

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2023-2028 forecast reflects a high level of development activity in the early years as several major projects are in review and construction phases of the development cycle.
- In response to the workload for development activity, Development Services added 12.0 FTE positions in the 2022 budget to meet the high demand. An additional 15.0 FTE positions are added in the 2023-2024 budget to be hired as workload demands.
- In subsequent years, development activity is anticipated to return to a more moderate level, however, potential economic impacts to development create added uncertainty. This forecast assumes that while development may be impacted by economic uncertainty, projects currently in the review/inspection phase will be completed and development interest in Bellevue will continue.

Background

In the early forecast years, development activity continues at a high level for office, retail, and housing construction projects, and return to a more moderate level through the remaining forecast period. Interest in construction projects remains strong, despite economic uncertainty from high inflation, workforce shortages, and global economic impacts to supplies. Significant projects currently planned or under construction are in all growth areas of the City including several office, mixed-use and multi-family developments. However, office development, the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue, may slow somewhat as companies re-evaluate in-office work strategies. Completion of the Eastlink Light Rail project is anticipated to spur additional long-term commercial and residential Transit Oriented Development near light rails stations.

After reaching peak levels after the pandemic, single-family applications are anticipated to be at more moderate levels in the early forecast period. High demand and low inventory for housing continues, however, new single-family projects are impacted by high interest and costs due to high inflation. Tenant improvement projects declined slightly due to the pandemic and uncertainty of office space demand but activity for commercial reinvestment has since returned to pre-pandemic levels and is anticipated to remain steady.

The timing of construction for these projects plays a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services increased in prior budgets to meet the growing demand for permit review and inspection services, particularly in anticipation of several major large projects expected to be in concurrent construction phases, increasing the demand for inspection services. In the 2023-



2023-2028 Financial Forecast Development Services Fund

Attachment B

2024 budget, an additional 15.0 FTE are added in anticipation of continued demand for review/inspection work.

2023-2028 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q2 2022 was 8.2%, down by 1.0% from Q1 2022. Several new office buildings were pre-leased prior to completion, and while construction of additional office buildings during this development cycle is in response to low vacancy, there is uncertainty around future demands for office space as companies evaluate more expansive and long term teleworking options for their employees.

The construction valuation for issued permits, considered a key barometer of development activity, is anticipated to decline to a more moderate level. Valuation in prior years is mainly a result of the volume and high valuation of projects. Construction investment for major projects will stay strong in the early years, with an expected decline in the latter years of the forecast. The current strong demand for single family and multi-family housing, and single-family alterations, may be impacted in the near future by high inflation and interest rates.

The land use design review application activity remains consistent with prior years indicating interest in future development in Bellevue continues, however, the pace of development is anticipated to decline in the latter years of the forecast as Bellevue moves through a downturn in the development cycle.

Because of the variables, the early forecast years reflect revenue collections for several new major projects, with reductions in revenue collections through the latter years.

Development Services Fund 2023-2028 Financial Forecast (in \$000)						
	2023	2024	2025	2026	2027	2028
Beginning Fund Balance	\$57,372	\$59,083	\$60,067	\$60,062	\$58,271	\$55,118
Resources:						
Building Fees	\$22,140	\$22,430	\$21,567	\$21,145	\$20,935	\$21,145
Land Use Fees	\$3,740	\$3,746	\$3,637	\$3,531	\$3,496	\$3,531
Fire, Trans & Util Fees	\$9,809	\$9,834	\$9,594	\$9,314	\$9,222	\$9,314
sub: Dev Svcs Fees	\$35,689	\$36,010	\$34,798	\$33,990	\$33,653	\$33,990
Gen Fund Subsidy	\$4,571	\$4,851	\$4,899	\$4,948	\$4,998	\$5,048
Other Revenue/Interest	\$431	\$441	\$443	\$445	\$447	\$449
Total Resources	\$40,691	\$41,301	\$40,140	\$39,383	\$39,098	\$39,487
Expenditures:						
Building	\$16,226	\$16,918	\$17,370	\$17,815	\$18,281	\$18,760
Land Use	\$4,388	\$4,588	\$4,710	\$4,831	\$4,957	\$5,087
Fire, Transp. & Utilities	\$7,808	\$7,808	\$8,016	\$8,221	\$8,437	\$8,658
Policy & Code Compliance	\$2,670	\$2,775	\$2,849	\$2,922	\$2,999	\$3,077
Administrative/Shared Costs	\$6,253	\$6,526	\$6,700	\$6,872	\$7,052	\$7,237
Technology/Facility Initiatives	\$1,635	\$1,702	\$500	\$513	\$526	\$531
Total Expenditures	\$38,980	\$40,317	\$40,146	\$41,173	\$42,252	\$43,350
Ending Fund Balance	\$59,083	\$60,067	\$60,062	\$58,271	\$55,118	\$51,254

