



Memorandum

DATE: 10/15/2026
TO: KCRHA Governing Board
CC: Dr. Kelly Kinnison, CEO
FROM: William Towey, COO
SUBJECT: KCRHA Financial Update / Q&A

Executive Summary

Turning Point Strategic Advisors was engaged by the City of Seattle and King County to provide external financial review, reconciliation, and stabilization support to KCRHA. This memo summarizes KCRHA's understanding of that work and the implications for the agency. We now have a much clearer understanding of KCRHA's historical financial position and the factors that created the current shortfall. Based on the reconciliation completed by Turning Point Strategic Advisors through July 31, 2026, the current estimate of the remaining unresolved funding need is approximately \$16.7 million. The \$16.7 million figure is not an estimate of administrative overspending; it is the current unresolved funding need identified through the cash and balance-sheet reconciliation. That number may move somewhat as we complete 2026 billing, collections, receivables, and closeout activity, with a final reconciliation expected in Q1 2027.

The primary driver appears to be a substantial shortfall in the administrative revenue KCRHA expected to realize from its program and grant portfolio. Over the life of the organization, actual utilization of those funds was materially below the levels assumed in annual budgets, resulting in approximately \$15.6 million of budgeted administrative revenue not ultimately being earned because the underlying program funds were not fully utilized. KCRHA continued operating against an administrative cost structure built around those higher revenue assumptions and did not have the recurring financial practices necessary to identify and adjust to that widening gap as it developed.

That underlying revenue shortfall was compounded by approximately \$3.3 million of administrative spending above the level that fully utilized grant commitments would have supported, as well as approximately \$2.4 million in net KCIP¹ interest expense. The interest resulted from carrying the negative KCIP operating balance over time and is already reflected in the \$16.7 million remaining funding need. These are different but related ways of understanding the same financial history and should not simply be added together as separate components of the \$16.7 million balance.

The larger organizational failure was that KCRHA did not have a sufficiently mature financial management framework connecting budget, grant utilization, revenue realization, billing, receivables, monthly close, and cash. As a result, the organization could appear reasonably close to its annual administrative budget while its underlying financial position was steadily deteriorating. The availability of liquidity through the County treasury structure also reduced the immediate financial pressure that might otherwise have brought that accumulating mismatch to attention sooner.

Turning Point's work is also about more than reconstructing the past. They are correcting and stabilizing the accounting records, strengthening monthly close and reconciliation practices, improving invoicing and reimbursement workflows, supporting audit and grant-compliance work, improving cash and receivables management, and helping KCRHA build the staffing and operating routines necessary for sustainable financial management.

That work is happening at the same time KCRHA is moving toward a considerably simpler organization in 2027. The transfer of locally funded contract administration back to the City and County removes much of the volume and complexity that characterized the organization over the past several years. The future KCRHA will be smaller and more focused on its regional, federal, and state responsibilities, with a more concentrated grant portfolio and finance operation.

The work in front of us is not simply to identify and resolve the historical funding gap. It is to finish 2026 cleanly, complete the final reconciliation, and leave KCRHA with a financial and operational model that is appropriately scaled, routinely reconciled, and capable of reliably carrying out the work that remains in 2027.

¹ [The King County Investment Pool](#) invests cash reserves for all county agencies and approximately 110 special districts and other public entities such as fire, school, sewer and water districts, and other public authorities.



Q&A – Historical Reconciliation and 2027 Financial Reset

Q: What actually caused the \$16.7 million shortfall?

The \$16.7 million figure should not be understood as administrative overspending. It represents the current unresolved funding need identified through the reconciliation. The largest underlying issue was that KCRHA realized substantially less administrative revenue than its operating budgets assumed. Over the life of the organization, actual utilization of the underlying grant portfolio was materially below the levels projected in those budgets, which meant approximately \$15.6 million of budgeted administrative revenue was not ultimately earned because the underlying program funds were not fully utilized.

KCRHA also incurred approximately \$3.3 million in administrative spending above the level that fully utilized grants would have supported, along with approximately \$2.4 million in net KCIP interest expense. Those dynamics overlap with the broader funding analysis, but together they explain how the accumulated financial shortfall developed over several years.

Q: Was this primarily overspending, or a revenue shortfall?

Both dynamics are present, but the larger underlying issue was the revenue shortfall. Approximately \$15.6 million of administrative revenue that KCRHA incorporated into its operating budgets was not ultimately earned because the underlying grants were not fully utilized. KCRHA also incurred approximately \$3.3 million in administrative spending above the level those grants would have supported, along with approximately \$2.4 million in net KCIP interest expense.

