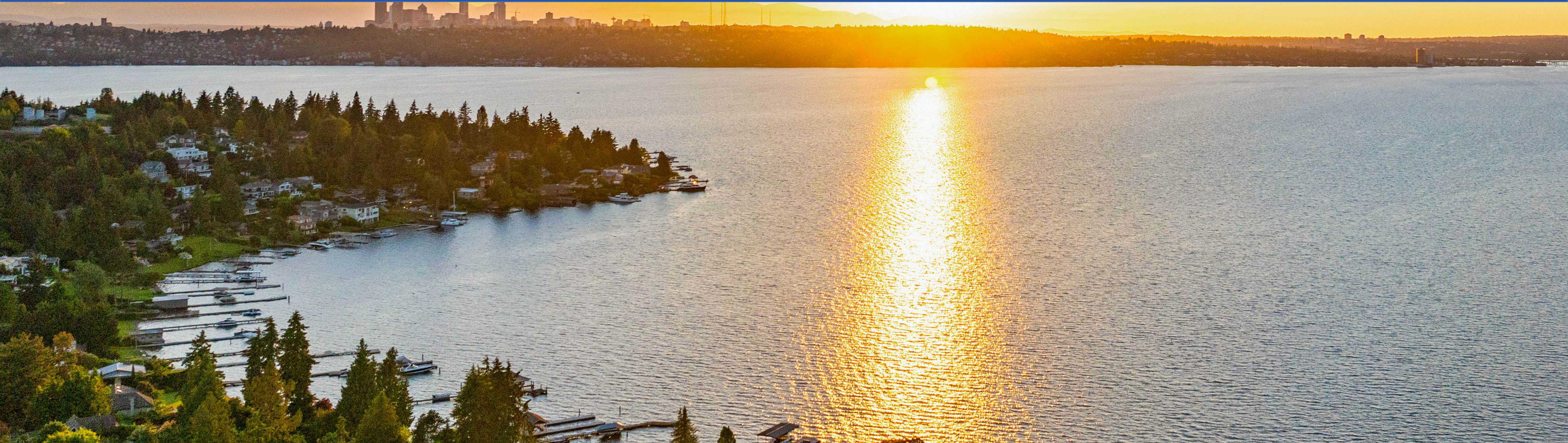
AB 6865:
Compliance with Growth Management Hearings Board Final Decision and Order Related to the City of Mercer Island Periodic Update to the Comprehensive Plan

February 17, 2026

Agenda

1. Background
2. Station Area Boundary Map
3. Land Capacity Analysis
4. Compliance Strategy
5. Next Steps
6. Recommendation

BACKGROUND



Growth Management Hearings Board (GMHB) Appeal

Mercer Island adopted an update to its Comprehensive Plan in November 2024.

Futurewise appealed in 2025 claiming the Comprehensive Plan did not go far enough for affordable housing.

Comprehensive plan appeals under GMA are decided by the GMHB.

The GMHB is a state board that determines whether a comprehensive plan complies with the WA Growth Management Act.

