



**REPORT TO REDEVELOPMENT AGENCY
AND CITY COUNCIL
City of Sacramento**

915 I Street, Sacramento, CA 95814-2604
www.cityofsacramento.org

**Consent
June 10, 2008**

Honorable Chair and Members of the Board and

Honorable Mayor and Members of the City Council

**Title: Agreement between Parking Services Division and Redevelopment Agency
for Distribution of Revenue from Sale of Sheraton Hotel and Related City
Garage**

Location/Council District: Council District 1

Recommendation: 1) Adopt a City resolution authorizing the City Manager: a) to amend the Parking Fund (Fund 412 / 6004) budget to accept \$7,350,000 of the net proceeds from the sale of the Sheraton Hotel/Garage, and b) to loan \$6,000,000 from the Parking Fund (Fund 412 / 6004) to the Redevelopment Agency to be repaid with 6% interest pursuant to attached repayment schedule, and c) to execute required loan documents; **2) adopt an Agency resolution:** a) amending the Agency's budget to receive 25% of the net proceeds from the sale of the Sheraton Hotel/Garage less funds distributed to the Parking Fund (Fund 412/6004), and \$6,000,000 which will be loaned to the Agency from the Parking Fund at 6% interest for use in downtown catalyst projects, and b) authorizing the Interim Executive Director to execute required documents for repayment to the Parking Division.

Contact: Sheri Smith, Economic Development Project Manager, 808-7204; Leslie Fritzsche, Downtown Economic Development Manager, 808-5450; Howard Chan, Parking Manager, 808-7488

Presenters: N/A

Department: Economic Development Department and Department of Transportation

Division: Downtown and Parking Services

Organization No: 4451

Description/Analysis

Issue: On March 25, 2008 following the Sacramento Hotel Corporation's approval of the sale of the Sheraton Grand Hotel ("Sheraton"), the City Council

authorized the sale of the parking garage associated with the Sheraton. These transactions produced approximately \$49.6 million in net proceeds for the City of Sacramento and the Agency. Council approved the buyer's condition of sale that one-half of the net proceeds be reinvested into future projects on K Street that would be undertaken by the buying entity, supporting the entity's investment in the hotel. The remaining one-half of the net proceeds was to be split into two equal parts, with one part going to the City's Reserve for Economic Uncertainty and the other going to the Agency and Parking Services (Parking) for reinvestment into income-generating projects. Staff committed to return to the Council and Agency with the mechanics for distribution of the 25% committed to the Agency and the Parking Services Fund.

The Sheraton, through the Hotel Corporation, had a long term lease on the Garage through 2034 that generated an income stream for the Parking Fund (Fund 412 / 6004). This stream had a net present value of approximately \$7.35 million. The lease, and thus the income, terminated upon the sale of the Sheraton and the Garage. The Agency has worked with Parking to develop a financing plan that will make up for the loss of lease revenues and will leave a portion to reinvest into projects that generate significant returns to the City (see Attachment 1, Background).

If the actions outlined in this report are approved, the Treasurer's office will coordinate the transfer of \$7.35 million to the Parking Fund (Fund 412 / 6004) of which \$6 million would then be loaned back to the Agency at 6% interest to be reinvested into downtown catalyst projects. The loan documents are attached to this report in substantially final form (See Attachments 2 and 3, Loan Agreement and Promissory Note). If approved, parking would receive \$1.35 million up front and then \$6 million paid over time with a payment schedule that closely mirrors the payment schedule of the terminated garage lease. These upfront funds will allow Parking to begin development work on proposed projects, such as the Railyards garage. This method creates a win-win situation for Parking and the Agency by ensuring that Parking has the cash flow necessary to meet its obligations and enabling the majority of the proceeds to be used for upcoming projects in the downtown.

Policy Considerations: Approval of the agreement provides revenues for Parking to develop future facilities which, in turn, promotes the Council's policy objective to create economic development opportunities. Approval also supports the City's Economic Development Strategy of strengthening the City's business climate. It enhances the Agency's ability to invest in downtown redevelopment with a focus on continuing the momentum created by the current projects such as the Cosmopolitan Cabaret, the Citizen Boutique Hotel, the office condominiums under construction at 10th and K, and supporting the entertainment destination uses in the J,K,L Corridor.

