA), an alternate construction financing strategy for the Crocker Art Museum Expansion and Renovation project (the Project) and direct staff to return to the City Council in advance of the Council's approval of the Project guaranteed maximum price (GMP) with a contract with Rudolph and Sletten, Inc. for various construction activities in support of the Project. Rudolph and Sletten, Inc. is currently developing the Project GMP. The contract recommended in this report would typically be included in the GMP presented by Rudolph and Sletten, Inc. as part of their responsibility as the Project's construction manager.

As is typical with many other arts projects, the Crocker Art Museum Expansion

and Renovation project has numerous funding sources, not all of which have been fully secured. However, construction costs continue to increase while negotiations are on going to secure all remaining funding sources. This places the City and the Project in the position of not knowing how much funding to secure until the actual project cost is known. Therefore, staff has begun working with CAMA, and Rudolph & Sletten, Inc. to develop an alternate construction financing strategy that will allow the construction to begin while fundraising continues, and minimize the effects of construction cost escalation on the Project. Proceeding with the contract recommended in this report before the GMP is developed will lock in the price for those portions of the construction and start those portions of the Project two months in advance of the GMP, saving two months in escalation costs.

Policy Considerations: Development of the Project is consistent with the Strategic Plan goals of strengthening community and regional partnerships to enhance the quality of life, preserving the arts and culture opportunities, and enhancing educational opportunities for the entire community.

Committee/Commission Action: Not applicable

Environmental Considerations: On October 25, 2005, City Council adopted Resolution No. 2005-780 certifying the Environmental Impact Report, approving the Mitigation Monitoring Plan, and adopting the Findings of Fact and Statement of Overriding Considerations for the Project.

Rationale for Recommendation: The proposed construction financing and contract strategies are recommended to:

- Avoid a two month delay in the overall construction schedule that will occur if the steel contract is delayed until the GMP is developed.
- Avoid project cost escalation by locking in the work under the recommended contract at current prices. Although certain segments of the construction industry such as residential housing have experienced some slowing, there is still a high level of construction activity for large projects such as hospitals, bridges, etc. so that a reduction in the prices of the recommended construction materials and services in the near future is not likely.
- Avoid the risk of losing potential bidders on the Project. Construction delays are resulting in a smaller pool of potential bidders for Project activities because bidders find other projects as time passes. Three potential bidders for steel have already found other projects.
- Avoid the risk of losing time sensitive pledges that are tied to planned project completion dates.

Under a typical GMP scenario, all work would be bid by Rudolph & Sletten, Inc. in their role as the construction manager and would be included in a single contract approval. Because staff recommends proceeding with the identified work before development of the GMP, a separate contract approval will be required. However,

bidding for this work will be conducted by Rudolph and Sletten, Inc., just as they would have done if this work were included in the GMP that will be provided at a later date. If the Council authorizes a contract for this work in advance of the GMP, staff will present the bid results and request approval of this contract in September 2007.

Staff anticipates that the GMP will be finalized by November 2007. At that time, staff will present the GMP, and an amended Memorandum of Understanding between CAMA and the City that includes the alternate construction financing strategy if Council approves this strategy.

Financial Considerations: On April 18, 2006, the City Council approved the final Tier I and Tier II Community Reinvestment Capital Improvement Program (CRCIP) project list and bridge financing plan. The Project was included on the City's final CRCIP project list for capital funding and a bridge loan. The Project funding sources to date include:

City of Sacramento CRCIP	\$ 2.0 million
CRCIP Loan	12.0 million
CA Proposition 40 Grant	2.0 million
Sacramento County CAMA Grant	2.5 million
SHRA Downtown Bond	8.0 million
SHRA Tax Increment (TI)	1.0 million
CAMA Contributions and sale of Lot X	<u>44.1 million</u>
Total as of September 4, 2007	\$71.6 million

Some pledges are tied to expiration dates, therefore, it is in the City's and CAMA's best interest to authorize the start of construction so as not to lose private funding. Some of CAMA's pledges will turn into cash during the course of construction and will serve to bridge current gaps in financing. Additionally, philanthropic contributions are known to increase during construction of projects such as this one. CAMA is confident that with the successful groundbreaking on July 26, 2007, the rate of ongoing pledges and cash donations will increase. The Project budget may be further impacted because the sales proceeds from Lot X are not yet known.

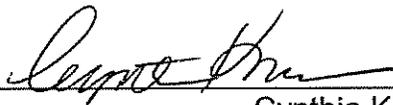
Since 2005, cost escalation alone accounts for an approximate \$10 million increase to the Project budget. Approximately one-third (\$3 million) of this cost increase can be traced to the cost of steel. Cost escalation on large construction projects such as this averages about one percent per month. Based on the current Project construction cost estimate, this equates to approximately \$700,000 per month. In order to avoid this amount of on going cost escalation it is critical that construction begin as soon as possible to lock in prices for construction materials.

