



**BUSINESS OF THE CITY COUNCIL
CITY OF MERCER ISLAND**

**AB 6407
March 19, 2024
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6407: ARCH Housing Trust Fund Project Approvals	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Approve the use of \$48,600 from the City’s contributions to the ARCH Housing Trust Fund.	

DEPARTMENT:	Community Planning and Development
STAFF:	Jeff Thomas, Community Planning and Development Director Alison Van Gorp, Deputy Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Fall 2023 Housing Trust Fund Recommendation
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda bill is to appropriate funds from the ARCH Housing Trust Fund (HTF) to five projects recommended by the ARCH Executive Board.

- Mercer Island is a member of ARCH (A Regional Coalition for Housing) and like the other local government members, Mercer Island contributes annually to ARCH to provide operational support for the organization and capital support for affordable housing projects (via the HTF).
- The ARCH Executive Board recommends that Mercer Island support the five housing projects listed below, drawing on \$48,600 from the City’s contributions to the ARCH HTF:
 - Bellevue - Spring District 120th TOD - BRIDGE (\$7,900)
 - Kenmore - Larus Senior Housing - TWG/Imagine Housing (\$3,000)
 - Bellevue - The Aventine - Low Income Housing Institute (\$7,300)
 - Redmond - Emma McRedmond Manor - Catholic Housing Services (\$6,100)
 - Redmond - Overlake TOD - Bellwether Housing (\$24,300)
- City Council approval is required to allocate these funds.
- Should the City choose not to fund some or all these projects, those unallocated funds would remain in the City’s HTF account and earn interest until they are allocated to projects in future years.

BACKGROUND

ARCH was established in 1993 by an [Interlocal Agreement](#) to create and preserve affordable housing throughout the greater East King County community. Member jurisdictions include Beaux Arts Village, Bellevue, Bothell, Clyde Hill, Hunts Point, Issaquah, Kenmore, King County, Kirkland, Medina, Mercer Island, Newcastle, Redmond, Sammamish, Woodinville, and Yarrow Point. By participating in ARCH, member cities are part of a joint and cooperative undertaking to collectively plan for and provide affordable housing in East King County communities. ARCH staff serve as additional housing staff to each member city and coordinate with member city staff in various housing-related projects, plans and services.

Like other local government members, Mercer Island contributes annually to ARCH to provide administrative support for the organization's housing activities and capital support for the creation and preservation of affordable housing. The coordinated approach used by ARCH provides for an efficient use of resources in fulfilling each member city's obligations under the Washington State Growth Management Act (GMA) to make adequate provisions for the existing and projected housing needs of all economic segments of the community (RCW 36.70A.070(2)), as well as sharing resources with regional partners in the provision and administration of affordable housing.

ARCH HOUSING TRUST FUND

The ARCH Housing Trust Fund (HTF) was created by ARCH member cities in 1993 to directly assist the development and preservation of affordable housing in East King County. The HTF enables ARCH members to capitalize a joint housing development fund and directly control the use of their housing funds through ARCH's funding recommendation process. The HTF is the primary means by which ARCH members assist in creating and preserving housing opportunities for low- and moderate-income households. The HTF awards loans and grants to Eastside developments that include below-market rate housing. HTF projects primarily create housing that is affordable for households earning 60% of the area median income or less. Over the last three decades, ARCH has supported over 6,000 units of affordable housing and shelter beds. Funds invested in the HTF have been leveraged over 10:1, bringing in \$1 billion in other investments to East King County.

Mercer Island's contributions to the ARCH HTF come from the City's General Fund, designated to ARCH for the purpose of creating affordable housing. The City contributed \$96,000 in 2018, \$50,000 in 2019, \$33,768 in 2020, and \$35,000 in each year since 2021. Funds contributed to the HTF are held in a centralized account at the City of Bellevue and earn interest. Mercer Island's annual contributions, plus loan repayments and interest earned, are held in reserve until allocated to specific projects. The balance of Mercer Island's portion of HTF account was \$50,870 at year-end 2023.

Affordable housing projects are identified for HTF funding via a competitive process each fall. ARCH staff, member city liaisons, the ARCH Community Advisory Board, and the ARCH Executive Board review and recommend projects for grants or loans from the HTF. Allocation of funds from Mercer Island's portion of the HTF to specific projects must be approved by the City Council, per the terms of the [ARCH Interlocal Agreement](#).

