

Sale of the Hayes Mansion

June 26, 2018

SJFA 2

Hayes Mansion



Brief History of Hayes Mansion

- Main building is historic, built in 1905 by the prominent Hayes family
- Property fell into disrepair in 1970-80s
- City purchased the mansion in 1984 from the Redevelopment Agency
- From 1991-2002, City renovated the mansion and built additions over 3 phases
- Today, Hayes Mansion has 214 rooms and 33,000 square feet of conference space

Financial Difficulties of City's Ownership

- Unfortunately, Hayes Mansion has not generated sufficient revenue to cover both operating expenses and debt service
- City's general fund subsidy to the Hayes Mansion ranged between \$2 to \$6 million per year
- Lower revenues during the recession led to deferral of some property maintenance

Proposed Sale of Hayes Mansion

- Proposed sale of Hayes Mansion to JMA Ventures at \$30 million allows City to:
 - Eliminate all outstanding long-term debt
 - Eliminate ongoing General Fund subsidies
 - Satisfy a Devcon Loan of \$1.2 million
 - Continue to receive hotel taxes to General Fund
 - Realize excess sale proceeds of ~\$5 million
 - Provide for an experienced private owner
 - Receive same level of Park maintenance by JMA

Purchase and Sale Agreement

Key Terms:

- **Price:** \$30 million
- **Deposit:** \$1 million, paid in two installments
- **Financing:** 100% equity; no loan contingency
- **Term:** 45 days due diligence, 30 day escrow
 - City considering a 60-day extension, if needed, for JMA to complete ABC license and develop new Union Agreement
- “As-Is” Purchase

Purchase and Sale Agreement

- **Use:** Maintain as a hotel/conference center
- **Existing Hotel Agmt:** City/JMA to split any termination fee 50%-50%, up to \$450K
- **FF&E Reserve Acct:** City to retain (~\$2.3m)
- **Community Use:** Will continue at same level
- **Defaults:** If Purchaser defaults, City retains \$1m deposit; If City defaults, returns \$500K initial deposit, or full \$1m deposit plus up to \$500K in reimbursements of costs, or specific performance

Proposed Buyer: JMA Ventures

- Established in 1986, based in San Francisco
- Highly experienced hoteliers, with properties like Fairmont at Ghirardelli Square
- Partnering with institutional private equity fund to finance purchase
- Stated intent to work with **UNITE HERE!**
Local 19 to develop a new union agreement

Parking Lease for Edenvale Garage

Item 4.3 (Separate, but related Agenda item)

- Edenvale Park has a surface lot and underground portion (total of 356 spaces)
- 301 of these count toward requirements of Conditional Use Permit for Hayes Mansion
- JMA to lease underground portion only, in exchange for needed capital improvements to garage and park maintenance (lawns and tennis)
- Surface lot (214 spaces) to remain free public parking for Edenvale Park guests

Recommendations

City Council

- Approve a Purchase and Sale Agreement
- Authorize the City Manager to negotiate and execute an Assignment of the Hotel Management Agreement
- Authorize the City Manager to negotiate an additional provision to address potential financial implications of the Collective Bargaining Agreement
- (New) Authorize the City Manager to negotiate additional terms of the PSA regarding the ABC license, liquor inventory, Union Agreements
- Authorize the City Manager to sign the deed

Recommendations (Cont.)

- Accept the transfer of the deed
- Direct staff to apply sale and reserve funds to retire the bonds and related obligations
- Direct staff to return to Council with recommendations to allocate proceeds

Financing Authority

- Direct the Financing Authority Executive Director to effectuate the transfer of the Hayes Mansion property to the City



Questions?