



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL AND CITY
OF SAN JOSE FINANCING
AUTHORITY BOARD

FROM: Kim Welsh
Julia H. Cooper

SUBJECT: SALE OF THE HAYES MANSION

DATE: June 8, 2018

Approved

Date

6/14/18

COUNCIL DISTRICT: 2

RECOMMENDATION

1. Adopt a Resolution of the City Council to:
 - a. Approve a Purchase and Sale Agreement with JMA Ventures, LLC for the sale of the Hayes Mansion hotel and conference center, including all furniture, fixtures, equipment, and vehicles, located at 200 Edenvale Avenue. in San Jose, for the amount of \$30,000,000;
 - b. Authorizing the City Manager to negotiate and execute an Assignment of the Hotel Management Agreement to the Purchaser;
 - c. Authorizing the City Manager to execute the deed and all other documents needed to complete the transaction; and
 - d. Accepting the transfer of the Grant Deed for the Hayes Mansion property as of the closing date of the sale of the property to JMA Ventures, LLC in exchange for funds sufficient (in combination with the Debt Service Reserve Funds and other funds on hand) to retire the City of San José Financing Authority Lease Revenue Bonds Series 2008C and Series 2008D (Hayes Mansion Refunding Project) and other obligations related to the Hayes Mansion property as set forth herein;
 - e. Direction to staff to apply the sale proceeds, Debt Services Reserve Funds and other funds on hand to the retirement of the Series 2008C and Series 2008D Bonds and payment of obligations related to the Hayes Mansion as set forth herein; and
 - f. Direct staff to return to the City Council with recommendations to allocate any remaining proceeds in accordance with City Council Policy 1-18.
2. Adopt a resolution of the City of San José Financing Authority Board directing the Executive Director or the Treasurer of the Authority or their authorized designees to take the necessary actions to effectuate the transfer of the Hayes Mansion property to the City in conjunction with the sale of the property to JMA Ventures, LLC and apply the sale proceeds, Debt Service Reserve Funds and other funds on hand related to the City of San José Financing

Authority Lease Revenue Bonds, Series 2008C and Series 2008D (Hayes Mansion Refunding Project) to retire these outstanding bonds and repealing Resolution No. 129.

OUTCOME

Adoption of the resolutions by the City Council and Authority Board will allow for the sale of approximately 6.32 acres of City-owned land and 275,231 square feet of City-owned commercial building space, located at 200 Edenvale Avenue to JMA Ventures, LLC for the amount of \$30,000,000. The sale proceeds, combined with other assets associated with the sale of the Hayes Mansion and the release of debt service reserves of obligations used to finance the Hayes Mansion will be used to retire approximately \$28,460,000 of long-term bond indebtedness issued by the Authority for the Hayes Mansion project and pay contractually obligated close out expenses attributable to the Hayes Mansion sale transaction. The balance of any remaining funds shall be used in manner consistent with City Council Policy 1-18, "*Operating Budget and Capital Improvement Program Policy*" and will be brought forward for Council action as part of the 2017-2018 Annual Report.

BACKGROUND

Built in 1905, the Hayes Mansion was originally constructed as a 64 room, 41,000 square foot Mediterranean-style villa and used as the private residence of the prominent Hayes family. Brothers Jay Orley and Everis A. Hayes were early San Jose Mercury News publishers, prominent local politicians, and were actively involved in establishing the Santa Clara Valley fruit industry. In addition to the mansion, the Hayes estate once had its own power plant, post office, chapel, railroad station, carriage shop, and dormitory for ranch hands. The Hayes family sold the estate in the 1950s, and the property remained vacant and fell into disrepair over the years. In 1975, the property was registered as California Historic Landmark No. 888 and is on the National Registry of Historic Places.

The City's Ownership and Renovation of the Property

The City purchased the Hayes Mansion in 1984 from the former Redevelopment Agency and embarked on a major restoration and development of the property. The City issued an RFP in 1986 for concept proposals for the renovation and reuse of the Hayes Mansion (such as an executive conference center) with housing proposals strictly prohibited from consideration and no viable responses were received. Below is a brief history of ownership, operation, and renovation, done primarily over three phases:

Phase I Renovation

- In 1991, the City initiated the Phase I renovation process that included (i) an RFP for restoration, development, and operation of the facility; and (ii) a completed consultant study of the potential market demand for a proposed conference center (18 meeting rooms, two

dining rooms, lounge, but no lodging units) to be located at the Hayes Mansion. These actions resulted the selection of Barry Swenson Builder for restoration and development; and Renaissance Conference Company (“Renaissance”) to operate the facility.

