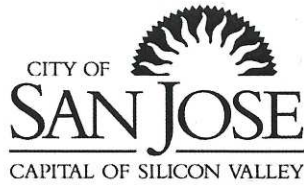


MANAGER'S BUDGET ADDENDUM #25



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Julia H. Cooper
Kim Walesh
Jennifer A. Maguire

SUBJECT: SALE OF HAYES MANSION -
IMPLICATIONS OF AGREEMENT
TERMINATION

DATE: June 2, 2017

Approved

Date

6/2/17

RECOMMENDATION

Approve the following amendments to the 2017-2018 Proposed Operating Budget and the 2018-2022 Capital Improvement Program:

1. In the Community Facilities Revenue Fund:
 - a. Increase the Beginning Fund Balance by \$499,652;
 - b. Increase the Other Revenue estimate by \$5,702,170;
 - c. Increase the Transfers and Reimbursements estimate by \$3,500,000;
 - d. Increase the Revenue from the Use of Money/Property estimate by \$22,000;
 - e. Increase the Hayes Consultant Costs appropriation by \$87,876;
 - f. Increase the Debt Service Payments for the Hayes Phase I appropriation by \$935,000;
 - g. Increase the Debt Service Payments for the Hayes Phase III appropriation by \$3,818,000;
 - h. Increase the Hayes Repair and Improvements appropriation by \$767,000;
 - i. Increase the Operating/Debt Subsidy appropriation by \$3,500,000;
 - j. Increase the Transfer to the General Fund by \$43,000; and
 - k. Increase the Ending Fund Balance by \$572,946.

2. In the Municipal Golf Course Fund:
 - a. Increase the Transfers and Reimbursements estimate by \$2,043,000;
 - b. Increase the Los Lagos Debt Service appropriation by \$1,561,000;
 - c. Increase the Rancho del Pueblo Debt Service appropriation by \$457,000; and
 - d. Increase the Ending Fund Balance by \$25,000.

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3. In the Construction Tax and Property Conveyance Tax Fund: Parks Purposes Council District #4:
 - a. Eliminate the Transfer to the General Fund in the amount of \$350,000;
 - b. Increase the Berryessa Community Center Debt Service appropriation in 2017-2018 by \$167,000;
 - c. Increase the Berryessa Community Center Debt Service appropriation in 2018-2019 by \$192,000; and
 - d. Decrease the 2017-2018 Ending Fund Balance by \$9,000.

4. In the General Fund:
 - a. Decrease the Transfers and Reimbursements Revenue estimate by \$307,000;
 - b. Increase the Transfer to the Community Facilities Revenue Fund by \$3,500,000;
 - c. Increase the Transfer to the Municipal Golf Course Fund by \$2,043,000; and
 - d. Decrease the 2018-2019 Future Deficit Reserve by \$5,850,000.

BACKGROUND

On June 14, 2016, City Council approved a series of actions related to the sale of the City-owned Hayes Mansion property to Asha Companies.¹ The 2017-2018 Proposed Operating Budget released on May 5, 2017 included the use of anticipated proceeds from the sale of the Hayes Mansion to retire certain bonded indebtedness of the City of San José Financing Authority. This would have relieved the General Fund of the need to fund debt service on such indebtedness.

On May 12, 2017, Jay Patel (Partner in the Asha Companies) executed a Purchase and Sale Agreement (Agreement) with respect to the purchase of the Hayes Mansion. The terms of the Agreement required that a \$1 million deposit be made within two business days of the execution of the Agreement – as of May 26, 2017, no deposit had been made. As such, the Agreement was terminated by the City, pursuant to its terms.

