



402 West Broadway, Suite 400
San Diego CA 92101
619.595.4814 phone
619.595.4815 fax

June 26, 2006

Tom Romstad
Project Manager
City of San Diego
Community and Economic Development Department
Redevelopment Division
600 B Street, 4th Floor
San Diego, CA 92101

Re: North Park Theatre

Dear Mr. Romstad:

The following information briefly discusses the work I have performed to review the construction costs of the North Park Theatre redevelopment project. I commenced my analysis in March 2006 and completed it in June 2006. My observations are discussed in the following paragraphs.

Scope

The scope of my analysis consisted of a limited review of the construction costs incurred by North Park Theatre, LLC ("NPT") on the North Park Theatre project. These costs included amounts paid by NPT directly to suppliers, vendors and subcontractors in addition to the general contractor who performed the significant portion of the construction – Wheelihan Construction, Inc. ("Wheelihan").

My review consisted of evaluating the total costs expended by NPT within the context that the Redevelopment Agency of the City of San Diego ("Agency") was committed to repay a loan of \$3.335 million to NPT. The Agency requested that I perform this review as a means to evaluate whether it was prudent to repay, based on a review of the construction costs, the loan advanced by NPT.

Information Reviewed

To perform my analysis, I reviewed several different types of information from a variety of sources. From each of the following entities, I reviewed the following:

Wheelihan Construction, Inc.

Accounting Reports, including the Job Cost Journal and Subcontract Audit.
Subcontractor Files
Change Order Files
Correspondence

Progress Payment Applications
Discussions with Lori Houk, Wheelihan's Controller

North Park Theatre, LLC

Budget Summary Reports
Expense Register
General Ledger
Vendor Ledgers
Vendor and Supplier Invoices
Proof of Payments
Discussions with Bud Fischer and Linda Weir, Assistant to Mr. Fischer

Bundy & Thompson Architects

Payment Applications
Change Orders
Correspondence

Project Information

DDA and Implementation Agreements
Contract between North Park Theatre LLC and Wheelihan Construction, Inc.
Discussions with City of San Diego

Observations

Based on my review of the records identified above, I have the following observations:

(1) *I identified \$9.133 million in costs by North Park Theatre, LLC.*

Based on my review of NPT's Final Budget Summary Report, NPT paid \$9.133 million through 11/5/05. I tested the accuracy of the Budget Summary Report by tracing the major categories costs from this Report to the supporting Vendor Ledgers. Furthermore, I studied selected transactions from the Vendor Ledgers by reviewing the relevant Invoices and Proof of Payments. In all instances, the costs and transactions were supported by the accounting documentation.

The single largest cost in the project was the \$6.47 million paid to Wheelihan. These costs are discussed below.

(2) *The general contractor, Wheelihan Construction, Inc. made a reasonable gross profit margin.*

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Wheelihan was selected to perform the work on the North Park Theatre based on negotiations that Bud Fischer conducted with this and other contractors. According to Mr. Fischer, Wheelihan was selected largely due to their qualifications and competitive overhead and fee positions for the scope of work.

According to Wheelihan's project accounting reports, the contractor recorded costs of \$6.29 million on the Theatre project. Wheelihan's total revenue received on the project was \$6.47 million for a gross profit margin of 2.79% of costs. This gross profit margin is reasonable.

The original contract was \$5.1 million. Change orders totaled \$1.3 million. Based on my review of the change order documentation, Wheelihan received a reasonable \$57 thousand in overhead and fee markups on change orders.

(3) *The \$3.335 million loan advanced by North Park Theatre, LLC is reasonable based on the total cost of the project, including the cost paid to the general contractor.*

Limitations

It should be noted that my review was limited in scope. I analyzed and traced selected transactions contained on the NPT reports. I relied upon Wheelihan's costs as recorded on its Job Cost Journal. The reasonableness of these costs was based on the gross margin analysis discussed earlier and discussions with Mr. Fischer regarding the selection of and negotiations with Wheelihan.

Sincerely,



Scott J. Seo
Director