

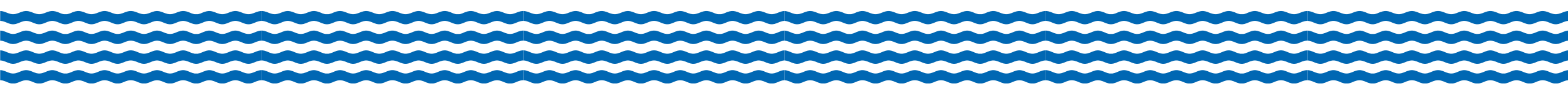
AB 6893: Financing Affordable Housing

March 3, 2026



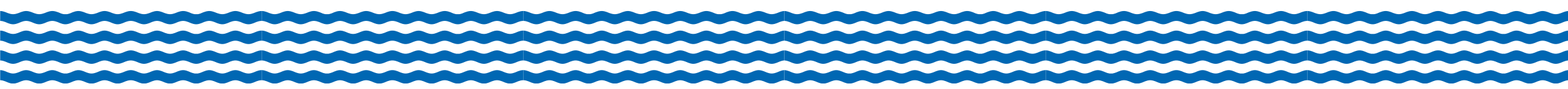
Growth Management Hearings Board (GMHB) Appeal

- 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



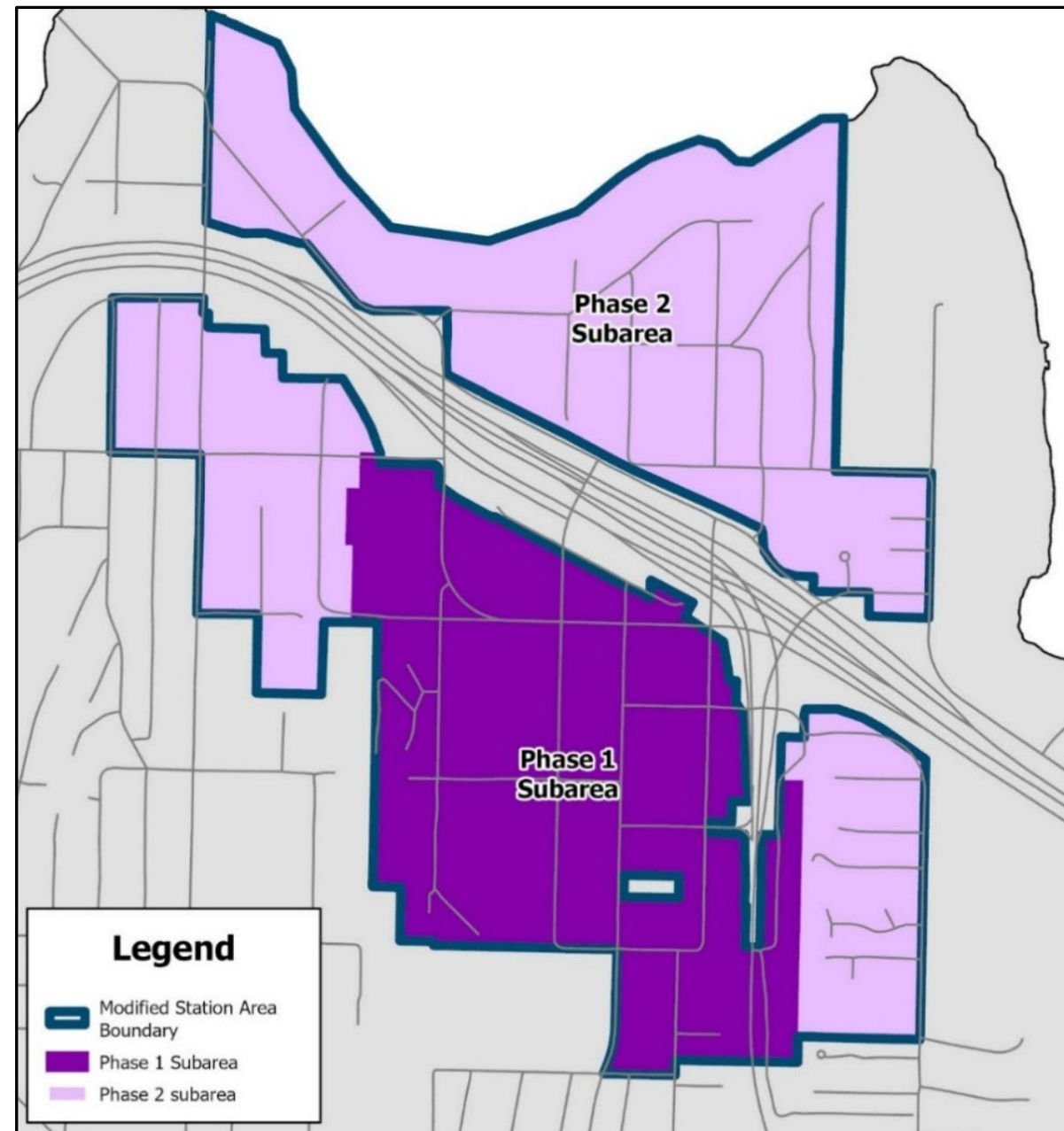
Compliance Strategy

Phase 1 (by July 31, 2026):

