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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 Parking Structure

Dear Mr. Romstad:

In March 2006, I commenced a review of the North Park Parking Structure ("NPPS") construction costs, primarily those costs incurred by the developer, Bud Fischer. The following paragraphs discuss the work I performed and my observations.

Scope

I was retained by the Redevelopment Agency of the City of San Diego ("Agency") to review the amount, as submitted by Mr. Fischer, that the City of San Diego ("City") owes to Mr. Fischer to construct the NPPS. As specified in the DDA, Mr. Fischer was to advance funds to the City to complete the construction of the NPPS. These distributions commenced in February 2005 and continued through June 2006. On an approximate monthly basis, Mr. Fischer reported certain amounts of the outstanding loan balance to the Agency in the form of a Budget Status report.

The scope of my analysis consisted of four main areas: (1) Review the costs incurred and paid for by Mr. Fischer as represented on the Budget Status Reports; (2) Analyze the Funds Control account for deposits made into and payments out of the account; (3) Calculate the interest on the outstanding loan balance; and (4) Calculate the total amount advanced by Mr. Fischer, including interest.

Included in my review was a limited evaluation of the McCarthy Building Companies, Inc. ("McCarthy") costs. McCarthy was the general contractor on the project.

Information Reviewed

To perform my analysis, I reviewed the following information:

McCarthy Building Companies, Inc.

Project Cost Report

Bud Fischer

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

Project Information

DDA
Payment Applications
Change Orders
Contract with McCarthy Building Companies, Inc.
Discussions with the City of San Diego

Observations

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

(1) *The construction-related costs directly paid by Mr. Fischer total \$766,782.*

Through June 12, 2006, Mr. Fischer directly paid \$766,782 in costs on behalf of the City. These costs were verified by reviewing Mr. Fischer's Monthly Budget Status Reports, the General Ledger, Vendor Ledgers, Invoices and Proof of Payment.

I traced several transactions for selected cost accounts by obtaining the supporting accounting documentation and discussing these costs with Mr. Fischer and the Agency. I adjusted the amount originally requested by Mr. Fischer by \$212 thousand because this item, previously identified by Mr. Fischer as Change Orders, was double counted with the amounts deposited in to Funds Control and paid to the general contractor.

Included in the \$766,782 paid by Mr. Fischer directly, is a \$90,386 payment to his company, Trilogy Real Estate Management ("Trilogy"), on May 2, 2006. Mr. Fischer stated that this amount was for construction management services that his firm, together with International Parking Design, Inc. ("IPD"), provided. However, IPD was paid for these services only up to December 2005 while Trilogy continued in this capacity through the duration of the project. The Agency concurred that this was an appropriate expenditure for services rendered.

- (2) *Mr. Fischer deposited \$1.911 million into the Fund Control escrow account as a loan to the City.*

The Fund Control account was established as a vehicle to escrow funds that would be paid to the general contractor McCarthy. The initial deposits on March 23, 2005 by Mr. Fischer and the City were \$928 thousand and \$4.90 million by the City respectively. Mr. Fischer deposited an additional \$1.911 million over the course of construction when funds were needed to pay McCarthy. I reviewed the Funds Control statements as well as the Payment Applications from McCarthy and determined that Mr. Fischer deposited the funds so the contractor could be paid in a timely manner, but no sooner to avoid any unnecessary interest accruals.

- (3) *The general contractor, McCarthy Building Companies, Inc., made a reasonable gross margin.*

According to Mr. Fischer, McCarthy was selected as the general contractor on this project based on their qualifications to perform the work and that they had submitted the lowest bid.

McCarthy's Project Cost Report indicates total recorded costs of \$7.3 million on revenue of \$7.81 million for a gross margin of \$505 thousand or 6.91% of costs which is reasonable in absolute terms as well as in comparison to McCarthy's 8.18% in its original budget.

- (4) *The accrued interest on the amounts advanced by Mr. Fischer total \$76,032.*

Interest is calculated at prime rate at the time the DDA was executed on February 24, 2004 plus 2% which is effectively 6%, non-compounding. Based on the timing of when the funds were directly paid by Mr. Fischer to vendors and suppliers and the amounts deposited into Fund Control to compensate the general contractor, total interest through June 30, 2006 is \$ 76,032.

- (5) *The total principal and interest due Mr. Fischer is \$2,754,101.*

The total payable to Mr. Fischer is \$2,754,101. The basis for this amount is \$766,782 in direct payments to vendors and suppliers, \$1,911,287 in deposits to Fund Control and \$76,032 in accrued interest through June 30, 2006.

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Limitations

It should be noted that my cost review was limited in scope to analyzing selected costs contained in Mr. Fischer's accounting reports and evaluating his submission for reimbursement from the City. I relied upon McCarthy's costs as recorded on its Project Cost Report. The reasonableness of the total costs was based on the gross margin analysis discussed earlier and discussions with Mr. Fischer regarding the selection of McCarthy as the lowest qualified bidder.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. J. Seo', with a long horizontal flourish extending to the right.

Scott J. Seo
Director