- In June 1994, the Hayes Mansion was open for business as a day corporate conference center, destination restaurant and weekend social event location. The City funded \$11 million of the renovation work which was funded from a larger Authority bond issuance in 1993.

Phase II Renovation

- In July 1994, the City initiated Phase II with a market feasibility study for lodging at the Hayes Mansion that would enable the conference center to better function as a destination conference facility instead of a day meeting conference center and event venue. Hayes Renaissance LP (“HRLP”), as successor entity to Renaissance, was selected for the construction of Phase II improvements. Those improvements expanded the facility from 41,000 square feet of building space to a total of 118,000 square feet and included 135 guest suites, two additional meeting rooms, a spa, pool, and completion of the renovation of the third floor and basement of the Mansion plus funding for certain improvements to the adjacent City-owned Edenvale Garden Park (park improvements and parking lot).
- The Hayes Conference Center remained open throughout the construction phase though on a limited basis for a period of time, and the guestrooms were opened for occupancy in April 1996. The City issued \$22.3 million in variable rate taxable and tax-exempt bonds to finance the Phase II project. In connection with the financing, the City transferred title to the Hayes Mansion property to the Authority.

Phase III Renovation

- In 1997, HRLP initiated discussions with the City to conduct a market feasibility study for further expansion of the facility in an effort to increase the facility’s penetration in the national conference resort marketplace. The completed study (1999), prepared by an economic research firm, concluded further that expansion of the facility with additional guest rooms and meeting space could be supported by the projected revenues generated by the project.
- Phase III was completed in 2002. Improvements included the development of a new wing consisting of a banquet kitchen, 15,000 square feet of additional meeting space and a net addition of 79 new guest suites. The construction also included a public underground parking lot in the adjacent City-owned Edenvale Garden Park that increased parking from 160 to 356 spaces in order to comply with the planned development use permit. The Authority issued \$53.3 million in variable rate bonds; of this amount, \$19.8 million was used to refund the Phase II debt and \$25.7 million was used to fund the Phase III construction (the balance of \$7.8 million funded capitalized interest, a debt service reserve, and costs of issuance). After experiencing a significant decline in revenue and inability for HRLP to

perform under the terms of the agreement, the City terminated its lease with HRLP and selected Dolce Hotels and Resorts to be the operator. Dolce International/San Jose, Inc. has been operating the Hayes Mansion since 2003.

Total funding for the three phases included approximately \$59 million in Authority issued bonds. Bonds initially issued by the Authority for Phases I, II and III have since been refunded and are now represented by Series 2007A¹, Series 2008C and Series 2008D which are currently outstanding in the collective amount of \$29.3 million (or \$28.5 million after the final principal payment on the 2007A Bonds attributable to the Hayes Mansion on August 15, 2018).

In 2003, City Council approved a management agreement with Dolce International/San Jose, Inc. ("Dolce") to operate the Hayes Mansion property ("Hotel Management Agreement"). In 2015, Dolce's parent company was purchased by Wyndham, however, the Hayes Mansion continues to be operated by Dolce. Under the agreement with the City, Dolce acts as the on-site manager of the Hayes Mansion in exchange for a base management fee and incentive fee. Dolce also provides routine maintenance and security for the parking garage in the adjacent City-owned Edenvale Garden Park and routine maintenance for certain park improvements.

The City is required to pay the operating expenses of the Hayes Mansion from the Hayes Mansion revenues or to the extent that those are not sufficient, from other City funds. The operating expenses include all the costs associated with operating the Hayes Mansions, such as wages and salaries, utilities, insurance, routine maintenance, and food, beverage and merchandise sold at the Hayes Mansion. The City also reimburses Dolce for various identified expenses related to marketing the Hayes Mansion, travel directly related to the operation of the Mansion, and booking fees and commissions for reservations. The original ten-year agreement expired June 30, 2014, at which point Dolce exercised the first of two five-year options. Upon the sale of the property, the management agreement with Dolce may be assigned to the buyer.