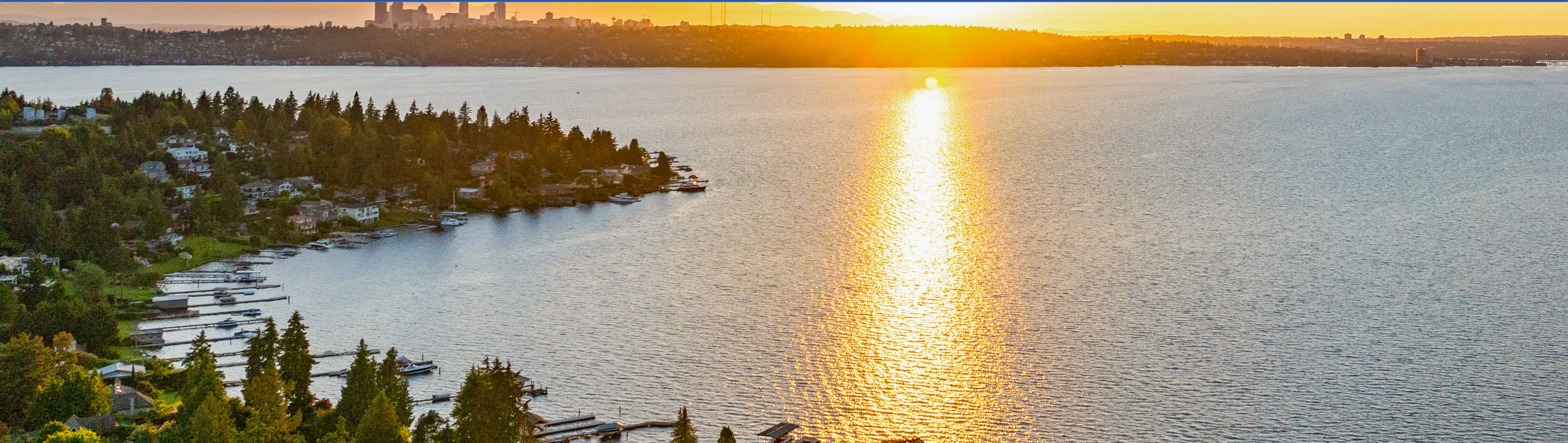
GMHB Order – 4 Issues

1. Land Capacity
2. Adequate Provisions
3. Transit Station Subarea Plan
4. Anti-Displacement Policies

Tonight’s Objectives

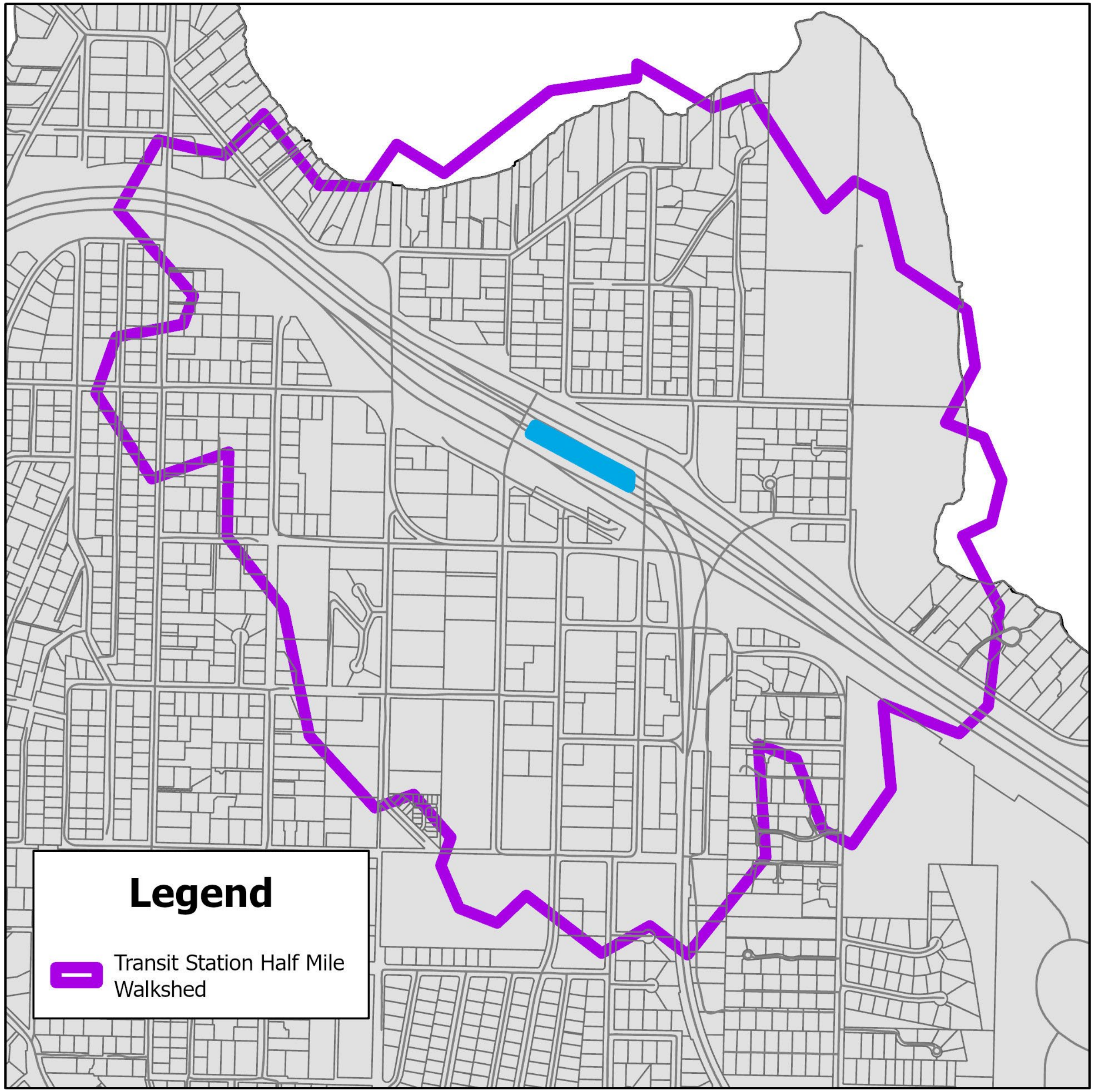
1. Provide initial direction on compliance strategy related to Land Capacity and Adequate Provisions
2. Transit Station Subarea Plan – review Station Area Boundary and make available for public feedback

TRANSIT STATION SUBAREA PLAN



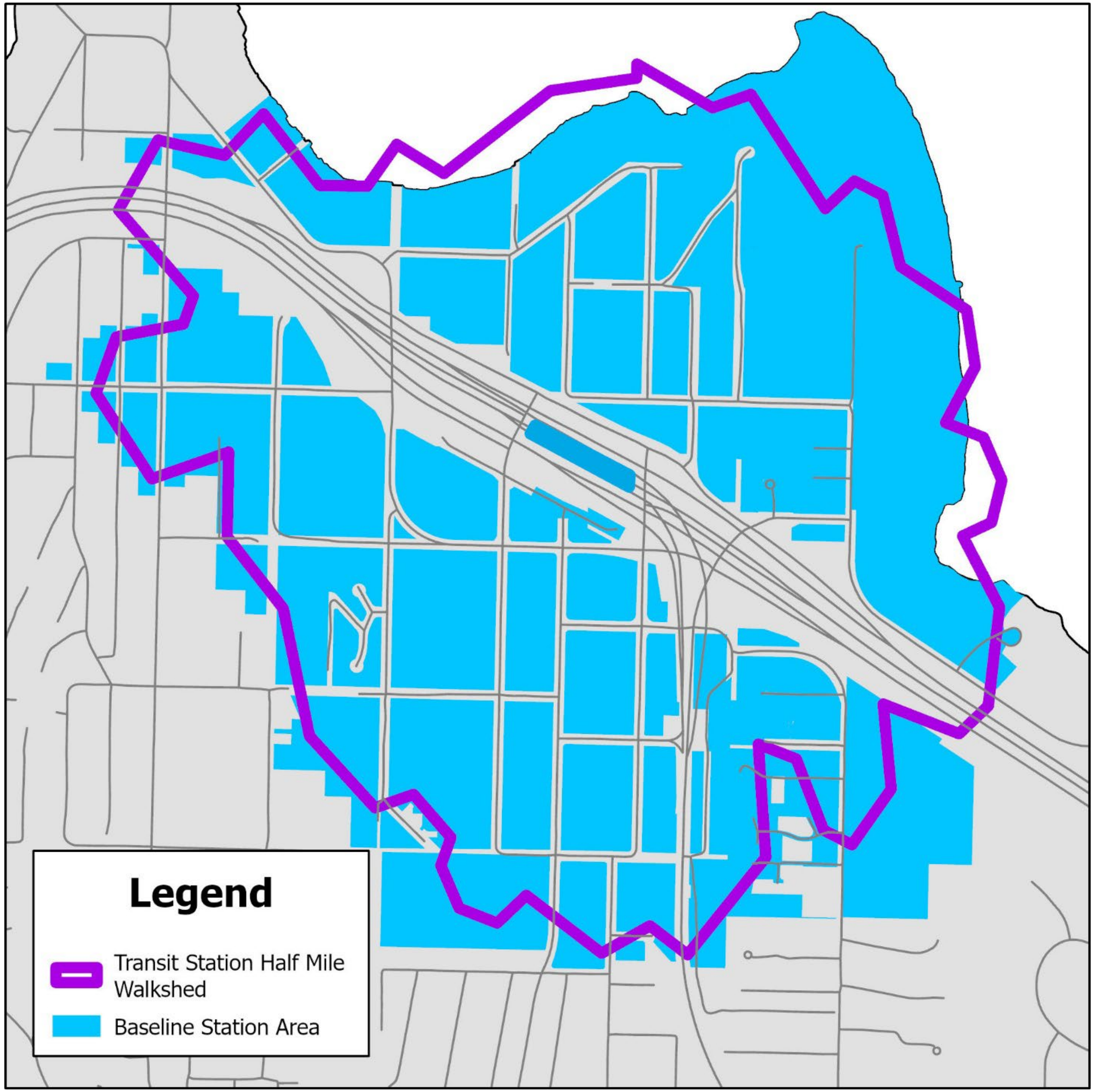
Step 1: Determine Baseline Station Area

Rail Station Area means all lots that are “fully or partially within one-half mile walking distance of an entrance to a train station with a stop on a light rail system…” (RCW 36.70A.030(36))



