

CITY OF KIRKLAND

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**DEPARTMENT OF PLANNING AND COMMUNITY DEVELOPMENT
MEMORANDUM**

To: David Ramsay, City Manager

From: Dorian Collins, AICP, Senior Planner

Date: January 25, 2007

Subject: ARCH HOUSING TRUST FUND RECOMMENDATION FOR SPRING 2007, File MIS07-00001

RECOMMENDATION

Staff recommends that the City Council adopt a motion to approve the recommendations and conditions of approval of the ARCH Executive Board for the Fall 2006 Housing Trust Fund to allocate \$36,592 to the St. Andrew's Housing Group (SAHG) – 280 Clark project. The second request is from ARCH, which seeks authority to use existing unspent housing funds on a short term, as needed basis for First Right of Refusal Purchase Authority.

BACKGROUND DISCUSSION

SAHG- 280 Clark

As in previous funding rounds, general funds set aside by the Council for low and moderate income housing development projects are administered through the ARCH Housing Trust Fund application process. The ARCH Executive Board has recommended that \$36,592 previously allocated from the Kirkland general fund to the ARCH Housing Trust Fund, be awarded to St. Andrews Housing Group (SAHG). They would use the funds for permanent acquisition and consultant costs associated with the acquisition and rehabilitation of the existing 30-unit 280 Clark Street housing project

ARCH-First Right of Refusal Purchase Authority

ARCH is seeking authority from Council to use unspent City Housing Funds, either alone or in combination with other City's Housing Trust Funds, to preserve the affordability of price restricted ownership housing units that are in default of their resale covenants. The intent would be to use Housing Funds to purchase a price restricted ownership unit in default of its covenant, get it ready for resale to a qualified buyer, and then return the proceeds of the resale to the Housing Funds.

January 25, 2007

Page 2

A summary of the Executive Board recommendations for these two items is included as Attachment 1 to this memorandum. Additional information regarding the proposed projects can be provided at the February 6th City Council meeting, if desired.

cc: MIS07-00001

Arthur Sullivan, ARCH, 16225 NE 87th Street, Suite A-3, Redmond, WA 98052

TO: City of Bellevue Council Members
City of Kirkland Council Members
City of Mercer Island Council Members
City of Kenmore Council Members
City of Issaquah Council Members

FROM: Ben Yazici, Chair and ARCH Executive Board

DATE: December 15, 2006

RE: **Fall 2006 Housing Trust Fund (HTF) Recommendation**

The ARCH Executive Board has completed its review of two of the three applications applicable to the Fall funding round of the 2006 Housing Trust Fund. The recommendations total \$355,000 of local funding as summarized in the attached table, Proposed Funding Sources. The actual amount will depend on final action by the City Councils.

Following is a summary of the applications, our recommendation and rationale, and recommended contract conditions. Also enclosed is an economic summary for the project seeking funding, leveraging chart, project summary table, and a summary of funded projects to date.

**ATTACHMENT 1, Part 1
HTF MIS07-00001**

1. St. Andrew's Housing Group (SAHG)--280 Clark

Funding Request: \$ 450,000 (Contingent Loan)
8 Units of Project Based Section 8

CAB Recommendation: \$ 355,000
8 Units of Project Based Section 8

See attached Funding Chart for distribution of funds

Project Summary

The 280 Clark project is a 30-unit existing housing project located on a 1.83 acre site, located on the southern edge of the downtown area of the City of Issaquah. 280 Clark St was a 'market rate' development that St Andrews bought at the same time they bought Mine Hill, a 28 unit Section 8 preservation project. As part of this purchase, the project also contains an adjacent parcel, approximately a half acre in size, which is currently developed with a duplex. The applicant proposes to tear down the duplex and construct 8 new units of housing and community space/offices that would serve both the Clark Street and Mine Street properties.. Within these 38 units, the applicant proposes to include 8 units of housing for homeless families.

The existing 280 Clark complex consists of five, two-story garden style buildings. The units are all two bedroom units with 18 units having one bath and 12 having 2 baths. The property was built between 1984-1986. The property has surface parking, with some carports.

For the existing units, the proposal is to have three affordability levels:

30%-- 7 units. (these are proposed as homeless units)

50%-- 19 units. (6 of these are proposed as project based section 8, and mgr unit included)

60%-- 4 units.