Financial Difficulties of the City's Ownership

Unfortunately, the Hayes Mansion has not generated sufficient revenue to fund both annual operating expenses and debt service. As a result, the City has subsidized the asset on an ongoing basis through the General Fund. Annual subsidies have ranged from approximately \$2 million to \$6 million per year since 2003 and have been used primarily for payment of debt service on the outstanding bonds. In addition, significantly lower revenues during the recent recession led to the deferral of some property maintenance, contributing to the potential for future financial liability to the City and the General Fund in order to maintain the marketability of the Mansion.

¹ Phase I improvements were financed with proceeds from two series of the Authority's 1993 Bonds which also funded other capital assets and made other monies available to fund the Hayes Mansion improvements. Part of the proceeds of the 2007A Bonds refunded the 1993 Bonds. Debt service related to that transaction is budgeted in the Community Facilities Revenue Fund. The sale of the Hayes Mansion is expected to close after August 15, 2018, the date on which the final principal payment on the portion of the 2007A Bonds that is allocable to the Hayes Mansion improvements will be made.

In November 2008, with City revenues falling short of expenditures, the City Manager submitted a General Fund Structural Deficit Elimination Plan ("Plan") to address the City's worsening financial situation. At that point in time, certain cost-cutting measures had already been taken, yet the five-year forecast projected the structural budget deficit to reach \$106.3 million by 2013-2014. The Plan was developed by a stakeholder group comprised of City leaders, community leaders and staff that contained a comprehensive set of strategies aimed to reduce costs and generate revenue. One of the thirteen strategies was to "Formalize and Implement a Rigorous Asset Management Program," which included the sale of non-essential and under-performing City-owned properties. The Plan identified the Hayes Mansion as one of these under-performing City-owned properties and recommended the early repayment of the taxable variable-rate bonds in order to reposition the asset to be sold to a private entity. In 2013, the Authority issued bonds (Series 2013A) to refund prior bonds issued to construct the new City Hall. Approximately \$7.7 million in savings generated from this bond sale was used to pay down a portion of the Series 2008D refunding bonds issued for Hayes Mansion improvement. The pay down of Series 2008D bonds produced a total savings over the remaining life of the Series 2008D bonds of approximately \$4 million.

Past Efforts to Sell the Hayes Mansion

Over the years, City staff had engaged with potential buyers of the Hayes Mansion, but the real estate market had not supported a property valuation that would allow the City to retire the total outstanding debt. However, through improved economic conditions and the reduction of the outstanding debt on the property, the sale of the Hayes Mansion is now financially viable.

In early 2016, a prospective buyer of the Hayes Mansion contacted City staff and submitted an unsolicited letter of intent with an offer to purchase the property. With City Council direction, Staff sent an announcement and invitation for other letters of intent via email to a list of approximately 400 real estate brokers. The solicitation resulted in several additional letters of intent with offers to purchase the Hayes Mansion. After conducting meetings with each of the prospective buyers, staff determined the highest and most qualified offer to be from Asha Companies at \$47,000,000.

On June 14, 2016, City Council adopted Resolution No. 77792, declaring the Hayes Mansion property surplus to the needs of the City, accepting the transfer of the grant deed from the Authority for the Hayes Mansion property as of the closing date in exchange for funds sufficient to retire all bonds issued by the Authority securing the Hayes Mansion property, directing staff to apply sales and other related proceeds to the retirement of debt and payment of obligations, and authorizing the City Manager to negotiate and execute a Purchase and Sale Agreement based upon the terms outlined in the memorandum.

Over the following several months, staff worked with Asha Companies to develop the Purchase and Sale Agreement, along with an Operations and Maintenance Agreement for the parking facility on the adjacent City-owned Edenvale Garden Park. On March 28, 2017, City Council

adopted Resolution No. 78116, authorizing the City Manager to negotiate and execute an Operations and Maintenance Agreement based upon the terms outlined in the memorandum.