ISSUE/DISCUSSION

2023 HTF FUNDING RECOMMENDATIONS

The 2023 ARCH HTF received \$12.9 million in funding requests from seven projects proposing 853 units of affordable housing. While it was not possible to fully fund all these requests, the ARCH Executive Board, in concurrence with the ARCH Community Advisory Board (CAB), is recommending full funding for two projects

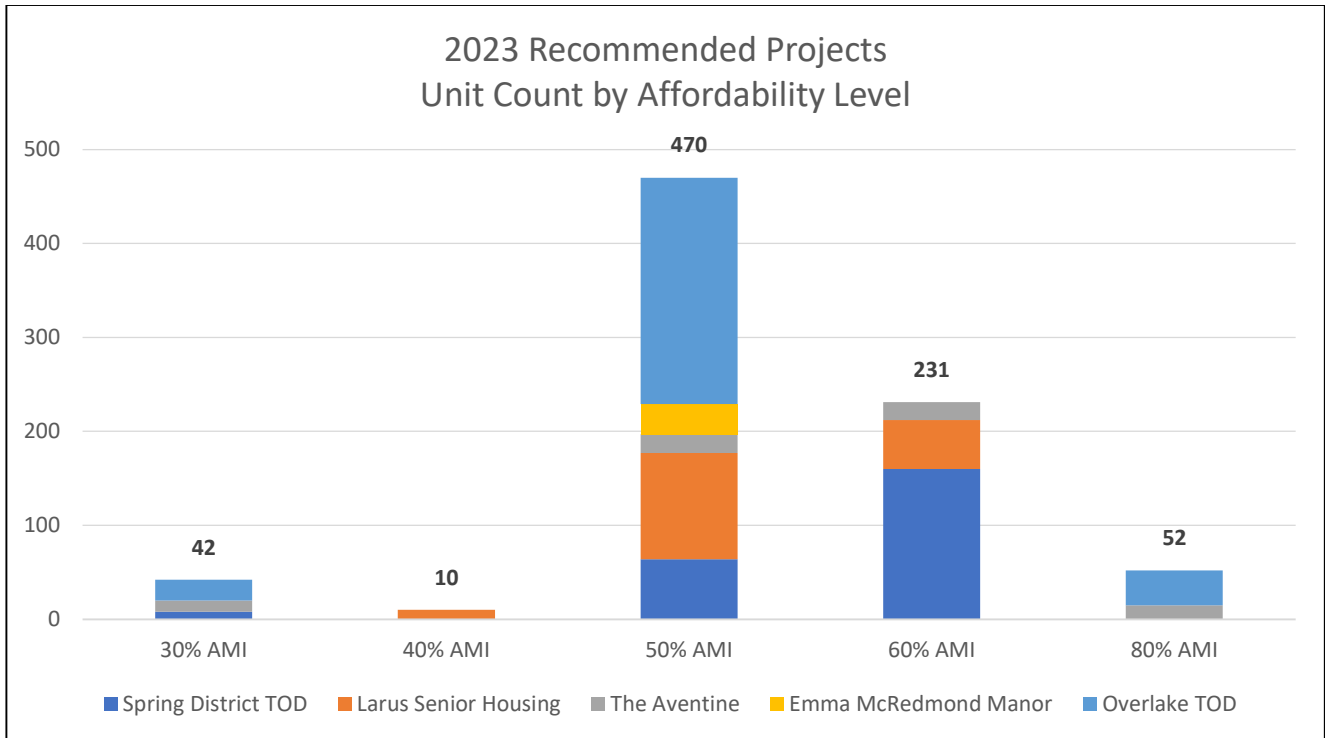
and partial funding for three projects, with \$4.0M in Trust Fund dollars included in the recommendation, plus an additional \$2.1M committed by the City of Redmond, resulting in \$6.1M in awards. Details of the Executive Board’s rationale for recommending each project are included in Exhibit 1.

The ARCH Executive Board recommends that Mercer Island support all five of the recommended projects drawing on \$48,600 from the City’s contributions to the ARCH Housing Trust Fund, as shown in the project summary, below:

Project Name	Location	Developer	Affordability Levels and Unit Count	Total Project Cost	2023 ARCH Contribution	Mercer Island Contribution
Spring District TOD	Bellevue	BRIDGE Housing	30% AMI – 8 50% AMI – 64 60% AMI – 160	\$138,425,860	\$650,000	\$7,900
Larus Senior Housing	Kenmore	TWG/Imagine Housing	40% AMI – 10 50% AMI – 113 60% AMI – 52	\$66,835,588	\$250,000	\$3,000
The Aventine	Bellevue	Low Income Housing Institute	30% AMI – 12 50% AMI – 20 60% AMI – 19 80% AMI – 15	\$33,000,000	\$600,000	\$7,300
Emma McRedmond Manor	Redmond	Catholic Housing Services	50% AMI – 32	\$9,094,938	\$500,000 (plus \$600,000 from Redmond)	\$6,100
Overlake TOD	Redmond	Bellwether Housing	30% AMI – 55 50% AMI – 241 80% AMI – 37	\$167,101,317	\$2,000,000 (plus (\$1,500,000 from Redmond)	\$24,300