These are related views of the same financial history rather than separate amounts that can simply be added together.

Q: How much did KCRHA actually overspend on administration?

Turning Point's current analysis estimates that KCRHA incurred approximately \$3.3 million in administrative spending above the level that fully utilized grant commitments would have supported. In addition, KCRHA incurred approximately \$2.4 million in net KCIP interest expense, bringing total pro forma administrative overspending and interest to approximately \$5.7 million over the life of the organization.

The approximately \$3.3 million in administrative overspending was concentrated in a relatively small number of areas. A substantial portion of the approximately \$3.3 million overspend was associated with implementation of Salesforce after the organization's original contract-management system proved insufficient for KCRHA's operational needs. The remaining overspending principally reflects legal fees and temporary staffing costs along with other administrative expenses.



These amounts are distinct from the \$16.7 million unresolved funding need, which reflects the broader cash and balance-sheet reconciliation and also incorporates the effect of administrative revenue that was budgeted but never earned.

Q: If KCRHA had approximately \$15.6 million in administrative revenue that was not earned and approximately \$5.7 million in administrative overspending and interest, why isn't the total funding need more than \$21 million?

Because those figures come from different ways of analyzing the same financial history and are not separate amounts that can simply be added together.

The approximately \$15.6 million figure measures administrative funding that would have been available if the underlying grant portfolio had been fully utilized. The approximately \$3.3 million figure measures administrative spending above the amount that full utilization would have supported. The approximately \$2.4 million represents net KCIP interest generated by the negative operating balance.

The \$16.7 million figure comes from a separate cash and balance-sheet reconciliation. It starts with KCRHA's actual KCIP balance, unpaid obligations, and receivables and then applies additional identified funding sources. That calculation establishes the current estimated unresolved funding need.

Q: How did approximately \$1.01 billion in grant awards and commitments translate into substantially less actual program utilization?

Across KCRHA's history, the total value of grants and program commitments was approximately \$1.01 billion. That does not mean KCRHA received \$1.01 billion in cash. Current projections suggest that total program utilization over the life of those awards will ultimately be in the range of approximately \$780 million, although final 2026 utilization will not be known until closeout.

That difference developed for a number of reasons, including provider underspend and unused grant commitments, changes to awards and programs, funding that did not ultimately flow through KCRHA, and other grant-utilization factors. Some 2026 activity also remains open, so the final utilization amount will not be known until closeout.

The important financial consequence was that much of KCRHA's administrative funding was tied to actual program utilization. Because actual program activity was substantially lower than assumed in the operating model, Turning Point's current analysis estimates that approximately \$15.6 million of budgeted administrative revenue was not ultimately earned over the life of the organization.

Q: Why did lower program spending reduce KCRHA's administrative funding?

Much of KCRHA's administrative funding was earned as the underlying grant dollars were



utilized. When providers or programs did not fully use awarded funds, or when grant commitments otherwise went unused, the related administrative revenue was also reduced. The organization built its operating budget around a higher level of program activity, while many of its operating costs remained fixed.

Q: How could KCRHA fail to notice that approximately \$15.6 million of anticipated administrative revenue was not being realized?

The shortfall developed gradually over several years rather than appearing as one large or immediately obvious loss. KCRHA did not have the recurring financial management practices necessary to identify and respond to that accumulating mismatch as it developed.

Monthly close, balance-sheet reconciliation, revenue monitoring, billing, receivables management, and cash forecasting were not consistently connected. As a result, individual annual budgets and spending reports could appear reasonably close to plan even while the gap between anticipated administrative revenue and actual revenue realization was growing over time and the underlying cash and balance-sheet position was deteriorating.

The underlying problem accumulated over several years, but concerns became more visible in late 2024 and early 2025 as the negative cash position and associated interest costs became clearer. KCRHA began raising those concerns with the Governing Board, and in early 2025 requested the forensic evaluation (Clark Nuber) because KCRHA, City, and County leaders recognized that additional financial expertise was needed to understand and resolve the emerging financial issues.

Q: But wasn't the negative KCIP balance visible?

The negative KCIP position was visible at different points, but KCRHA did not have a reliable recurring process for connecting that cash position to outstanding receivables, expected reimbursements, administrative revenue realization, and actual obligations.

Q: What role did the KCIP play?

The County treasury structure provided liquidity that allowed KCRHA to continue meeting its obligations despite the growing negative cash position. That reduced the immediate financial pressure that might otherwise have caused the underlying mismatch to surface sooner.

KCIP did not cause the financial problem. The underlying issue was the absence of financial practices capable of identifying and addressing the accumulating mismatch between revenue, spending, receivables, and cash.

