

Executive Summary:

- The Development Services Fund supports delivery of development review, inspections, land use, and code enforcement services.
- The Development Services Fund 2021-2027 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 6.0 FTE positions in the 2021-2022 budget and they have been hired as the workload demands.
- In subsequent years, development activity is anticipated to return to a more moderate level, however, potential impacts to development from the COVID-19 pandemic 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 with construction projects for office, retail and housing. However, activity is expected to remain at a moderately high level through the forecast period. During the Covid-19 virus pandemic shutdown, permit activity declined due to construction restrictions, but has since returned to pre-pandemic levels. While other areas of the economy struggle to re-open, interest in projects in Bellevue has remained. Significant investments are being made in projects throughout the City's growth areas. Several large office and mixed-use developments currently in the plan review phase will move to construction with office development as the most active segment driven by Amazon's plans to bring 25,000 employees to Bellevue by 2025.

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

Single family applications are anticipated to remain steady in the early forecast period spurred on by continued low interest rates, low inventory, and high demand for housing. Although tenant improvement projects slowed down due to the pandemic, permit activity has returned to pre-pandemic levels. The number and value of projects represented by the applications is anticipated to increase slightly in the near future as several major projects are nearing completion.

The timing of construction for these projects will play a role in the staffing level needed in Development Services to support the development 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 the East Link construction and an increasing number of major large development projects. In the 2021-2022 budget, an additional 6.0 FTE were added in anticipation of continued demand for review/inspection work and several new staff have been hired to fill the positions. No additional FTE were requested during the mid-bi budget process, however, demand for permit services will continue to be monitored and additional staff will be hired as necessary to fill vacant positions.

2021-2027 Outlook

Office vacancy rates in Downtown Bellevue are a key indicator to developers interested in developing new office space. The downtown vacancy rate in Q3 2021 was 11.7%, up from the 4.3% reported in Q3 2020. Construction of additional office buildings during this development cycle were in response to historically low availability of office space. Vacancy is expected to continue dropping as leasing activity and absorption improve. However, uncertainty around future demands for office space remains 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 be high through 2023 as construction investment for major projects continues at a high level. Strong demand also continues for single family and multi-family housing, and single-family alterations.

The number of land use design review application activity remains consistent with prior years indicating interest in future development in Bellevue, and the pace of development is anticipated to continue in the latter years of the forecast as Bellevue continues in an unprecedented high development cycle.

Because of the variables, the early forecast years reflect development activity for several new major projects, and is anticipated to continue through the latter years.

**Development Services Fund
2021-2027 Financial Forecast
(in \$000)**

	2021	2022	2023	2024	2025	2026	2027
Beginning Fund Balance	\$41,503	\$44,141	\$45,661	\$46,714	\$47,203	\$47,218	\$46,577
Resources:							
Building Fees	\$16,699	\$17,003	\$17,173	\$17,259	\$17,432	\$17,519	\$17,607
Land Use Fees	\$2,176	\$2,141	\$2,184	\$2,195	\$2,217	\$2,228	\$2,239
Fire, Transp. & Utilities Fees	\$8,274	\$7,952	\$8,151	\$8,192	\$8,274	\$8,315	\$8,357
sub: Dev Svcs Fees	\$27,148	\$27,096	\$27,508	\$27,646	\$27,922	\$28,062	\$28,202
Gen Fund Subsidy	\$5,008	\$5,139	\$5,191	\$5,243	\$5,295	\$5,348	\$5,402
Other Revenue/Interest	\$379	\$515	\$530	\$544	\$558	\$573	\$589
Total Resources	\$32,535	\$32,751	\$33,229	\$33,432	\$33,776	\$33,983	\$34,193
Expenditures:							
Building	\$11,542	\$12,210	\$12,580	\$12,879	\$13,199	\$13,537	\$13,883
Land Use	\$3,195	\$3,503	\$3,610	\$3,696	\$3,787	\$3,884	\$3,984
Fire, Transp. & Utilities	\$6,809	\$6,936	\$7,146	\$7,317	\$7,498	\$7,690	\$7,887
Policy & Code Compliance	\$2,284	\$2,373	\$2,445	\$2,503	\$2,565	\$2,631	\$2,699
Administrative/Shared Costs	\$5,146	\$5,330	\$5,491	\$5,622	\$5,761	\$5,909	\$6,060
Technology/Facility Initiatives	\$921	\$878	\$905	\$926	\$949	\$974	\$998
Total Expenditures	\$29,896	\$31,231	\$32,177	\$32,943	\$33,760	\$34,624	\$35,511
Ending Fund Balance	\$44,141	\$45,661	\$46,714	\$47,203	\$47,218	\$46,577	\$45,259