Step 1: Determine Baseline Station Area

Lots fully or partially within half mile walkshed



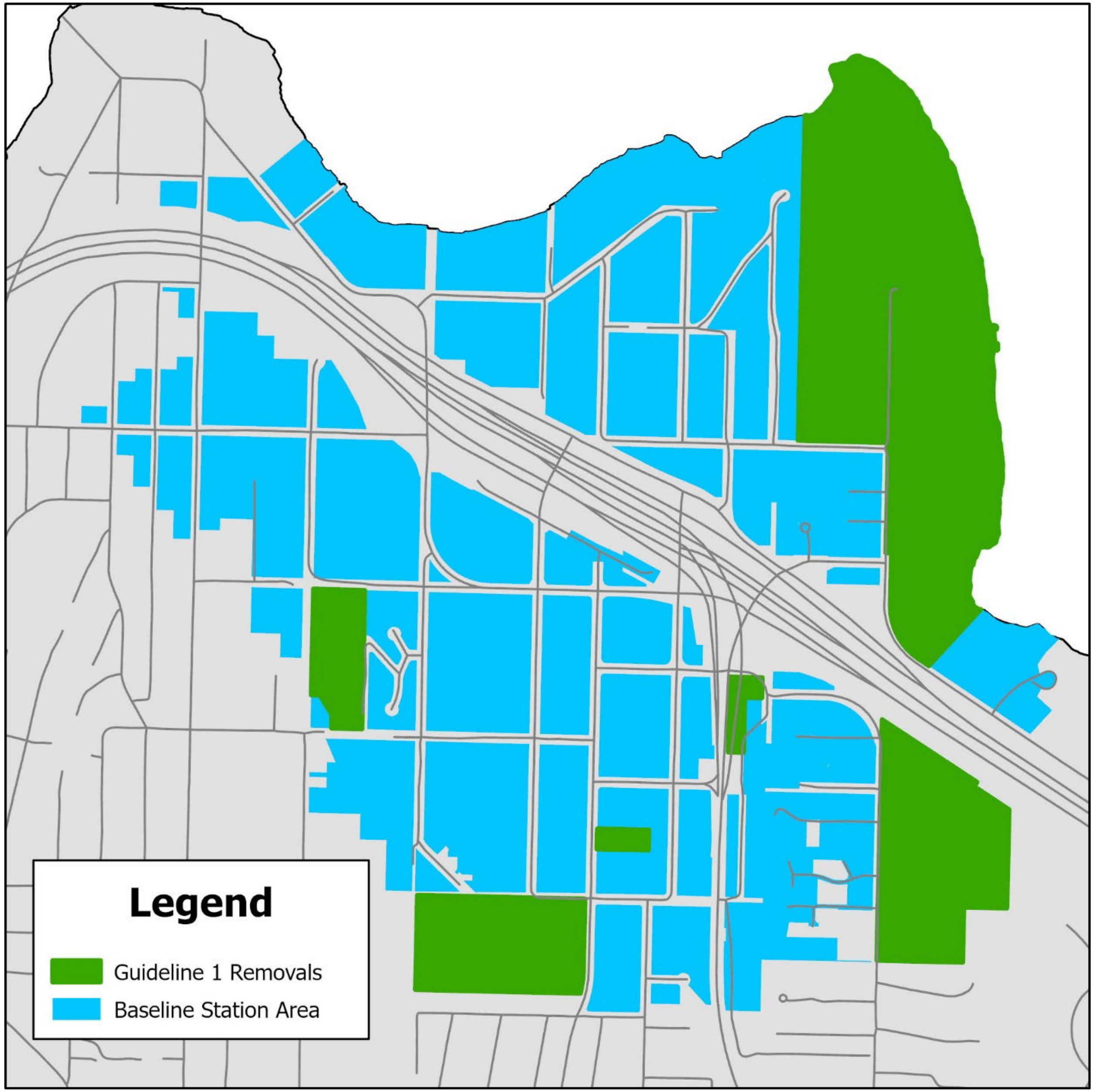
Station Area Modification Guidelines

- State statute allows cities to designate a modified station area
- Must be approved by the WA Department of Commerce
- A modified station area can better reflect the existing conditions and form a more logical boundary for the station area
- On January 16, 2026, the City Council approved Motion 2b directing staff to prepare a modified station area base on four proposed guidelines:

Guideline 1	Exclude city parks, open space, and the Interstate 90 corridor from the station area.
Guideline 2	Exclude areas that would be non-contiguous from the station area after removing city parks, open space, and the I-90 corridor are removed from the station area.
Guideline 3	Align the remaining station area boundary with City streets.
Guideline 4	The station area boundary should follow existing zoning boundaries if City streets do not make a logical boundary.

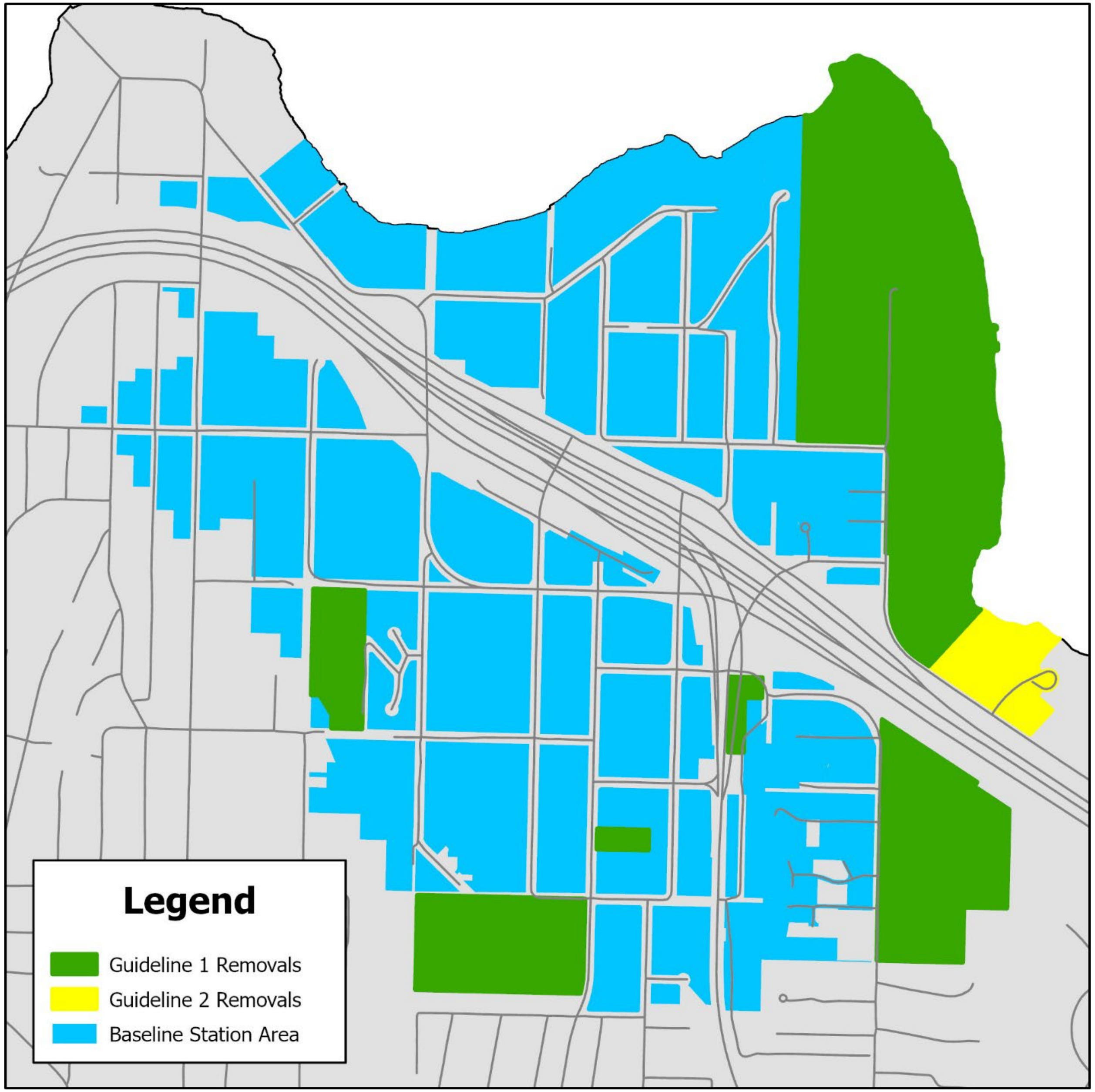
Step 2: Apply Station Area Modification Guidelines

