

2018-2023 Financial Forecast Development Services Fund

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2018-2023 forecast reflects a high level of development activity in the early years as several major projects move through the development cycle. To meet the workload demand for the major projects along with the East Link project, Development Services shows an increase in staffing levels.
- In subsequent years of the forecast, development activity is anticipated to drop to a more moderate level.

Background

Development activity remains at a high level in 2017, as the demand for office, retail and housing continues, and interest in new projects remains strong. Several large and mixed-use developments recently completed construction including Lincoln Square Expansion, GIX Building, and Spring District Residential Phase I. Residential development is the most active segment with apartment, townhomes and condominium projects under construction in all growth areas of the City. Additional projects of note include construction of student housing at Bellevue College and new elementary schools.

Sound Transit's East Link light rail project is now under construction along the entire alignment generating demand for both review and inspection services. The light rail project is anticipated to spur long-term commercial and residential Transit Oriented Development near light rail stations.

Single family applications are anticipated to remain steady in the early forecast period spurred on by continued low interest rates and low inventory. Tenant improvements remain a strong category of permit activity, not only in the number of applications but in the value of projects represented by the applications.

The timing of construction for these projects will play a role in the staffing level needed in Development Services to support major project activity. Staffing levels for review, inspection, and support services have increased in prior budgets to meet the growing demand for permit review and inspection services, especially in anticipation of the East Link construction. The existing staffing level is anticipated to continue through the early forecast years as necessary to meet forecast workload.

2017-2023 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 2017 was 6.7%, as several new office buildings were leased prior to completion, keeping the vacancy rate below 10%.



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The construction valuation for issued permits, considered a key barometer of development activity, is down slightly from the prior year but is anticipated to remain strong as interest continues for new major projects, single family residences, single family alterations, and tenant improvements. Valuation from major projects is a category that is a significant driver of the forecast in the early years and is anticipated to be at a moderate level in the forecast out years.

The number of land use design review applications point to continued interest in future development interests in Bellevue, however, new major project activity is anticipated to slow slightly in 2018 but is anticipated to remain constant through the forecast period.

As a result of the aforementioned variables, the early forecast years reflect revenue collections for the development of several new major projects. In the latter years, major project activity is anticipated to continue at a moderate level.

Development Services Fund 2018-2023 Financial Forecast (in \$000)

	2018	2019	2020	2021	2022	2023
Beginning Fund Balance	\$20,558	\$19,489	\$16,500	\$13,196	\$12,574	\$13,318
Resources:						
Building Fees	\$11,148	\$10,517	\$10,016	\$9,724	\$9,628	\$9,821
Land Use Fees	\$2,305	\$2,154	\$2,052	\$1,992	\$1,972	\$2,012
Fire, Transp. & Utilities Fees	\$7,083	\$6,620	\$6,305	\$6,121	\$6,060	\$6,182
sub: Development Services	\$20,536	\$19,291	\$18,372	\$17,837	\$17,661	\$18,014
Gen Fund Subsidy	\$4,288	\$4,330	\$4,374	\$4,396	\$4,440	\$4,484
Other Revenue/Interest	\$312	\$305	\$302	\$297	\$305	\$308
Total Resources	\$25,135	\$23,927	\$23,049	\$22,529	\$22,406	\$22,806
Expenditures:						
Building	\$10,528	\$10,786	\$10,532	\$9,239	\$8,634	\$8,824
Land Use	\$3,789	\$3,882	\$3,790	\$3,325	\$3,107	\$3,176
Fire, Transp. & Utilities Dev Svcs	\$5,831	\$5,974	\$5,833	\$5,117	\$4,782	\$4,887
Code Compliance	\$1,014	\$1,038	\$1,014	\$889	\$831	\$850
Administrative/Shared Costs	\$4,899	\$5,019	\$4,901	\$4,299	\$4,018	\$4,106
Technology Initiatives	\$145	\$217	\$282	\$283	\$289	\$289
Total Expenditures	\$26,205	\$26,916	\$26,353	\$23,151	\$21,662	\$22,132
Ending Fund Balance	\$19,489	\$16,500	\$13,196	\$12,574	\$13,318	\$13,992