Q: Why didn't the Governing Board, City, or County see the problem earlier?

The financial information being produced by KCRHA did not provide a reliable picture of the



accumulating balance sheet and cash issue. Budget and expenditure information was being produced, but it was not consistently reconciled to revenue realization, receivables, and cash.

The underlying failure was in KCRHA's financial management systems and practices.

Q: Does the reconciliation indicate that money is missing or was diverted?

No. The reconciliation does not indicate that the shortfall represents missing or diverted funds. Turning Point has substantially reconciled KCRHA's historical cash activity.

The remaining issue is understanding how revenue realization, spending, receivables, interest, and other administrative costs combined over several years to produce the negative cash position.

Q: Did KCRHA pay providers and then fail to seek reimbursement from funders?

There were instances in which KCRHA did not bill or collect amounts as timely as it should have, including amounts that were earned but were not invoiced. Turning Point has also reviewed whether provider expenditures were paid but never recovered from funders.

Those issues are part of the reconciliation, but at this point they do not appear to be the principal driver of the \$16.7 million estimate.

Q: How much KCIP interest did KCRHA incur, and why?

KCRHA incurred approximately \$2.9 million in gross interest expense on its negative KCIP operating balance. That cost was partially offset by approximately \$474,000 of interest income earned on restricted funds, resulting in approximately \$2.4 million in net interest expense through July 31, 2026.

The negative cash position accumulated over several years, and as that balance grew, so did the associated interest expense. Because the underlying cash problem was not being surfaced and corrected through regular reconciliation, interest became an additional cost layered onto the original problem. The \$2.4 million net interest cost is already reflected in the current \$16.7 million unresolved funding need; it is not an additional amount that must be added to it.

Q: Is \$16.7 million the final number?

No. It is the best current estimate based on the reconciliation through July 31, 2026, and it is developed enough to inform decisions now.

There are still 2026 invoices, collections, receivables, and closeout activity moving through the system. The final reconciliation will occur after the 2026 books and contract activity are fully closed in Q1 2027.



Q: Could the final number be higher or lower?

Yes. There are remaining receivable questions and year-end activity still moving through the system, but there will also be additional collections and reimbursements.

Turning Point's current assessment is that the present estimate provides a reasonable picture of the overall exposure, with the final true-up occurring in Q1.

Q: Who approved the budgets that assumed this level of administrative revenue?

KCRHA's annual budgets went through the organization's established budget and governance processes. The problem was not simply the adoption of a particular budget assumption. It was the absence of a recurring process capable of comparing those assumptions with actual grant utilization and revenue realization and then adjusting the organization when those assumptions were not being met.

Q: How should responsibility for the remaining funding need be resolved?

The reconciliation establishes the current estimated funding need, but it does not by itself determine how responsibility for that balance should be allocated. KCRHA's responsibility is to provide the clearest possible accounting of the amount, its causes, remaining receivables, and the expected year-end financial position. The City, County, and KCRHA are working through the appropriate resolution in the context of the underlying funding agreements, remaining closeout activity, and the transition of responsibilities occurring in 2027.

Q: What is different now, and what is being done to prevent this from happening again?

The finance operation today is materially different from the one that allowed this problem to develop. Turning Point is helping establish disciplined monthly close, recurring balance sheet and cash reconciliation, active receivables and invoicing management, funder balance validation, clearer internal controls, and regular financial reporting. These practices are being built into normal operations rather than treated as one-time corrective actions.

KCRHA will also be a materially simpler organization in 2027. The locally funded contract portfolio is transferring back to the City and County, leaving KCRHA with a smaller organization and a much more focused federal, state, and regional portfolio.

Q: Why should elected officials or the public have confidence in KCRHA's numbers now?

One reason KCRHA and its funding partners engaged Turning Point was to bring external financial expertise and additional technical capacity to reconstruct and validate the historical position.

Turning Point has substantially reconciled historical cash activity through July 31, 2026, reviewed major receivable balances, supported the accounting close, and is directly involved in rebuilding



the underlying finance processes. We are not asking stakeholders simply to rely on the same processes that failed previously.

Q: Did returning the local contracts to the City and County solve the financial problem?

It does not resolve the historical funding need. It does, however, materially change the operating environment going forward.

Returning locally funded contract administration to the City and County removes much of the transaction volume and complexity that KCRHA historically managed and allows the future organization to be built around a smaller and more focused set of responsibilities.

Q: What happens next?

The immediate work is to complete 2026 billing and collections, finish the remaining reconciliation and closeout activity, resolve the historical funding need with the City and County, and complete the 2027 transition.

