

RESOLUTION R-5494

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND AUTHORIZING THE DULY-APPOINTED ADMINISTERING AGENCY FOR A REGIONAL COALITION FOR HOUSING (ARCH) TO EXECUTE ALL DOCUMENTS NECESSARY TO ENTER INTO AGREEMENTS FOR THE FUNDING OF THE INLAND GROUP/HORIZON HOUSING TOTEM LAKE PROJECT, UTILIZING FUNDS FROM THE CITY'S HOUSING TRUST FUND.

1 WHEREAS, A Regional Coalition for Housing ("ARCH") was
2 created by interlocal agreement to help coordinate the efforts of
3 Eastside cities to provide affordable housing; and
4

5 WHEREAS, the ARCH Executive Board recommended that
6 the City of Kirkland ("City") participate in the funding of the Inland
7 Group/Horizon House Totem Lake development ("Project"), and
8 the City approved such funding under Resolution R-5463; and
9

10 WHEREAS, the ARCH Executive Board developed a number
11 of recommended conditions to ensure that the City's affordable
12 housing trust funds are used for their intended purpose and that
13 projects maintain their affordability over time; and
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15 WHEREAS, an amendment to the recommended conditions
16 reallocating the City's funding is needed to facilitate the
17 acquisition and continued development of the Project; and
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19 WHEREAS, the City Council has approved Resolution R-
20 4804 approving the Amended and Restated Interlocal Agreement
21 for ARCH; and
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23 WHEREAS, the City Council desires to reallocate
24 \$2,573,100 from City affordable housing trust funds as designated
25 below to finance the Project.
26

27 NOW, THEREFORE, be it resolved by the City Council of the
28 City of Kirkland as follows:
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30 Section 1. The City Council authorizes the duly-appointed
31 administering agency of ARCH pursuant to the Amended and
32 Restated Interlocal Agreement for ARCH to execute all documents
33 and take all necessary actions to enter into Agreements on behalf
34 of the City to fund the Project acquisition from City of Kirkland
35 affordable housing trust funds in a total amount not to exceed
36 \$2,573,100.
37

38 Section 2. The agreements entered into pursuant to
39 Section 1 of this Resolution shall include terms and conditions to
40 ensure that the City's funds are used for their intended purpose
41 and that the projects maintain affordability over time. In
42 determining what conditions should be included in the
43 agreements, the duly appointed administering agency of ARCH

44 shall be guided by the conditions outlined in the staff memo dated
45 September 23, 2021, a copy of which is attached hereto as Exhibit
46 A.

47
48 Passed by majority vote of the Kirkland City Council in open
49 meeting this 05 day of October, 2021.

50
51 Signed in authentication thereof this 05 day of October,
52 2021.


Penny Sweet, Mayor

Attest:


Kathi Anderson, City Clerk



CITY OF KIRKLAND
Planning and Building Department
123 5th Avenue, Kirkland, WA 98033
425.587.3600- www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager

From: Dawn Nelson, Planning Manager
Lindsay Masters, Executive Manager, A Regional Coalition for Housing (ARCH)
Elsa Kings, Housing Trust Fund Manager, ARCH
Adam Weinstein, Planning & Building Director

Date: September 23, 2021

Subject: ARCH HOUSING TRUST FUND TOTEM LAKE PROJECT AMENDMENT, FILE PLN21-00001

RECOMMENDATION:

Approve a resolution authorizing the administering agency of ARCH to execute a funding agreement for the Inland Group/Horizon Housing Totem Lake project, amending conditions previously associated with the City's ARCH Housing Trust Fund award approval, to allow Inland Group to reallocate the \$2,573,100 in Kirkland funds to close on the property acquisition ahead of receiving all other public and private funding commitments for the project.

BACKGROUND:

In 2020, Inland Group and their partner Horizon Housing Alliance were awarded \$4,000,000 from the ARCH Housing Trust Fund towards the development of a large-scale mixed-use, mixed-income development located at 12335 120th Avenue NE on the west side of I-405 in the Totem Lake Business District. Details of that award can be found in the [February 16, 2021 City Council materials](#) (see pages 44 -46). As part of the conditions of funding, Inland Group was to use the funds toward the acquisition of the property, and all other public and private funds were to be committed before contracting and distribution of ARCH funds. The proposed amendment would allow use of the Kirkland's portion of the ARCH award ahead of the project receiving all funding commitments in order to acquire the property. The remaining \$1,426,900 of the ARCH award from other ARCH cities would remain available to the project for future use as long as the project complies with the conditions of the original ARCH award.

