



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

**AB 6962
July 7, 2026
Consent Agenda**

AGENDA BILL INFORMATION

TITLE:	AB 6962: Fee Schedule Amendment – Establishing an Affordable Housing Fee in Lieu Rate	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input checked="" type="checkbox"/> Resolution
RECOMMENDED ACTION:	Approve Resolution No. 1698 amending the Fee Schedule to add an Affordable Housing Fee in Lieu rate	

DEPARTMENT:	Community Planning and Development
STAFF:	Jeff Thomas, Director Alison Van Gorp, Deputy Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Resolution No. 1698 2. Affordable Housing Nexus Study 3. Technical Memorandum
CITY COUNCIL PRIORITY:	n/a

AMOUNT OF EXPENDITURE	\$ n/a
AMOUNT BUDGETED	\$ n/a
APPROPRIATION REQUIRED	\$ n/a

EXECUTIVE SUMMARY

The purpose of this agenda item is to amend the City’s Fee Schedule to establish a rate for the Affordable Housing Fee in Lieu program created by amendments to the development code related to the City’s Growth Management Act (GMA) compliance efforts.

- The City completed a periodic review and update of the Mercer Island Comprehensive Plan, which was adopted by the City Council on November 19, 2024 ([AB 6573](#)).
- The 2024 Comprehensive Plan was appealed to the GMHB on the grounds that the Comprehensive Plan did not adequately plan for and accommodate future affordable housing needs (GMHB case number 25-3-0003). On August 1, 2025, the GMHB issued a final decision and order (GMHB Order).
- The GMHB Order found that the City must make changes to its Comprehensive Plan to comply with the Washington State Growth Management Act (GMA).
- The City Council has provided directions for addressing compliance with the four issues in the GMHB Order at the following meetings:
 - [January 16, 2026 – AB 6838](#)
 - [February 17, 2026 – AB 6865, AB 6866, and AB 6871](#)
 - [March 17, 2026 – AB 6888 and AB 6894](#)
 - [April 21, 2026 – AB 6909 and AB 6911](#)

- The City is required to update its Comprehensive Plan and adopt a Station Subarea Plan in order to comply with the GMHB Order.
- Development regulation amendments to implement the Comprehensive Plan and Station Subarea Plan need to be made concurrently with the Comprehensive Plan update.
- Ordinance No. 26-09 would concurrently adopt the Planning Commission recommended update to the Comprehensive Plan, including the new Station Subarea Plan.
- Ordinance No. 26C-10 would make amendments to Title 19 MICC to implement the updated Comprehensive Plan and Station Subarea Plan.
- The Fee Schedule must be amended to implement the Affordable Housing Fee in Lieu program included in the proposed amendments to Title 19 MICC
- Resolution No. 1698 would amend the Fee Schedule to establish an Affordable Housing Fee in Lieu Rate (Exhibit 1)
- The recommended fee in lieu rate was based on analysis conducted by Community Attributes, Inc. and summarized in the Affordable Housing Nexus Study (Exhibit 2) and Technical Memo (Exhibit 3).

BACKGROUND

GROWTH MANAGEMENT HEARINGS BOARD FINAL DECISION AND ORDER

Cities and counties in Washington State are required to adopt a comprehensive plan under the GMA. The comprehensive plan is a statement of goals and policies that detail how a county or city will manage and accommodate future growth. The goals and policies of the comprehensive plan are implemented through capital investments, development regulations, and programs. The GMA requires cities and counties to periodically review and update their comprehensive plans on a ten-year cycle. Mercer Island most recently completed a periodic review and update of its Comprehensive Plan in 2024 (see [AB 6573](#)).

The 2024 adoption of the Mercer Island Comprehensive Plan periodic review and update was appealed to the GMHB on the grounds that the Comprehensive Plan did not adequately plan for and accommodate future affordable housing needs (GMHB case number 25-3-0003). On August 1, 2025, the GMHB issued a Final Decision and Order (GMHB Order) finding that the Housing Element of the Comprehensive Plan was noncompliant with some of the provisions of the GMA and remanded the Comprehensive Plan to the City for revision.

The Comprehensive Plan adopted in 2024 remains in effect during the remand, but the City must complete work to update the plan and comply with the timeline established by the GMHB Order (RCW 36.70A.300(3)(b)). The compliance timeline is one year from when the GMHB issued its decision; work must be completed by July 31, 2026. Failure to comply with the GMHB Order can result in sanctions against the City (RCW 36.70A.340).

The GMHB Order requires the City to address four issues:

1. Land Capacity: Analyze residential land capacity at each housing affordability level and close any identified gaps.
2. Adequate Provisions: Adopt incentives, mandatory provisions, and planned actions (“aka adequate provisions”) that will increase the supply of affordable housing.
3. Station Area Subarea Plan: Adopt a subarea plan for the area around the transit station.
4. Anti-Displacement Measures: Adopt anti-displacement measures to address the potential displacement that can occur with changes in zoning.