Environmental Considerations: The Funding Agreement is a financing mechanism that does not involve any commitment to a specific project that could

result in a potentially significant physical impact on the environment. Therefore, approval of the Funding Agreement does not constitute a project under CEQA Guidelines section 15378(b)(4). No federal action is involved, so the National Environmental Policy Act does not apply to the actions described in this report.

Commission/Committee/Corporation Action: None.

Rationale for Recommendation: The sale of the Sheraton Hotel and Garage created an opportunity for the City to realize a significant return on its initial investment, but the sale resulted in a termination of Parking's long-term lease of the Garage and the associated revenue stream. On March 25, 2008 Council approved a plan for distribution of the Hotel/Garage's sale proceeds to the Parking Fund (Fund 412 / 6004) and the Agency. A portion of the Hotel Proceeds was dedicated to making up for this loss of revenue, which Parking needs for future commitments but will not utilize immediately. Loaning a portion of it to the Redevelopment Agency puts the money to work immediately by reinvesting it into downtown projects.

Financial Considerations: On March 25, 2008 the City Council approved the distribution of funds, outlined above, which calls for 25% of the net proceeds to be distributed to the Agency and Parking. After real estate and transaction expenses, the 25% allocation will consist of approximately \$11.6 million. An additional \$750,000 will be distributed after December 15, 2008 when funds currently held to satisfy warranty claims are released. Of the 25%, \$7.35 million is proposed to be distributed to the Parking Fund and the balance to be distributed to the Agency. The proposed \$6 million loan from the Parking Fund to the Agency will come from Parking's \$7.35 million allocation.

There are financial benefits to both Parking and the City as a result of this agreement. The Parking Fund (Fund 412 / 6004) recovers the net present value of its lost lease revenue with \$1.35 million initial cash and repayment of \$6,000,000 at 6% interest with a payment schedule that mirrors the former lease payment schedule. The Agency's timely reinvestment of the money into projects will provide continued economic benefit to the City by continuing the current development momentum in the downtown and increasing sales-tax and tax-increment dollars collected by the City.

Emerging Small Business Development (ESBD): None

Respectfully Submitted by: Leslie Fritzsche
Leslie Fritzsche
Downtown Economic Development Manager

by: Howard Chan
Howard Chan
Parking Manager
Department of Transportation

Approved by: David L. Spaur
David L. Spaur, CECD, EDFP
Economic Development Director

by: Jerry Way
Jerry Way
Director of Transportation

Recommendation Approved:

Ray Kerridge
Ray Kerridge
City Manager

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**Attachment 1
Background**

On March 25, 2008 the Sacramento Hotel Corporation approved the sale of the Sheraton Grand Hotel and the City Council approved the sale of the associated garage. A condition of the sale was that 50% of the net proceeds from both the garage sale and the Hotel sale be allocated to the Agency for reinvestment into projects, undertaken by the purchaser, on K Street or in the Downtown Redevelopment Area. The remaining one-half of the net proceeds was to be split into two equal parts, with one part going to the City's Reserve for Economic Uncertainty the other going to the Agency and Parking Garage Fund for reinvestment into income-generating projects.

The garage had a long term lease with the Sacramento Hotel Corporation through 2034 that generated an income stream with a net present value of approximately \$7.35 million This lease terminated upon the sale of the Sheraton and the garage. The Agency has worked with Parking to make up for the lost lease revenues and make the Parking Fund whole while utilizing the remaining funds to reinvest into projects that generate significant returns to the City.

If approved by Council and Agency, the Treasurer's office will coordinate the transfer of \$7.35 million to the Parking Fund (Fund 412 / 6004) and then \$6 million will be loaned back to the Agency at 6% interest to be reinvested into current projects. Parking receives \$1.35 million up front and then \$6 million paid over time with the following payment schedule, which closely mirrors the payment schedule of the terminated garage lease.