ANALYSIS

Given that the Agreement has terminated, it is no longer possible to assume that proceeds of a sale of the Hayes Mansion can be used to retire debt associated with the Hayes Mansion as well as debt associated with two of the City's golf courses and the Berryessa Community Center. As such, it is necessary to issue this Manager's Budget Addendum to allow for the appropriation of debt service in the 2017-2018 Operating Budget, and to fund certain other costs associated with the continued operation of the Hayes Mansion as a City-owned asset and the operation of the two City's golf courses. Attachments A and B of this memorandum provide updated Source and Use

¹ http://sanjose.granicus.com/MetaViewer.php?view_id=&event_id=2140&meta_id=579498

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of Funds Statements for the Community Facilities Revenue Fund (Hayes Mansion) and the Municipal Golf Course Fund.

As a result of the Agreement termination, the General Fund must reassume \$5.85 million in ongoing transfers to the two funds. A decrease to the Proposed Budget 2018-2019 Future Deficit Earmarked Reserve is recommended as a one-time offset for these required costs, bringing the Reserve level from \$15.00 million to \$9.15 million. Because the 2017-2018 Proposed Budget resulted in a remaining unspent ongoing General Fund balance of \$5.0 million, bringing the 2018-2019 General Fund forecasted shortfall from \$34.8 million to \$29.8 million, the ongoing implications of this action will also change the 2018-2019 General Fund shortfall to now be projected at \$35.65 million.

COORDINATION

This memorandum was prepared in coordination with the City Attorney's Office.

/s/

JULIA H. COOPER
Director of Finance

/s/

KIM WALES
Deputy City Manager/
Director of Economic Development



JENNIFER A. MAGUIRE
Senior Deputy City Manager/
Budget Director

For questions, please contact Julia Cooper at (408) 535-7011.

Attachments:

- Attachment A – Revised Community Facilities Revenue Fund Source & Use
- Attachment B – Revised Municipal Golf Course Fund Source & Use

COMMUNITY FACILITIES REVENUE FUND (422)

(Revised)

STATEMENT OF SOURCE AND USE OF FUNDS

	2015-2016 Actual	2016-2017 Adopted	2016-2017 Modified	2016-2017 Estimate	2017-2018 Proposed
SOURCE OF FUNDS					
Beginning Fund Balance					
Reserve for Encumbrances	6,045	6,045	5,245	5,245	500
Unrestricted	3,265,354	1,232,930	4,622,866	4,622,866	550,946
Total Beginning Fund Balance	3,271,399	1,238,975	4,628,111	4,628,111	551,446
Revenues					
Hayes Ctr - Capital Impvt	709,674	702,000	702,000	744,000	767,000
Hayes Ctr - City Expenses	278,092	290,877	290,877	326,877	182,170
Hayes Ctr - Debt Expenses	4,333,000	4,327,000	4,327,000	4,327,000	4,753,000
Total Revenues	5,320,766	5,319,877	5,319,877	5,397,877	5,702,170
Transfers					
General Fund	3,700,000	3,400,000	3,400,000	3,400,000	3,500,000
Total Transfers	3,700,000	3,400,000	3,400,000	3,400,000	3,500,000
Revenue from Use of Money/Property					
Interest	41,041	22,000	22,000	60,000	22,000
Total Revenue from Use of Money/Property	41,041	22,000	22,000	60,000	22,000
TOTAL SOURCE OF FUNDS	12,333,206	9,980,852	13,369,988	13,485,988	9,775,616
USE OF FUNDS					
Expenditures					
Hayes Consultant Costs	129,980	136,729	136,729	172,729	139,170
Hayes Ctr - Operating/Debt Subsidy	3,000,000	4,120,000	4,120,000	3,300,000	3,500,000
Hayes Ctr - Ph I Dbt Srvc	906,215	933,000	933,000	934,000	935,000
Hayes Ctr - Ph III Dbt Srvc	3,079,568	3,394,000	3,394,000	3,393,000	3,818,000
Hayes Repair and Impvt	427,624	702,000	702,000	2,280,665	767,000
Total Expenditures	7,543,387	9,285,729	9,285,729	10,080,394	9,159,170
Transfers					
General Fund	161,708	154,148	154,148	2,854,148	43,000
Total Transfers	161,708	154,148	154,148	2,854,148	43,000

