King County

Housing Finance Program

2020 Capital Funding for Affordable Housing Projects

PROJECT REVIEW MEMO

I. OVERVIEW

1A. PROJECT INFO

Sponsor/owner	Friends of Youth
Development consultant	Centerra Alliance LLC
Project name	New Ground Kirkland
Project location	11005 NE 68th St, Kirkland, WA 98033

Project type..... ☒ **Rental** ☐**TOD** ☐ **PSH** ☐**HO** ☐ **DPA**

Project activity..... ☒ **New Construction** ☐ **Rehabilitation** ☐ **Acquisition**

Brief description

Friends of Youth plans to redevelop a property they currently own, increasing density from 8 studio sized units to 24 units. Units will include eight groups of three pods, with each pod containing a full living room and kitchen, while each bedroom is effectively a studio with its own bathroom, washer/dryer, and kitchenette.

1B. PROJECT COST

Total development cost (TDC)	$5,131,535
Total residential development cost	$5,131,535
Cost per residential unit/ per square foot	$213,814 per unit / $395 per sq ft
Total non-residential development cost	N/A

1C. KING COUNTY REQUEST

King County Funds requested	$1,766,500
% of TDC/ Cost per unit	34% of TDC / $73,604 per unit
KC Loan term/ interest rate	50 years / 1% deferred

Project applied for funding in prior rounds..... ☐ **YES** ☒ **NO**

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Project previously awarded KC funds..... This project site was awarded $599,488 in Human Services Levy funds in 2007 to acquire the site.

Does request deviate from HFP guidelines.....☐ **YES** ☒ **NO**

II. PROJECT DESCRIPTION

2A. HOUSING MODEL

of residential units/ managers/ total units..... 24 total units / no manager units

Project total square feet / # of floors..... 13,000 / 3 floors

Project residential sf/commercial sf ..... N/A

Unit distribution - Income & AMI

Unit/Income	30% AMI	40% AMI	50% AMI	60% AMI	80% AMI	**Total**	Mgr/ CAU
Studio			24			24	
1 Bedroom							
2 Bedroom							
3 Bedroom							
4 Bedroom							
Total			**24**			24	

Average unit sizes ..... Studios avg 320 sq ft; each pod of three studios plus common room will average 1,500 sq ft

Other type of unit. ..... N/A

Target population

The New Ground Kirkland will house young adults 18-24 who are working and/or going to school.

2B. CONSTRUCTION TYPE, SITE, & LOCALITY CHARACTERISTICS

Construction type..... ☒ **Wood Frame** ☐ **Steel Construction** ☐ **Combo**

Construction begins/ Construction period..... 8/1/2021 / 13-month construction period

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Evergreen Sustainable Design Std. (ESDS) Score..... 63

Project intends to meet higher energy standards (Net-Zero, Passive House, etc.) or include energy efficient systems (solar panels, water systems, etc.)?..... ☐ **YES** ☒ **NO**

Development Processes

Is zoning compatible?.....☐ **YES** ☒ **NO**

Applicant hopes to take advantage of a local regulation that allows multifamily redevelopment to occur if the project does not increase density. It is uncertain if the City of Kirkland would agree with this interpretation of the definition of unit, given that the bedrooms are effectively studios.

Challenges in development of the site?..... ☐ **YES** ☒ **NO**

NA

Neighborhood

Describe the neighborhood.....☐ **Single Family** ☐**Multifamily** ☐**Commercial** ☒**Mixed-use**

It is a mix of single-family homes and some multifamily properties. A shopping center is nearby containing grocery stores and pharmacies.

Transit Oriented Development Eligible project?..... ☒ **YES** ☐ **NO**

- ○ ½ mile to high capacity transit?..... ☒ **YES** ☐ **NO**
- ○ Multi-modal?..... ☐ **YES** ☒ **NO**
- ○ Walk/transit score..... 65 walk score, 47 transit score
- ○ Close proximity to community resources and/or services? ☒ **YES** ☐ **NO**

There are drug stores and grocery stores nearby, but the two grocery stores are Metropolitan Market and PCC Community Markets, both higher end grocery stores that may not be affordable for the low-income population.

Nonresidential

Proposed commercial spaces?..... ☐ **YES** ☒ **NO**

N/A

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Parking requirements?..... ☒ **YES** ☐ **NO**

The current project has 9 parks spots and the intent is to keep that number static using the same read of the code that allows for 24 units in 8 pods. The viability of this plan will depend on Kirkland's planning and development department.