- Establish required transit station subarea
- Apply required upzones and additional development capacity to comply with GMHB Order

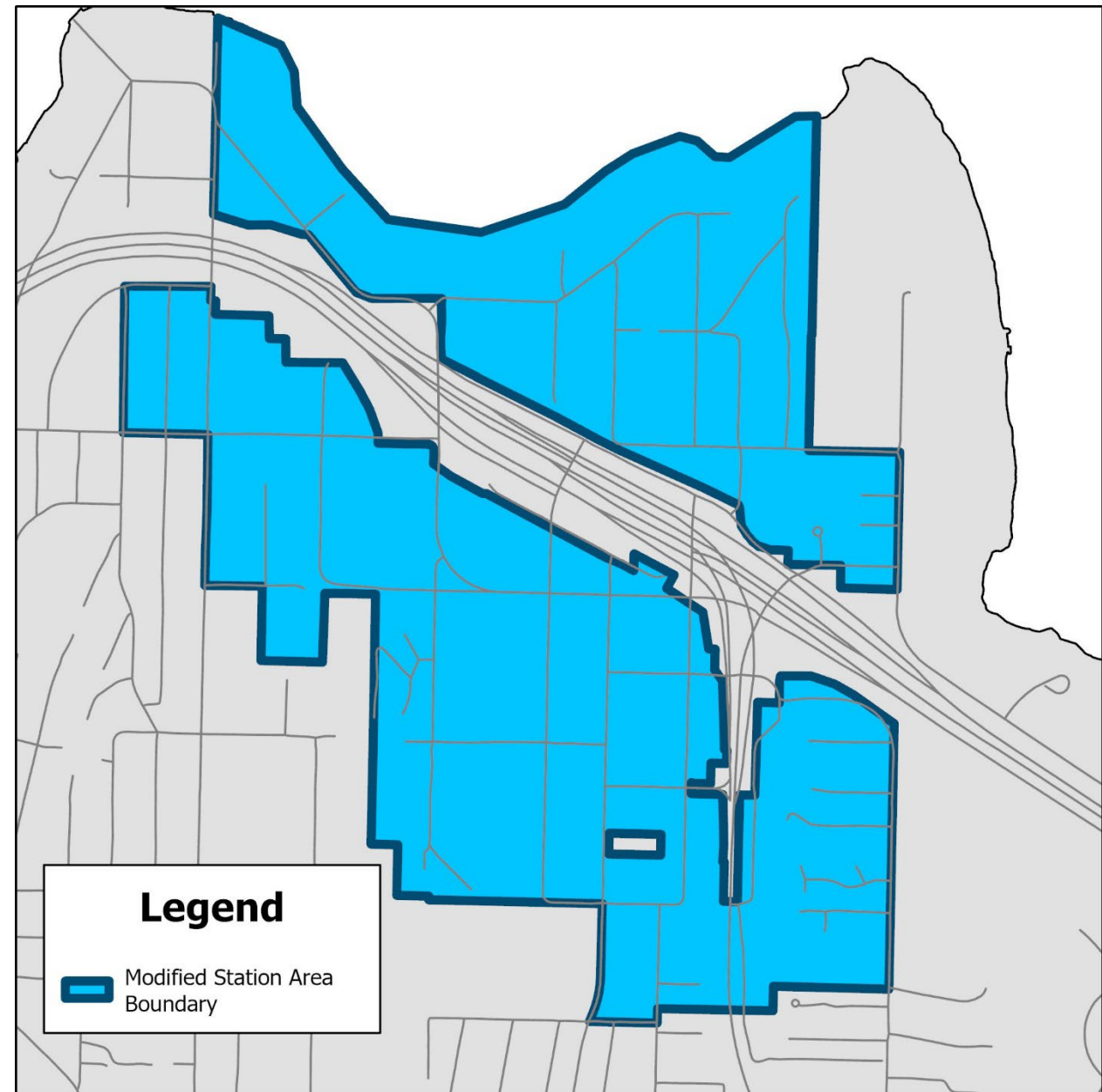
Phase 2 (by December 31, 2029):

