



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: DOLCE HAYES MANSION
CONSULTANT SERVICES

DATE: October 24, 2011

Approved

Date

11/1/11

RECOMMENDATION

Adopt a resolution authorizing the City Manager to:

- (a) Negotiate and execute the Second Continuation Agreement with Horwath Hospitality & Leisure, LLC to retroactively extend the term of the agreement for an additional one-year period from July 1, 2011 to June 30, 2012 for asset management oversight services with respect to the operation and management of the Dolce Hayes Mansion, and
- (b) Increase the contract amount by \$69,600 for a total not to exceed amount of \$582,086.

OUTCOME

Extension of this agreement will provide the City with uninterrupted asset management oversight services for the Dolce Hayes Mansion ("Mansion").

BACKGROUND

The City has engaged a consultant since 2004 to provide asset management services related to the Mansion. These services were engaged to address a concern that the Council expressed in 2003 when approving actions related to the City taking over management of the Mansion, that the City did not have an Asset Management Committee to monitor operations. Staff responded to this concern by indicating that this oversight would be a prescribed procedure.

In 2004, staff issued a Request for Qualifications ("RFQ") to seek a consulting firm to assist the City with the monitoring and evaluation of the Hayes Mansion Conference Center and Hotel. Through the RFQ selection process, Horwath Hospitality & Leisure, LLC ("Horwath") was selected and, effective December 1, 2004, the City entered into a consultant services agreement with Horwath to provide asset management oversight services through June 30, 2006 on behalf of the City at a total cost not to exceed \$95,950.

On August 29, 2006, Council adopted a resolution authorizing the City Manager to negotiate and execute a Continuation Agreement with Horwath for an additional year through June 30, 2007 at a cost not to exceed \$66,300, and to exercise, at the City's option, a one-year option to extend the term of the agreement through June 30, 2008 with the compensation not to exceed \$72,576. In June 2007, the City exercised the one-year option to extend the agreement.

On June 24, 2008, Council adopted a resolution authorizing the Director of Finance to execute a First Amendment to Continuation Agreement with Horwath to extend the term of the agreement for an additional one-year period of July 1, 2008 through June 30, 2009 at a cost not to exceed \$78,000, and add two additional option years to extend the agreement for the option terms of July 1, 2009 through June 30, 2010 and July 1, 2010 through June 30, 2011, at a cost not to exceed \$83,580 per option period. Both option periods were subsequently exercised.

In the Mayor's March Budget Message for fiscal year 2010-2011, the City Manager was directed to explore options for selling the Mansion including at what price level its debt service would be eliminated, in order to dramatically reduce annual costs. On June 22, 2010, Council adopted a resolution authorizing the Director of Finance to negotiate and execute a Second Amendment to the Continuation Agreement with Horwath to commission a feasibility study of alternative uses of the Mansion and to increase the contract amount by \$32,500 to a total not to exceed amount of \$512,486.

Horwath completed the preliminary analysis of alternative uses for the Mansion in December 2010. The report provided preliminary analysis for the following uses: an alternate hotel brand, apartments, condominiums, card club/casino, office, retail, medical and rehabilitation clinic and senior housing. Horwath's report identified a market valuation for the property of roughly \$17,000,000 to \$19,000,000. Modifications to the existing facility to accommodate alternative uses will likely result in the need for significant capital investments. The outstanding debt on the property is roughly \$57,000,000. Structuring a sale at a price reflective of the reported approximate market valuation in light of the outstanding debt on the property continues to be a challenge. Staff from the Office of Economic Development and the Housing Department is currently working with representatives of senior housing companies to explore potential interest in the property.

ANALYSIS

The proposed second continuation agreement would increase the not to exceed amount by \$69,600. The total authorized not to exceed amount would be \$582,086 for the period December 1, 2004 through June 30, 2012.

Horwath has been instrumental in providing valuable input and recommendations to assist the City and Dolce International ("Dolce"), the management company responsible for the operation of the Mansion, to increase revenues, streamline expenses, improve customer service and enhance the physical condition of the Mansion. With the proactive recommendations and input Horwath has assisted Dolce in their management of the Mansion in which the Mansion is

steadily recovering from the effects of the economic downturn. For 2010-2011, the Mansion operated at a near break-even level when excluding certain expenditure categories, such as City expenses, debt service, and management fees.

The annual consultant costs are recommended to be reduced by \$13,980 (17%) as compared to fiscal year 2010-2011 contract amounts. These savings are the result of less operational oversight being necessary as a result of the proactive measures already in place, and the Mansion achieving financial stability during the prior fiscal year. This reduction in compensation is retroactive to July 1, 2011.

Due to Horwath's knowledge of the property, the local conference center and hotel market, and the conference and hotel industry, Horwath is uniquely qualified to provide asset management oversight services with respect to the operation and management of the Dolce Hayes Mansion in 2011-2012. The City plans to issue a Request for Proposal ("RFP") to seek proposals from consulting firms to provide the City with asset management oversight services. The expectation is that the results of this RFP process will allow for a contract award by July 1, 2012.

PUBLIC OUTREACH/INTEREST

- Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this memorandum does not meet any of the above criteria, the item will be posted on the City's website for the November 15, 2011 Council Agenda.

COORDINATION

This item has been coordinated with the City Manager's Budget Office, the Office of Economic Development, and the City Attorney's Office.

COST SUMMARY/IMPLICATIONS

The costs of this action would be funded through a Community Facilities Revenue Fund appropriation for Hayes Consultant Costs in the amount of \$69,600 in 2011-2012.

BUDGET REFERENCE

Fund #	Appn #	Appn Name	Total Appn	Amt. for Agreement	2011-2012 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
422	3356	Hayes Consultant Costs	\$119,680	\$69,600	XI-23	06/21/2011, Ord. No. 28928

* The 2011-2012 Operating Budget and the implementing appropriation ordinance were approved by the City Council on June 21, 2011.

CEQA

Not a project, File No. PP10-066(e) Services that involve no physical changes to the environment.

/s/
JULIA H. COOPER
Acting Director, Finance

For questions, please contact Julia H. Cooper, Acting Director of Finance, at (408) 535-7000.