The proposed new construction of 8 units would be all three bedroom units, and also have three affordability levels;

30%-- 1 unit. (proposed as a homeless unit)

50%-- 2 units. (these are proposed as project based section 8)

60%-- 5 units.

For any units serving the homeless, Hopelink will provide services to the homeless tenants, as well as continuing case management for those transitional tenants who transition into permanent housing at 280 Clark. Services will be provide on site, to the extent space is available, and off site for other services. Hopelink will coordinate with other agencies for off site services, such as Seattle Mental Health for mental health services.

Funding Rationale:

The Executive Board supported redevelopment of the existing portion of this application, but did not support funding the new construction element, for the following reasons:

Supportive rationale for the rehab of the existing 30 unit project is as follows:

- Preserves Permanent housing for low and moderate income tenants.
- Strong leverage of other public funding.
- Location convenient to downtown Issaquah and to public transit.
- Project is adjacent to another applicant owned property and could lead to long term cost efficiencies between the two projects.

Non Supportive rationale for the new construction element of the project is as follows:

- The Executive Board finds that as proposed, the construction cost for the new units is very high. The applicant did not adequately justify the increased cost level, even after accounting for the proposed community spaces. Also, since the property is owned by St Andrews, it is not critical to proceed with the new units at this time, and they could still be pursued at a later date if not done now. The Executive Board does not object to the concept of adding additional units and some community space to the project, and would be willing to consider an application in the future for new units that is responsive to the issues they raised.

Conditions:

1. Funds shall be used by Saint Andrew's Housing Group ('Agency') towards permanent acquisition expenses for the Project, as approved by City Staff. Except, if CDBG funds are used in the Project, these shall not be used for acquisition, but may be used for other eligible Project expenses. Funds may not be used for any other purpose unless City Staff have given written authorization for the alternate use.
2. Prior to the release of the funding commitment proposed for development of the property, the Agency shall submit documentation of the commitment of all proposed public and private funds needed to complete the project. In the event commitment of funds identified in the application cannot be secured in the time frame identified in the application, the Agency shall immediately notify City Staff, and describe the actions it will undertake to secure alternative funding and the timing of those actions subject to City Staff's review and approval.

3. The funding commitment shall continue for eighteen (18) months from the date of Council approval and shall expire thereafter if all conditions are not satisfied. An extension may be requested to City staff no later than sixty (60) days prior to the expiration date. City staff will consider an extension only on the basis of documented, meaningful progress in bringing the project to readiness or completion.

4. Funds will be in the form of a contingent loan. Loan terms will account for various factors, including loan terms from other fund sources and available cash flow. Final loan terms shall be determined prior to release of funds and must be approved by City Staff. Based on the preliminary development budget, it is anticipated that loan payments will be based on a set repayment schedule, and begin in the year after repayment of the deferred developer fee (in year 8). The terms will also include a provision for the Applicant to request a deferment of a payment if certain conditions are met (e.g. low cash flow due to unexpected costs). Any requested deferment of loan payment is subject to approval by City Staff, and any deferred payment would be repaid from future cash flow or at the end of the amortization period.

5. Until such time as the deferred developer fee is fully repaid, all cash flow after payment of operating expenses and debt service, shall be used to repay the deferred developer fee, the Investor Management Fee, or the Company Management Fee.

6. A covenant is recorded ensuring affordability for at least 50 years, with affordability as shown in the following table. Affordability levels will be defined using the requirements for tax credits, and utility costs will be based on King County Housing Authority allowances, unless otherwise approved by City Staff.

Median Income Level	2 bed	Total
Low Income * 31-50%	26	26
Moderate Income 51-60%	3	3
Managers Unit (unrestricted)	1	1
Total	30	30

- *8 of these may be Section 8 units.
- The manager’s unit will not be income restricted

7. The Agency may use up to eight (8) units to serve the homeless, so long as necessary services funding is in place and City staff has reviewed and approved the Agency's proposed services plan and budget.