- Apply upzones and additional development capacity to remainder of station area
- Comply with other TOD bill requirements



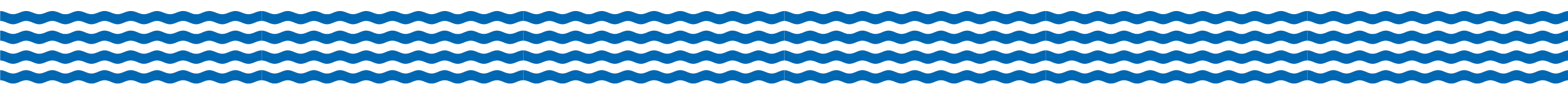
Preliminary Modified Station Area

- Public feedback period open through March 13, 2026.

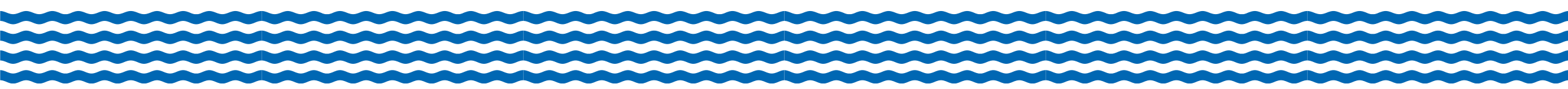


Strategies for Financing Affordable Housing

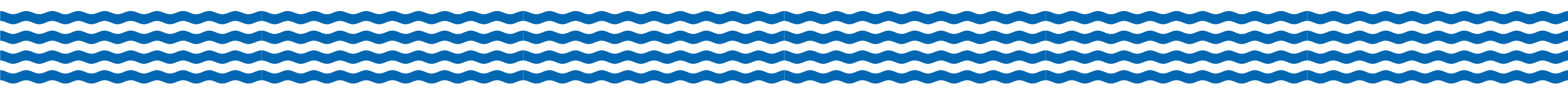
- Ingredients for successful projects:
 - Experienced developer
 - Available land
 - Local financial resources
 - Public and private funding + financing
- Cities can bring available land and/or local financial resources
- ARCH helps bring the ingredients together and provides technical assistance



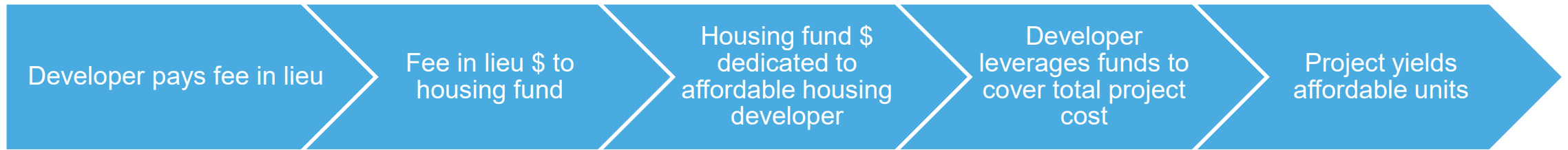
Inclusionary Zoning + Fee In Lieu

- **Inclusionary Zoning:** requirement for a percentage of units in a development project to meet an affordability requirement
 - **Fee in Lieu:** allowance for all or a portion of inclusionary zoning requirement to be met through paying a fee rather than including the affordable units in the development project
 - The revenue generated by the fees is placed into a Housing Fund and can be used to fund affordable units in other projects
 - This is one way to generate local financial resources for affordable housing
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MECHANICS OF DIRECT DELIVERY: FEE IN LIEU

- City generally allocates fees generated to a housing fund, identifies affordable housing developer as a partner
 - City funds the affordable housing developer's project with dollars from the housing fund
 - The affordable housing developer, astute in development finance, supplements the funds from the city with other sources, such as grants and loans
 - In this way, a smaller contribution of dollars can be **leveraged** to cover a higher total development cost (similar to a mortgage on a home)
 - Other city contributions, such as the dedication of developable land, likely benefit project feasibility
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MECHANICS OF DIRECT DELIVERY: FEE IN LIEU



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)

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 – 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)