Forecast Drivers and Assumptions

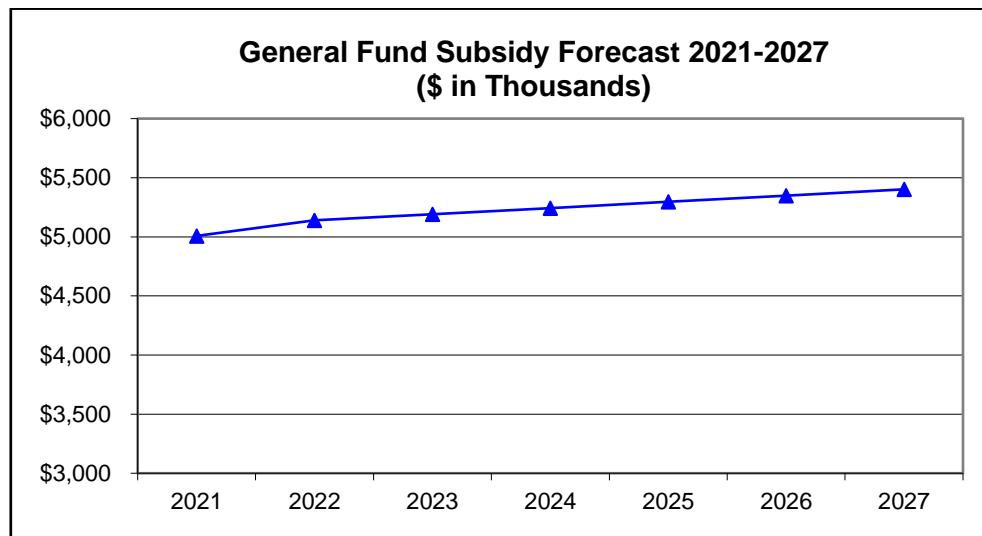
1. The recent announcement by Amazon to move up to 25,000 employees into the downtown is a significant driver for new office development and additional amenities in the downtown.
2. Several major mixed-use development projects (1001 Office Towers, Bellevue Plaza, and Avenue Bellevue) are under construction in the early years of the forecast. Residential and senior housing development continues with construction of several apartment, townhome and senior living projects including Holden of Bellevue and Aegis at Lake Hills.
3. Major project activity continues as several currently in the review process (SummerHill Bel-Red, Bellevue 600, The Artise, and NE 8th) are expected to begin

additional phases of construction in early forecast years. Tenant improvements of new office buildings will also continue, however, in later forecast years, growth is anticipated at a more moderate rate.

4. The forecast reflects current FTE levels with vacant positions to 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. 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.
6. Council continues to review land use codes that are pertinent to the future growth in Bellevue, including areas around the Downtown such as East Main. Affordable housing continues to be an area of focus and priority for the Council as well.

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, and approximately 50% of Land Use discretionary review.



The General Fund contribution to the Development Services Fund is expected to grow in the early forecast period for code and policy development, and land use permit review. 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 \$44 million through 2021, reflecting the most recent rapid development growth in Bellevue and staffing costs to meet the demand. Revenue from development activity is anticipated to remain high through the forecast years which will result in a slight increase to the fund balance through the forecast years. During a downturn when revenues decline, the fund balance will enable development services 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.