Environmental

Environmental/site concerns

None. The developed site in a mixed-use, but fairly developed area of Kirkland. Sampling of building materials was completed, and there was one sample that tested positive for asbestos and another one for lead, but both came in under the action threshold. The current structure is the only building to ever occupy the site, and electric heat has been used for the duration of its existence, so there are no concerns about underground storage tanks.

Proposed feasible mitigation measures (in budget) to address issues? ..... ☐ **YES** ☐ **NO** ☒ **N/A**

N/A

Development Incentives & Restrictions

Development incentive programs in project location?..... ☐ **YES** ☒ **NO**

N/A

Restrictions in development?..... ☒ **YES** ☐ **NO**

The zoning is unclear, but it seems it is a non-conforming structure that would be allowed to re-developed provided it keeps the same density. The interpretation of what density means in this context is key. FOY is stating that the project will contain eight 3-bedroom units, however the 24 bedrooms are studios with their own cooking space and bathroom, and may be considered individual living units. The relevant regulatory authorities need to review and rule on this design to determine if it is allowable or not.

2C. ROLES & RESPONSIBILITIES

Project development consultant? .....☒ **YES** ☐ **NO**

Rand Redlin, of Centerra is the development consultant and is receiving a development consultant fee (4.5% of TDC, currently at $195,000) for project management, pre-development financing (including public funding), development, construction management and oversight, and project closeout. This payment is addition to the developer fee to FOY.

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General contractor selection process

Friends of Youth through their development consultant will be going out to bid for qualified contractors who provided responsive bids. Bids for construction contractors, will be selected by an RFQ/RFP process. Once qualifications are received, a short list will then be created from the respondent companies and organizations ranking them by scoring criteria established in the RFP/ RFQ (i.e., years of experience with affordable housing project, number of projects completed on time, on budget, etc.).

Who will manage construction?

Centerra, the development consultant will manage construction.

III. FINANCING & MARKET ANALYSIS

3A. SOURCES & USES

Permanent Residential Sources of funding

Source	Proposed Amount	Committed Amount	TOTAL
King County	$1,766,500		$1,766,500
State Housing Trust Fund	$1,760,056		$1,760,056
City/ ARCH	$1,069,979		$1,069,979
Fundraising	$535,000		$535,000
TOTAL	$5,131,535		$5,131,535

Proposed commercial spaces?..... ☐ **YES** ☒ **NO**

N/A

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Permanent Residential Uses of funding

Type	Amount	Comments
Construction/ Rehab Costs	$3,864,223	
Soft Costs	$913,400	
Financing Costs	$33,000	
Capitalized Reserves	$42,000	
Other Development Costs	$278,912	
TOTAL	$5,131,535	

3B. COST EFFECTIVENESS

Appraisal, Acquisition, & Construction

Appraised value/date/tax assessor value..... N/A – site has been controlled by FOY for 12 years

Appraisal value greater than (or equal to) acquisition costs?..... ☒ **YES** ☐ **NO**

Developer fee..... $535,000

Proportionally on the higher end at 10% of TDC. FOY has owned the site for 12 years with funds from King County and ARCH included in the acquisition of the site, with the affordability period and other conditions still in effect.

Third-Party Construction Consultant Report

Notable departures in construction costs with comparable projects?..... ☐ **YES** ☒ **NO**

Review indicates the costs are in the anticipated or lower than anticipated range.

Suggestions to revisions in project design or project team?..... ☐ **YES** ☒ **NO**

N/A

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Appropriateness of contingency

There is no contingency built into the hard cost construction estimate, but there is a $140,000 contingency, approximately 2.5% of TDC or 5% of construction costs, built into the overall development budget. While this is on the low end, the current structure is the only structure ever built on this parcel and it never used an oil heating system, so there should be no unexpected environmental or construction contingencies that would add cost.

Will federal wages be triggered?..... ☐ **YES** ☒ **NO**

No part of the design should trigger federal wages.

3C. MARKET DEMAND

Market study required .....☐ **YES** ☐ **NO** ☒ **N/A**

Date conducted.....

Capture rate/ Lease-up rate .....

Notable findings

3D. FINANCING

How will construction be financed?..... ☐ **Construction Loan** ☐ **LIHTC** ☐**Bonds** ☒ **Other**

Preliminary letters of interest provided? .....☐ **YES** ☒ **NO**

LIHTC Project

Proposed use of LIHTC?..... ☐ **YES** ☒ **NO**

Anticipated 4%/9% round application...