Guideline 1: Remove parks, open space, ROW and public property



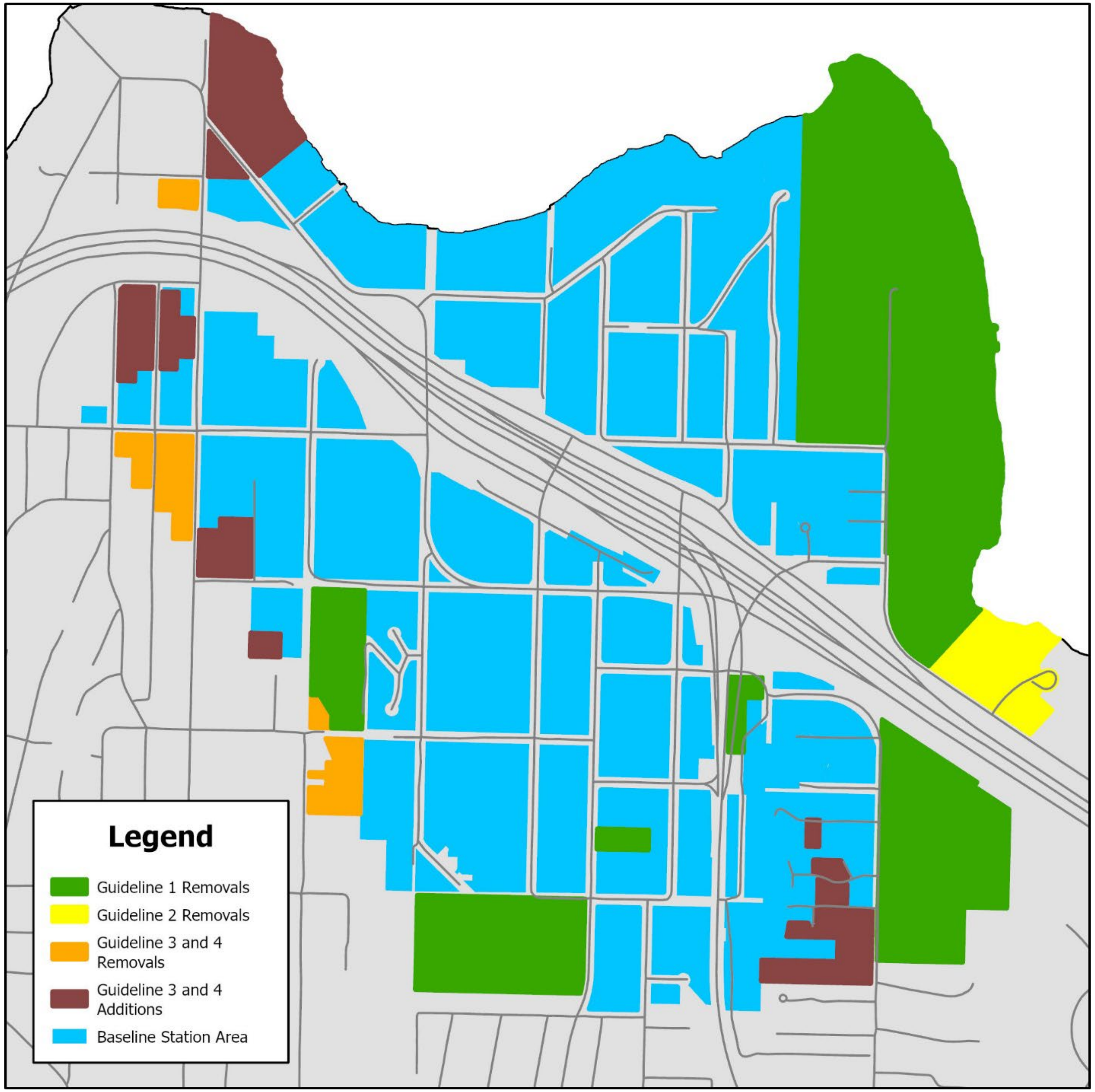
Step 2: Apply Station Area Modification Guidelines

Guideline 2: Remove non-contiguous areas



Step 2: Apply Station Area Modification Guidelines

Guidelines 3 and 4: Move the station area boundary to align with streets and existing zoning boundaries



Step 2: Apply Station Area Modification Guidelines

Preliminary Modified Station Area

Land Capacity Analysis

February 17, 2026
City Council Regular Meeting

DISCUSSION DRAFT

CONTENTS

BACKGROUND & INTRODUCTION

- **2021:** King County publishes the King County Urban Growth Capacity Report
  - Net housing unit capacity of 1,607
- **2023:** King County allocates housing need to cities through amendments to the Countywide Planning Policies (CPPs) (Ordinance 19660)
  - Allocated housing need of 1,239 units
  - Identified needs concentrated in housing serving affordability levels less than 80% of AMI
- **2024:** Mercer Island completes Land Capacity Analysis Supplement, identifying a capacity deficit of 143 units to serve affordability levels less than 120% of AMI
- **2024:** Mercer Island adopts the Comprehensive Plan includes upzoning to parts of Town Center to create additional capacity
- **2025:** Mercer Island adopts policies to allow middle housing and ADUs in compliance with House Bill 1110 and House Bill 1337

