



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

**AB 6393  
January 16, 2024  
Regular Business**

**AGENDA BILL INFORMATION**

<b>TITLE:</b>	AB 6393: 2024 Comprehensive Plan Periodic Update, Housing Element – Housing Capacity Direction	<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>	Direct staff on the preferred option(s) for addressing the housing capacity deficit identified in the Land Capacity Analysis Supplement.	

<b>DEPARTMENT:</b>	Community Planning and Development
<b>STAFF:</b>	Jeff Thomas, Community Planning and Development Director Adam Zack, Senior Planner
<b>COUNCIL LIAISON:</b>	n/a
<b>EXHIBITS:</b>	1. Staff Presentation dated January 2, 2024 (AB 6385). 2. City Council Question/Comment Matrix Dated January 2, 2024 (AB 6385).
<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**

At the January 2, 2024, City Council Meeting staff presented analysis of three options as part of the Land Capacity Analysis (LCA) Supplement to address a land capacity shortfall of 143 multifamily or mixed-use dwelling units ([AB 6385](#)). At the January 16, Meeting staff is requesting City Council direction on the preferred option(s) to address the housing capacity deficit, allowing for the Housing Work Group to resume its work on the Housing Element update of the 2024 Comprehensive Plan periodic update.

- The WA Growth Management Act (GMA) obligates most cities and counties in Washington State to adopt a comprehensive plan, which must include a housing element that satisfies specific planning requirements for housing.
- In 2022, the WA State Legislature adopted HB 1220, which amended the Growth Management Act (GMA) to add new requirements for cities and counties to provide sufficient capacity of land to address housing needs across income segments and to identify and begin to undo racially disparate impacts, displacement, and exclusion in housing.
- In 2023, the WA Department of Commerce (Commerce) issued [guidance for complying with HB 1220](#).
- In August 2023, the King County Council adopted [Ordinance No. 19660](#), which amended the Countywide Planning Policies (CPPs) to establish the number of dwelling units needed to

accommodate moderate, low, very low, and extremely low-income households for cities throughout the county.

- Following the Commerce guidance, the LCA Supplement evaluated whether the City has sufficient land capacity to accommodate the assigned housing need. The analysis identified a small capacity deficit of 143 dwelling units in multifamily and mixed-use zones (AB 6385, Exhibit 1).
- To address this deficit, the City will need to increase mixed-use and/or multifamily development capacity during the Comprehensive Plan Periodic Review. Staff has prepared three possible alternatives, each of which can address this deficit, for the City Council to consider (AB 6385, Exhibit 1).

## BACKGROUND

The City is in the process of conducting a periodic update of the Comprehensive Plan. The update is required by the Growth Management Act (GMA) and must be completed by December 31, 2024. As part of the periodic update, the City is required to update the Housing Element to incorporate the new requirements established by [HB 1220](#), including the following:

- Establish the number of dwelling units needed to accommodate moderate, low, very low, and extremely low-income households;
- Identify sufficient capacity of land for housing for moderate, low, very low, and extremely low-income households;
- Identify and implement policies and regulations to address and begin to undo racially disparate impacts, displacement, and exclusion in housing caused by local policies, plans, and actions; and
- Establish anti displacement policies.

At the January 2, 2024 City Council meeting, staff presented the Land Capacity Analysis (LCA) Supplement ([AB 6385, Exhibit 1](#)). That report, based on the guidance from Commerce, found a 143-unit land capacity shortfall. The LCA Supplement analyzed three options for addressing this capacity shortfall:

- A. Increase maximum height to permit one additional residential story in Town Center;
- B. Allow multifamily residential use in the Commercial Office Zone; and
- C. Increase maximum density from 26 to 30 dwellings per acre in the MF-3 Zone.

## ISSUE/DISCUSSION

At the January 2, 2024, meeting, the City Council requested more information on four items to be brought back at the January 16, 2024 Meeting:

1. Area Median Income (AMI) and government transfer payments;
2. Additional accessory dwelling unit (ADU) data;
3. Planned Business Zone (PBZ) Residential Capacity Analysis; and
4. Racially Disparate Impacts (RDI) Evaluation Exhibit 22.