The amendments in Ordinance No. 26-09 would update the Comprehensive Plan to address the four issues required by the GMHB Order.

Land Capacity

The updated Comprehensive Plan in Ordinance No. 26-09 includes an updated Land Capacity Analysis as Appendix I. The updated Land Capacity Analysis evaluated the land capacity provided by the updated Comprehensive Plan and disaggregated the capacity by affordability level. The analysis also prompted the zoning changes proposed in Ordinance No. 26C-10, which would increase development capacity in the Town Center and adjacent multifamily zones to accommodate the City's affordable housing needs. The combination of updated land capacity analysis and zoning changes to increase development capacity address GMHB Order Issue 1.

Adequate Provisions

Adequate provisions are incentives, mandatory provisions, and programs that can help to increase the supply of affordable housing. To help identify adequate provisions, the updated Comprehensive Plan in Ordinance No. 26-09 includes a Barriers Analysis as Appendix J. The Barriers Analysis is a study of potential barriers to affordable housing production that included recommended actions to address identified barriers. The Land Capacity Analysis in Appendix I also identified some adequate provisions that can be included in the Comprehensive Plan. The adequate provisions identified in the Barriers Analysis and Land Capacity Analysis have been incorporated into the Comprehensive Plan amendments that would be adopted by Ordinance No. 26-09. The City will address GMHB Order Issue 2 by adopting the adequate provisions included in the Comprehensive Plan. The adequate provisions include:

- Inclusionary zoning in the Station Subarea Plan Phase 1 – New development in the Town Center zone must include at least 10% of units affordable at 50% of the area median income (AMI) for rental units and 80% AMI for ownership units.
- Fee in lieu – A fee in lieu of constructing the units required by the inclusionary requirement that can help fund the affordable housing units needed below 50% of the AMI.
- Opportunity sites – surplus public property within the station area is identified as opportunity sites in the Station Subarea Plan.

Station Subarea Plan

A new station subarea plan is included in the amendments to the Comprehensive Plan that would be adopted by Ordinance No. 26-09. The Station Subarea Plan would establish area-specific goals and policies for the station area, a modified half-mile walkshed from the light rail station. It is required to be adopted concurrently with the Comprehensive Plan update, but the City has local control over most of its contents. There are two phases of the Station Subarea Plan:

- **Phase 1** – Implementation will occur concurrently with adoption of the Station Subarea Plan. Phase 1 will include adoption of changes to zoning and development regulations to allow 8- and 6-story building height in the Town Center and adjacent multifamily zones.
- **Phase 2** – Implementation will follow adoption of the Station Subarea Plan, with work to be completed by 2029. Phase 2 will include compliance with the transit-oriented development requirements from the GMA.

Anti-Displacement Measures

The “anti-displacement measures” requirement from the GMHB FDO was addressed by Ordinance No. 26C-07, which was adopted on June 16, 2026. This ordinance implemented anti-displacement policies in the Comprehensive Plan Housing Element, with the following actions:

- Assessing displacement risk that may result from zoning changes to increase housing capacity;
- Require advance notice of rent increases for low-income households; and
- Require relocation assistance for low-income renting households in the event of a displacement event.

IMPLEMENTING DEVELOPMENT REGULATIONS

Many of the goals and policies in the Comprehensive Plan and Station Subarea Plan must be implemented with concurrent amendments to Title 19 of the Mercer Island City Code (MICC). Ordinance No. 26C-10 would make the necessary implementing amendments, which includes:

- Increasing midrise multifamily and mixed-use development capacity by amending the zoning in Town Center and the adjacent multifamily zones;
- Establishing inclusionary zoning in the Station Subarea Plan Phase 1 area;
- Establishing a fee-in-lieu program;
- Establishing flexible parking options for multifamily development;
- Amending standards for emergency and permanent supportive housing to reduce barriers; and
- Other amendments that are necessary to maintain the internal consistency of the development code.

ISSUE/DISCUSSION

ESTABLISHING A FEE IN LIEU PROGRAM

The amendments proposed for Title 19 MICC as part of the GMA compliance effort will establish a fee in lieu option for meeting the new affordable housing requirements. This option enables a permit applicant to pay a fee rather than construct the required affordable housing units in their development project. The funds generated from this fee will be placed in a Housing Fund that the City will utilize to support creation of affordable housing units that serve households earning less than 50% of the area median income (AMI). To implement the fee in lieu program, the City must also amend the Fee Schedule to establish the Affordable Housing Fee in Lieu rate.