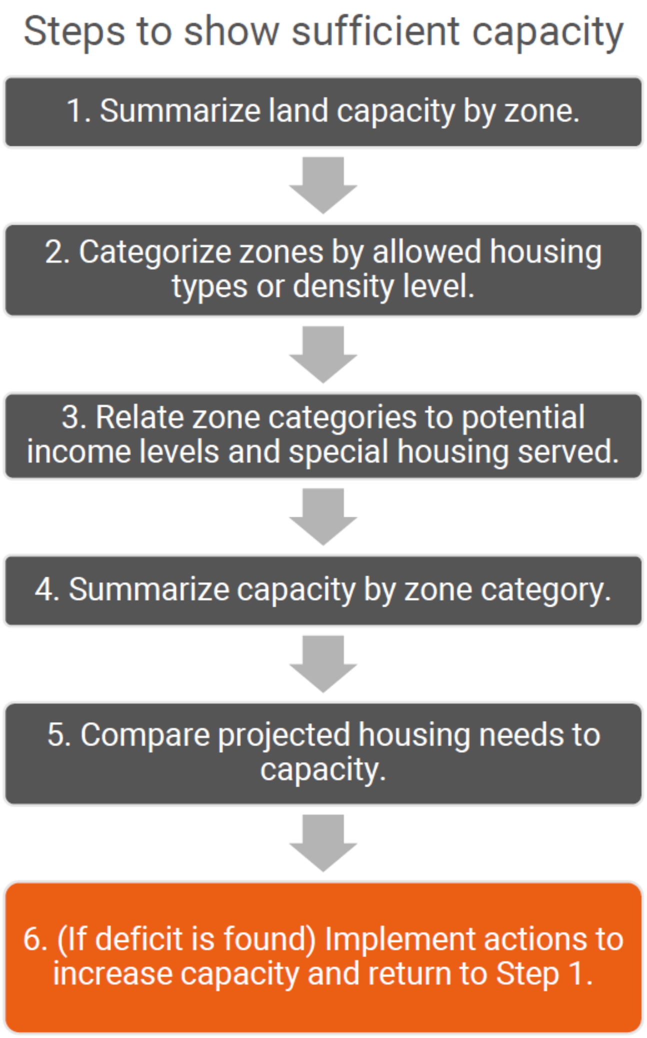
HOUSING NEEDS ALLOCATION

Income Band	Area Median Income (AMI)	Baseline Supply (2019)	Allocation/ Net New Need	Total Number Units Built 2020-2026	Adjusted Allocation/Net New Need
Emergency Housing					
Emergency housing	N/A	N/A*	237		237
Low Income Housing Units					
Extremely low	0-30% PSH	N/A*	178		178
Extremely low	0-30% Non-PSH	274	339		339
Very low	31-50%	285	202		202
Low	51-80%	186	488	16	472
Subtotal Low Income Housing Units		*745*	*1,207*	*16*	*1,191*
Moderate & High Income Housing Units					
Moderate	81-100%	1,506	4	48	0
High	101-120%	1,234	5	48	0
Other	Above 120%	7,084	23	61	0
Subtotal Moderate & High Income Housing Units		*9,824*	*32*	*157*	*0*
Total (excluding Emergency Housing)		**10,569**	**1,239**	**173**	**1,191**

WASHINGTON STATE DEPARTMENT OF COMMERCE GUIDANCE

The Washington State Department of Commerce Guidance documents how to update Housing Elements under new HB 1220 and HB 1110 requirements. Guiding documents provide the following steps:

1. Summarize **land capacity** by zone
2. **Categorize zones** allowed by housing types or density level
3. Summarize **capacity by zone category**
4. Relate zone categories to **potential affordability levels** and special housing served
5. **Compare** projected housing needs to capacity
6. If a deficit is found, **implement actions** to increase capacity and return to Step 1



STEP 1: LAND CAPACITY BY ZONE

Purpose: summarize existing / baseline housing unit development capacity by zone, based on City of Mercer Island's previous land capacity analysis work, updated to include:

1. Recent changes to the Town Center zoning code (including height limit increases);
2. Middle housing-enabling zoning changes; and
3. ADU-enabling zoning changes.

Result: updated Land Capacity Analysis (LCA) reflecting existing / baseline situation:

- 1,557 units of baseline residential housing capacity across existing zoning categories;
- 337 additional units of middle housing capacity in former SF zones; and
- 239 additional units of ADU capacity across all zones.

Total updated land capacity across all zones is estimated to be **2,133 housing units**.

STEP 1: LAND CAPACITY BY ZONE

Zoning Code	Baseline Final Residential Capacity (1a)	New Middle Housing Capacity (1b)	ADU Capacity (All Zones) (1c)	Total Residential Capacity
R-8.4	89	84		173
R-9.6	147	111		257
R-12	9	9		18
R-15	111	133		244
MF-2L	0			0
MF-2	0			0
MF-3	535			535
PBZ-Residential	0			0
TCMF-3	0			0
TCMF-4	0			0
TC-3	383			383
TC-5	4			4
TC-5 Plus	68			68
TC-7	212			212
ADUs			239	239
Total	**1,557**	**337**	**239**	**2,133**

- Includes deductions for R.O.W.s, public purpose, and market factor
- Existing supply of housing units deducted from redevelopable land for net residential capacity calculations
- Middle housing and ADU capacity reflects uptake assumptions

STEP 2: CATEGORIZE ZONES BY ALLOWED HOUSING TYPES AND DENSITIES

Zone Code	Typical Housing Types Allowed	Assumed Density (DU/Ac)	Assigned Zone Category
R-15	Detached single-family homes	2.6	Low Density
R-15	Townhomes, duplex, triplex, quadplex, courtyard apts., stacked	8.7	Moderate Density/Middle Housing
R-12	Detached single-family homes	3.3	Low Density
R-12	Townhomes, duplex, triplex, quadplex, courtyard apts., stacked	10.9	Moderate Density/Middle Housing
R-9.6	Detached single-family homes	4.6	Low Density
R-9.6	Townhomes, duplex, triplex, quadplex, courtyard apts., stacked	13.6	Moderate Density/Middle Housing
R-8.4	Detached single-family homes	4.6	Low Density
R-8.4	Townhomes, duplex, triplex, quadplex, courtyard apts., stacked	15.6	Moderate Density/Middle Housing
MF-2L	Walk-up apartments or condominiums (up to 2 floors)	26.0	Low-Rise
MF-2	Walk-up apartments or condominiums (up to 3 floors)	22.7	Low-Rise
MF-3	Walk-up apartments or condominiums (up to 3 floors)	26.0	Low-Rise
TCMF-3	Walk-up apartments or condominiums (up to 3 floors)	100.6	Low-Rise
TCMF-4	Apartments, condominiums in buildings with 4-6 floors	134.2	Mid-Rise
TC-3	Walk-up apartments or condominiums (up to 3 floors)	100.6	Low-Rise
TC-5	Apartments, condominiums in buildings with 4-6 floors	134.2	Mid-Rise
TC-5 Plus	Apartments, condominiums in buildings with 7+ floors	200.0	Mid-Rise
TC-7	Apartments, condominiums in buildings with 7+ floors	200.0	Mid-Rise

Purpose: describe typical housing unit types supported by each zone and categorize these based on density to allocate housing capacity by affordability level.

STEP 2: CATEGORIZE ZONES BY ALLOWED HOUSING TYPES AND DENSITIES

- Zone categories reflect densities of housing types allowed in each zone
- Zones, such as R-15, are broken into two categories to **capture the range of densities** allowed in each zone
- Updated methodology captures **moderate densities supported under Middle Housing Regulations**

- **Low density** categories are characterized by **detached single-family homes**
- **Moderate density/middle housing** captures attached single-family types, including **townhomes, duplexes, triplexes, quadplexes, and courtyard apartments**
- **Low-rise** captures walk up apartments or condominiums in **buildings up to 3 floors**
- **Mid-rise** is characterized by apartments and condominiums in **buildings with 4-7 floors**

STEP 3: SUMMARIZE CAPACITY BY ZONE CATEGORY

Purpose: Summarize total unit capacity by zone and zone category. Analysis additionally identifies capacity anticipated to be generated through Mercer Island incentive programs.