8. Prior to release of funds, the Agency shall submit evidence of site control..

9. Prior to release of funds, the Agency shall provide a revised project implementation timeline, development budget and operating budget based upon more complete cost estimates and actual funding commitments, which must be approved by City Staff. If the Agency is unable to adhere to the timeline and/or budgets, City Staff must be immediately notified and a new timeline and/or budgets shall be submitted by the Agency for the City Staff's approval. The City shall not unreasonably withhold its approval to a revised timeline and/or budgets, so long as such new timeline and/or budgets does not materially adversely change the Project. This shall be a continuing obligation of the Agency. Failure to adhere to the timeline and budgets, either original or as amended, may result in withdrawal of the City's commitment of funds.

10. Prior to release of funds, submit a property management plan which will address: tenant selection procedures, management procedures to address tenant needs, services provided for or required of tenants, a short and long term strategy for covering operating expenses. Establish a resident council, resident feedback meetings, suggestion box, or other system, to allow residents to have input into issues affecting the premises and management of the property. It shall also include a summary of ARCH's affordability requirements, a strategy for the use of the ARCH mailing list in the leasing of the units, as well as to include the ARCH annual monitoring procedure requirements. The management plan must be approved by City Staff to insure compliance with the funding conditions.

11. In the event federal funds are used, and to the extent applicable, federal guidelines must be met, including but not limited to: contractor solicitation, bidding and selection; wage rates; and Endangered Species Act (ESA) requirements.

12. Maintain documentation of all necessary licenses, land use approvals and permits.

13. Submit monitoring reports quarterly through completion of the project, and annually thereafter. Submit a final budget upon project completion. If applicable, submit initial tenant information as required by the City.

2. A Regional Coalition for Housing (ARCH) –First Right of Refusal Purchase Authority

Funding Request: \$ N/A....Seeking Authority to use existing unspent Housing Funds on a short term basis (less than 6 months) on an as needed basis

Ex. BD Recommendation: Approve with conditions

Project Summary:

ARCH is proposing the use of Housing Trust Funds to purchase price restricted affordable ownership units that are in default of the restrictive covenant for the property.

ARCH monitors price restricted ownership units for a number of members of ARCH. Currently there are over 250 homes with resale restrictions, and a significant number of additional homes expected in the next few years. These homes typically are affordable to households at 80% of median income, with some affordable at 100% of median income. In the past year there have been several scenarios that have lead to a default in the covenant recorded against the sale of these units. Examples of default scenarios include:

- The owner's mortgage is in foreclosure;
- The owner no longer lives in the unit as a primary residence.

While the covenant provides options for default scenarios, one potential action for preserving the home as an affordable unit is to purchase the home and then resell it to another qualified buyer. It is difficult to predetermine when default situations will occur, and in the case of a lender foreclosure, it can require quick action by a City in order to preserve the home's long term affordability. Reasons for seeking this preauthorization is there could be timing factors in receiving city approval of use of funds, or funds may not be readily available in the community a home is located. Typically these homes have affordable prices up to the low \$200,000's, with some homes up to about \$250,000.

The intent of this proposal would be to authorize the ARCH Executive Board, after pursuing other available options, if necessary purchase an affordable home with existing trust funds (either unused, or committed/but not expected to be used by the agency for up to 6 months), make it ready for sale (as necessary) and sell the home to a qualified household. A new resale covenant would be recorded at time of resale. The proceeds from the sale would then be returned to the City/Cities from which it came. In some circumstances it is possible that all the expenses associated with purchasing and reselling a home (e.g. paying existing mortgage/deferred mortgage payments, foreclosure administrative fees, resale costs) could exceed the amount of resale proceeds. In such circumstances, it is proposed that the Executive Board would have the authority to

approve modifying the affordability level of the home, or subsidizing the sale of a home in order to address a short fall of funds.

Funding Rationale:

The Executive Board discussed this project and noted the following rationale that makes the requested authority desirable, subject to clarification on the issue of foreclosures and bankruptcies:

- Preserves units threatened with loss of affordability.
- Potentially provides a faster purchase time in response to ownership home covenant default scenarios.
- If necessary, multiple cities funds would be available as a source of funding .
- There would be legal review by City Attorneys on each individual home where purchase is being considered. This would include legal evaluation of the impact bankruptcy or other proceedings related to a foreclosure could impact the City being able to recover their funds and resell the property.