During this nine-month period, Asha Companies engaged with representatives from the Marriott hotel company to evaluate needed improvements for the property and discuss a potential partnership. While Asha Companies did not share any documents related to these discussions with City staff, they indicated that the required improvements would cost considerably more than they had expected. Despite these discussions, Asha Companies worked with staff to finalize the Purchase and Sale Agreement, and signed the agreement on May 13, 2017. Unfortunately, Asha Companies failed to perform its obligations, and on May 31, 2017, the City terminated the Purchase and Sale Agreement.

Recent Efforts to Sell the Hayes Mansion

Following the termination of the Purchase and Sale Agreement with Asha Companies, City Council directed staff to pursue new prospective buyers. Staff prepared a new bid solicitation, and in addition to sending it to the list of 400 real estate brokers, staff advertised the property on Loopnet.com and Costar.com – the leading commercial real estate sales platforms.

This marketing approach generated more than 80,000 search results, more than 5,000 views, and more than 100 requests for the bid package. Ultimately, staff received a total of nine bids for the Hayes Mansion. However, none of the nine bidders met all the bid requirements, which included a minimum bid price of \$36,000,000, proof of funds to close the transaction, and other requirements. Staff formally rejected all bids in October 2017.

ANALYSIS

After completing the competitive bid process and rejecting all bids, staff continued discussions with interested parties (from both the previous bid solicitation and new inquiries). Staff also re-analyzed the debt position of the Hayes Mansion to determine an updated “break-even” price threshold, which shows whether a given bid price would allow the City to retire all debt and obligations related to the property. Total outstanding debt has decreased due to scheduled principal payments on the bonds, thereby allowing the City to consider bids lower than the previous minimum bid price while still achieving the main objective of eliminating all debt and subsidies related to the property.

Determining the Proposed Purchaser

In December 2017, staff presented three bids to City Council during closed session. City Council directed staff to decline one of the three bids, and continue discussions with the other two finalists.

June 8, 2018

Subject: Sale of the Hayes Mansion

Page 7

In January 2018, staff formed a review panel including representatives from the City Manager's Office, Office of Economic Development, Finance Department, and Budget Office. This review panel developed evaluation criteria and invited the two finalists to present their bid proposals to the panel in-person at City Hall.

Below is the evaluation criteria and respective number of points available:

| CRITERIA | POINTS AVAILABLE |
|------------------------------------|------------------|
| Price | 25 |
| Financing | 25 |
| Firm experience | 20 |
| Property improvement plan | 15 |
| Employee retention & community use | 15 |

After evaluating both finalists' proposals based on the above criteria, the review panel determined the highest, most qualified bid to be from JMA Ventures at \$30,000,000.

Staff's Recommendation to Sell the Hayes Mansion to JMA Ventures

Staff recommends selling the Hayes Mansion to JMA Ventures for \$30,000,000. After thorough market exposure that generated more than 10 offers, this price reflects the fair market value of the property. JMA Ventures' proposal includes 100% equity financing through a large institutional equity fund, and is not contingent on a loan or debt financing.

The firm is highly experienced with a proven track record of acquiring large commercial assets. Founded in 1986, JMA Ventures is a San Francisco-based real estate investment firm, whose portfolio includes hospitality properties, along with residential, retail and office developments. For example, the firm owns the Fairmont Heritage Place at Ghirardelli Square, the Hyatt Regency La Jolla, the Tahoe Biltmore Resort, and in partnered with the Sacramento Kings to develop its new arena.

Based on the evaluation of JMA's proposal, they have the capability and experience to invest in the property and preserve its historic value. Finally, JMA Ventures expressed its commitment to maintain the current no-cost City and community use of conference space, so community events, like National Night Out will continue to be welcomed at the Hayes Mansion.

Below is a summary of key terms in the proposed Purchase and Sale Agreement with JMA Ventures for the Hayes Mansion:

1. **Purchase Price:** \$30,000,000
2. **Deposit:** \$1,000,000 to be paid in two installments.
3. **Financing:** 100% equity, not contingent on a loan or debt financing
4. **Due Diligence Period:** 45 calendar days,

