



**CITY OF KIRKLAND**  
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## **MEMORANDUM**

**To:** David Ramsay, City Manager  
**From:** Dawn Nelson, AICP, Planning Supervisor  
**Date:** February 2, 2009  
**Subject:** ARCH ADMINISTRATIVE STRUCTURE, File MIS09-00001

### RECOMMENDATION

Staff recommends that the City Council review the attached documents and provide comments to staff on the proposed modification to the organizational structure of ARCH and the potential expansion of the ARCH Sphere of Influence to include the cities within the Snoqualmie Valley that must plan under the Growth Management Act.

### BACKGROUND DISCUSSION

The ARCH Executive Board is considering whether to shift the administrative structure of ARCH from its current Interlocal Agreement joint board structure to a nonprofit corporation. The primary goal of this effort is to streamline the administration of housing trust fund monies, thus reducing the burden on individual member cities and local housing agencies. These revisions will not change the underlying function of ARCH in terms of its core activities, and its role to assist its members in their individual and collective efforts to address affordable housing needs in our member's communities. Attachment 1 includes background information and a summary of the proposal. Attachment 2 shows how the annual ARCH budget would be affected by the change.

ARCH is collecting input from all member cities at this time. Arthur Sullivan will attend the February 17<sup>th</sup> City Council meeting to answer questions and hear the Council's discussion of this issue. .

Cc: Arthur Sullivan, ARCH, 16225 NE 87<sup>th</sup> Street, Suite A-3, Redmond, Washington 98052



## SUMMARY

### **Project Analyzing Impacts of Converting ARCH's Administrative Structure In Order to Streamline Housing Trust Fund Administration for Member Cities**

January 2008

*The ARCH Executive Board is considering whether to shift the administrative structure of ARCH from its current Interlocal Agreement joint board structure to a nonprofit corporation. The primary goal of this effort is to streamline the administration of housing trust fund monies, thus reducing the burden on individual member cities and local housing agencies. These revisions will not change the underlying function of ARCH in terms of its core activities, and its role to assist its members in their individual and collective efforts to address affordable housing needs in our member's communities.*

#### ***Background***

ARCH is an interlocal agency whose members consist of 15 Eastside cities and King County. Its mission is to promote the creation of affordable housing, assist members with allocation of city funds for affordable housing, and assist members with developing and implementing local housing plans programs. ARCH was created in 1992, and has grown from an original membership of 3 cities and King County, to today's current total of 16 member jurisdictions.

Because ARCH is an interlocal agency with a joint board, it is not a separate legal entity. It cannot sign contracts, own property, hire employees, or undertake other similar activities. ARCH's administrative budget is funded with support from all members, and is administered through the City of Bellevue.

#### ***Housing Trust Fund Administration***

Individual Projects. The current Trust Fund process is that each Council sets aside funds for affordable housing in their budget. ARCH then screens applications for funding and returns to each Council with recommendations for specific projects for each council to review and approve. Typically, any single housing project is supported by several cities (one recent project had funding from 10 cities), each of which executes a separate funding agreement with the same project developer. Once approved by a City Council, ARCH staff provides much of the staff support working with the applicant and each City to prepare the contracts, administer the release of funds and monitor projects over time. The current process, in addition to requiring ARCH and city staff time to create multiple sets of documents, adds complexity for the applicant in both preparing, and over time, administering separate contracts for each city.

## ATTACHMENT 1

Overall Trust Fund Accounting. In addition to tracking funding for each project, there is also a need to monitor each city's overall funding for affordable housing. This involves tracking new allocations of funds within city budgets, tracking the expenditure of funds over time (projects often take over a year to actually receive funds), and tracking any repayments received by cities from individual projects. This can become complex because each city has their own financial systems and preferred methods of accounting and disbursing funds. A more centralized financial system can simplify the tracking of funds over time.

For over a year, the ARCH Board has looked into ways in which, once Councils approve a project, the administration of funds and funding agreements could be streamlined and simplified. Specifically, the goal was to find a mechanism by which a single contract could be executed with a developer addressing the contributions of multiple cities to any single development project.