NEXUS STUDY AND FEASIBILITY ANALYSIS

The City contracted with Community Attributes to conduct an Affordable Housing Nexus Study to establish the basis for the fee in lieu rate. The Nexus Study (Exhibit 2) examines the induced demand for affordable housing from market rate housing development and calculates the maximum fee that can be charged. The Nexus Study found that the maximum supportable fee is in the range of \$30.90-\$37.62, depending on prototype.

Community Attributes also analyzed the impact of various fee rates on development feasibility; this analysis is summarized in a Technical Memorandum (Exhibit 3). Fee rates ranging from \$20 to \$35 per square foot were analyzed, with lower rates showing a modest improvement in potential returns. The memorandum concludes that a fee rate “between \$25 and \$30 per square foot falls below the maximum supportable fee, is comparable with other programs, and creates an in-lieu fee program that may generate a dedicated stream of revenue to support the construction of housing units at deeper levels of affordability.”

RESOLUTION NO. 1698

Adoption of Resolution No. 1698 (Exhibit 1) would amend the City's Fee Schedule to establish a new Affordable Housing Fee in Lieu rate of \$25 per square foot of gross floor area in Residential or Live/Work use (see page 19 of the Fee Schedule). This Fee in Lieu rate will be used to calculate the applicable fee when a permit applicant opts to pay a fee in lieu rather than construct some or all of the affordable units required by the code under new provisions proposed in Chapter 19.06 MICC.

The fee will be calculated by multiplying the fee in lieu rate by the total gross floor area in Residential and/or Live/Work uses, excluding parking and mechanical areas. The gross floor area will include areas that serve the residential or live/work uses, including but not limited to hallways, lobbies, common areas, fitness rooms and other amenities. In mixed-use buildings the areas in non-Residential and non-Live/Work uses may be excluded.

NEXT STEPS

July 7, 2026 – City Council first reading of ordinances to accomplish the following:

1. Adopt changes to the Comprehensive Plan and establish a Station Subarea Plan, and
2. Amend the development code to implement the updated Comprehensive Plan and Station Subarea Plan.

July 21, 2026 – City Council second reading and adoption of the ordinances listed above.

July 31, 2026 – Compliance deadline for the GMHB Order

BACKGROUND MATERIALS AND REFERENCES

Background materials are provided on the [City's Let's Talk page](#). A summary of previous agenda materials is outlined below:

January 16, 2026

- [AB 6838](#): Compliance with [Growth Management Hearings Board Final Decision and Order](#) related to the City of Mercer Island Periodic Update to the Comprehensive Plan Overview of City Council Planning Session.

February 17, 2026

- [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
- [AB 6866](#): GMA Compliance Public Engagement Plan
- [AB 6871](#): Legislative Review Alternatives to Help City Meet GMHB Order Compliance Deadline (Ordinance No. 26C-03 First Reading)

March 3, 2026

- [AB 6893](#): Compliance with Growth Management Hearings Board Order – Follow-Up Discussion on Financing Affordable Housing
- [AB 6890](#): Legislative Review Alternatives to Help City Meet GMHB Order Compliance Deadline (Ordinance No. 26C-03 Second Reading)

March 17, 2026

- [AB 6888](#): Final Approval of the Modified Station Subarea Boundary
- [AB 6894](#): Update on the Growth Management Hearings Board Order – GMA Compliance Work Plan

March 25, 2026

- [PCB26-01](#): Briefing on the Growth Management Hearings Board Order and steps to achieve Growth Management Act compliance

April 21, 2026

- [AB 6909](#): GMA Compliance – Policy Direction on Development Code Amendments
- [AB 6911](#): GMA Compliance – Legislative Review Process

April 28, 2026

- [PCB26-02](#): Planning Commission Legislative Review Process
- [PCB26-03](#): Briefing on Station Subarea Plan Goals and Policies

May 6, 2026

- [PCB 26-04](#): Briefing on Comprehensive Plan Elements and Station Subarea Plan

May 13, 2026

- [PCB 26-05](#): Briefing on Development Code Amendments: land capacity: zoning map, Town Center boundary and subareas, height increases, permitted uses, design standards, and consistency

May 27, 2026

- [PCB 26-06](#): Briefing Comprehensive Plan Consistency Amendments – Transportation, Utilities, Capital Facilities Elements

June 2, 2026

- [AB 6938](#): Public Hearing of MICC Title 5 Amendments Anti-Displacement Measures (First Reading, Ord. No. 26C-07)

June 3, 2026

- [PCB 26-07](#): Public Hearing: Comprehensive Plan Update, Station Subarea Plan, and Implementing Development Code Amendments

June 10, 2026

- [PCB 26-08](#): Public Hearing (Continued): Comprehensive Plan Update, Station Subarea Plan, and Implementing Development Code Amendments

June 16, 2026

- [AB 6947](#): GMA Compliance – Planning Commission Recommendation

RECOMMENDED ACTION

Approve Resolution No. 1698 amending the Fee Schedule to add an Affordable Housing Fee in Lieu rate.