

FINANCE COMMITTEE

10-0421R

RESOLUTION AUTHORIZING ADDENDUM TO PARKING LEASE WITH
DULUTH GRAND. LLC, TEMPORARILY MODIFYING PAYMENT OBLIGA-
TIONS.

CITY PROPOSAL:

RESOLVED, that the proper city officials are hereby authorized to enter into the addendum to DEDA Contract No. 06 0865 480, previously assigned to city, a copy of which addendum is on file in the office of the city clerk as Public Document No. _____, with Duluth Grand, LLC, temporarily modifying the payment obligations thereunder and extending the time for payment.

Approved:

Approved for presentation to council:

Department Director

Chief Administrative Officer

Approved as to form:

Approved:

Attorney

Auditor

FIN/ATTY AH/REA:dma 8/5/2010

STATEMENT OF PURPOSE: The purpose of this resolution is to authorize an addendum to the agreement with Duluth Grand, LLC, the owner of the Sheraton Hotel, to modify various terms pertaining to the payments due to the city for the Sheraton's use of the Medical District Parking Ramp.

This agreement, originally entered into between DEDA and the hotel's owner, was a critical part of the development package for the hotel. The hotel has no other parking available to hotel guests and visitors and thus an agreement to allow them access to the parking ramp was required in order for the project to be feasible. The agreement originally provided that DEDA would make a specified amount of parking available to the hotel in return for specified payments. When the city took over financing and operation of the parking ramp, DEDA assigned its interest in the parking agreement to the city.

When the recession hit, one of its many victims was room rental in Duluth; the occupancy rates of most if not all of the city's hotels and motels plummeted and the Sheraton was one of the victims. One of the results of reduced revenues this problem occasioned was that the Sheraton fell behind in its payment obligations under the parking lease; as of May 20, 2010, that amount was about \$41,000 and it expects that this problem will be exacerbated until the recession abates and the occupancy rates recover.

Having determined that it was in the best interests of both the city and hotel to secure payment of past and future amounts without taking actions which could put undue and perhaps unmanageable financial stress on the hotel, the city and the hotel owner negotiated a short-term modification of the payment structure called for under the original lease which will result in the city collecting all of the past due amounts owed, will cover any anticipated delinquencies during the economy's recovery and provide interest at the rate of six percent applicable to any outstanding amounts owed to the city. It is expected that, as a result of these modifications, the hotel will be current on its payment obligations to the city as of August 20, 2012. At that time, the payment terms will revert to those in the original lease agreement.