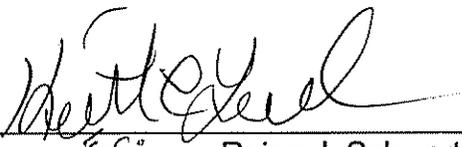
Alternate Construction Financing Strategy

To mitigate the risk of starting project construction prior to securing 100% of the funding, staff, CAMA, and Rudolph & Sletten, Inc. have begun preliminary work on a financing strategy that will allow the construction contract for the Project to be awarded in the

amount of the approved GMP without 100% project funding secured. This strategy calls for authorizing the scope of work in increments, in amounts not to exceed eighty percent (80%) of the total funds available for disbursement, and for a monthly construction funding test to monitor both the funds available and the projected scope of work up to six months in advance. This process will protect the City from incurring construction costs in excess of available funding and will provide adequate time for the City, CAMA and Rudolph & Sletten, Inc. to evaluate the future course of action if at any time the construction funding test is not met.

Emerging Small Business Development (ESBD): Staff and Rudolph & Sletten, Inc. have conducted an extensive outreach to local chambers and the small business community in an effort to include emerging/small business participation in the Project. Through the third quarter of FY2006/07 the Department of General Services has achieved an ESBD percentage of 65%.

Respectfully Submitted by: 
Cynthia Kranc
Facilities Manager

Approved by: 
for: Reina J. Schwartz
Director, Department of General Services

Recommendation Approved:


for Ray Kerridge
City Manager

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Attachment 1**BACKGROUND INFORMATION**

In October 2000, the Crocker Art Museum Association (CAMA) presented a proposed process and timeline for a Master Plan development for the Crocker Art Museum to the City Council. Since that time, the City and CAMA have been working together on the preconstruction phases of the Crocker Art Museum Expansion and Renovation Project (the Project). Currently, construction is underway on State-funded improvements to the existing museum and the off-site improvements, in preparation for construction of the Project. The following milestones support the actions requested in this report:

On December 3, 2002:

- The City Council adopted Resolution No. 2002-799 authorizing execution of a Memorandum of Understanding (MOU) between the City and CAMA that outlined the roles and responsibilities of the City and CAMA throughout the preconstruction and construction phases of the Project, and authorizing CAMA to release an RFQ/P for the selection of a Construction Manager/General Contractor (CM/GC) for the Project. A panel comprised of CAMA and City representatives unanimously selected Rudolph & Sletten, Inc. as the Construction Manager for the Project through a competitive, qualification-based selection process.

On March 11, 2003:

- The City Council adopted Resolution No. 2003-117, suspending competitive bidding for the construction of the Project, as it is permitted to do under Section 3.60.170D of the Sacramento City Code, which allows competitive bidding to be suspended if the City Council determines, on a 2/3 vote, that it is in the best interests of the City to do so.

On November 4, 2004:

- The City Council adopted Resolution No. 2004-854 authorizing CAMA to proceed with the design development phase of the Project and approving Supplemental Agreement No. 2 with Akiyama Architects for project coordination services.

On December 7, 2004:

- The City Council adopted Resolution No. 2004-919 approving the Crocker Art Museum Business Plan and recognizing increased annual General Fund costs in an amount of \$541,000 beginning in FY 2008.

On October 25, 2005:

- The City Council adopted Resolution No. 2005-781 approving the design of the Project. Staff updated the City Council on the status of the CAMA Capital Project Phase 2

On February 7, 2006:

- The City Council adopted Resolution 2006-104 approving the CRCIP project list, which included the Crocker Art Museum Expansion and Renovation Project.

On April 18, 2006:

- The City Council approved the final Tier I and Tier II project list and bridge financing which included a \$2 million dollar CRCIP contribution, \$8 million from Sacramento Housing and Redevelopment Agency bond funds, and a \$12 million bridge loan for the Project.

On March 20, 2007:

- The City Council adopted Resolution No. 2007-162 authorizing CAMA to execute an agreement with Rudolph & Sletten, Inc. for construction management services. CAMA's use of Rudolph & Sletten, Inc. prior to that time was in accordance with the City Manager's authority.

On May 29, 2007:

- The City Council adopted Resolution No. 2007-320 authorizing the City Manager to execute a construction contract with Rudolph & Sletten, Inc. in an amount not to exceed \$3.34 million for the off-site and on-site improvements for the Project, in anticipation of the Project construction in winter 2007.

On June 5, 2007:

- The City Council adopted Resolution No. 2007-362 approving the First Amendment to the MOU, outlining the construction protocol between the City and CAMA and approving the CAMA Business Plan, Capital Project Phase 2.
- CAMA reported on the overall success of the fundraising campaign. The City Council approved the naming of the new wing of the Project as "The Teel Pavilion", in honor of the Teel family, a campaign leader and major donor.
- The City Council authorized Rudolph & Sletten, Inc., the approved Construction Manager for the Project, to solicit bids from prospective subcontractors for the construction phase of the Project.