### 1. AMI and Government Transfer Payments

City Council requested staff to provide more information on whether AMI includes government transfer payments. The LCA Supplement evaluates the City's capacity to accommodate its housing needs at varying income segments relative to the AMI. The [Oxford Reference](#) defines government transfer payments as, "Payments of income by the government which are not made in return for current services rendered. This includes payment of state pensions and unemployment and other social security benefits, by the

government itself or the National Insurance Fund. While the state provides most transfer payments, some are also made by charities and individuals.”

The AMI is the midpoint of a specific area’s income distribution and is calculated on an annual basis by the Department of Housing and Urban Development (HUD). On [its website](#), HUD provides [documentation of how the AMI is calculated](#) for every county. To calculate the AMI, HUD uses the median household income for each area as estimated by the U.S. Census Bureau American Community Survey (ACS). The [ACS Subject Definitions](#) defines income as follows:

The data on income were derived from answers to Questions 43 and 44 in the 2021 American Community Survey (ACS), which were asked of the population 15 years old and over. “Total income” is the sum of the amounts reported separately for wage or salary income; net self-employment income; interest, dividends, or net rental or royalty income or income from estates and trusts; Social Security or Railroad Retirement income; Supplemental Security Income (SSI); public assistance or welfare payments; retirement, survivor, or disability pensions; and all other income.

Receipts from the following sources are not included as income: capital gains, money received from the sale of property (unless the recipient was engaged in the business of selling such property); the value of income “in kind” from food stamps, public housing subsidies, medical care, employer contributions for individuals, etc.; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lumpsum receipts.

In short, most government transfer payments are factored into AMI and “in kind” transfers (i.e., food stamps and housing subsidies) are not.

## **2. Additional ADU Data**

Responsive to the City Council discussion regarding ADU’s, Table 1, at the top of Page 4, shows the permitted dwelling units by type from 2006 to 2022. There were 104 ADUs permitted in the years provided. Approximately 9 percent of the 1,150 new dwelling units permitted from 2006 to 2022 were ADUs.