Projected LIHTC pricing .....

4%/ 9%LIHTC self-score.....

Were Letters of Interest provided? How does pricing and self-score compare to comparable projects?

N/A

Is project subject WSHFC TDC limits?..... ☐ **YES** ☒ **NO**

N/A

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Debt & Contributions

Amount of private permanent debt proposed $0

Is debt coverage sufficient?..... ☒ **YES** ☐ **NO** ☐ **N/A**

Applicant specifically requested TOD funds from King County and has the cash flow to make those payments, assuming an annual 3% rent escalation.

Could project leverage other financial resources not yet identified? ..... ☐ **YES** ☒ **NO**

There are no other financial resources available to them given the low cash flow associated with this project.

Sponsor contributions? ..... ☐ **YES** ☒ **NO**

Given the low cashflow for the project, there is not capacity for a deferred developer fee payment.

Proposed fundraising? ..... ☒ **YES** ☐ **NO**

Planning a capital campaign for $535,000, approximately 10% of the TDC. FOY points to past success in raising capital funds for three of their recent developments and will be using James Perez of the Ostara Group as a capital campaign consultant.

IV. PROJECT SERVICES & OPERATIONS

4A. OPERATING PRO FORMA

Annual operating expense total/ per unit... $147,200 annual / $6,133 per unit

Rent & utility allowance schedule within AMI limits? ..... ☒ **YES** ☐ **NO**

Project will pay all utilities

Proposed project-based or tenant-based rent subsidies? ..... ☐ **YES** ☒ **NO**

No vouchers, but rents are projected to be $630 per unit the first year.

Expected vacancy rate

5%

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Expense comparison

Project expenses, including reserve payments, are approximately $6,400 per unit annually. This is about 25% higher than what is expected at the average affordable housing project, however given the low unit count there are fixed costs that cannot be distributed across as many units, driving up the per unit rate.

Replacement & operating reserve payments

Contributing $6,600 ($3,600 to replacement, $3,000 to operations) annually.

If TOD project, are TOD loan repayment terms included in proforma? ..... ☒ **YES** ☐ **NO** ☐ **N/A**

4B. PROPERTY MANAGEMENT

Property Management Plan

Friends of Youth has its own facility maintenance to keep the building in proper shape. There will be on site management with support of the off-site manager and the Director of Facilities & Assets. There will also be some part time resident managers living on the property. The full-time day shift Property Manager will be responsible for overseeing all residents, supports and schedules maintenance, will help connect clients to resources, and support clients need to transition to stable housing. The resident manager also collects rents, completes weekly room inspections, schedules move ins and make readies. One of the residents will become a part time assistant manager. They will be living on the site and available evenings and weekends. A part-time Program Manager oversees FOY's young adult housing programs, effectively supporting the on-site managers.

4C. SERVICE MODEL & FUNDING ANALYSIS

Project seeking operating or service subsidies? ..... ☐ **YES** ☒ **NO**

Subsidized Units/ Funding per subsidized unit... Not proposed

Service Funding			
Funder	**Fund Type**	**Amount**	**Awarded?**
Total		Total here	

Requests for service funding feasible? ..... ☐ **YES** ☐ **NO**

Project competitive for ORS funding? ..... ☐ **YES** ☐ **NO** ☒ **N/A**

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4D. REFERRALS

Permanent supportive housing for homeless? .....☐ **YES** ☒ **NO**

Coordinated Entry for All (CEA) participation for ALL homeless units?.....☐ **YES** ☐ **NO** ☒ **N/A**

N/A

Referrals/marketing

This project will be limited to youth 18-24 who income qualify for this site. Application stated FOY is working on a marketing strategy but understands there is a huge demand for affordable apartments in this area, especially for youth.

Currently, Friends of Youth receives housing referrals from King County's Coordinated Entry for All (CEA). FOY maintains a waitlist of young people experiencing homelessness to prioritize housing in the case King County cannot supply an eligible referral through CEA. Young people primarily connect to this waitlist through FOY's Housing Navigators, dedicated case management staff who support young adults and young families to reach housing-focused goals. Housing Navigators offer the waitlist to all eligible young people. The list is first-come, first served.