RESOLUTION NO. 2007-XXXX

Adopted by the Sacramento City Council

September 4, 2007

AUTHORIZING STAFF TO DEVELOP AND RETURN TO CITY COUNCIL WITH AN ALTERNATE CONSTRUCTION FINANCING STRATEGY FOR THE CROCKER ART MUSEUM EXPANSION AND RENOVATION PROJECT, AND DIRECTING STAFF TO RETURN TO CITY COUNCIL IN ADVANCE OF THE COUNCIL'S APPROVAL OF THE CROCKER ART MUSEUM EXPANSION AND RENOVATION PROJECT GUARANTEED MAXIMUM PRICE WITH A CONSTRUCTION CONTRACT FOR: A) DETAILING, FABRICATION, AND INSTALLATION OF STEEL; B) DISCONNECTING THE FIRE ALARM, SECURITY, AND ELECTRICAL SYSTEMS IN THE HEROLD WING; C) RE-ROUTING WATER PIPES; D) DEMOLISHING THE HEROLD WING; AND E) SITE DE-WATERING TO PREPARE FOR CONSTRUCTION OF A BASEMENT

BACKGROUND

- A. On December 3, 2002, the City Council adopted Resolution No. 2002-799 authorizing execution of a Memorandum of Understanding (MOU) between the City and CAMA that outlined the roles and responsibilities of the City and CAMA throughout the preconstruction and construction phases of the Project, and authorizing CAMA to release an RFQ/P for the selection of a Construction Manager/General Contractor (CM/GC) for the Project. A panel comprised of CAMA and City representatives unanimously selected Rudolph & Sletten, Inc. as the Construction Manager for the Project through a competitive, qualification-based selection process.
- B. On March 11, 2003, the City Council adopted Resolution No. 2003-117, suspending competitive bidding for the construction of the Project, as it is permitted to do under Section 3.60.170D of the Sacramento City Code, which allows competitive bidding to be suspended if the City Council determines, on a 2/3 vote, that it is in the best interests of the City to do so.
- C. On November 4, 2004 the City Council adopted Resolution No. 2004-854 authorizing CAMA to proceed with the design development phase of the Project and approving Supplemental Agreement No. 2 with Akiyama Architects for project coordination services.
- D. On December 7, 2004, the City Council adopted Resolution No. 2004-919 approving the Crocker Art Museum Business Plan and recognizing increased annual General Fund costs in an amount of \$541,000 beginning in FY 2008.
- E. On October 25, 2005, the City Council adopted Resolution No. 2005-781 approving the design of the Project. Staff updated the City Council on the status

of the CAMA Capital Project Phase 2.

- F. On February 7, 2006, the City Council adopted Resolution 2006-104 approving the CRCIP project list, which included the Crocker Art Museum Expansion and Renovation Project.
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- H. On March 20, 2007, the City Council adopted Resolution No. 2007-162 authorizing CAMA to execute an agreement with Rudolph & Sletten, Inc. for construction management services. CAMA's use of Rudolph & Sletten, Inc. prior to that time was in accordance with the City Manager's authority.
- I. On May 29, 2007, the City Council adopted Resolution No. 2007-320 authorizing the City Manager to execute a construction contract with Rudolph & Sletten, Inc. in an amount not to exceed \$3.34 million for the off-site and on-site improvements for the Project, in anticipation of the Project construction in winter 2007.
- J. On June 5, 2007, the City Council adopted Resolution No. 2007-362 approving the First Amendment to the MOU, outlining the construction protocol between the City and CAMA and approving the CAMA Business Plan, Capital Project Phase 2. The City Council also authorized Rudolph & Sletten, Inc., the approved Construction Manager for the Project, to solicit bids from prospective subcontractors for the construction phase of the Project.
- K. With construction costs escalating approximately one percent per month, delaying the start of the construction phase until all funding is in place will result in significant escalated costs and could delay the Project indefinitely.
- L. Fundraising efforts by CAMA have been successful and historically, fundraising increases once a project starts construction.
- M. Developing an alternate construction financing strategy that will allow the construction phase to begin while fundraising continues will minimize the effects of construction cost escalation on the Project, provided that the strategy developed protects the City from incurring construction costs in excess of available funding, and provides adequate time for the City, CAMA and Rudolph & Sletten, Inc. to evaluate the future course of action if at any time the construction funding test is not met.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1. Staff is authorized to develop an alternate construction financing strategy for the Crocker Art Museum Expansion and Renovation Project.
- Section 2. Staff is directed to return to City Council in advance of the City Council's approval of the Project's guaranteed maximum price with a construction contract for detailing, fabrication, and installation of steel, disconnecting the fire alarm, security, and electrical systems in the Herold wing, re-routing water pipes, demolishing the Herold wing, and site de-watering to prepare for construction of a basement.
- Section 3. Staff is directed to return to City Council with an amendment to the Memorandum of Understanding between the Crocker Art Museum Association and the City of Sacramento describing the alternate construction financing strategy for the Crocker Art Museum Expansion and Renovation Project that protects the City from incurring construction costs in excess of available funding.