- Low density: 356
- Moderate density: 337
- Low-rise: 918 (58 units through incentive zoning in TC zones)
- Mid-rise: 284 (44 units through incentive zoning in TC zones)
- ADUs: 239

Total existing/baseline housing unit capacity: **2,133**

STEP 4: RELATE ZONE CATEGORIES TO POTENTIAL AFFORDABILITY LEVELS

Purpose: Distribute capacity by affordability levels that are likely to be served by each zone category. This involves the following steps:

- Calculate affordability level assumptions for market rate units, as well as units that are supported through internal and external subsidies or incentives based on existing comparable housing unit data
  - Market Rate assumptions are informed by data collected for a reasonable market area
  - Internal subsidies are based on current incentive zoning policy in Town Center zones
  - External subsidies are based on unit production and average rents for affordable units in a reasonable market area
- Apply assumptions to calculated capacity by zone category

STEP 4: RELATE ZONE CATEGORIES TO POTENTIAL AFFORDABILITY LEVELS

Maximum Affordable Rents and Affordability Levels

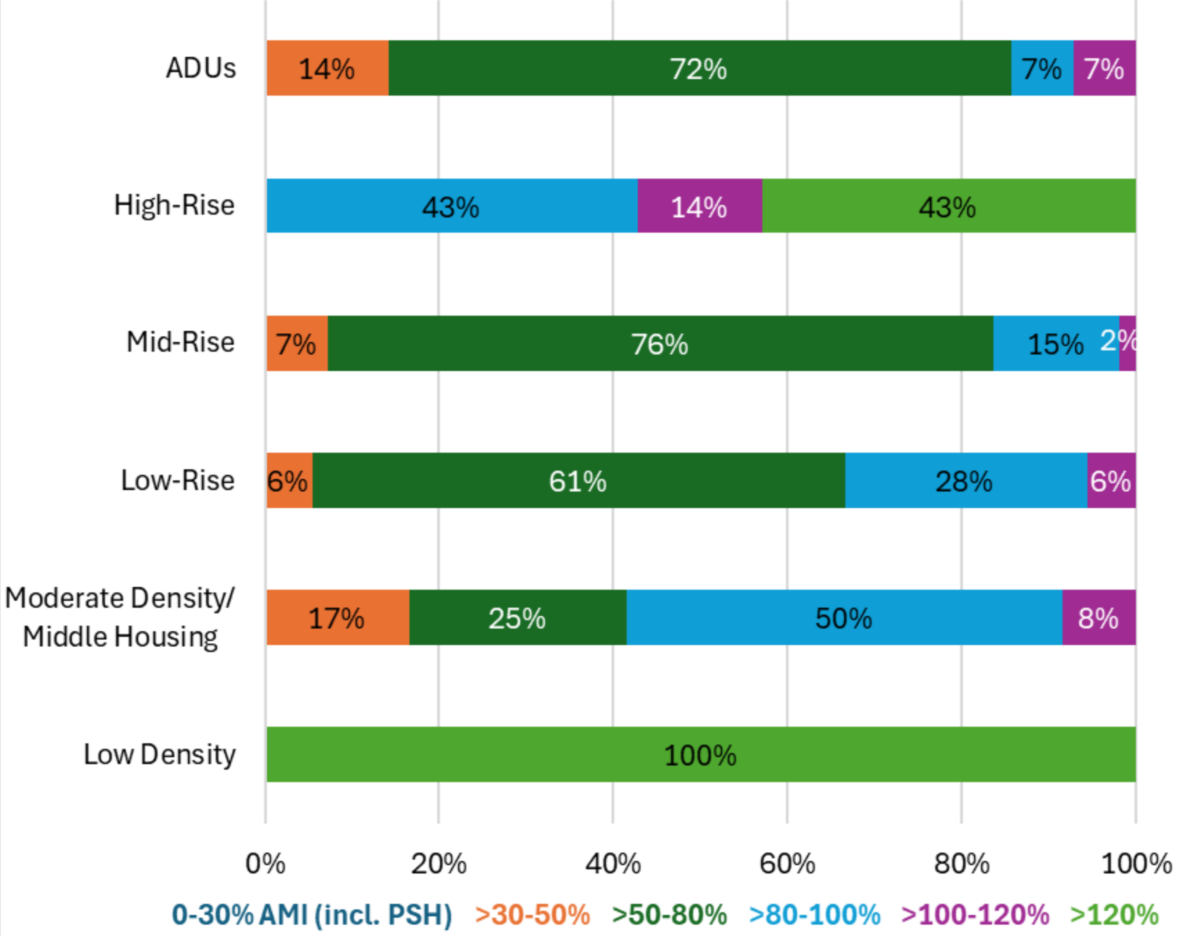
- 2025 King County Area Median Income (AMI) from the Department of Housing and Urban Development (HUD)
- Maximum allowable rent for each affordability level is calculated as 30% of monthly income.
- Example:
  - 2025 King County AMI $157,000
  - Households earning 80% of AMI have gross income of $125,680
  - Maximum affordable rent of $3,142 **($125,680 * 30% / 12)**

Distribution of Rents by Affordability Level

- Comparable market data by housing type from CoStar, Zillow, individual property websites
- When data is not available for Mercer Island, look at comparables in the region
- Distribution reveals the percentage of housing units with rents at each affordability level

STEP 4: RELATE ZONE CATEGORIES TO POTENTIAL AFFORDABILITY LEVELS

Zone Categories by Affordability Level for Market Rate Units



- Findings based on representative market area including Bellevue, Kirkland, Redmond, and Sammamish
- No high-rise is included under current zoning
- High-rise is included to allow for the exploration of zoning scenarios that include high-rise
- No market rate units serve the 0-30% of AMI affordability level
- **With sufficient capacity, the market develops units to serve the 50-80% of AMI affordability level without additional intervention from the City**

MID-RISE VS HIGH-RISE HOUSING DEVELOPMENT TRADEOFFS

High-Rise:

- Greater number of units per parcel
- Greater potential revenue per available square foot of land
- Significantly greater construction costs due to required construction materials, advanced fire and safety systems, engineering costs, elevators, and more
- Require significant initial capital
- Greater costs result in higher average rents
- Market data and local expertise suggest that **high-rise development is highly unlikely to produce units at less than 80% AMI levels**

Mid-Rise:

- Limited height results in fewer units
- Lower potential revenue for developers, particularly on high-value sites
- More economical construction
- Faster development time
- More than 76% of mid-rise rent comparables serve incomes ranging between 50-80% of AMI
- **Mid-rise developments support housing capacity at 30-80% of AMI levels**

STEP 5: COMPARE PROJECTED HOUSING NEEDS TO CAPACITY

Purpose: Summarize housing unit capacity by affordability level and compare to allocated housing need by income band.

Total Housing Capacity

Market Rate Capacity
+ Externally Subsidized Capacity
+ Internally Subsidized Capacity
Total Housing Capacity

Capacity Surplus or (Deficit)

Total Housing Capacity
- Allocated Housing Need
Capacity Surplus or (Deficit)

Very Low Income Housing Capacity

150 Market Rate Capacity
+ **4** Externally Subsidized Capacity
+ **42** Internally Subsidized Capacity
196 Total Housing Capacity

Very Low Income Housing Capacity Surplus (Deficit)

196 Total Housing Capacity
- **202** Allocated Housing Need
(6) Capacity (Deficit)

STEP 5: COMPARE PROJECTED HOUSING NEEDS TO CAPACITY

Purpose: Summarize housing unit capacity by affordability level and compare to allocated housing need by income band.

Income Level	Zone Categories Serving These Needs	Allocated Housing Need (Units)	Market Rate Housing Capacity (Units)	Externally Subsidized Housing Capacity	Internally Subsidized Housing Capacity	Total Housing Capacity (Units)	Mercer Island Capacity Surplus or Deficit (Units)	Units Requiring New Subsidies or Incentives
Extremely Low Income (0-30% AMI PSH)	Low-Rise, Mid-Rise	178	0	0	0	0	(178)	(178)
Extremely Low Income (0-30% AMI excl. PSH)	Low-Rise, Mid-Rise	339	0	4	0	4	(335)	(335)
Very Low Income (>30-50% AMI)	Low-Rise, Mid-Rise	202	150	4	42	196	(6)	(6)
Low Income (>50-80% AMI)	Moderate Density, Low-Rise, Mid-Rise, ADUs	472	919	19	57	996	524	0
Moderate Income (>80-100% AMI)	Moderate Density, Low-Rise, Mid-Rise, ADUs	0	442	27	3	472	472	0
High Income (>100-120% AMI)	Moderate Density, Low-Rise, Mid-Rise	0	95	15	0	110	110	0
Very High Income (>120% AMI)	Low Density	0	356	0	0	356	356	0
Total		**1,191**	**1,961**	**70**	**102**	**2,133**	**942**	**(519)**

STEP 5: COMPARE PROJECTED HOUSING NEEDS TO CAPACITY

Purpose: Summarize housing unit capacity by affordability level and compare to allocated housing need by income band.