The five recommended projects will provide a range of affordable housing options throughout East King County, including very low-, low- and moderate-income units. The recommended projects represent 840 total units of affordable housing; the unit count at each affordability level is shown in the graph below. The recommended projects meet diverse needs throughout the region, including:

- Preservation of existing affordable housing;
- New transit-oriented development for families and individuals adjacent to future light rail;
- Creation of affordable commercial space for diverse businesses; and
- Local partnerships to serve diverse populations, including low-income seniors, families and individuals exiting homelessness, persons with intellectual and developmental disabilities, veterans, and households with incomes under 50% of median income.



The ARCH contributions to the recommended projects are just a small share of the funding and financing that it takes to construct/acquire these affordable housing units. Each ARCH HTF dollar is leveraged over 15 to 1 with funds from other sources. The proposed projects expect to attract \$383 million in other funding sources, including federal tax credits and tax-exempt bonds as well as State of Washington and King County funding.

Exhibit 1 is the ARCH Fall 2023 Housing Trust Fund Recommendations memo, detailing the projects recommended for funding by the ARCH Executive Board, including the following supporting documents:

1. [Attachment 1: Proposed Funding Sources](#) provides a chart showing how proposed ARCH funding is distributed among ARCH cities (page 18).
2. [Attachment 2: Project Economic Summaries](#) provides economic summaries of the recommended projects showing sources of funding and project expenses (pages 19-23).

ADDITIONAL ANALYSIS

This item was originally scheduled for City Council review on the February 20 Consent Agenda. At that time, the Council voted to delay consideration of this item to a future meeting. City Council asked to follow-up on the feasibility of adjusting the project funding allocation to only fund housing units for households earning 60% AMI and below. In the intervening weeks, City staff have conferred with ARCH staff and learned the following:

- Several cities have already approved their HTF funding allocations. Therefore, it is not feasible to adjust the allocations to realign Mercer Island’s funds and backfill with funds from other cities.
- Removing funding from projects with units above 60% AMI would require fully pulling back funds from those projects and only allocating a portion of the proposed \$48,600. Namely, this would be the Overlake TOD and The Aventine, which have recommended funding allocations of \$24,300 and \$7,300, respectively. These projects include a significant number of 60% AMI and below units and defunding these projects would mean the City would lose out on any credit for those units.

- ARCH also provided the following information for the City’s consideration.
 - The ARCH HTF funding priorities already prioritize funds for projects/units that are 50% AMI and below. Projects/units above 50% AMI are considered an exception to this policy.
 - Many projects funded by ARCH also seek funding from the State Housing Trust Fund (SHTF). The SHTF is an important source of funds, and its funding guidelines allow projects up to 60% AMI. Therefore, ARCH frequently recommends projects that include 60% AMI units.
 - In recent years the SHTF began allowing “unit income averaging” so some projects are now including a small amount of 80% AMI and 30% AMI units (which still average out to below 60% AMI for the building as a whole). In effect, this allows the higher rents from the 80% units to help subsidize the lower rents in the 30% units, an important tool in achieving the difficult-to-fund 30% AMI units.
- Going forward, the ARCH Executive Board may revisit the HTF funding priorities prior to the next funding round in the fall of 2024. City staff will advocate for the refinement of priorities in relation to the HB 1220 housing targets that all ARCH members are working towards.

If the City Council would like to revise the funding allocations from those recommended by the ARCH Executive Board, it can be done by motion of the City Council. Unallocated funds will remain in the City’s HTF account and will earn interest until they are allocated to projects in future years.

NEXT STEPS

If the \$48,600 for the recommended projects listed above is approved by the City Council, the funds will be drawn from Mercer Island’s portion of the HTF account. Approval of the Housing Trust Fund project funding will conclude this matter. Later this year, the City Council will need to approve the 2025 ARCH work plan and administrative budget.

RECOMMENDED ACTION

Approve the use of \$48,600 from the City’s contributions to the ARCH Housing Trust Fund as recommended by the ARCH Executive Board and authorize execution of any related agreements and documents.