



BUSINESS OF THE CITY COUNCIL CITY OF MERCER ISLAND

AB 6699
June 17, 2025
Regular Business

AGENDA BILL INFORMATION

TITLE:	AB 6699: Briefing on the Evaluation of a Fee-in-Lieu of Program related to Town Center Development	<input type="checkbox"/> Discussion Only <input checked="" type="checkbox"/> Action Needed: <input checked="" type="checkbox"/> Motion <input type="checkbox"/> Ordinance <input type="checkbox"/> Resolution
RECOMMENDED ACTION:	Approve the scope of work for the evaluation of a fee-in-lieu of affordable housing program.	

DEPARTMENT:	Community Planning and Development
STAFF:	Jeff Thomas, Community Planning and Development Director Alison Van Gorp, Community Planning and Development Deputy Director
COUNCIL LIAISON:	n/a
EXHIBITS:	1. Draft Scope of Work
CITY COUNCIL PRIORITY:	1. Engage the qualified expertise necessary to provide the guidance to enable the development of a comprehensive long-range plan for Town Center which recognizes, addresses, and balances business, housing, and parking uses

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

EXECUTIVE SUMMARY

The purpose of this agenda bill is to provide a briefing on and approval of a scope of work for the evaluation of a “fee-in-lieu” option for affordable housing in the Town Center.

- The Mercer Island City Code (MICC) Chapter 19.11 contains development regulations for the Town Center, including an incentive that permits buildings greater than two stories when affordable housing units are provided.
- A “fee-in-lieu” is an optional fee that can be paid in place of a code requirement and the resulting funds used to provide a similar public benefit elsewhere in the community
- On October 15, 2024, the City Council directed staff to add development of a “fee in lieu” option for affordable housing in the Town Center to the City’s work plan. This work item was included and funded in the 2025-2026 Biennial Budget.
- With approval of the scope of work included below, the City will undertake evaluation of a fee-in-lieu program enabling permit applicants to pay a fee in place of all or a portion of the affordable housing units required in a town center building.
- A consultant will perform an economic analysis, known as a nexus study, and make recommendations on the amount for such a fee.
- Later this year, staff will prepare a code amendment and fee schedule amendment that, if approved, would enact the fee-in-lieu option.

BACKGROUND

In 2024, the City Council adopted amendments to the Comprehensive Plan and Mercer Island City Code intended to comply with new state law adopted under HB 1220, requiring the City to plan for housing to accommodate housing needs across a range of income segments. These amendments provided additional multi-family and mixed use housing capacity in the Town Center and increased the requirements of the affordable housing incentive in the town center zone. The City received public comments from Town Center landowners expressing some concerns related to these amendments and inquiring about the possibility of adding a fee in lieu option that would enable a developer to pay a fee in place of some of all of the required affordable housing units. On October 15, 2024, as part of the 2025-2026 Biennial Budget review, the City Council [directed staff](#) to add development of a fee in lieu of affordable housing program to the City's work plan. This work item was included in the 2025-2026 Biennial Budget and \$30,000 was allocated to support this work. The project was then added to the City's work plan for 2025 (see [AB 6618, Exhibit 2](#)).

HISTORY OF AFFORDABLE HOUSING INCENTIVES IN MERCER ISLAND

Mercer Island's Town Center development regulations have included an affordable housing incentive since 2016 ([MICC 19.11.040](#)). Initially, these regulations required the provision of affordable housing for any building greater than two stories in height. For three story buildings, 10% of the units were required to be affordable at 70% AMI for rental housing and 90% AMI for ownership housing and for 4-5 story buildings 10% of the units were required to be affordable at 80% AMI for rental housing and 90% AMI for ownership housing.

In conjunction with the adoption of the periodic update to the Comprehensive Plan in 2024, these regulations were amended for buildings of four stories or greater, requiring 15% of the units to be affordable at 50% AMI for rental housing and 80% AMI for ownership housing.

WHAT IS FEE IN LIEU

A fee in lieu is an option for a permit applicant to pay a fee in place of meeting a city code requirement. In the case of in-lieu fees for affordable housing, the fee can be paid as an alternative to including required affordable units in a development project. As described above, Mercer Island's Town Center code requires the inclusion of affordable units in most new residential/mixed use buildings. Amending the development regulations to include an in-lieu fee option would permit a project applicant to either include the required 15% affordable units as a part of their project, or to pay an equivalent fee for all or a portion of the required units.

The fee would be set to compensate for the impact of the development on the need for affordable housing. The revenue generated from in-lieu fees would be contributed to an Affordable Housing Fund for the construction or preservation of affordable housing units. The City would have the option of utilizing these funds directly in affordable housing development in Mercer Island, or the funds could be contributed to the ARCH Housing Trust Fund and utilized in affordable housing projects throughout East King County. Either way, these funds can be prioritized for extremely- and very-low income housing (i.e. housing affordable to households earning less than 50% of the Area Median Income (AMI)) to address Mercer Island's sizeable housing needs for these income segments.

ECONOMIC ANALYSIS – NEXUS STUDY

To inform consideration of a potential fee in lieu program, the City is contracting with a consultant to perform a type of economic analysis called a nexus study. The nexus study will determine the relationship between market-rate development and the need for affordable housing. The study is used to establish the basis for an

in-lieu fee, that developers can pay instead of building affordable housing units on-site. The fee is meant to offset the impact of new development on the need for affordable housing, as increased population and commercial activity can lead to a shortage of affordable housing for workers.

A nexus study analyzes the connection between new development and the subsequent need for affordable housing. It examines how new housing units increase the local population, leading to an increased demand for goods and services, which in turn creates new jobs. The idea is that new homes and rental units draw new residents who will shop and patronize local businesses, therefore new employees will be hired by those businesses. A portion of these new workers may earn wages insufficient to afford market-rate housing, thus increasing the demand for affordable housing. Increased affordable housing will be necessary to meet the housing needs of the new employees.

Nexus studies help determine the maximum allowable in-lieu fee that a jurisdiction can legally charge developers. The study estimates the financial burden of new development on the need for affordable housing and the potential costs of addressing that need. This information helps establish a fee that is both financially viable and legally defensible.

ISSUE/DISCUSSION

SCOPE OF WORK

Exhibit 1 includes the proposed scope of work, including details on the schedule, tasks and public engagement planned for this project. Work will commence once the City Council approves the scope of work and is expected to conclude in December 2025 with the adoption of a development code amendment and a fee schedule update. The City is contracting with an economic consultant, Community Attributes, Inc. to begin work on the nexus study once the scope of work has been approved.

BUDGET

The City Council allocated \$30,000 in the 2025-2026 Biennial Budget for this project. These funds will primarily be used for consulting services related to the nexus study. Additional financial resources are not anticipated to be needed at this time. Other resources necessary for the project will be staff time and Planning Commission meeting time.

NEXT STEPS

With approval of the scope of work for this project, staff and consultants will commence work on the economic analysis and development of policy options. This work is expected to occur over the summer of 2025. Later this year, staff will prepare a code amendment and fee schedule amendment that, if approved, would enact the fee-in-lieu option.

RECOMMENDED ACTION

Approve the scope of work for the evaluation of a fee-in-lieu of affordable housing program and direct the City Manager to commence work.