June 8, 2018

Subject: Sale of the Hayes Mansion

Page 8

5. **Length of Escrow:** 45 days, all-inclusive, with estimated September 10 closing date
6. **“As-Is” Purchase:** Purchaser acknowledges that the Property is being sold “As-Is” condition and “With All Faults” as of the date of closing.
7. **Use:** Maintain current use as a hotel and conference center
8. **Assignment/Assumption of Hotel Management Agreement:** At the Closing, if Purchaser elects to assume the Hotel Management Agreement, Seller shall assign to the Purchaser. If the Purchaser elects not to assume the Hotel Management Agreement, Purchaser to pay 50.0% of the Termination Fee. City will pay the other 50.0% of the Termination Fee up to a limit of \$450,000. The \$450,000 would be taken from the \$1,000,000 deposit.
9. **FF&E:** City to retain funds associated with the Furniture, Fixtures and Equipment Account in an amount estimated to be \$2.3 million.
10. **City/Community Use:** Will continue to provide City/community use space at mutually-agreed upon times at no cost (e.g. National Night Out event)
11. **Defaults:** Should the Purchaser default, the City retains the \$1,000,000 deposit. Should the City default the City returns to the Purchaser the Initial \$500,000 or the full \$1,000,000 deposit and up to \$500,000 in reimbursement of Purchaser’s costs.

Additionally, staff and JMA Ventures have discussed the importance of retaining existing employees at the Hayes Mansion. Staff provided to JMA Ventures a copy of the union agreement between Unite Here! Local 19 and Dolce Hayes Mansion to consider as the firm plans the potential transfer of ownership. Staff is also aware that representatives from JMA Ventures and Unite Here! Local 19 have begun discussions related to the potential transfer of ownership from the City to JMA Ventures.

This proposed sale will allow the City to:

- Eliminate all outstanding long-term bond debt against the Hayes Mansion
- Eliminate the ongoing General Fund annual subsidy for debt service which ranged from \$2 million to \$6 million per year since 2003 and is currently budgeted at \$4.9 million in 2018-2019
- Payment of Devcon Loan of \$1.2 million as discussed in greater detail below
- Continue to receive hotel-related taxes into the General Fund, the Transient Occupancy Tax Fund, and the Convention Center Facilities District Fund, in aggregate generally exceeding \$1 million per year
- Provide for a reputable private owner to continue operations of the Hayes Mansion as a destination hotel/conference center and community asset

Parking

In a separate item on the June 26 City Council agenda, staff is seeking to award a bid to JMA Ventures for the lease of the underground portion of the City-owned Edenvale Park Parking Garage for a period of 50 years as permitted under the City Charter. City staff also seeks authorization to negotiate and execute a Lease Agreement with JMA Ventures. The Phase III

expansion of the Hayes Mansion included a 356 space garage comprised of 142 underground spaces and 214 spaces. The garage is part of Edenvale Park and is located on Charter Park property. The proposed award of a bid to JMA Ventures and approval of lease terms for a 50-year lease will allow the Purchaser to operate the Hayes Mansion in accord with the current Conditional Use Permit in effect on the property (File No. CP 00-06-039).

Surplus Sale Policy

Staff followed the procedure outlined in Council Policy 7-13 Surplus Sale Policy and sent notices to preferred entities in May 2015 to satisfy the 54222 notice requirement. None of those preferred entities contacted staff with interest in acquiring the property. In addition, an affordable housing restriction will be recorded against the property at the time of transfer consistent with the Surplus Property Policy.

On June 14, 2016, City Council adopted Resolution No. 77792, declaring the Hayes Mansion property surplus to the needs of the City.

Application of Sale Proceeds and Released Funds

The City of San José Financing Authority (“CSJFA” or “Authority”) has three series of bonds currently outstanding, the Series 2007A, Series 2008C Bonds and the Series 2008D Bonds, which were used to refund bonds that had been used to fund capital improvements for the Hayes Mansion. The Series 2008C and Series 2008D Bonds are secured by the lease of the Hayes Mansion from the Authority to the City. Redemption of these bonds is required in order to sell the Hayes Mansion. The tables below summarize these outstanding bonds as of June 30, 2018 and itemize the various estimated sources and uses of funds included as part of the recommended transaction.

| <u>Bond Series</u> | <u>Interest Rate Mode</u> | <u>Final Maturity</u> | <u>Call Date</u> | <u>Leased Asset</u> |
|--------------------|---------------------------|-----------------------|-----------------------------|---------------------|
| 2008C | Variable | 6/1/2027 | Anytime, on 30 days' notice | Hayes Mansion |
| 2008D | Variable | 6/1/2023 | Anytime, on 30 days' notice | Hayes Mansion |