Year	Payment Amount
2008	\$ 125,000 (half-year payment)
2009	\$ 300,000
2010	\$ 300,000
2011	\$ 300,000
2012	\$ 300,000
2013	\$ 300,000
2014	\$ 350,000
2015	\$ 350,000
2016	\$ 350,000
2017	\$ 350,000
2018	\$ 350,000
2019	\$ 627,761
2020	\$ 641,316

2021	\$ 655,142
2022	\$ 669,245
2023	\$ 683,830
2024	\$ 698,303
2025	\$ 713,269
2026	\$ 728,534
2027	\$ 744,105
2028	\$ 759,987
2029	\$ 775,187
2030	\$ 790,690
2031	\$ 806,504
2032	\$ 822,634
2033	\$ 839,087

This methodology for distribution of the net proceeds to the Parking Fund and subsequent loan to the Agency allows for a continued return on investment from the Sale of the Sheraton Hotel and Garage by reinvesting the funds into income generating projects. Parking needs the revenue lost with the termination of the Garage lease to honor future commitments for construction of parking facilities. The agreement provides Parking with an initial \$1.35 million in cash as well as the maintenance of the revenue stream while enhancing the Redevelopment Agency's ability to put most of the money to use now on current downtown projects that will continue the momentum in the J,K,L Corridor.

Attachment 2

LOAN AGREEMENT

This Loan Agreement (the "Agreement") is executed as of _____, 2008 by and between the City of Sacramento, a municipal corporation, 915 I Street, Sacramento CA 95814 ("Lender"), and the Redevelopment Agency of the City of Sacramento, a public body corporate and politic, 630 I Street, Sacramento, CA 95814 ("Borrower"). Lender agrees to lend a portion of the Sheraton Hotel and Garage sales proceeds in the amount of six million dollars (\$6,000,000.00), bearing interest at the rate of six percent per annum to Borrower, for use in financing critical Merged Downtown Redevelopment Area and Project Area 8 projects, upon the following terms and conditions:

1. **Term of the Loan:** The term of this loan shall begin on July 1, 2008 and continue until December 31, 2033.
2. **Payment:** Annual payment amounts reflect the scheduled Sheraton Hotel Garage Lease payments as they were prior to the sale of the Sheraton Hotel and Garage. The Agency's semi-annual payments to the City shall be due on each June 30th and December 31st pursuant to the following schedule:

<u>Year</u>	<u>June 30th Payment</u>	<u>December 31st Payment</u>	<u>Total</u>
<u>2008</u>		<u>\$ 125,000</u>	<u>\$ 125,000 (half year payment)</u>
<u>2009</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2010</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2011</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2012</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2013</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2014</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2015</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2016</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2017</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2018</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2019</u>	<u>\$ 313,880.50</u>	<u>\$ 313,880.50</u>	<u>\$ 627,761</u>
<u>2020</u>	<u>\$ 320,658</u>	<u>\$ 320,658</u>	<u>\$ 641,316</u>
<u>2021</u>	<u>\$ 327,571</u>	<u>\$ 327,571</u>	<u>\$ 655,142</u>
<u>2022</u>	<u>\$ 334,622.50</u>	<u>\$ 334,622.50</u>	<u>\$ 669,245</u>
<u>2023</u>	<u>\$ 341,915</u>	<u>\$ 341,915</u>	<u>\$ 683,830</u>
<u>2024</u>	<u>\$ 349,151.50</u>	<u>\$ 349,151.50</u>	<u>\$ 698,303</u>
<u>2025</u>	<u>\$ 356,634.50</u>	<u>\$ 356,634.50</u>	<u>\$ 713,269</u>
<u>2026</u>	<u>\$ 364,267</u>	<u>\$ 364,267</u>	<u>\$728,534</u>
<u>2027</u>	<u>\$ 372,052.50</u>	<u>\$ 372,052.50</u>	<u>\$ 744,105</u>
<u>2028</u>	<u>\$ 379,993.50</u>	<u>\$ 379,993.50</u>	<u>\$ 759,987</u>
<u>2029</u>	<u>\$ 387,593.50</u>	<u>\$ 387,593.50</u>	<u>\$ 775,187</u>
<u>2030</u>	<u>\$ 395,345</u>	<u>\$ 395,345</u>	<u>\$ 790,690</u>

<u>2031</u>	<u>\$ 403,252</u>	<u>\$ 403,252</u>	<u>\$ 806,504</u>
<u>2032</u>	<u>\$ 411,317</u>	<u>\$ 411,317</u>	<u>\$ 822,634</u>
<u>2033</u>	<u>\$ 419,543.50</u>	<u>\$ 419,543.50</u>	<u>\$ 839,087</u>

The payments resulting from this Agreement shall be subordinate to all Redevelopment statutory payments, all current Agency bonded debt obligations, Advance Repayment Agreement, and any loan or credit agreements with financial institutions. Any future obligations shall not be on parity or senior to this agreement without the expressed written consent of the City.