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Forecast Drivers and Assumptions

1. Several major mixed use development projects (Spring District Phase 2 and Spring District Residential, Alamo Manhattan, Kelsey Creek Center) are assumed to be in construction in the early years of the forecast. School projects in construction are for college, high school, middle school and elementary schools. Residential development continues with construction of several apartment and townhome projects. Of note is the Bosa One88 condominium tower, the first downtown condominium project since 2009.
2. The demand for major project activity remains high as several new projects are in the review process, and are expected to continue through the early budget years. As such, permit activity for tenant improvements of new office buildings will remain strong. Interest in major projects, new single family homes and existing remodels is anticipated to slow in later forecast years.
3. The forecast reflects staffing levels anticipated to meet the demands of the construction activity as well as the East Link project. Consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload and maintain service levels.
4. Development fees are reviewed annually and may be adjusted to assure they are set accordingly to meet cost recovery objectives endorsed by Council. This forecast assumes that rates will grow at rate near the average rate of inflation.
5. Council amended the Eastgate Land Use Code increasing development density along the I-90 corridor. New interest in Eastgate development is anticipated in the forecast years.
6. Anticipated for completion in 2017, is the Downtown Land Use Code update (Downtown Livability Initiative), the first comprehensive updated since its original 1981 adoption. The update is intended to better align the Downtown Land Use Code with the updated Subarea Plan and changes that have occurred in the evolution of Downtown including the addition of light rail. The completion of the Eastgate/I-90 Corridor and Downtown code updates set the path for future growth in Bellevue.

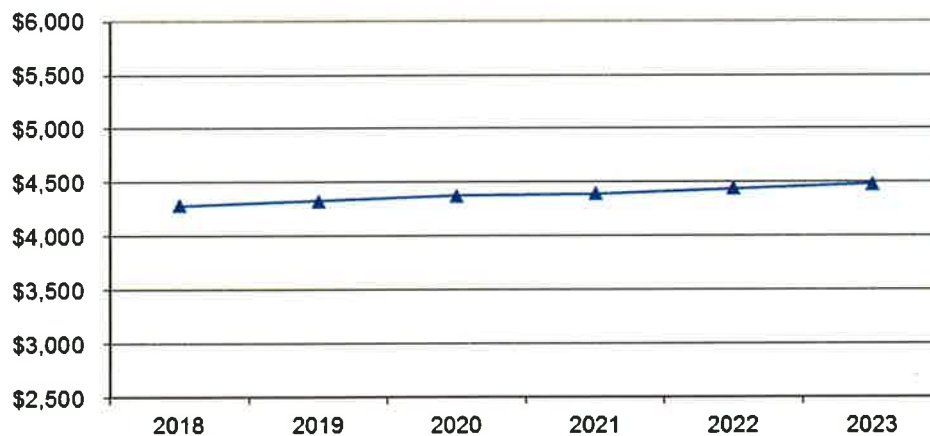


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General Fund Subsidy

The General Fund contribution to the Development Services Fund accounts for approximately 2% of the General Fund budget. This contribution (subsidy) 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, and approximately 50% of Land Use discretionary review.

**General Fund Subsidy Forecast 2018-2023
(\$ in Thousands)**



The General Fund contribution to the Development Services Fund is expected to grow slightly in the early forecast period as policy and code update work continues. In later years, the contribution is expected to be consistent with projections for cost savings due to anticipated decline in development activity.



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Development Services Fund Balance

The Development Services Fund includes prepaid fees and maintains 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 Development Services Center, capital equipment, and technology systems are adequately funded when they need replacement or renovation.

Development Services Fund reserves are anticipated to be approximately \$20.6 million through 2017. This reflects the most recent rapid development growth in Bellevue and staffing costs to meet the demand. As development activity slows, the fund level is assumed to decline through 2021. Reserves will be drawn upon as it will be necessary to maintain sufficient staff to complete the review and inspection of projects in construction.

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. To ensure the financial health of the Development Services fund, cost reductions as appropriate will be taken.

Development Services Fund Balance Forecast 2018-2023
(\$ in Thousands)