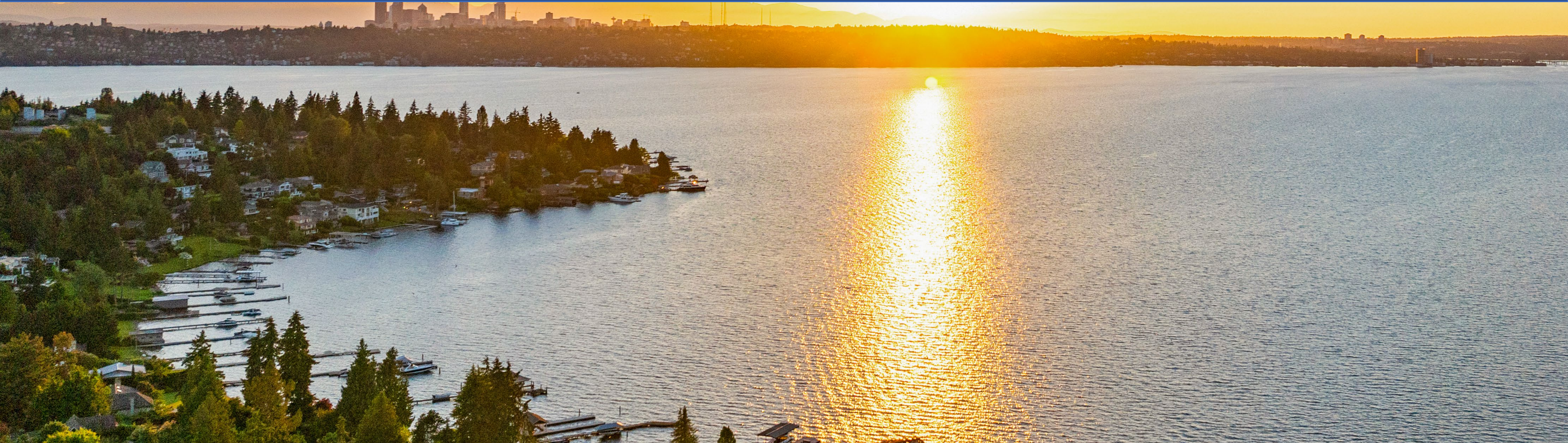
- All allocated housing unit need falls at income levels of **80% of AMI and less**
- Total allocated housing need: 1,191
- Total housing unit capacity: 2,133
- Total capacity surplus: 942
  - Surpluses in affordability levels of greater than 50% of AMI
  - **Deficits in affordability levels at 50% of AMI and below**

Remaining deficits will require new policies or "adequate provisions" to supplement capacity to meet the allocated housing need

DIRECT DELIVERY OF AFFORDABLE HOUSING

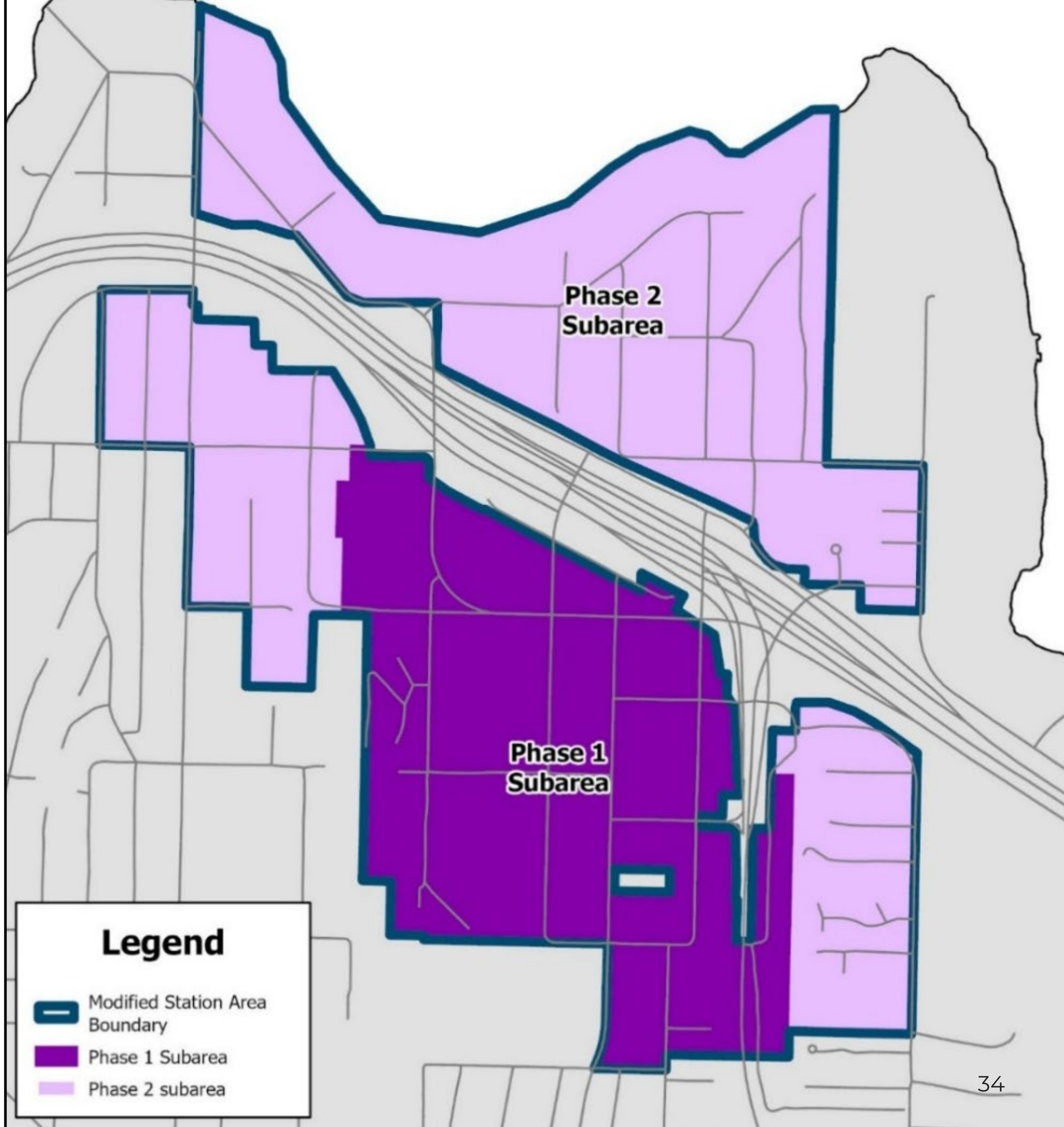
- ARCH estimates the cost to develop affordable housing at between **$425** and **$500 per square foot**
- Average unit sizes range between **500 and 1,400 net square feet,** affordable units trend larger than market rate units
- Average development costs range from **$510,000** to **$600,000 per unit** (assuming 1,200 gross sf per unit respectively)
- Housing unit deficit totals 519 units
- Cost to develop affordable housing to serve need: **$264.7 million** to **$311.4 million**
- **Assuming these funds are leveraged**, funding required to serve need is estimated at **$66.2 million** to **$109 million,** assuming loan to cost (LTC) ratio of 65% to 75%
- LTC can vary widely, from roughly 55% to 90%, based on project type, location, and risk