Community Spaces.....☒ **YES** ☐ **NO**

Each pod/apartment will have 3 studios connected to a shared living/common room

Resident Services..... ☒ **Referral Services** ☐ **Counseling** ☐**Medical Services** ☐**Financial Assistance**

The sponsor will not be providing services at this site. However, they will leverage service resources in the area, including:

- Eastside Services/ Community Psychiatric Clinic: For mental health assessments and follow-up mental health counseling.
- Lakeside-Milam Recovery Center: For assessment and any treatment recommendations for out-patient substance abuse counseling
- Lake Washington and University of Washington Dental School: For free or low-cost dental care.
- St. Vincent DePaul and Hopelink: Financial Assistance, food and clothing for clients.

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V. FUNDING PRIORITIES

5A. FUNDING PRIORITIES

Which source(s) of King County funds is the project compatible with?

☐ **2331 Document Recording Fee** ☒ **RAHP** ☐ **HOME** ☐ **VSHSL** ☐ **MIDD 2** ☒ **TOD**

Project is all 50% AMI units, so that rules out 2331, nor are VSHSL and/or MIDD funds applicable. To award HOME funds the project would need to be revised to account for Federal wages. For TOD funds, it would need to be revised to account for the annual 1% interest payments.

This project meets the following 2020 King County RFP priorities:

Homeless/Extremely Low-Income/Affordable Housing

- ☐ A majority of the units (50% or more) are set-aside for homeless individuals and families, and participate in CEA
- ☐ The proposed project serves special needs population such as (but not limited to) households with a member with mental illness, is disabled and/or developmentally disabled, also experiencing homelessness
- ☐ The proposed project provides access to case management and behavioral health services
- ☐ The proposed project leverages other resources for both the construction and operations of the project, including social services expenses

System-connected housing

- ☐ The proposed project will be V**eteran housing**, serving Veterans, Military Service members, and their family members.
- ☐ The proposed project serves a MIDD-eligible population (individuals/households exiting treatment facilities or other institutionalized settings); the sponsor is or is partnering with a State-licensed certified mental health provider

Transit-Oriented Development

- ☐ Project leverages present and future public investment in transit infrastructure.
- ☐ Repurpose under-utilized publicly owned property or other community assets
- ☐ Utilize alternative housing models and cost saving construction methods
- ☒ Serve lower income households between 30% to 50% AMI.
- ☐ Project is within ½ mile of a high capacity transit station, and is eligible for the:
  - ☐ All-County South pool (2016 TOD)
  - ☐ All-County North/East pool (2016 TOD)
  - ☐ Geographic Set-aside (N/E/S/Seattle) (2019 TOD)

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☐ Projects funded with 2016 TOD Allocation Plan funding will be required to set aside 10% of the TOD Bond-funded units for tenant referrals from King County or a King County-approved agency operating criminal justice system diversion programs.

Homeownership Development

☐ Projects that expand homeownership opportunities for 1) Veterans and their families or
☐ 2) Vulnerable Populations who can become homeowners, be stably housed, and avoid intergenerational poverty.

5B. Federal HOME funds

HOME funding requested?..... ☐ **YES** ☒ **NO**

Rents and UA within HOME rent/utility allowance limits?..... ☒ **YES** ☐ **NO**

Within HOME maximum per unit subsidy limits?..... ☒ **YES** ☐ **NO**

N/A

Is sponsor a Community Housing Development Organization (CHDO)?..... ☐ **YES** ☒ **NO**

N/A

VI. SPONSOR CAPACITY

6A. PORTFOLIO & PERFORMANCE

# of sponsor projects in King County portfolio... **1**

KC - Sponsor Projects	
Project Name	**Brief Description**
Youth Haven	17 units in Kirkland, 2013 placed in service. Funding from HTF, KC, & ARCH

How have these KC projects performed?

King County Asset Management says that Friends of Youth reports on time, relies on agency unrestricted cash to cover expenses, and saw a large increase in service subsidies and service expenses in 2019

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6B. PIPELINE & DEVELOPMENT CAPACITY

Does the sponsor have other projects under construction and/or under development? ... ☐ **YES** ☒ **NO**

# of projects under construction..... **0**

# of projects under development..... **0**

How is the sponsor staffed to handle multiple projects?

N/A

6C. SPONSOR FINANCIAL SOUNDNESS

Audit findings, material weaknesses and/or corrective action plan required? ..... ☐ **YES** ☒ **NO**

Sponsor's financial audits consistently clear, steady? ..... ☒ **YES** ☐ **NO**

Operating cash provides appropriate levels of liquidity for operations? ..... ☒ **YES** ☐ **NO**

Portfolio maintains strong debt ratios? ..... ☒ **YES** ☐ **NO**

Summary of audited info for the past two years (Assets, Liabilities, Net Worth, Liquidity, Debt Ratios)

FOY had total assets of $22.2M in 2019 and $22.7M in 2018. Total liabilities were $3.3M in 2019 and $3.4M in 2018. Their Net Position was $18.9M in 2019 and $19.3M in 2018

Net income (loss) was ($389K) in 2019 and $597K in 2018.

