



CITY OF KIRKLAND
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MEMORANDUM

To: Kurt Triplett, City Manager

From: Tracey Dunlap, Deputy City Manager
Chris Dodd, Facilities Services Manager

Date: August 26, 2021

Subject: PROPOSED PURCHASE OF REAL PROPERTY – 11825 100TH AVE. NE

RECOMMENDATION:

It is recommended that the City Council approve the attached resolution authorizing the City Manager to execute a purchase and sale agreement in the amount of \$2,250,000 for the acquisition of real property located at 11825 100th Ave, NE., also known as the Village Plaza and approves the proposed interfund loan. The intent is to then sell the complex to the King County Housing Authority (KCHA), with the City utilizing the Real Estate Excise Tax (REET) budgeted for housing to subsidize the price. Once both transactions are complete, the complex will remain dedicated affordable housing owned and operated by the KCHA.

BACKGROUND DISCUSSION:

A clear goal of the City Council is to increase the number of affordable housing units available in Kirkland. With the high cost of housing in the region, "attainable housing" goals are key to allowing access to housing that meets a diverse range of incomes and needs. Acquiring this property allows the City to add 6 units of affordable housing.

Funding

As previously presented to the Council, the initial purchase is proposed to occur through an interfund loan. The proposed funding for the purchase is a 3-year interfund loan from the Water Sewer Capital fund in an amount up to \$2.4 million to recognize potential closing costs. Use of the interfund loan provides the City with the ability to secure the property immediately to ensure more affordable housing units. Although several potential housing uses were initially discussed, the City Manager is recommending that ownership by the KCHA is the best long-term use of the site. The City and KCHA will jointly fund the repayment of the loan which will allow KCHA to own and operate the complex.

The State provides the minimum acceptable procedures for making and accounting for interfund loans and the terms below are consistent with that guidance. Staff has analyzed the cash flow needs of the Water Sewer Capital fund and finds that there are sufficient funds available to make this loan for the three-year period. The estimated interfund loan terms will be:

- Up to \$2.4 million from the Water Sewer Capital fund,
- The term will be three years, but the loan can be repaid any time during that period,
- The interest rate paid on these loans will be 0.15%, based on the interest that those funds would be expected to earn during the loan term.
- Interest will accrue during the period and will be paid to the loaning fund at the point the long-term funding is put in place.

The proposed resolution includes the authorization of the interfund loan. It is important to recognize that the interfund loan represents short-term funding only and needs to be repaid in full, with interest, at that end of the term, once a long-term funding source is secured.

When the City Manager brought the potential purchase to the Council, three options for the complex were discussed: dedicated affordable housing; workforce housing for City employees; and emergency housing for those experiencing homelessness. Following initial discussions, the King County Housing Authority (KCHA) indicated their strong desire to acquire the housing through another successful partnership with the City. The intention, at this time, would be the City sells the property to the King County Housing Authority after applying \$1 million from the REET set-aside for housing fund to the repayment of the interfund loan. KCHA would contribute the remaining cost of approximately \$1.4 million, which would be used to repay the loan in full. For this transaction to be completed, staff would return to the City Council in December and add this asset to the Capital Facilities Plan with a complete understanding of how the property would be used and a final funding package.

The KCHA has indicated that they would be able to manage the property from the time the City closes on the asset until the transfer of ownership. Any agreement necessary to close this transaction will be brought forward for Council approval at a future date.

Should the KCHA partnership not come to fruition, there are several other options that would be considered including, but not limited to: added to the affordable housing inventory and transferred to a housing provider such as the Friends of Youth or Attain Housing. The property could become workforce housing for employees joining the City

of Kirkland from out of state or the region. The property could serve as housing for those experiencing homelessness. Each of these options has operational and financial complexities that have not yet been defined or evaluated.

Should the City be unable to find a sustainable and appropriate use or secure an appropriate funding source, the ability to sell the property back to the marketplace before the three years lapse is always an option.

Property Inspection

An inspection of the property was conducted on August 3, 2021 as part of the City conducted “due diligence” with respect to the land and the structures on the property. KCHA staff joined Kirkland staff during the inspection.

No major problems were discovered during the inspection. City staff anticipates the City would proceed with closing on or before October 16, 2021 without the need for further Council action. Staff is anticipating acquisition would not take the full term and close well before then.