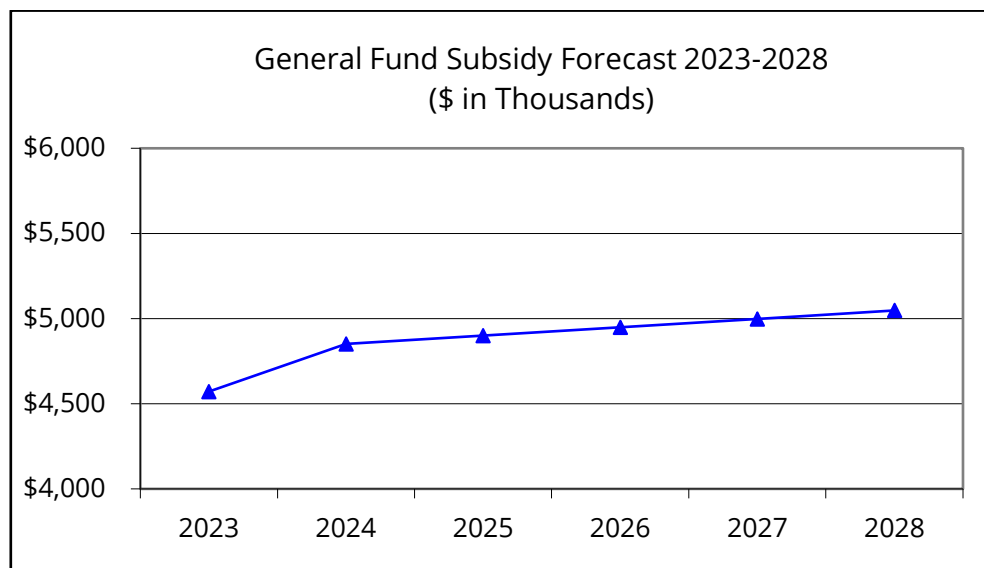
Forecast Drivers and Assumptions

1. The announcement by Amazon to move up to 25,000 employees into the downtown is a significant driver for new office development and additional amenities in the downtown.
2. Several major mixed-use development projects (Avenue Bellevue, BIG 1, GIS Plaza, 1001 Office Towers, Bellevue 600, Broadstone Bellevue Gateway, Northup Way Mixed Use, The Artise) are under construction in the early years of the forecast. Residential and senior housing development continues with construction of several apartment, townhome and senior living projects including 1250 112th Ave, 8 100 Bellevue Condos, Aegis at Lake Hills, Basel Newport Townhomes, Bellevue Senior Housing, Bellevue Way Townhouses, Broadstone Bellevue Gateway, Eastgate Men's Shelter, MIRA II, Main Street Apartments, Milestone NW Bell-Way Condos, Ondina, Polaris at Eastgate, and The Flats at 15th Place.

3. New project activity continues as several currently in the review process (200 112th Office, 228 106th PI NE, 305 Office Building, 400 108th, BSD – Evergreen Transition New Home, Bell10, Bellevue 600 Phase 2, Bellevue Fire Station 10, Block 13, Block 15, Crossroads Multifamily Mixed Use Building, Filament East and West, Four 106, Pinnacle Bellevue, SummerhHill Highland Park and W Townhomes) are expected to begin construction in early forecast years. Tenant improvements of new office buildings will also continue, however, is anticipated at a more moderate rate.
4. The forecast reflects an additional 15.0 FTEs that will be filled as workload demand warrants. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate workload and maintain service levels, and to maintain budget alignment.
5. The forecast reflects a proposed change to the land use discretionary review cost recovery objective and moves that objective from 50% to 100% fee supported. The proposed change would eliminate the need for general fund subsidy for the land use review service.
6. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by the Council. This forecast assumes that rates will grow at levels near the average rate of inflation.
7. Council continues to review land use codes that are pertinent to the future growth in Bellevue, including areas around or in the Downtown and other subareas. Affordable housing continues to be an area of focus and priority for the Council.

General Fund Subsidy

The General Fund contribution to the Development Services Fund supports personnel and M&O costs for programs that have been designated as general funded activities. These programs include Code Compliance and a portion of Land Use. Development Services activities supported by the General Fund include public information, code and policy development.



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period for code and policy development. In later years, the contribution grows by inflation factors, consistent with projections for staff and operating costs.

Development Services Fund Reserves

The Development Services Fund includes prepaid fees and reserves to assure that core staffing levels are balanced with cyclical needs, thus mitigating the effects of downturns or rapid increases in development activity. Reserves also ensure the Permit Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund level is forecast at approximately \$59 million through 2023, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level declines through the forecast years as reserves are drawn upon to maintain enough staff to complete the review and inspection of projects in construction and continue process improvement work.

Development activity and the Development Services fund levels will be closely monitored over the next biennium. Corrective measures will be taken during the forecast period if market conditions warrant doing so.