The simplest option would be for a member jurisdiction to volunteer to serve as “administering agency” for Housing Trust funds. That “administering agency” would hold the Housing Trust Funds of multiple jurisdictions. Once a project is approved by Councils, the administering agency would enter into a Funding agreement with a developer—a single agreement for each housing project, under which funds from multiple jurisdictions could be applied and tracked. However, no jurisdiction has been interested or willing to take on this responsibility. Therefore, this past summer the ARCH Board determined to analyze other options to achieve this streamlining.

### *Options Considered*

The Board has compared several options, including:

- remaining a joint board and using an administering agency to carry out contracting responsibilities (no member agreed to be the administrator)
- creating a nonprofit corporation
- creating a limited liability corporation
- creating a general or limited partnership.

These options cover the range of legal structures currently available to cities. After examining these options, the Board has determined that if a new administrative structure is pursued, the preferred option is transforming ARCH into a nonprofit corporation – the same mechanism used recently in east King County to create the Cascade Water Alliance and NORCOM (consolidated 911 call center). The Board believes the nonprofit option is preferable because:

- it is relatively simple to accomplish
- it can be implemented without fundamentally changing the current governing arrangement and nature of local city council involvement in decision making
- it will allow the desired streamlining to be accomplished
- as a separate legal entity, ARCH could act more nimbly and quickly in response to opportunities (under the Board's direction)
- the nonprofit form has been used elsewhere and is familiar to many of the Members
- the conversion is inexpensive to accomplish and has a minimal ongoing cost impact

*Impact of Implementing Change to ARCH Structure*

If the Member Cities ultimately approve a change in ARCH's corporate structure to a nonprofit corporation, the city councils' involvement will remain essentially unchanged. Other administrative and operational activities will change.

What Stays the Same

- ARCH's governing structure (Executive Board, Citizen Advisory Board).
- Council approval of ARCH Work Program and Budget.
- Review process, including city council approval, of applications for funds from the Trust Fund.
- ARCH assistance to cities for other items in the ARCH Work Program. For example:
  - Assisting cities with developing and administering locally developed plans, regulations and programs related to affordable housing;
  - Assisting member cities with local discussions related to affordable housing needs in their community;
  - Collection of housing data for individual cities and the collective 'Eastside';
  - Representing members' perspective at regional meetings.
- ARCH staff remain employees of the City of Bellevue.

What Changes

- Once Trust Fund projects are approved by Councils, the Housing Trust Fund process responsibilities for individual members would be streamlined by having ARCH directly contract with developers. (Consolidates multiple contracts into a single contract through ARCH.) This will result in additional costs to ARCH as legal review will be done directly through ARCH, rather than relying on each City's legal review process. While this will not have a direct offsetting savings to cities, it will result in less city legal, planning and finance staff time being spent on the administration of individual contracts. ARCH staff will also have to spend less time on the process of creating multiple contracts for each project.
- ARCH would establish a centralized financial accounting system in behalf of all members that would monitor all housing funds both collectively and for each individual city. ARCH does this now on a more informal basis, but a new system would be directly linked to the accounts where funds are deposited.
- A new interlocal agreement and supporting bylaws and articles of incorporation would need to be created. ARCH's current governance and funding arrangements in place today could be essentially replicated under a nonprofit corporation form.
- ARCH would directly pay day to day operating expenses rather than being paid through the City of Bellevue.
- ARCH would establish its own bank accounts and a more formal accounting structure.
- As a nonprofit corporation there are requirements to file annual reports with the state and be subject to annual audit like other municipal entities. Currently ARCH creates financial monitoring reports but they are only presented to its members via the Executive Board. There would be some costs associated with the more formal audit procedures.