**Table 1. Permitted Dwelling Units by Type, 2006 – 2022.**

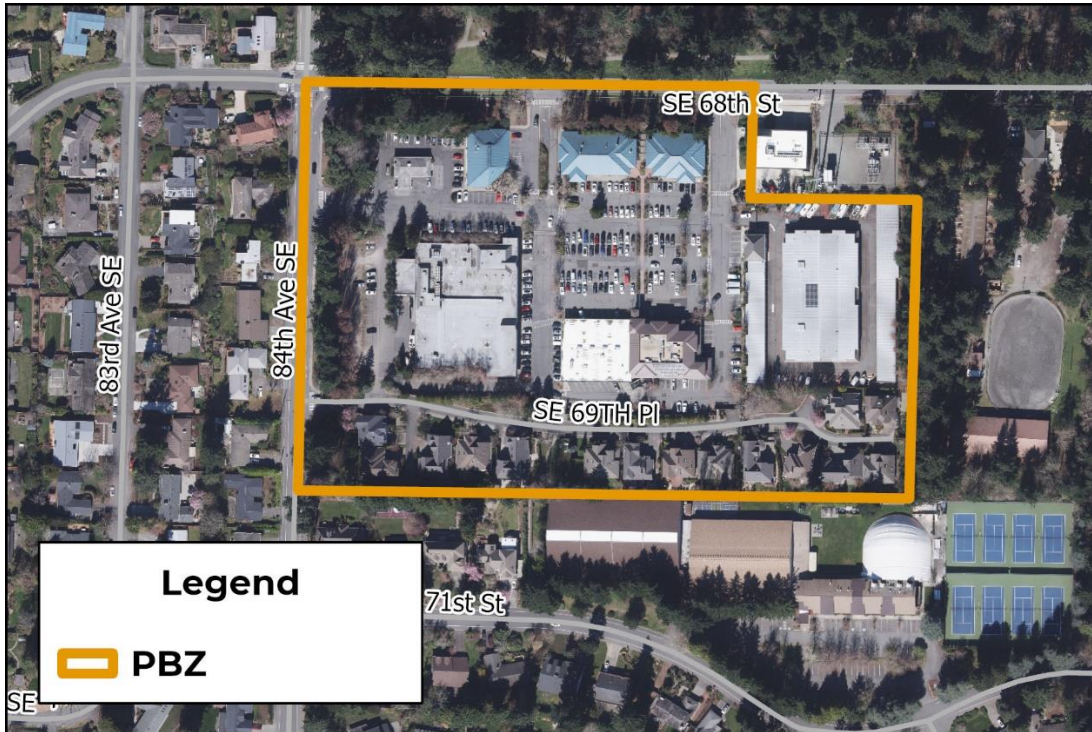
Year	New Single-Family	Single-Family Demo	Single-Family Net	New Multifamily	Multifamily Demo	Multifamily Net	Town Center Units	ADU	Total
2006	59	-46	13	0	0	0	112	4	129
2007	58	-50	8	0	0	0	194	7	209
2008	34	-25	9	3	-5	-2	0	4	11
2009	14	-13	1	0	0	0	0	4	5
2010	20	-21	-1	0	0	0	0	1	0
2011	25	-24	1	0	0	0	166	9	176
2012	25	-20	5	6	0	6	86	5	102
2013	57	-45	12	0	0	0	0	3	15
2014	61	-43	18	0	0	0	209	2	229
2015	60	-40	20	18	0	18	0	5	43
2016	73	-52	21	0	0	0	0	3	24
2017	81	-54	27	89	0	89	0	6	122
2018	47	-40	7	0	0	0	0	9	16
2019	35	-21	14	0	0	0	0	10	24
2020	18	-19	-1	0	0	0	0	12	11
2021	27	-14	13	0	0	0	0	12	25
2022	21	-20	1	0	0	0	0	8	9
<b>TOTAL</b>	<b>715</b>	<b>-547</b>	<b>168</b>	<b>116</b>	<b>-5</b>	<b>111</b>	<b>767</b>	<b>104</b>	<b>1150</b>

Source: Permit counts from 2006-2014 from Puget Sound Regional Council, permit counts 2014-2022 from the City of Mercer Island permit database Trakt.

### 3. PBZ Residential Capacity Analysis

City Council requested staff to analyze how much residential capacity might be added if multifamily residential uses were allowed in the Planned Business Zone (PBZ). This zone is located south of SE 68<sup>th</sup> Street, west of Island Crest Way, and East of 84<sup>th</sup> Ave SE. At just less than 14 acres, the PBZ is the City’s smallest commercial zone by area. Most of the zone is developed with commercial uses including retail, restaurants, and self-storage. Existing residential development in the zone is located along SE 69<sup>th</sup> Place and is primarily composed of single-family homes. Figure 1, at the top of Page 5, shows the boundary of the PBZ highlighted in orange.

**Figure 1. Planned Business Zone Boundary.**



Source: Mercer Island Zoning Map, current through Ordinance 18C-14, Mercer Island City Code (MICC) Appendix D.

The allowed land uses in the PBZ are established in [MICC 19.04.010](#). The only residential use currently allowed in the PBZ is “Single-family dwellings limited to single-family detached, single-family semi-detached, townhouses, and patio homes (MICC 19.04.010(B)14).” For reference, patio home is defined in [MICC 19.16.010](#) as “A single-family dwelling on a separate parcel with open spaces on three sides and with a court.” Multifamily and mixed-use development are currently not allowed in the PBZ.