**Estimated Source and Use of Funds
(Preliminary, subject to change)**

Source of Funds

| | |
|--|----------------------|
| Sale of Hayes Mansion Proceeds | \$30,000,000 |
| Debt Service Reserve Release – CSJFA 2008C | 1,091,500 |
| Debt Service Reserve Release – CSJFA 2008D | 4,739,000 |
| Cash Released from Hayes Operations ^a | 990,000 |
| Furniture, Fixture & Equipment Reserve | <u>2,308,000</u> |
| Total Sources | \$ 39,128,500 |

Use of Funds

| | |
|---|----------------------|
| CSJFA 2008C Bonds Retirement | \$10,915,000 |
| CSJFA 2008C Accrued Interest | 31,333 |
| CSJFA 2008D Bonds Retirement | 17,545,000 |
| CSJFA 2008D Accrued Interest | 47,000 |
| CSJFA 2007A Bonds Retirement (Hayes Portion) ^b | 0 |
| Permanently-Affixed Public Art ^c | 150,000 |
| Devcon Loan Repayment ^d | 1,200,000 |
| Other Related Obligations | 3,875,600 |
| Excess Funds | <u>5,364,567</u> |
| Total Uses | \$ 39,128,500 |

^a Estimate – Final amount to be determined at the closing of the sale

^b The 1993 Bonds funded other capital assets and made other monies available to fund the Hayes Mansion improvements. Part of the proceeds of the 2007A Bonds refunded the 1993 Bonds. Debt service related to that transaction is budgeted in the Community Facilities Revenue Fund, with the final principal and interest payment allocable to the Hayes Mansion scheduled for August 15, 2018 in the amount of \$901,637 prior to the closing of the sale of the Hayes Mansion.

^c Public Art that cannot be removed from the Hayes Mansion, permanently affixed; Final amount to be determined by the Office of Cultural Affairs and will be subject to a future appropriation action of Council to transfer to a CIP Public Arts Fund.

^d Prior to November 2013, the Mansion was operated under a lease agreement between the City and Hayes Renaissance, L.P. (“HRLP”) and it was terminated due to HRLP’s inability to meet the terms and conditions of the agreement. Upon termination, the City agreed to assume HRLP’s liability to Devcon Construction Incorporated (“Devcon”) in the amount of \$1.2 million and the City entered into a repayment agreement with Devcon, with no payment of interest, no maturity date, and subordinate to the Center’s net revenues. Since 2003, there has been insufficient net revenues to make payments on the Devcon loan and the full amount remains outstanding. With the sale of the property, sales proceeds along with other funds will be sufficient to repay the Devcon loan in full.

As shown above, a preliminary estimate indicates that the City will receive excess one-time funds of \$5.4 million after completion of the sale. In addition, the City would expect to see ongoing General Fund savings in future years through the elimination of transfers to the Community Facilities Revenue Fund for debt service and other financial obligations directly

related to the Hayes Mansion. Additional discussion on the potential use of sale proceeds is discussed in the Cost Summary/Implications section below.

Resolutions Related to the Sale of the Hayes Mansion

The resolutions of the City Council and the Authority Board related to the sale of the Hayes Mansion will be posted to the agenda webpage for the June 26, 2018 joint meeting of the City Council and the Authority Board.

The City Council previously adopted Resolution No. 77792 on June 14, 2016 in connection with the sale of the Hayes Mansion to Asha Companies. The proposed resolution of the City Council authorizes the City Manager or the City Manager's authorized designees to take the actions described in this memorandum to effectuate the sale of the Hayes Mansion to JMA Ventures and supersedes the provisions of Resolution No. 77792 except for the City Council's declaration of the Hayes Mansion as surplus to the needs of the City. The declaration of the Hayes Mansion as surplus property specified in Resolution No. 77792 remains in effect.

On June 14, 2016, the Authority Board adopted its Resolution No. 129 authorizing the Authority's Executive Director or Treasurer to take the actions necessary to effectuate the sale of the Hayes Mansion to Asha Companies and to retire the Series 2008C and Series 2008D Bonds, among other actions. The proposed resolution repeals Resolution No. 129 and authorizes the Authority's Executive Director or Treasurer to take these actions with respect to the proposed sale of the Hayes Mansion.

