



City of Alexandria

# Resolution to Provide a City “Moral Obligation” for VRA-Issued Bonds to ARHA for Acquisition of The Alate

**City Council Legislative Meeting**

June 24, 2025





# Project Summary

- ARHA proposes to acquire The Alate (~\$56 M) as a permanent relocation housing resource for 110 age-eligible Ladrey residents
- Urgency to act:
  - HUD has terminated operating support for Ladrey and issued vouchers to relocate its 168 residents
  - The Ladrey property is in very poor condition
- The Ladrey renovation project would occur after relocation of residents
- Existing Alate residents can stay; the current owner is offering relocation assistance



# Why is a Moral Obligation needed?

- The City's credit reduces the loan interest rate making the project more feasible
- VRA will not provide the loan without a City guarantee

**Moral Obligation**



# Details of Moral Obligation (1 of 2)

- A moral obligation is a credit enhancement where a locality expresses its intent to appropriate funds to cover any debt service shortfall without legally guaranteeing the debt with its full faith and credit
- The obligation effectively requires the City to backstop VRA's loan to ARHA
- In the event ARHA can't repay the loan, the City would have to make payments on ARHA's behalf

**Moral Obligation**



## Details of Moral Obligation (2 of 2)

- Debt service is approximately \$3.5 M/year
- Serious consequences:
  - ▶ If the City doesn't honor its moral obligation, the state of VA can withhold payments and reimbursements due to Alexandria
  - ▶ If the City makes payments, the entire debt amount is carried on the City's balance sheet, limiting its ability to borrow for City projects



# Resolution

Provides City Council approval of moral obligation pending:

- Execution of VRA-ARHA-City Support Agreement
- Execution of ARHA-City Performance Agreement
- Authorizes City Manager to make go/no-go call, in consultation with Council, through 7/21 (before the bond pricing/sale date) to assure all terms are met

**Resolution**



# What are the potential risks to the City?

- Availability of Federal voucher funding
- Completion of HUD process to project-base vouchers
- ARHA's limited experience managing and maintaining properties like The Alate
- Feasibility of the project and ARHA's ability to repay the VRA bonds
- Relocation of all Ladrey residents
- Development, funding, and implementation of plan for Ladrey renovation

**Potential Risks**



# Performance Agreement (1 of 4)

## Financial Risk Safeguards – ARHA will:

- Reimburse the City for any payments made to VRA under the moral obligation
- Provide a \$6,000,000 irrevocable letter of credit
- Pledge revenues from real properties currently valued at \$6,000,000
  - In the event of default, the City may acquire these properties from ARHA at no cost
- Obtain City approval prior to any sale of the Alate property
  - VRA has agreed to cooperate with the City in this process





# Performance Agreement (2 of 4)

## Financial Risk Safeguards – ARHA will:

- Maintain HUD project-based voucher levels at the Alate property
- Make a Payment in Lieu of Taxes (PILOT) equal to 3% of effective gross revenue
- Submit an annual financial report to the City



# Performance Agreement (3 of 4)

## Use of Alate Property – ARHA will:

- Operate the Alate property as affordable senior housing for at least 30 years
- Grant the City a Right of First Refusal on any sale of the Alate property
- Maintain professional third-party property management



# Performance Agreement (4 of 4)

## Ladrey Renovation Safeguards – ARHA will:

- Submit monthly reports to the City on the relocation of Ladrey residents
- Provide semi-annual updates on progress toward the renovation of the Ladrey building
- Work in good faith to complete the Ladrey renovation within three (3) years
- Prioritize completion of the Ladrey renovation before proposing new projects to City Council



# AHAAC's input

AHAAC's Investment Subcommittee provided a memo to Council in support of the VRA-funded acquisition

- ▶ Ladrey conditions necessitate immediate relocation of residents
- ▶ The Alate acquisition offers a creative solution for use of underutilized asset
- ▶ Endorsed new tools for affordable housing: VRA bonds + City obligation
- ▶ ARHA can focus on Ladrey renovation
- ▶ Concerns: future availability and amount of federal funding/potential impact of project on citywide vouchers; limitation on City funding for other housing projects in event City must assist with repayment



# Other options considered

- ▶ Matrix of other options considered by staff:
  - ▶ Only ARHA rental of Alate units vs. acquisition funded through VRA avoids City moral obligation (it is not clear that ARHA has seriously explored other financing options)
  - ▶ Use of vouchers city wide for Ladrey relocation

**Other options**



# Staff considerations

- City risk cannot be eliminated completely but will be mitigated through Performance Agreement.
- Default risk is mitigated through additional ARHA collateral and a letter of credit.
- ARHA's focus on completing The Alate financing, tenant relocations, and the process to project-base vouchers, as well as conducting an efficient process to plan, fund and implement the renovation of Ladrey, including community engagement, will be assured through regular reporting to City and parameters limiting other interim development.
- City and ARHA to complete an updated Memorandum of Understanding to guide their future collaboration and communication.



# Questions?