3. General Provisions:

- a. Any notice, demand, request, consent or approval that either party desires or is required to give the other party pursuant to this Agreement shall be in writing and either served personally or sent by prepaid, first-class, certified mail. Such matters shall be addressed to the other party at the address first above stated.
- b. In the event of a default hereunder and necessity of litigation to enforce any provision of this Agreement, the non-prevailing party in any litigation shall pay, in addition to any other damages awarded to the prevailing party therein, a reasonable sum as attorney's fees and costs as shall be established by the court.
- c. This Agreement constitutes the full Agreement by and between the parties that no other representation have been made regarding the contents of this Agreement.
- d. This Agreement shall not be amended, modified, or altered in any respect without such amendment, modification or alteration being reduced to writing and executed by the parties

LENDER:

CITY OF SACRAMENTO,
a Municipal Corporation

By:

City Manager

BORROWER:

**REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO,** a Public Body Corporate and
Polititc

By:

Interim Executive Director

Approved as to Legal Form:

By:

City Attorney

Attachment 3

PROMISSORY NOTE

June 30, 2008

Sacramento, CA

FOR VALUE RECEIVED, the Redevelopment Agency of the City of Sacramento ("Borrower"), promises to pay to the City of Sacramento ("Lender"), or its successors or assigns, the sum of Six Million Dollars (\$6,000,000) ("Principal Amount") or such lesser amount as may be endorsed on this Note on behalf of Lender, together with all interest thereon in payments in accordance with the schedule of payments below. The Loan shall bear interest on the outstanding principal balance, computed from the date of each advance by Lender to Borrower at the rate of six percent (6%) annually.

1. This Note evidences the obligation of Borrower to Lender for repayment of funds loaned by Lender to Borrower under a loan agreement between Borrower and Lender dated as of the Loan Date ("Loan Agreement"). The terms and covenants of the Loan Agreement are incorporated in this Note by reference.

2. Borrower shall make payments semi-annually on each June 30th and December 31st in the amounts shown in the Payment Schedule, beginning on the First Payment Date and continuing for the number of payments shown in the Payment Schedule. On the day of the last payment, the unpaid balance of said principal sum, if any, together with all unpaid interest, fees and charges due, if any, shall become due and payable. All payments on this Note shall be applied first to fees and charges due under the Loan Agreement, if any, then interest and then to the principal due on this Note. Borrower shall make the payments to the Lender at 915 "I" Street, Sacramento, CA 95814, or to such other person or organization as may be designated by Lender to Borrower and noticed as provided in the Loan Agreement.

SCHEDULE OF PAYMENTS

<u>Year</u>	<u>June 30th Payment</u>	<u>December 31st Payment</u>	<u>Total</u>
<u>2008</u>		<u>\$ 125,000</u>	<u>\$ 125,000</u> <u>(half year payment)</u>
<u>2009</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2010</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2011</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2012</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
<u>2013</u>	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 300,000</u>
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<u>2016</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
<u>2017</u>	<u>\$ 175,000</u>	<u>\$ 175,000</u>	<u>\$ 350,000</u>
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<u>2033</u>	<u>\$ 419,543.50</u>	<u>\$ 419,543.50</u>	<u>\$ 839,087</u>

3. No waiver of any default or breach by Borrower under this Note shall be implied from any omission by Lender to take action on account of such default, and no express waiver shall affect any default, other than the default specified in the waiver. Such waiver shall be in writing and shall be operative only for the time and to the extent therein stated.

4. Borrower shall pay to Lender all costs of enforcement of all or any portion of this Note and the Trust Deed, including attorney's fees, witness fees, investigator fees and court costs, incurred by Lender, whether or not litigation is commenced.

