



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

**AB 6548  
October 1, 2024  
Regular Business**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6548: 2024 Comprehensive Plan Periodic Update – HB 1220 Affordable Housing Target Capacity Options	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
<b>RECOMMENDED ACTION:</b>	Provide direction on the preferred option for accommodating the required affordable housing target capacity within in the Mercer Island Town Center.	

<b>DEPARTMENT:</b>	Community Planning and Development
<b>STAFF:</b>	Jeff Thomas, Community Planning and Director Adam Zack, Senior Planner
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Town Center Capacity Options
<b>CITY COUNCIL PRIORITY:</b>	n/a

<b>AMOUNT OF EXPENDITURE</b>	\$ n/a
<b>AMOUNT BUDGETED</b>	\$ n/a
<b>APPROPRIATION REQUIRED</b>	\$ n/a

**EXECUTIVE SUMMARY**

The purpose of this agenda bill is to provide the City Council with options for achieving the required affordable housing target capacity within the Mercer Island Town Center as a component of the 2024 Comprehensive Plan Periodic Update as required by the Washington State Growth Management Act (GMA).

- On January 2, 2024, staff presented the City Council with a Land Capacity Analysis Supplement based on guidance from the Washington State Department of Commerce (Commerce) that identified a capacity deficit of 143 dwelling units in multifamily and mixed-use zones ([AB 6385](#)).
- On January 16, 2024, the City Council approved the following motion: “Direct the Housing Work Group to develop a recommended plan for adding required additional capacity in the Mercer Island Town Center (Town Center), but not limited to adding “one floor option” with due consideration of the impact on the Island businesses and a charge to look for options that mitigate the impact to Island businesses” ([AB 6393](#)).
- The City Council direction from January 16, 2024 was incorporated into the draft Housing Element, prepared by the Housing Work Group comprised of three City Council and two Planning Commission members.
- The Housing Work Group recommended draft was presented to the Planning Commission in March 2024 and the Planning Commission recommended draft was presented to City Council in July 2024 ([AB 6519](#) and [AB 6541](#)).

- The City Council reviewed the draft Housing Element in September 2024 and provided policy direction to achieve the required affordable housing target capacity within the Town Center.
- City Council direction is now needed to identify the preferred option to address the housing target capacity in the Town Center. This agenda bill presents two Options for consideration:
  - Increase the maximum building height by one story in the entire Town Center, or
  - Increase the maximum building height by two stories in TC-5 and TC-4 Plus subareas and by one story in the TC-4 subarea.
- Concurrently, City Council direction is requested on the share of housing units in new development required to be affordable housing. The Mercer Island City Code (MICC) currently requires 10 percent of units to be affordable in any Town Center development taller than 2 stories.
- An additional, longer-term option was evaluated for consideration which would redesignate an area along 80<sup>th</sup> Avenue SE, north of SE 30<sup>th</sup> Street to add additional Town Center capacity.
- The City Council direction provided on October 1, 2024 will be incorporated into an ordinance containing interim development regulations. City Council will conduct a public hearing and consider the ordinance on November 19, 2024.

## BACKGROUND

The City began the 2024 periodic review of its Comprehensive Plan in March 2022, when the City Council approved the Scope of Work, Master Schedule, and Public Participation Plan ([Resolution No. 1621](#)). Per the WA Growth Management Act (GMA), the 2024 Comprehensive Plan periodic review must be adopted by December 31, 2024.

### Capacity Deficit

Presented to the City Council on January 2, 2024, the Land Capacity Analysis Supplement evaluates whether the City has adequate development capacity to accommodate its housing needs, as determined by the state and King County, at various income levels ([AB 6385](#)). The analysis was conducted based on the [Commerce guidance for evaluating land capacity](#). The Commerce guidance details a process by which cities would assume that higher density development will accommodate lower-income households. In high-cost communities like Mercer Island, the guidance assumes that nearly all of the housing needs below 120 percent of the area median income (AMI) would be accommodated in multifamily and mixed-use zones. Within that framework, the Land Capacity Analysis Supplement finds a 143-unit capacity deficit in multifamily and mixed-use zones ([AB 6385](#), Exhibit 1). HB 1220 and the Commerce Guidance require the City to address this deficit during the Comprehensive Plan Periodic Review by increasing mixed-use and/or multifamily development capacity.

### Council Direction

On January 16, 2024, the City Council provided direction that the multifamily and mixed-use development capacity deficit should be addressed during the Comprehensive Plan periodic review. The City Council direction was to:

Direct the Housing Work Group to develop a recommended plan for adding required additional capacity in the Town Center but not limited to adding “one floor option” with due consideration of the impact on the Island businesses and a charge to look for options that mitigate the impact to Island businesses ([City Council Minutes, January 16, 2024](#)).

