



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

**AB 6562
November 4, 2024
Consent Agenda**

AGENDA BILL INFORMATION

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| TITLE: | AB 6562: Imagine Housing Priority and Subordination Agreement | <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 a new priority and subordination agreement for the Johnson Hill project, and authorize the city manager to sign administrative agreements related to the project. | |

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| DEPARTMENT: | Community Planning and Development |
| STAFF: | Jeff Thomas, Community Planning and Development Director Alison Van Gorp, Deputy Director |
| COUNCIL LIAISON: | n/a |
| EXHIBITS: | 1. First Amendment to Amended And Restated Priority And Subordination Agreement |
| CITY COUNCIL PRIORITY: | n/a |

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

EXECUTIVE SUMMARY

The purpose of the agenda bill is to approve a new priority and subordination agreement for the Johnson Hill project, previously funded by the ARCH Housing Trust Fund (HTF), and authorize the City Manager to sign related agreements.

- Mercer Island is a member of ARCH (A Regional Coalition for Housing) and like the other local government members, Mercer Island contributes annually to the ARCH Housing Trust Fund (HTF).
- The HTF awards loans and grants to Eastside developments that include below-market rate housing.
- Imagine Housing, a longstanding partner of ARCH, secured two [Housing Preservation Program](#) (HPP) grants earlier this year for projects previously funded by the ARCH HTF: Andrew’s Heights and Johnson Hill.
- Each project received a \$1M award from the Department of Commerce to support capital improvements at these properties.
- ARCH is now working with Imagine Housing to close the agreements for those funds. Johnson Hill’s First Amendment to the Amended and Restated Priority and Subordination Agreement requires City approval.

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 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 typically create housing that is affordable for households earning 60% of the area median income or less. Over the last thirty years, ARCH has supported over 5,300 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.

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

Imagine Housing, a longstanding partner of ARCH, secured two [Housing Preservation Program](#) (HPP) grants earlier this year for projects previously funded by the ARCH HTF: Andrew's Heights and Johnson Hill. Each project received a \$1 million award from the Department of Commerce to support capital improvements at these properties.

ARCH is now working with Imagine Housing to close the agreements for the HPP grant funds. As part of securing the HPP grants, the existing priority and subordination agreements for the financing of these projects need to be updated and recorded to reflect the new deeds of trust. The amended priority and subordination agreements require approval by the member cities

The Johnson Hill project, which was funded in 2007 ([AB 4166](#) – the project was identified as 280 Clark Street at that time), includes a contribution from the City of Mercer Island, whereas Andrew’s Heights was only funded by the City of Bellevue. Prior to 2010 (when the City of Bellevue became ARCH’s Administrative Agency via the current [Interlocal Agreement](#)), each city’s HTF funding contribution to a project was secured with its own set of legal documents. Thus, Johnson Hill’s First Amendment to the Amended and Restated Priority and Subordination Agreement (Exhibit 1) requires approval by the City of Mercer Island and the other member cities that contributed to the project.

NEXT STEPS

Once the City Council approves the amended priority and subordination agreement, no further action will be required from the City. The capital improvements to the Johnson Hill project are expected to move forward in the months to come.

ARCH staff and the community advisory board are currently in the process of reviewing the 2024 funding proposals for the HTF. The Executive Board is expected to make a recommendation on project funding later this year, and it will be brought to the City Council for approval in Q1 2025.

RECOMMENDED ACTION

Approve a new priority and subordination agreement for the Johnson Hill project and authorize the City Manager to sign administrative agreements related to the project.