PUBLIC OUTREACH

Extensive public outreach was performed to develop the City Manager's 2008 General Fund Structural Deficit Elimination Plan. This Plan identified the Hayes Mansion as an under-performing City-owned asset that should be repositioned and returned to private ownership.

Approximately 400 real estate brokers were contacted to notify the real estate community of the City's intent to sell the Hayes Mansion and invite all offers to purchase the property. The bid solicitation was posted to two leading commercial real estate websites, reaching thousands of potential bidders, including brokers and developers.

COST SUMMARY/IMPLICATIONS

As described above, proceeds from the sale of the Hayes Mansion will allow the City to retire all outstanding debt related to the Hayes Mansion, generate one-time proceeds after the completion of all sale transactions, and yield ongoing savings to the General Fund by eliminating the transfer to the Community Facilities Revenue Fund (approximately \$4.9 million in 2018-2019).

June 8, 2018

Subject: Sale of the Hayes Mansion

Page 12

As the sale is not final, budget actions to recognize the sale proceeds and receive the excess one-time funds are not included in this memorandum's recommendations. Instead, those actions are expected to be brought forward with the 2017-2018 Annual Report, scheduled for release at the end of September 2018 and presented to the City Council for approval in mid-October 2018. As part of the 2017-2018 Annual Report, the Administration anticipates bringing forward recommendations for allocating the excess proceeds in line with City Council Policy 1-18, "*Operating Budget and Capital Improvement Program Policy*". The section of the policy referencing debt (Part 8) states that: "In order to reduce principal on outstanding debt and minimize debt service costs, one-time savings generated from debt restructurings and refundings should be used to pay down the outstanding principal of other existing City debt, whenever possible, taking into consideration any fund restrictions."

While the Administration will evaluate several options to reduce the obligations to make payments to the Authority for debt service on outstanding Authority bonds, a likely candidate could include the reduction of Authority bonds related to the Rancho Del Pueblo and Los Lagos golf courses. The current General Fund subsidy to the Municipal Golf Course Fund (budgeted at \$2.7 million in 2018-2019) is primarily due to annual debt service payments on the Authority's bonds. Reducing the principal on golf course-related bonds would provide ongoing savings to the General Fund (an undetermined amount at this point). As discussed previously, a similar strategy in 2013 allocated one-time savings from the refunding of Authority bonds issued to construct City Hall to pay down bonds related to Hayes Mansion; an action that well-positioned the City to offer the Hayes Mansion as a saleable asset.

After considering methods to reduce the City's obligations in accordance with City Council Policy 1-18, the Administration would recommend to reserve the balance for use in the 2019-2020 budget development process, or to address any urgent needs from the City's deferred infrastructure maintenance backlog.

EVALUATION AND FOLLOW-UP

Below is a summary of key milestones and estimated completion time:

| | |
|--|---------------|
| Close Escrow and Transfer of Ownership | Mid Fall 2018 |
| Redemption of Authority's 2008C and 2008D Bonds | Mid Fall 2018 |
| Council approval of budget and appropriation actions | October 2018 |

The City Council's adoption of this resolution will authorize the City Manager or his designee to execute the deed, and all other documents necessary to complete the transaction.

June 8, 2018

Subject: Sale of the Hayes Mansion

Page 13

COORDINATION

This memorandum was developed in coordination with the City Manager's Budget Office and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

The sale of the Hayes Mansion was not considered by a Commission.

FISCAL/POLICY ALIGNMENT

The sale of the Hayes Mansion aligns with previous City Council direction to dispose of under-performing City-owned assets. In addition, the retained use of the property as a hotel allows the City to continue to receive hotel-related tax revenue, and adds the Hayes Mansion to the property tax roll.

CEQA

Exempt, Section 15301 Existing Facilities, File No. PP16-016.

/s/
KIM WALES
Deputy City Manager
Director of Economic Development

/s/
JULIA H. COOPER
Director of Finance

For questions related to the sale of the property, please contact Nanci Klein, Assistant Director of Economic Development, at (408) 535-8184; for questions related to the outstanding bonds, please contact Julia H. Cooper, Director of Finance at (408) 535-7011.