Conditions:

1. Funds through this authority shall be used for costs associated with the purchase, repair and selling of price restricted homes, where a default has occurred on their covenant and resale agreement. Funds may not be used for any other purpose. .

2. Funds available under this authority shall be all City funds reserved for the ARCH Housing Trust Fund, including those funds which are already committed to a project, but for which such funds will not be needed prior to the time a home can be purchased and resold through this authority.

3. This authorization shall be approved by member city councils with funding reservations to the ARCH Housing Trust Fund. Once approved, the ARCH Executive Board must approve any expenditures under this authorization, which approval process shall include evaluating alternative methods for curing a default that do not require direct expenditure of local funds.

4. Any funds made available will be secured in a form approved by the ARCH Executive Board. (e.g. Deed of Trust recorded against the home).

5. At the time of resale closing, a new covenant and resale agreement shall be recorded, The affordability level for the new resale covenant shall be the same as provided within the covenant that secured the home at the time of purchase by the City(ies) unless otherwise approved by the ARCH Executive Board.

6. Proceeds from the resale of a home purchased under this authority will be used to reimburse the City(ies) that provided funding for the purchase of the home.

7. In the event there will not be sufficient proceeds from sale proceeds at the current affordable price to fully reimburse costs, the ARCH Executive Board will have the authority to either modify the targeted affordability level, or subsidize a portion of the city(ies) funds made available in order preserve long term affordability of the home.

ECONOMIC SUMMARY: 280 CLARK STREET APARTMENTS

1. Applicant/Description: SAHG/ Acquisition-rehab of 30 units and new construction of 8 units of permanent rental housing for very low, low and moderate income individuals and families (includes a managers unit and may include 8 units of homeless housing).

2. Project Location: 280 SW Clark Street, Issaquah, Wa.

3. Financing Information: **BASED ON APPLICATION**

Funding Source	Funding Amount	Commitment
ARCH	\$ 450,000	Applied for Fall 2006
King County	\$ 975,000	Applied for Fall 2006
State	\$ 975,000	Applied for Fall 2006
LIHTC	\$ 2,095,381	Apply January 2007
Tax Exempt Bonds	\$ 2,450,000	Apply February 2007
Deferred Developer Fee	\$ 270,243	Proposed
Cash Flow/reserve	\$ 209,000	Proposed
Sound Families	\$ 160,000	Applied for Fall 2006
TOTAL	\$ 7,584,624	

4. Development Budget:

ITEM	TOTAL	PER UNIT	HTF
Acquisition	\$ 3,130,587	\$ 82,384	\$ 214,592
Construction	\$ 2,477,193	\$ 65,189	
Design	\$ 214,325	\$ 5,640	\$ 169,535
Developer Fee	\$ 650,000	\$ 17,105	
Other Consultants	\$ 187,160	\$ 4,925	\$ 44,790
Finance Fees (includes Tax Credits)	\$ 358,689	\$ 9,439	
Permits/Fees	\$ 78,758	\$ 2,073	
Reserves	\$ 282,348	\$ 7,430	
Relocation	\$ 150,000	\$ 3,947	\$ 21,083
Insurance	\$ 33,813	\$ 890	
Other	\$ 21,751	\$ 2,151	
TOTAL	\$ 7,584,624	\$ 201,174	\$ 450,000

5. Debt Service Coverage: 1.26 ratio on the bonds. 1.00 ratio on all debt service. City loans will

provide for repayment over a set number of years at fixed % interest and deferral if for certain reasons.

6. Security for City Funds:

- A recorded covenant to ensure affordability and use for targeted population for at least 50 years.
- A promissory note secured by a deed of trust. The promissory note will require repayment of the entire loan amount upon non-compliance with any of the conditions of loan approval.

