



Legislation Details (With Text)

File #: ID#18-384 **Version:** 1 **Name:**
Type: Executive Session **Status:** Individual Consideration
File created: 6/5/2018 **In control:** City Council
On agenda: 6/19/2018 **Final action:**
Title: Consider action, by approval, or provide direction to Staff following the Executive Session conducted in accordance with Section §551.071 of the Texas Government Code, Consultation with Attorney, to seek advice of legal counsel regarding:

Resolution 2018-95R, a subordination agreement with Goldman Sachs Mortgage Company and JPMorgan Chase Bank that subordinates the City's Deed of Trust lien against the Embassy Suites Hotel Property securing a note in the principal amount of \$1,500,000 to the lien of such entities securing their loan to JDHQ Hotels, LLC. (a subsidiary of Atrium Hospitality) for the purchase of the hotel from JQH-San Marcos Development (a subsidiary of John Q. Hammons Hotels and Resorts); authorizing the City Manager to execute the subordination agreement on behalf of the City; and declaring an effective date.

Sponsors:

Indexes:

Code sections:

Attachments: 1. 2018-95R San Marcos Cover Letter (003).pdf, 2. 2018-95R Resolution.pdf, 3. 2018-95R Atrium JQH - Embassy Suites - San Marcos TX - Subordination (Execution Version)_LEGAL.pdf

Date	Ver.	Action By	Action	Result
6/19/2018	1	City Council	approved	Pass

AGENDA CAPTION:

Consider action, by approval, or provide direction to Staff following the Executive Session conducted in accordance with Section §551.071 of the Texas Government Code, Consultation with Attorney, to seek advice of legal counsel regarding:

Resolution 2018-95R, a subordination agreement with Goldman Sachs Mortgage Company and JPMorgan Chase Bank that subordinates the City's Deed of Trust lien against the Embassy Suites Hotel Property securing a note in the principal amount of \$1,500,000 to the lien of such entities securing their loan to JDHQ Hotels, LLC. (a subsidiary of Atrium Hospitality) for the purchase of the hotel from JQH-San Marcos Development (a subsidiary of John Q. Hammons Hotels and Resorts); authorizing the City Manager to execute the subordination agreement on behalf of the City; and declaring an effective date.

Meeting date: June 19, 2018

Department: Administration

Amount & Source of Funding

Funds Required: N/A

Account Number: N/A

Funds Available: N/A

Account Name: N/A

Fiscal Note:

Prior Council Action: Click or tap here to enter text.

City Council Strategic Initiative: [Please select from the dropdown menu below]

Choose an item.

Choose an item.

Choose an item.

Comprehensive Plan Element (s): [Please select the Plan element(s) and Goal # from dropdown menu below]

☒ Economic Development - Choose an item.

☐ Environment & Resource Protection - Choose an item.

☐ Land Use - Choose an item.

☐ Neighborhoods & Housing - Choose an item.

☐ Parks, Public Spaces & Facilities - Choose an item.

☐ Transportation - Choose an item.

☐ Not Applicable

Master Plan: [Please select the corresponding Master Plan from the dropdown menu below (if applicable)]

Choose an item.

Background Information:

In April of 2018, the City of San Marcos received notice that John Q. Hammons was selling their portfolio of hotels, including their interest in the Embassy Suites Hotel, to Atrium Hospitality group. Atrium Hospitality has an extensive nationwide portfolio of hotels. JDHQ Hotels, LLC is the subsidiary of Atrium Hospitality that will be assuming the interest in and will be the owner of the San Marcos property. City staff has met with representatives of the company and are very encouraged by their hotel operating experience and excitement in taking over this property.

There are two agenda items for consideration in connection with the sale of the San Marcos property from JQH-San Marcos Development (a Hammons subsidiary) to JDHQ Hotels (Atrium). The first item is for

consideration of approval of a Subordination Agreement with Goldman Sachs Mortgage and JP Morgan Chase Bank. These two entities are the lenders financing the purchase of the San Marcos property by JDHQ Hotels. The second item is for consideration of approval of a Loan Assignment and Assumption Agreement.

Subordination: As part of the original transaction with JQH (Hammons), the City has a deed of trust lien on the Embassy Suites Hotel property that secures a note in the amount of \$1.5 million. The amount due under the note is forgivable as long as there are no defaults under the terms of the Conference Center Lease Agreement or related loan documents through the year 2026. As part of the original transaction, the City's lien was subordinated to the first lien of Metropolitan National Bank. Goldman Sachs Mortgage and JP Morgan Chase Bank are now providing a loan to JDHQ Hotels (Atrium) in the amount of \$63 million to finance the purchase of the San Marcos property from JQH (Hammons). JDHQ Hotels and its lenders are asking the City to subordinate the City's \$1.5 million lien to the lien of Goldman Sachs Mortgage and JP Morgan Chase Bank securing their loan to JDHQ Hotels.

Loan Assignment and Assumption: As part of the original transaction for development of the Embassy Hotel and Conference Center, JQH (Hammons) entered into various agreements with the City, including a Chapter 380 Economic Development Grant and Loan Agreement, a Note and Deed of Trust. Collectively, these loan agreements secure the \$1.5 million loan from the City to JQH and establish performance obligations for JQH in relation to operation of the Hotel and Conference Center. The Loan Assignment and Assumption Agreement assigns the obligations of JQH under the various loan agreements over to JDHQ (Atrium). The City's consent to the Loan Assumption and Assignment is necessary to allow JDHQ to step into the shoes of JQH and continue to operate the Hotel and Conference Center without interruption. The agreement provides that JDHQ will assume all of the duties and obligations under the original loan agreements, as amended from time to time.

Council Committee, Board/Commission Action:

Click or tap here to enter text.

Alternatives:

Click or tap here to enter text.

Recommendation:

City staff recommends approval of both JDHQ Hotels, LLC agenda items.