Residential development standards in the PBZ are established in MICC 19.04.010(F). Two of these development standards, F(2) and (6), would need to be amended to allow multifamily and/or mixed-use development in the PBZ. To analyze the potential capacity increase allowing multifamily development in the PBZ, staff used the following steps consistent with that already used in the LCA Supplement to evaluate the effect of allowing multifamily residential development in the Commercial Office Zone:

1. Parcels were analyzed for whether they are vacant or redevelopable using the same method deployed in the Urban Growth Capacity (UGC) Report. In that report commercial and mixed-use parcels were considered redevelopable if the ratio of improvement value to land value was less than 0.5 ( $\text{Improvement Value} \div \text{Land Value} < 0.5$ ). Then, all parcels with a ratio below 0.5 were combined to determine the **gross developable area**.
  - a. Note: one of the lots in the PBZ with a ratio below 0.5 is a platted open space tract. This parcel was subtracted from the gross developable area because existing development restrictions preclude residential development on that lot.
2. The gross redevelopable area was then reduced by two factors to arrive at the **net developable area**. The two factors were:
  - a. Public use and market factors: 13.5 percent. This is the market and public purpose factor used in the UGC Report.

- b. Critical areas and their buffers were removed.
3. The net developable area is then multiplied by the expected stories of residential development. The result of this step is the **gross residential building square footage**. This analysis assumes the following:
  - a. The maximum building height will allow four stories total, and
  - b. The first floor will be used for commercial uses, so three stories of residential development are expected.
4. The gross residential building square footage does not take into account the other development regulations that apply such as maximum lot coverage and building bulk requirements. A 0.75 assumed building coverage factor was applied to the gross building square footage to arrive at a **net building residential square footage**;
5. To convert the net residential building square footage to a number of dwelling units, the net residential building square footage was divided by an assumed unit size of 925 square feet. The result is the **gross dwelling unit capacity**;
6. The final step is subtracting the existing dwelling units on redevelopable lots from the gross dwelling unit capacity. The result is the **net dwelling unit capacity**.

**Table 2. PBZ Land Capacity.**

Gross Developable Area	Net Developable Area	Gross Residential Building Square Footage	Net Building Square Footage	Gross Dwelling Unit Capacity	Net Dwelling Unit Capacity
0.81 acres	0.701 acres	91,673.98 Square Feet	68,755.48 Square Feet	74 Dwelling Units	74 Dwelling Units

**4. RDI Evaluation Exhibit 22**

City Council requested staff to provide more information about Exhibit 22 from the RDI Evaluation (AB 6385, Exhibit 2). The exhibit shows the percentage of all Mercer Island households experiencing housing cost burden by race. An additional request was also made to see the same information displayed by count rather than percentage. Table 3 shows the count of Mercer Island households experiencing housing cost burden by race.

**Table 3. Count of Mercer Island Households Experiencing Housing Cost Burden By Race.**

	Asian	Black or African American	Hispanic or Latino (of any race)	Other Race	Persons of Color	White	Total
Not Cost Burdened	1,225	25	155	155	1,560	5,705	7,265
Cost-Burdened (30-50% income on housing)	160	0	15	25	200	1,180	1,380
Severely Cost-Burdened (>50% income on housing)	385	45	75	50	555	900	1,455
Not Calculated	30	0	0	0	30	80	110
<b>Total</b>	<b>1,800</b>	<b>70</b>	<b>245</b>	<b>230</b>	<b>2,345</b>	<b>7,865</b>	<b>10,200</b>

Source: US HUD, 2015-2019 Comprehensive Housing Affordability Strategy (CHAS) (Table 9); Washington Department of Commerce, 2023.

## **NEXT STEPS**

Staff is requesting direction from City Council on the preferred option(s) for addressing the housing capacity deficit identified in the LCA Supplement (AB 6385, Exhibit 1). The three options for addressing this capacity shortfall presented are:

- A. Increase maximum height to permit one additional residential story in Town Center;
- B. Allow multifamily residential use in the Commercial Office Zone; and/or
- C. Increase maximum density from 26 to 30 dwellings per acre in the MF-3 Zone.

The options presented are not mutually exclusive and may be modified and/or combined if desired.

Following the receipt of direction from City Council, the Housing Work Group will resume its work on updating the Housing Element of the 2024 Comprehensive Plan periodic update.

## **RECOMMENDED ACTION**

Direct staff on the preferred option(s) for addressing the housing capacity deficit identified in the Land Capacity Analysis Supplement.