ARCH HOUSING TRUST FUND, FALL 2006

Leveraging Funds - - Based on Executive Board's Recommendation

	SAHG--280 Clark Street		ARCH- 1sr Right Purchase Authority		TOTAL
ARCH Committed Local Public	\$355,000	5%	\$0	#DIV/0!	\$355,000
King County HOF/Challenge HOME CDBG HOPWA					
KC TOTAL	\$975,000	13%	\$0	#DIV/0!	\$975,000
WA HAP	\$975,000	13%	\$0	#DIV/0!	\$975,000
Federal/HUD Section 811 McKinney					
FEDERAL TOTAL					
Tax Credits	\$2,095,381	28%	\$0	#DIV/0!	\$2,095,381
Federal Home Bank					
Bonds	\$2,450,000	33%			\$2,450,000
Bank Loans	\$0	0%	\$0	#DIV/0!	\$0
Private	\$479,243	6%	\$0	#DIV/0!	\$479,243
Other	\$160,000	2%	\$0	#DIV/0!	\$160,000
TOTAL COST	\$7,489,624	100%	\$0	#DIV/0!	\$7,489,624

**ARCH HOUSING TRUST FUND (HTF) RECOMMENDATION
FALL 2006**

Applicant	Housing Type	# of units/ bdrms	Income served	Project Location	Duration of benefit	Total cost per unit	HTF cost per aff. unit	Funds Requested (Grant/Loan)	Funding Recommendation
St Andrew's Housing Group 280 Clark	(Acquisition/Rehab)	30 units Family Rental	26 @ 50% 3 @ 60% (1 mgr unit) unrestricted	280 SW Clark St. Issaquah	50 years	\$ 199,595 total \$179,110 30 unit/ rehab \$\$283,912 8 units/ new	\$12,241 (based on 29 aff. Units)	\$450,000 (Loan) 8 PB Section 8	\$355,000 8 PB Section 8
ARCH First Right of Refusal Purchase Authority	Ownership Units only	N/A	N/A	East King County	On-going	Maximum of \$330,000 per home	N/A	Uses existing ARCH HTF funds	Authority to use HTF Funds

FALL 2006 HOUSING TRUST FUND: PROPOSED FUNDING SOURCES

SOURCE	PROJECT		
		St Andrews 280 Clark St	Preserving Restricted Owner Units
Request		\$ 450,000	NA
CAB Recommendation		\$ 355,000	NA
Sub-Regional CDBG		\$ 235,408	
Bellevue CDBG General Fund		\$ 40,000	
Issaquah		\$ 5,000	
Kirkland General Fund		\$ 36,592	
Mercer Is. General Fund		\$ 13,000	
Redmond General Fund			
Newcastle General Fund			
Kenmore General Fund		\$ 25,000	
Woodinville General Fund			
Clyde Hill General Fund		\$ -	
Medina General Fund		\$ -	
Hunts Point General Fund			
TOTAL		\$ 355,000	
CDBG		\$ 235,408	
General Fund		\$ 119,592	

ARCH: EAST KING COUNTY TRUST FUND SUMMARY

LIST OF PROJECTS FUNDED (1993 - Fall 2005)

