



Legislation Text

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City of Alexandria, Virginia

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MEMORANDUM

**DATE:** FEBRUARY 20, 2024

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** JAMES F. PARAJON, CITY MANAGER /s/

**DOCKET TITLE:**

Consideration of Authorization to the City Manager to Enter into a Support Agreement in Connection with a Loan to be Obtained by the Industrial Development Authority for Certain Economic Development Activities.

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**ISSUE:** Approval of a Support Agreement from the City in connection with a loan to be obtained by the Industrial Development Authority of the City of Alexandria (the “IDA”) for the purpose of financing the acquisition and build out of three commercial condominium units located at the Muse in Old Town North. The support of this loan delivers and activates the first designated arts space within the Old Town North Arts District.

**RECOMMENDATION:** That City Council:

1. Authorize the City Manager to execute a Support Agreement, in substantial conformance with the attachment to this memorandum (Attachment 1), in connection with a loan to be obtained by the IDA for the purpose of financing the acquisition and build out of three commercial condominiums units and activates the first designated arts space within the Old Town North Arts District; and
2. Direct the City Manager to include for City Council consideration an appropriation equal to the amortization schedule as a part of annual budget and appropriation authorization process during the loan repayment period.

**BACKGROUND:** During the Old Town North planning process, the City and Community prioritized the “arts” in the 2017 Small Area Plan which allowed developers to receive a density bonus to their projects in exchange for creating “arts catalyst spaces.”

Over the course of the COVID-19 pandemic, businesses were disproportionately and negatively impacted throughout the City. This had the effect of creating a gap in available financing for new businesses to invest in

the City of Alexandria and arts catalysts faced a roadblock trying to fund the necessary tenant improvements to build out their spaces for tenancy. The City and Alexandria Economic Development Partnership (“AEDP”) have been working with arts users and developers to help identify options for funding tenant improvements including loans and grant programs.

The Art League has agreed to enter into a lease obligation to occupy and operate the three commercial condominium units once the mutually agreed upon buildout is completed. Assisting The Art League to finance the buildout of the units will deliver and activate the first arts catalyst space within the Old Town Arts District.

**DISCUSSION:** As part of the City’s Economic Recovery efforts, staff explored tools not yet utilized or enabled at the federal, state, and local level that support new investment and growth. With a focus on the City’s goal to retain existing businesses including arts catalyst non-profits and jump start attraction of new businesses after the pandemic, staff has determined that the IDA could be further leveraged for such purposes. IDA is a seven-member board, appointed by City Council, to promote and facilitate economic and commercial development activities in the City. Since 1998, the IDA as a conduit bond issuer has assisted 90 nonprofit organizations with bond financing, issuing \$1.5 billion in revenue bonds. Further, the City is authorized to make gifts, donations, and appropriations of money to the IDA for the purpose of promoting economic development, pursuant to Section 15.2-953 of the Code of Virginia.

In order to fund the improvements necessary for The Art League’s occupancy, the IDA has created a plan of finance that involves a direct investment of \$250,000 of American Rescue Plan Act of 2021 funds previously allocated as seed funding for the Arts District and a loan of \$800,000 from the Virginia Small Business Financing Authority (“Bank”) with the IDA receiving and managing the borrowed funds from the Bank (See Attachment 2 for term sheet). The financing plan will fund the cost of acquisition and the cost of the improvements necessary to occupy the space. The Art League will be responsible for paying IDA on a monthly basis in order for IDA to service the Bank loan’s debt service payments over the amortization period. The Bank, AEDP, IDA, and City have received financial documents from the Art League including past financial statements and proforma for the proposed project. The parties concluded that the organization’s financial projections are reasonable enough to cover the debt service. IDA will assign to the Bank its collateral interest in the commercial condominium units. Due to the 30-year arts use and rent-free requirements, the Bank cannot look solely to their collateral interest in the real estate to satisfy their credit requirements - therefore, the Bank has requested a City Support Agreement providing a non-binding backstop to the IDA in the event that the Art League is unable to cover its obligations associated with the loan repayment.

Under the Support Agreement, the City Council, subject to appropriations, would undertake to authorize payments to or for the credit of the IDA in amounts that, to the extent of any deficiencies in loan repayments from the Art League, will enable the IDA to pay scheduled debt service and other related amounts due to the lender. The IDA agrees to use any funds received by the Art League in excess of amounts owed to the Bank to reimburse the City for any payments and general and administrative expenses (associated with managing the units and a reserve account for capital expenditures). In addition, the IDA agrees to use excess monthly payments required in order to maintain a debt service coverage to fund and maintain reserves equal to one year debt service for the loan.

Assisting the Art League with the build out achieves the following goals:

- Activates the arts catalyst space at the Muse development, which will be the first redevelopment project to open a designated arts anchor space after taking advantage of the density bonus program.
- A minimum of 100 students and visitors will experience arts classes, workshops, and exhibits that will

- feature fiber, printmaking, stained glass programs.
- A minimum of three events or activities in the Arts Walk per year that are accessible and free to the public.
- Ensures that one of the two arts anchors opens and operates the first arts location as identified in the Old Town North Small Area Plan.

**FISCAL IMPACT:** The support agreement is a non-binding undertaking of the City Council to consider certain appropriations during the loan repayment period to the Authority to the extent of any deficiencies in loan repayments from the Art League. Given the non-binding nature, there is no negative fiscal impact of authorizing the execution of the Support Agreement at this stage. Rejecting the supporting agreement can jeopardize the Old Town North Arts District vision and the associated positive fiscal impacts related to annual business tax revenues, sales tax revenues, tourism and job creation around this neighborhood - the Art League has noted that each year it attracts more than 21,000 visitors, provides more than 11,000 class enrollments, engages 150 artist instructors and educators, and also employs 20+ staff and it can leverage its historic success and broad reach to expand program opportunities here and benefit Old Town North and the City. For the duration of the loan, the annual appropriation request averages approximately \$59,000. During the term of the 10-year loan and associated support agreement, in the unlikely event that the Art League is unable to repay any of the debt service associated with the loan, the current and future City Councils will need to consider total appropriation requests that would range from \$570,000 to \$590,000. IDA anticipates refinancing the loan at or before maturity (March 2034) and may seek a future support agreement if required (the “balloon” debt service payment due at maturity is not part of this support agreement). The actual appropriation required based on the closing documents will be reflected in the final FY 2025 budget presented to City Council.

**ATTACHMENTS:**

1. Support Agreement
2. Term Sheet from Virginia Small Business Financing Authority
3. Presentation

**STAFF:**

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