## ATTACHMENT 1

- ARCH would need to retain its own legal counsel and accounting services. (See comments above related to Trust Fund contracts and auditing.) To cover these costs the administrative budget increase, in current dollars, is estimated at about \$20,000 to \$25,000 annually. (ARCH's current operating budget is approximately \$500,000).
- There will be a transition cost associated with the conversion to a nonprofit (cost of developing the new agreements, filing them, establishing bank accounts, an initial accounting review). This is estimated to be less than \$40,000 which is budgeted within the existing ARCH administrative reserve (for consultant contract to explore options and develop the necessary agreements, and setting up financial systems).

### *Other Implications/Opportunities*

- ARCH would be able to take on tasks that cities are currently authorized to undertake individually--should the members so choose, and which a member would prefer ARCH act as a conduit in the City's behalf. These could include things such as holding property or administering programs in behalf of ARCH members.
- ARCH would not be subject to income or property taxation by this conversion. In addition, though infrequent in the past, donations to ARCH would remain tax exempt to the donor as they are today.
- There would be an increased degree of legal insulation between the members and ARCH for actions taken by ARCH (e.g. Trust Fund contracts)
- ARCH Sphere of Influence- Within the ARCH Interlocal Agreement, cities that can join ARCH is defined by the ARCH Sphere of Influence (East King County). Currently all cities within the ARCH Sphere of Influence are members of ARCH. When ARCH was first formed it was anticipated that it might be worth expanding ARCH's Sphere of Influence at some point to include those cities within the Snoqualmie Valley that must plan under the Growth Management Act (Duvall, Carnation, Snoqualmie, North Bend). If the ARCH Interlocal Agreement is revised to address the organization structure of ARCH, it would appear to be timely to also consider expanding the ARCH "sphere of influence" to include these Snoqualmie Valley cities. This does not mean these cities must join ARCH at this time, but it would mean that cities in that area could join ARCH, with ARCH Board approval. This would be similar to what was done in the past for other cities in East King County.

### *Next Steps*

After this informational update is circulated to all Member Councils, feedback will be considered by the Board. Assuming there is general concurrence from Member City Councils, work will proceed to develop the interlocal agreement, articles of incorporation and bylaws necessary to implement the transition. Once those documents are drafted, they will be reviewed by member cities' staff and the Board. As finalized, the documents will be submitted to City Councils for review and approval. If approved, the transition could be completed within the calendar year.

**I. ARCH ANNUAL OPERATING EXPENSES****COMPARISON OF CURRENT ARCH BUDGET TO  
ESTIMATED BUDGET WITH NEW ADMINISTRATIVE STRUCTURE**

<b>ITEM</b>	<b><u>CURRENT</u> <u>2009 BUDGET</u></b>	<b><u>BUDGET REFLECTING</u> <u>NEW STRUCTURE</u></b>
Staffing		
Sub-total	\$ 453,190	\$ 453,190
Rent	\$ 12,052	\$ 12,052
Utilities	Incl^	Incl^
Telephone	\$ 2,575	\$ 2,575
Operating		
Travel/Training	\$ 2,000	\$ 2,000
Auto Mileage	\$ 3,650	\$ 3,650
Copier Costs	\$ 2,750	\$ 2,750
Office Supplies	\$ 2,068	\$ 2,068
Office Equipment Service	\$ 4,000	\$ 4,000
Fax/Postage	\$ 2,060	\$ 2,060
Periodical/Membership	\$ 3,588	\$ 3,588
Misc. (e.g. events,etc.)	\$ 1,840	\$ 1,840
Insurance	\$ 8,420	\$ 8,520 *
Legal Services	NA	\$ 7,500 **
Audit/Financial		\$ 15,000 ***
Finance Fees		\$ 1,000
Sub-total	\$ 30,376	\$ 53,976
<b>TOTAL</b>	<b>\$ 498,193</b>	<b>\$ 521,793</b>
<b>TOTAL INCREASE IN BUDGET</b>		<b>\$ 23,600</b>

\* Need to add fidelity insurance. (WCIA quoted cost of \$100)

\*\* Primarily legal review of trust fund contracts, plus some general legal.

\*\*\* Estimate based on a mid-level accounting review.