The Housing Work Group considered the City Council direction as it prepared its draft of the Housing Element, which included policy direction for increasing the development capacity in the Town Center. To implement

the Housing Element, the fine detail of the preferred approach to increasing the development capacity must be ascertained. Direction on the preferred approach will be incorporated into an ordinance to amend the development code in Title 19 Mercer Island City Code (MICC) and implement the Housing Element. On October 1, the City Council will be asked to provide direction on their preferred approach to add development capacity in the Town Center.

## ISSUE/DISCUSSION

Staff evaluated two options for achieving the required affordable housing target capacity within the Mercer Island Town Center. In addition to the two options for increasing housing capacity, staff analyzed an optional additional capacity buffer and increasing the required affordable housing percentage for new development. A full description and analysis of these options is provided in Exhibit 1. The options are briefly summarized below.

### Capacity Options

Staff prepared two Options for addressing the 143-unit residential development capacity deficit.

- A. Add One Story Throughout Town Center, or
- B. Increase Height in TC-5, TC-4 Plus, and TC-4.

Both options considered in Exhibit 1 would increase capacity enough to overcome the 143-unit deficit and achieve the required affordable housing target capacity within the Mercer Island Town Center.

#### **Option A: Add One Story Throughout Town Center**

To achieve the required affordable housing target capacity within the Mercer Island Town Center, the City Council can amend the development regulations in the Town Center. The Town Center is currently divided into six subareas: TC-5, TC-4 Plus, TC-4, TCMF-4, TC-3, and TCMF-3. Each of the subareas has a different height limit established in [Mercer Island City Code \(MICC\) 19.11.030 – Bulk Regulations](#). The maximum height in the TC-5 and TC-4 Plus subareas is 63 feet (5 stories), in TC-4 and TCMF-4 the maximum height is 51 feet (4 stories), and in TC-3 and TCMF-3 maximum height is 39 feet (3 stories). Increasing the maximum building height by one story in Town Center would increase development capacity by 152 dwelling units, enough to overcome the 143-unit capacity deficit (Exhibit 1, Table 1).

#### **Option B: Increase Height in TC-5, TC-4 Plus, and TC-4**

Option B would target the subareas in the north and middle of Town Center with a focused increase of housing capacity. If the TC-5 and TC-4 Plus maximum building height is increased from five stories to seven and TC-4 increase from four stories to five, development capacity would increase by 237 units, enough to overcome the 143-unit capacity deficit (Exhibit 1, Table 2).

#### **Optional Additional Capacity Buffer**

In addition to Options A and B, the City Council may consider increasing the development capacity more than the minimum required to help demonstrate that it is making progress toward accommodating its housing needs through the Comprehensive Plan planning period. Staff analyzed an optional additional capacity buffer in the TC-3 subarea along 80<sup>th</sup> Ave SE north of SE 30<sup>th</sup> Street as shown in Exhibit 1, Map 4. This optional additional housing capacity buffer could be added to either Option A or Option B. If the maximum building height in this area was increased to 5 stories it would add 201 additional units of capacity. If the maximum building height increased to 7 stories, capacity would increase by 401 units. A full analysis is provided in Exhibit 1.

Adding a housing capacity buffer would help the City keep additional capacity headroom as new development occurs and uses up some of its capacity. Table 1 shows the City’s multifamily and mixed-use development capacity, the affordable housing target, and how capacity changes as development occurs. This table illustrates the way the optional additional housing capacity buffer, as proposed, would help the City maintain housing capacity as development occurs during the planning period.

**Table 1. Mercer Island Multifamily and Mixed-Use Housing Capacity, Affordable Housing Target, and Optional Additional Housing Capacity Buffer.**