The proposed project includes a wide range affordable housing, from extremely low-income- to low- and middle-income housing. The ARCH-funded portion of the project included 299 affordable units restricted to households with incomes ranging from 30%

of the Area Median Income (AMI) to 60% AMI, with development of an adjoining parcel proposed to serve households earning 80% to 100% AMI with 168 units. A portion of the affordable units will be permanent supportive housing units set aside for individuals and families experiencing homelessness. Hopelink will provide service coordination and case management services for individuals and families within the supportive residential units. Each unit will have a full kitchen, family/living room and laundry facility. The grounds provide space for outdoor recreational activities. Other proposed amenities include a secure bike storage for residents and an upper-level courtyard.

Following award of ARCH funds, the project faced high levels of competition for Low Income Housing Tax Credits and was unsuccessful in the 2021 round. The developer remains committed to the project but has had to adjust the project schedule to acquire the property before being able to apply for and close on tax credit financing. Under the current purchase and sale agreement, closing must occur no later than December 24, 2021.

To facilitate the acquisition, the developer is requesting financing for the \$22.5 million property from ARCH and the Eastside Land Acquisition Program (ELAP). ELAP funds would cover the lion's share of the acquisition, and the developer has requested that the City of Kirkland's portion of ARCH's award (totaling \$2,573,100) be reallocated to be available for the purchase.

The project is currently in the schematic design stage and Inland Group has completed site feasibility. It is scheduled to begin construction in September 2022 with a construction completion date of November 2024. The project team is continuing to pursue financing for the development and has submitted an updated funding request to ARCH and King County in the fall 2021 funding round. The proposed project financing will also include 9% and 4% Low Income Housing Tax Credits, Bonds, and private financing.

POSSIBLE RISKS:

The project currently has a financing gap due to project delays and increases in construction costs. Inland Group has submitted an application for additional funding to ARCH and King County and will likely face significant competition for tax credit financing again in 2022. The project is scheduled to apply for 9% Tax Credits at the end of this year, and 4% Low Income Housing Tax Credits in March 2022. If the project is unsuccessful obtaining 4% Tax Credits, the project will be delayed for at least an additional 6 months, potentially causing further cost over-runs.

RISK MITIGATION:

As mentioned above, the property is located in a desirable area in the City that has seen tremendous growth. In the event that Inland is unable to obtain all of the financing necessary to move the project forward in the near-term, the project team will continue to compete in subsequent funding rounds. It is not uncommon for affordable housing

projects to require several years to compete for and receive necessary project financing, and ARCH has been involved in several projects of this nature.

Inland has a strong record of bringing affordable housing developments to completion and is in a strong financial position with an experienced development team. Inland has developed thousands of units in different states and has been successful in the construction of several projects throughout Washington and the Puget Sound area. Inland has constructed approximately 2,300 units in the past 11 years in Washington, Nevada, and Colorado. Most recently, this project team has closed on development of 280 units of affordable housing in Redmond, which is currently under construction, and 360 units of affordable housing in Bellevue.

To protect the City's investment, funding conditions would include a required covenant and deed of trust recorded against the property, to be released only upon repayment of City funds. In a worst-case scenario, for example if affordable housing financing programs were to be eliminated or cut drastically at the federal level, the developer could sell the property, most likely at a profit given continued increases in real estate values. The funds from the sale would be used to repay the City's funds.

Specific funding conditions include:

1. Up to \$2,573,100 may be used for property acquisition. Funds will be in the form of a deferred, contingent loan, with interest accrued at 1%. Project must close on its permanent financing no later than December 31, 2024, unless an extension is granted by City staff based on reasonable progress made toward development of the project.
2. If the project does not move forward by December 31, 2024, and the City has denied an extension under the condition above, the City's loan shall become due, including all accrued principal and interest.
3. Funds will be secured by a Deed of Trust on the property.
4. A covenant will be recorded in first lien position that runs with the land for a minimum of 50 years. In the event the project is not developed, and the City's loan is repaid, the covenant would be released.

PROJECT IMPORTANCE AND NEXT STEPS:

This project represents the most significant opportunity to create affordable housing in the City of Kirkland in many years. In addition, the project provides an opportunity to incorporate significant amounts of low- and middle-income housing in the same development, in an area the City has planned for major growth. If the amendment to the funding conditions is approved, ARCH staff will work with the Kirkland staff, Bellevue staff (as the ARCH administering agency) and Inland to develop and execute contract documents for the City's funds.