Project	Location	Owner	# Units/Beds	Funding	% of Total Allocation	Distribution Target
1. Family Housing						
Andrews Heights Apartments	Bellevue	St. Andrews	24	\$400,000		
Garden Grove Apartments	Bellevue	DASH	18	\$180,000		
Overlake Townhomes	Bellevue	Habitat of EKC	10	\$120,000		
Glendale Apartments	Bellevue	DASH	82	\$300,000		
Wildwood Apartments	Bellevue	DASH	36	\$270,000		
Somerset Gardens (Kona)	Bellevue	KC Housing Authority	198	\$700,000		
Pacific Inn	Bellevue *	Pacific Inn Assoc.	118	\$600,000		
Eastwood Square	Bellevue	Park Villa LLC	48	\$600,000		
Chalet Apts	Bellevue	St Andrews	14	\$163,333		
YWCA Family Apartments	K.C. (Bellevue Sphere)	YWCA	12	\$100,000		
Highland Gardens (Klahanie)	K.C. (Issaquah Sphere)	St. Andrews	54	\$291,281		
Crestline Apartments	K.C. (Kirkland Sphere)	Shelter Resources	22	\$195,000		
Parkway Apartments	Redmond	KC Housing Authority	41	\$100,000		
Habitat - Patterson	Redmond	Habitat of EKC	24	\$446,629		
Avon Villa Mobile Home Park	Redmond **	MHCP	93	\$525,000		
Terrace Hills	Redmond	St. Andrews	18	\$442,000		
Village at Overlake Station	Redmond	KC Housing Authority	308	\$1,645,375		
Summerwood	Redmond	DASH	166	\$1,198,034		
Habitat - Bothell Site	Bothell	Habitat of EKC	8	\$170,000		
Habitat - Newcastle Site	Newcastle **	Habitat of EKC	12	\$240,837		
Talus Property	Issaquah ***	St. Andrews	40	\$1,063,718		
Mine Hill	Issaquah	St. Andrews	28	\$450,000		
Issaquah Highlands Property	Issaquah ***	SAHG/SRI	45	\$569,430		
Greenbrier Family Apts	Woodinville **	DASH	50	\$286,892		
Plum Court	Kirkland	DASH	61 /66	\$1,000,000		
Kenmore Court	Kenmore	LIHI	33	\$350,000		
ADU Loan Program	Various		6 est	\$70,000		
Homeowner Downpayment Loan	Various	KC/WSHFC/ARCH	35 est	\$215,000		
SUB-TOTAL			1604	\$12,692,530		58.4% (56%)
2. Senior Housing						
Cambridge Court	Bellevue	Resurrection Housing	20	\$160,000		
Ashwood Court	Bellevue *	DASH/Shelter Resources	50	\$1,070,000		
Evergreen Court (Assisted Living)	Bellevue	DASH/Shelter Resources	64 /84	\$1,280,000		
Vasa Creek	K.C. (Bellevue Sphere)	Shelter Resources	50	\$190,000		
Riverside Landing	Bothell **	Shelter Resources	50	\$225,000		
Kirkland Plaza	Kirkland	St. Andrews	24	\$610,000		
Heron Landing	Kenmore	DASH/Shelter Resources	50	\$65,000		
Ellsworth House Apts	Mercer Island	St. Andrews	59	\$900,000		
Greenbrier Sr Apts	Woodinville **	DASH/Shelter Resources	50	\$131,192		
SUB-TOTAL			417	\$4,631,192		21.3% (19%)
3. Homeless/Transitional Housing						
Hopelink Place	Bellevue **	Hopelink	20	\$500,000		
Chalet	Bellevue	St Andrews	4	\$46,667		
Kensington Square	Bellevue	Housing at Crossroads	6	\$150,000		
Dixie Price Transitional Housing	Redmond	Hopelink	4	\$71,750		
Avondale Park	Redmond	Springboard (EHA)	18	\$280,000		
Avondale Park Redevelopment	Redmond **	Springboard (EHA)	60	\$1,502,469		
Petter Court	Kirkland	KITH	4	\$100,000		
Talus Property	Issaquah ***	St. Andrews	10	\$265,930		
Issaquah Highlands Property	Issaquah ***	SAHG/SRI	5	\$70,000		
SUB-TOTAL			113	\$2,986,815		13.7% (13%)
4. Special Needs Housing						
My Friends Place	Uninc. KC	EDVP	6 Beds	\$65,000		
Stillwater	Redmond	Eastside Mental Health	19 Beds	\$187,787		
Foster Care Home	Kirkland	Friends of Youth	4 Beds	\$35,000		
DD Group Home	Redmond/TBD	Community Living	5 Beds	\$111,261		
United Cerebral Palsy	Bellevue/Redmond	UCP	9 Beds	\$25,000		
DD Group Home	Bellevue	Residence East	5 Beds	\$40,000		
AIDS Housing	Bellevue/Kirkland	Aids Housing of WA.	10 Units	\$130,000		
Harrington House	Bellevue	AHA/CCS	8 Beds	\$290,209		
DD Group Home	Bellevue	Community Living	5 Beds	\$21,000		
Parkview DD Condos III	Bellevue	Parkview	4	\$200,000		
IERR DD Home	Issaquah	IERR	6 Beds	\$50,209		
Foster Care Home	Bothell	FOY	4 Beds	\$50,000		
Oxford House	Bothell	Oxford/Compass Ctr.	8 Beds	\$80,000		
Parkview DD Homes VI	Bellevue/Bothell	Parkview	6 Beds	\$150,000		
SUB-TOTAL			99 Beds/Units	\$1,435,466		6.6% (12%)
TOTAL			2233	\$21,746,003		100.0%

* Funded through Bellevue Downtown Program

** Also, includes in-kind contributions (e.g. land, fee waivers, infrastructure improvements)

*** Amount of Fee Waiver still to be determined