LENDER:

CITY OF SACRAMENTO,
a Municipal Corporation

By:

City Manager

BORROWER:

**REDEVELOPMENT AGENCY OF THE CITY
OF SACRAMENTO,** a Public Body Corporate and
Politic

By:

Interim Executive Director

Approved as to Legal Form:

By:

City Attorney

RESOLUTION NO. 2008-_____

Adopted by the Sacramento City Council

APPROVING DISTRIBUTION OF TWENTY-FIVE PERCENT OF THE NET PROCEEDS FROM THE SALE OF THE SHERATON GRAND HOTEL AND RELATED GARAGE TO THE PARKING FUND AND AGENCY; APPROVING A LOAN OF \$6,000,000 FROM THE PARKING FUND TO THE REDEVELOPMENT AGENCY FOR INVESTMENT INTO MERGED DOWNTOWN REDEVELOPMENT PROJECTS

BACKGROUND

- A.** On March 25, 2008 the City Council approved the sale of the Sheraton Grand Hotel with 25 percent of the net proceeds to be distributed to Parking Services and the Redevelopment Agency for investment into income generating projects. Of the 25 percent of net proceeds, funds were envisioned to be distributed to the Parking Fund (Fund 412 / 6004) to replace the revenue lost with the sale of the Sheraton and subsequent termination of the long-term Garage lease and the remainder to be distributed to the Redevelopment Agency.
- B.** The City desires to lend \$6,000,000 from the Parking Fund to the Redevelopment Agency for further investment into redevelopment projects in the Merged Downtown Redevelopment Area. The Agency will repay the Parking Fund (Fund 412 / 6004) the principal with 6 percent (6%) interest in semi-annual payments as set out in the Loan Agreement.

BASED ON THE FACTS SET FORTH IN THE BACKGROUND, THE CITY COUNCIL RESOLVES AS FOLLOWS:

- Section 1.** Based upon presentations made by the City Manager and other City staff to the City Council at the time of the adoption of this resolution, and upon such other matters as have previously been presented to the City Council, the City Council hereby determines that all statements set forth in paragraphs A and B above are true.
- Section 2.** The City Budget is amended allocating \$7,350,000 of the net proceeds from the sale of the Sheraton Hotel to the Parking Fund (Fund 412 / 6004) and the remaining 25% of net proceeds is allocated to the Agency.
- Section 3.** The City Manager is authorized to Loan \$6,000,000, from the Parking Fund (Fund 412 / 6004) to the Redevelopment Agency and execute

required documents to ensure repayment of the loan pursuant to the
Loan Agreement.

Attachment 5

RESOLUTION NO. 2008-_____

Adopted by the Redevelopment Agency of the City of Sacramento

**ACCEPTING DISTRIBUTION OF REMAINING TWENTY-FIVE
PERCENT OF THE NET PROCEEDS FROM THE SALE OF THE
SHERATON GRAND HOTEL AND RELATED GARAGE; APPROVING A
LOAN OF \$6,000,000 FROM THE PARKING FUND TO THE
REDEVELOPMENT AGENCY FOR INVESTMENT INTO MERGED
DOWNTOWN REDEVELOPMENT PROJECTS**

BACKGROUND

- A. The Redevelopment Agency of the City of Sacramento ("Agency") has adopted the Merged Downtown Redevelopment Plan ("Redevelopment Plan") and an Implementation Plan for the Merged Downtown Project Area ("Project Area").
- B. On March 25, 2008 the City Council approved the sale of the Sheraton Grand Hotel with 25 percent of the net proceeds to be distributed to Parking and the Redevelopment Agency for investment into income generating projects.
- C. Of the 25% of net proceeds, funds were envisioned to be distributed to the Parking Fund (Fund 412 / 6004) to replace the revenue lost with the sale of the Sheraton and subsequent termination of the long term Garage lease.
- D. The Agency desires to borrow \$6,000,000 from the Parking Fund (Fund 412 / 6004) to invest into redevelopment projects in the Merged Downtown Redevelopment Area and repay with 6 percent (6%) interest and annual payments as set out in the attached payment schedule.

**NOW, THEREFORE, BE IT RESOLVED BY THE REDEVELOPMENT AGENCY OF
THE CITY OF SACRAMENTO:**

- Section 1.** After due consideration of the facts presented, the transfer of \$6,000,000 from the Parking Fund to the Agency is approved and the Interim Executive Director of the Agency is authorized to execute any and all agreements, subject to the approval as to form by Agency Counsel, necessary to ensure timely repayment to the Parking Fund (Fund 412 / 6004).

Section 2. The Agency budget is amended to receive the balance remaining from 25% of the net proceeds from the sale of the Sheraton Hotel/Garage minus the distribution to Parking and accepting the \$6,000,000 loan funds from the Parking Fund.

ATTEST:

CHAIR

SECRETARY