COMPLIANCE STRATEGY



COMPLIANCE STRATEGY

- Land capacity Scenario 1 proposes two phases
- **Phase 1** (by July 31, 2026):
  - Establish required transit station subarea
  - Apply required upzones and additional development capacity to comply with GMHB Order
- **Phase 2** (by December 31, 2029):
  - Apply upzones and additional development capacity to remainder of station area
  - Comply with other TOD bill requirements



COMPLIANCE STRATEGY – SCENARIO 1 (PHASE 1 SUBAREA)

Upzone of Town Center (8 stories) and surrounding MF zones (6 stories)

Affordability Level	Zone Categories Serving These Needs	Allocated Housing Need (Units)	Total Housing Capacity (Units)	Mercer Island Capacity Surplus or Deficit (Units)	Units Requiring New Subsidies or Incentives
Extremely Low Income (0-30% AMI PSH)	Low-Rise, Mid-Rise	178	0	(178)	(178)
Extremely Low Income (0-30% AMI excl. PSH)	Low-Rise, Mid-Rise	339	7	(332)	(332)
Very Low Income (>30-50% AMI)	Low-Rise, Mid-Rise	202	390	188	0
Low Income (>50-80% AMI)	Moderate Density, Low-Rise, Mid-Rise, ADUs	472	1,698	1,226	0
Moderate Income (>80-100% AMI)	Moderate Density, Low-Rise, Mid-Rise, ADUs	0	583	583	0
High Income (>100-120% AMI)	Moderate Density, Low-Rise, Mid-Rise	0	130	130	0
Very High Income (>120% AMI)	Low Density	0	356	356	0
Total		**1,191**	**3,164**	**1,973**	**(510)**

Note that analysis is in progress and numbers are subject to change based on different assumptions and feedback.

COMPLIANCE STRATEGY – SCENARIO 1 (PHASE 1 SUBAREA)

Upzone Town Center to 8 Stories and Surrounding MF Zones to 6 Stories

- Total Town Center and MF **capacity estimated at 1,698 units**
- Additional capacity from upzone **eliminates** need for adequate measures to **serve affordability levels greater than 30% of AMI**
- Internally subsidized housing capacity based on a 10% inclusionary program with affordability levels consistent with current incentive zoning program
- **Estimated 171 units produced** through inclusionary zoning program (>30-80% AMI)

OR

- **Estimated in-lieu fees total $30.7 million**
  - Assuming adoption of an in-lieu fee for the phase 1 subarea
  - Assuming $25 per gross square foot in-lieu fee rate
  - Assuming average unit sizes of 1,060 square feet
- **Estimated in-lieu fees could support direct delivery of 170 to 200 units,** depending on the cost of construction

COMPLIANCE STRATEGY – SUMMARY

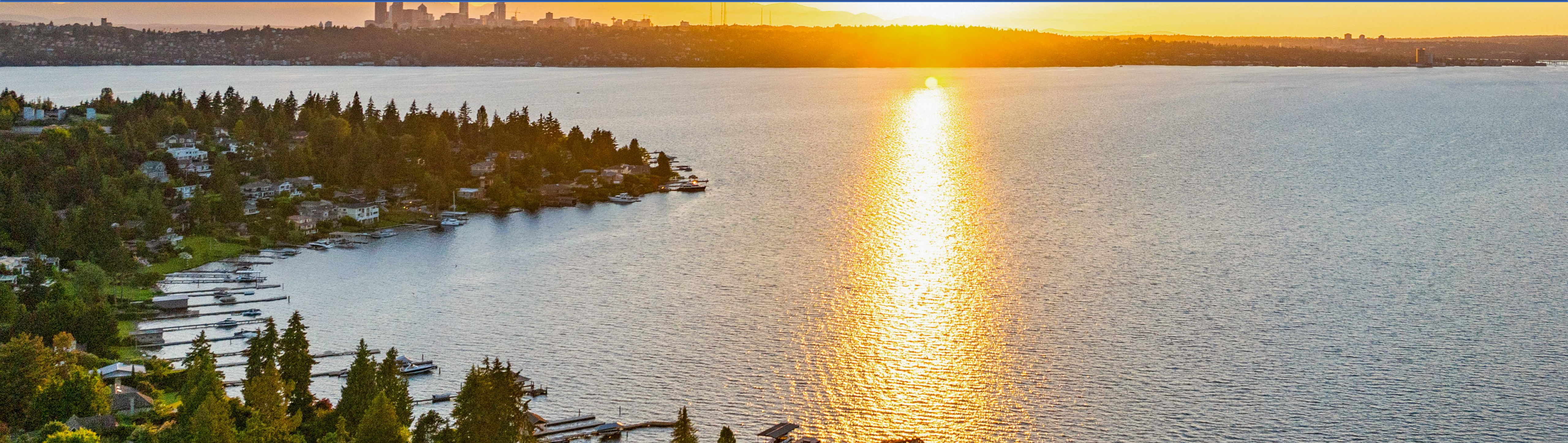
	Baseline	Scenario 1
Projected Housing Unit Capacity (2025-2044)	2,133	3,164
Units Requiring New Subsidies or Incentives	(519)	(510)
AMI Levels with Remaining Deficits	0-50%	0-30%
Direct Delivery Total Cost	$280.3 million	$275.4 million
Estimated In-Lieu Fees	N/A	$30.7 million
Potential Leveraged Funding	N/A	$102.4 million
Estimated Units Funded	N/A	190
Remaining Units Requiring Adequate Provision	(519)	320
Estimated Remaining Cost	N/A	$173 million

Additional adequate provisions to close the gap:

- Provide public land for affordable housing development
- Partnerships with ARCH and other affordable housing providers
- State and other grants
- Tax credit financing
- Low interest loans

Note that analysis is in progress and numbers are subject to change based on different assumptions and feedback.

NEXT STEPS & RECOMMENDATION



Next Steps

- Community Information Session (TBD Feb/March)
- Public Feedback Period (through March 17)

- Early Spring: Ongoing City Council input and refinement on compliance strategy
- Late Spring: Planning Commission legislative review and public Hearing
- Early Summer: City Council review and adoption of amendments
- July 31, 2026: GMHB Order Deadline
- September 15, 2026: Compliance hearing on GMHB Order

Recommendation

1. Direct staff to pursue compliance with the GMHB Order under “Scenario 1” as described within the agenda bill, whereby upzones and resulting development capacity increases would be limited at this time to the existing Town Center and adjacent multifamily zones, and implementation of the TOD bill will be pursued as a second phase of work.
2. Direct staff to open a public feedback period through March 13, 2026 on the Preliminary Station Area Boundary Map and provide the feedback to the City Council at the March 17, 2026 City Council meeting.