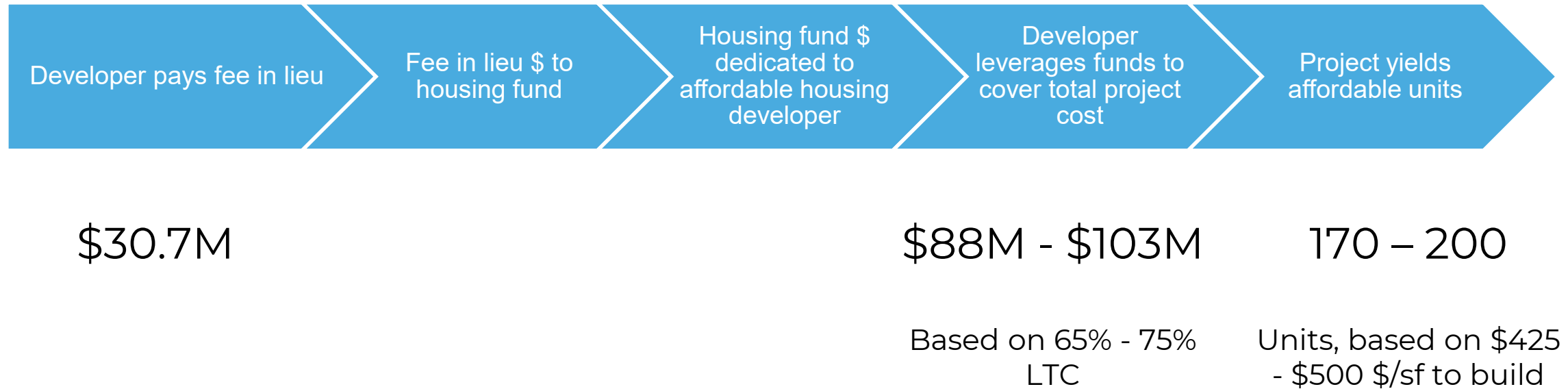
Upzone Town Center to 8 Stories and Surrounding MF Zones to 6 Stories

- 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

MECHANICS OF DIRECT DELIVERY: FEE IN LIEU



COMPLIANCE STRATEGY – SUMMARY

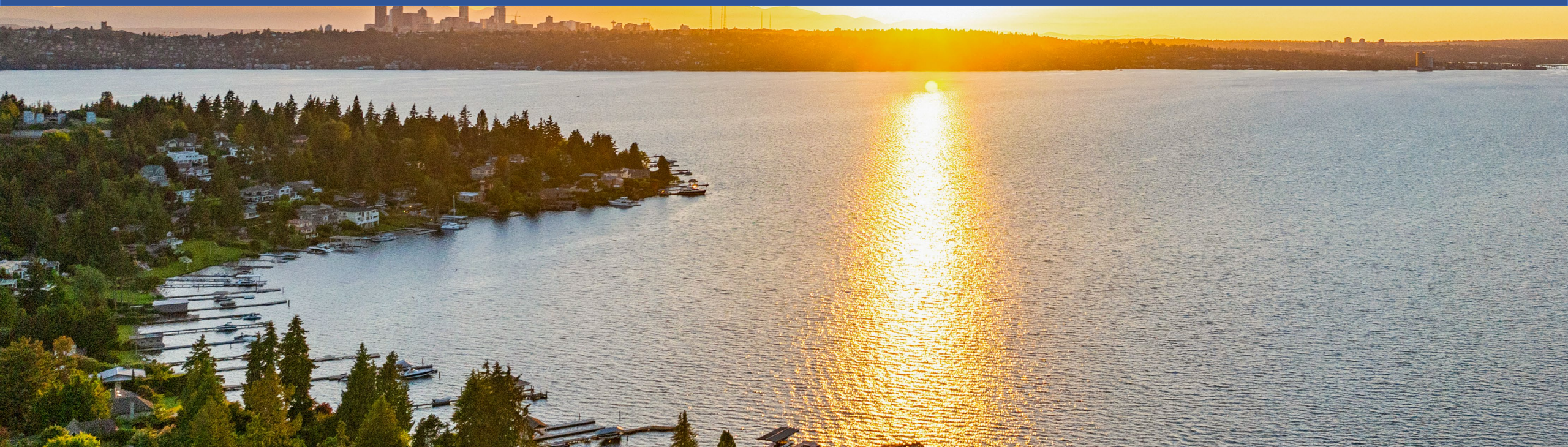
	Baseline	Scenario 1
Projected Housing Unit Capacity (2025-2044)	2,133	3,164
Units Requiring New Subsidies or Incentives	(519)	(510)
AMI Levels with Remaining Deficits	0-50%	0-30%
Direct Delivery Total Cost	\$280.3 million	\$275.4 million
Estimated In-Lieu Fees	N/A	\$30.7 million
Potential Leveraged Funding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



Next Steps

- Community Information Session (March 10)
- Public Feedback Period (through March 13)
- 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