FOY 2019 Audit included $5.2M in federal awards and there were no findings or deficiencies identified.

No findings or concerns.

In addition to audit reports, were unaudited financial statements also reviewed? ☒ **YES** ☐ **NO**

If unaudited financial statements were reviewed, did they show the same trends as audits? ☒ **YES** ☐ **NO**

If Audits were not available, were unaudited financial statements reviewed? ☒ **N/A** ☐ **YES** ☐ **NO**

If more than one applicant submitted financial statements for review summarize the second applicant's financial statements below. ☒ **N/A**

N/A

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VII. EQUITY & SOCIAL JUSTICE

How will this project impact the target population of residents and the surrounding community?

Friends of Youth's affordable housing proposal will help address housing inequities for young adults and young families experiencing homelessness on the eastside of King County, who are disproportionately from minority, marginalized, and underserved communities. The proposed project will be located near downtown Kirkland, on the eastside of King County. According to the United States Census Bureau estimate in 2019, Kirkland houses 93,010 residents; of these, around 5,859 are living in poverty. The median household income for the City of Kirkland in 2018 was $109,715. 28% of Kirkland residents identify as races other than White, and 25% report speaking a language other than English in their home. The young people seeking services within Friends of Youth's Homeless Youth Service programs are all living below the Federal Poverty Level.

Does the applicant have a plan for reviewing structures, policies, and programs with an equity and social justice lens? ☒ **YES** ☐ **NO**

Friends of Youth uses Homeless Management Information System (HMIS) for equity outcomes, client satisfaction surveys, and Youth Advisory Board. Additionally, Friends of Youth used the Youth of Color Needs Assessment report by the NW Network to evaluate their competence in serving youth of color. The report identified four key takeaways for FOY's community: addressing the structural conditions that undergird the experiences of homelessness; reflecting the complex roles that families play in youth of color's lives; expanding positive relationships between caring adults and youth of color; and providing strength-based and flexible services that meet their need for self-determination while helping them meet their basic needs.

What is the diversity of the board and senior leadership?

Friends of Youth's Executive Leadership Team consists of sixteen people; of these, four (25%) are people of color, including their President and Chief Executive Officer (CEO), and twelve (75%) are women, including their Chief Financial Officer (CFO) and Chief Program Officer (CPO). FOY's Board of Directors consists of fifteen people; of these, five (33%) are people of color, and five (33%) are women.

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VIII. SUMMARY AND RECOMMENDATION

Funding is not recommended at this time due to zoning issues and lack of available funding.

- **How well the proposed housing model meets the County's priorities established in the RFP –** This project aims to serve people ages 18 to 24 who are at 50% AMI, but do not have the intention of applying for placing project-based vouchers at this project. In the applicant clarification interview, they expressed strong interest in proposing Veteran set-asides, but those are not currently built into the application or proposed project.

- **Financial feasibility & Leverage of other public and private sources** – The applicant seeks to use public sector investment to finance redevelopment, with a capital campaign accounting for roughly 10% of TDC. Additionally, it further leverages public sector investment from 2008 when the property was acquired using public sector funds. In effect, it is leveraging that initial investment as there are no land costs associated with this project as Friends of Youth own it, with the 2008 affordability requirements still in place.

- **Organizational capacity, financial and experience/pipeline –** Friends of Youth has a 69-year history of working with young adults ages 18 to 24 across its 26 program sites in King and Snohomish Counties. However, the model proposed in this application is a first for Friends of Youth.

- **Readiness** – There is uncertainty if the City of Kirkland will agree with Friends of Youth's definition of unit in this design for both the layout of the structure and the associated parking. The project is targeting starting the capital campaign in January 2021 but has not raised any funds yet and stated during the interview that COVID-19 has thrown off their normal fundraising cycle.

- **Additional considerations** – Early feedback from ARCH is that they do not consider this application a priority in their 2020 NOFA cycle. Additionally, given the greater reliance on motor vehicles seen on the Eastside, if this project is built as planned, the planned parking would be insufficient for the number of residents if more than one-third of them has a car.

King County staff will continue to work with Friends of Youth to improve this project for a future funding round.

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