<b>Option A</b>			
	<b>Multifamily and Mixed-Use Housing Capacity</b>	<b>Affordable Housing Target<sup>2</sup></b>	<b>Capacity Surplus or Deficit (Capacity Minus Target)</b>
<b>Starting Balance (Current Conditions)</b>	<b>1,073<sup>1</sup></b>	<b>1,216<sup>2</sup></b>	<b>Deficit -143 Units</b>
Option A (debit)	(+)152 <sup>3</sup>	-	
<b>New Balance</b>	<b>1,225</b>	<b>1,216<sup>2</sup></b>	<b>Surplus +9 Units</b>
Xing Hua Development (credit)	146 Units	15 Units <sup>5</sup>	
<b>New Balance</b>	<b>1,079</b>	<b>1,201</b>	<b>Deficit -122 Units</b>
Hypothetical Development A (credit)	15 Units <sup>4</sup>	2 Units <sup>5</sup>	
<b>New Balance</b>	<b>1,064</b>	<b>1,199</b>	<b>Deficit -135 Units</b>
Hypothetical Development B (credit)	173 Units <sup>4</sup>	18 Units <sup>5</sup>	
<b>New Balance (end of Option A)</b>	<b>891</b>	<b>1,181</b>	<b>Deficit -290 Units</b>
Optional Additional Housing Capacity Buffer (debit)	(+)401 <sup>6</sup>	-	
<b>New Balance (Option A plus Capacity Buffer)</b>	<b>1,292</b>	<b>1,181</b>	<b>Surplus +111 Units</b>

<b>Option B</b>			
	<b>Multifamily and Mixed-Use Housing Capacity</b>	<b>Affordable Housing Target<sup>2</sup></b>	<b>Capacity Surplus or Deficit (Capacity Minus Target)</b>
<b>Starting Balance (Current Conditions)</b>	<b>1,073<sup>1</sup></b>	<b>1,216<sup>2</sup></b>	<b>Deficit -143 Units</b>
Option B (debit)	(+)237 <sup>3</sup>	-	
<b>New Balance</b>	<b>1,310</b>	<b>1,216<sup>2</sup></b>	<b>Surplus +94 Units</b>
Xing Hua Development (credit)	146 Units	15 Units <sup>5</sup>	
<b>New Balance</b>	<b>1,164</b>	<b>1,201</b>	<b>Deficit -37 Units</b>
Hypothetical Development A (credit)	15 Units <sup>4</sup>	2 Units <sup>5</sup>	
<b>New Balance</b>	<b>1,149</b>	<b>1,199</b>	<b>Deficit -50 Units</b>
Hypothetical Development B (credit)	173 Units <sup>4</sup>	18 Units <sup>5</sup>	
<b>New Balance (end of Option B)</b>	<b>976</b>	<b>1,181</b>	<b>Deficit -205 Units</b>
Optional Additional Housing Capacity Buffer (debit)	(+)401 <sup>6</sup>	-	
<b>New Balance (Option B plus Capacity Buffer)</b>	<b>1,377</b>	<b>1,181</b>	<b>Surplus +196 Units</b>

**Notes:**

1. The City's existing multifamily and mixed-use housing capacity was analyzed in the Land Capacity Analysis Supplement provided to the City Council in Agenda Bill 6385, Exhibit 1. Based on the guidance provided by Commerce, affordable housing is presumed to be provided primarily in denser housing so multifamily and mixed-use development capacity must at least equal the affordable housing target for the City to accommodate its affordable housing needs.
2. Housing needs were established in the King County Countywide Planning Policies (CPPs) as amended in 2023.
3. Options A and B would increase development capacity, so both are listed as a capacity debit.
4. Hypothetical developments are those that might occur during the planning period, included here as an example. Each development would 'use up' the available capacity, so these units would be a credit subtracted from the capacity total.
5. New developments taller than two stories are required to provide affordable housing units at a rate of 10 percent of all units. Those units must be affordable at 70% of the AMI in three-story structures or 60% of the AMI for four-story structures and taller. The provision of affordable housing units counts here as a credit subtracted from the total affordable housing need.
6. Adding the optional additional housing capacity buffer would increase to the total housing capacity, so it is listed as a capacity debit. The capacity debit used in this table assumes the maximum building height in the buffer area would be increased to seven stories.

**Increase in Affordable Housing Percentage**

In addition to allowing buildings to be taller (Options A and B), the City can also require more affordable housing units be constructed in those taller buildings. The Mercer Island City Code (MICC) currently requires any building taller than two stories in the Town Center to include at least ten percent of the dwelling units in that project as affordable housing units (MICC 19.11.040). At the same time the City increases development capacity, it can increase the affordable housing percentage from 10 to 15 percent. Further discussion of this option is provided in Exhibit 1.

## **NEXT STEPS**

Based on the October 1, 2024 City Council direction provided, an ordinance containing interim development regulations will be drafted for City Council consideration and a public hearing on November 19, 2024.

## **RECOMMENDED ACTION**

Direct staff to prepare an ordinance containing interim development regulations for public hearing and consideration on November 19, 2024 incorporating Option [select A or B] and an adjustment of the affordable housing requirement to [select %] at 60% AMI.