COMMUNITY FACILITIES REVENUE FUND (422)

Attachment A

(Revised)

STATEMENT OF SOURCE AND USE OF FUNDS

	<u>2015-2016</u> <u>Actual</u>	<u>2016-2017</u> <u>Adopted</u>	<u>2016-2017</u> <u>Modified</u>	<u>2016-2017</u> <u>Estimate</u>	<u>2017-2018</u> <u>Proposed</u>
USE OF FUNDS (CONT'D.)					
Ending Fund Balance					
Reserve for Encumbrances	5,245	6,045	5,245	500	500
Unrestricted	4,622,866	534,930	3,924,866	550,946	572,946
Total Ending Fund Balance	<u>4,628,111</u>	<u>540,975</u>	<u>3,930,111</u>	<u>551,446</u>	<u>573,446</u>
TOTAL USE OF FUNDS	<u><u>12,333,206</u></u>	<u><u>9,980,852</u></u>	<u><u>13,369,988</u></u>	<u><u>13,485,988</u></u>	<u><u>9,775,616</u></u>

MUNICIPAL GOLF COURSE FUND (518)
(Revised)

Attachment B

STATEMENT OF SOURCE AND USE OF FUNDS

	<u>2015-2016 Actual</u>	<u>2016-2017 Adopted</u>	<u>2016-2017 Modified</u>	<u>2016-2017 Estimate</u>	<u>2017-2018 Proposed</u>
SOURCE OF FUNDS					
Beginning Fund Balance					
Unrestricted	422,474	587,474	742,861	742,861	181,861
Total Beginning Fund Balance	<u>422,474</u>	<u>587,474</u>	<u>742,861</u>	<u>742,861</u>	<u>181,861</u>
Transfers					
General Fund	2,600,000	2,200,000	2,200,000	2,200,000	2,793,000
Total Transfers	<u>2,600,000</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,200,000</u>	<u>2,793,000</u>
Revenue from Use of Money/Property					
Interest	6,921	5,000	5,000	7,000	7,000
San José Municipal Golf Course	444,353	450,000	450,000	410,000	420,000
Total Revenue from Use of Money/Property	<u>451,274</u>	<u>455,000</u>	<u>455,000</u>	<u>417,000</u>	<u>427,000</u>
Other Revenue					
Miscellaneous	4,726	20,000	20,000	0	0
Total Other Revenue	<u>4,726</u>	<u>20,000</u>	<u>20,000</u>	<u>0</u>	<u>0</u>
TOTAL SOURCE OF FUNDS	<u><u>3,478,474</u></u>	<u><u>3,262,474</u></u>	<u><u>3,417,861</u></u>	<u><u>3,359,861</u></u>	<u><u>3,401,861</u></u>
USE OF FUNDS					
Expenditures					
Coyote Creek Environmental Mitigation	0	1,000	1,000	1,000	1,000
Los Lagos Debt Service	1,439,571	1,543,000	1,543,000	1,543,000	1,561,000
Los Lagos Golf Course	481,855	550,000	650,000	725,000	650,000
Rancho del Pueblo Debt Service	429,532	459,000	459,000	459,000	457,000
Rancho del Pueblo Golf Course	384,655	400,000	450,000	450,000	450,000
Total Expenditures	<u>2,735,613</u>	<u>2,953,000</u>	<u>3,103,000</u>	<u>3,178,000</u>	<u>3,119,000</u>
Ending Fund Balance					
Unrestricted	742,861	309,474	314,861	181,861	282,861
Total Ending Fund Balance	<u>742,861</u>	<u>309,474</u>	<u>314,861</u>	<u>181,861</u>	<u>282,861</u>
TOTAL USE OF FUNDS	<u><u>3,478,474</u></u>	<u><u>3,262,474</u></u>	<u><u>3,417,861</u></u>	<u><u>3,359,861</u></u>	<u><u>3,401,861</u></u>