

DEVELOPMENT SERVICES FUND FINANCIAL FORECAST

Executive Summary

The Development Services Fund supports delivery of development review, inspection, land use, and code enforcement services.

The Development Services Fund forecast reflects recovery from the economic downturn and slowdown in development activity that began in 2009. Since then, cost reduction measures were implemented to reduce staffing levels and the use of consulting services that had been increased during the development boom. The 2013-2018 forecast reflects adjusted revenue and cost levels that will occur as Bellevue experiences an economic upturn over the forecast period.

Beginning in 2013, the forecast reflects a modest increase in development activity. In subsequent years development activity is anticipated to continue to grow, but at a more moderate level than was experienced during the prior development boom of 2007 and 2008.

Background

Bellevue experienced a decline in major project activity from 2009 to 2011 during the economic downturn. There were few major projects completed, although construction of public schools and medical facilities remained strong (e.g. Bellevue High School, Tye Middle School, Spiritridge and Cherry Crest Elementaries, Overlake and Childrens Hospitals, and Overlake Medical Office Building). In response to the decrease in development activity, staffing levels for review, inspection, and support services, as well as the use of consulting services, were decreased in 2009 and again in 2011 to the current core level.

The construction valuation for issued permits, considered a key barometer of development activity, decreased significantly from 2009 to 2011, however, Bellevue experienced a consistent level of development for medium to small projects, reflecting continued confidence in the potential for Bellevue to rebound from the downturn.

2013-2018 Outlook

Office vacancy rates in the central business district are a key indicator of future development activity. After reaching a peak vacancy rate of 16.5% in 2010, vacancy rates have declined to 14.5% in the last year. As a result, growth in major project activity is anticipated in the early years of the forecast as office vacancy rates continue to decline and lease rates increase. Although design review applications (an early indicator of development activity) received through 2011 indicate a low level of demand for major projects, projected economic growth in the region and the development of Sound Transit light rail in Bellevue, will help drive future commercial and residential development in the city.

Challenges in the mortgage and lending sector continue to impact Bellevue with new single-family development. Peak levels reached in the past are not assumed in the forecast, but as interest rates remain low and employment in the region begins to rebound, the demand for single family additions and remodel projects is expected to remain steady throughout the forecast period.

As a result of the aforementioned variables, this forecast reflects growth in revenue collections beginning in 2013 and a steady increase in development of major projects throughout the latter years of the forecast period.

**Development Services Fund
2013-2018 Financial Forecast
(in \$000)**

	2013	2014	2015	2016	2017	2018
Beginning Reserve	\$5,080	\$4,941	\$5,197	\$5,471	\$5,604	\$5,637
Resources:						
Building Fees	\$7,806	\$8,239	\$8,252	\$8,458	\$8,695	\$8,956
Land Use Fees	\$1,532	\$1,732	\$1,974	\$2,023	\$2,080	\$2,142
Fire, Transp. & Utilities Fees	\$3,300	\$3,729	\$4,251	\$4,358	\$4,480	\$4,614
sub: Development Services Fees	12,639	13,700	14,477	14,839	15,255	15,713
Gen Fund Subsidy	\$3,266	\$3,397	\$3,475	\$3,562	\$3,654	\$3,753
Other Revenue/Interest	\$436	\$450	\$461	\$470	\$482	\$494
Total Resources	16,341	17,546	18,413	18,871	19,391	19,959
Expenditures:						
Building	\$6,290	\$6,605	\$6,935	\$7,226	\$7,443	\$7,652
Land Use	\$2,874	\$3,018	\$3,169	\$3,302	\$3,419	\$3,515
Fire, Transp. & Utilities Development Services	\$2,633	\$2,764	\$2,903	\$3,024	\$3,132	\$3,220
Code Compliance	\$871	\$915	\$960	\$1,001	\$1,036	\$1,065
Administrative/Shared Costs	\$3,812	\$3,988	\$4,172	\$4,185	\$4,328	\$4,445
Total Expenditures	\$16,480	\$17,289	\$18,139	\$18,738	\$19,358	\$19,896
Ending Reserves	\$4,941	\$5,197	\$5,471	\$5,604	\$5,637	\$5,700

Forecast Drivers and Assumptions

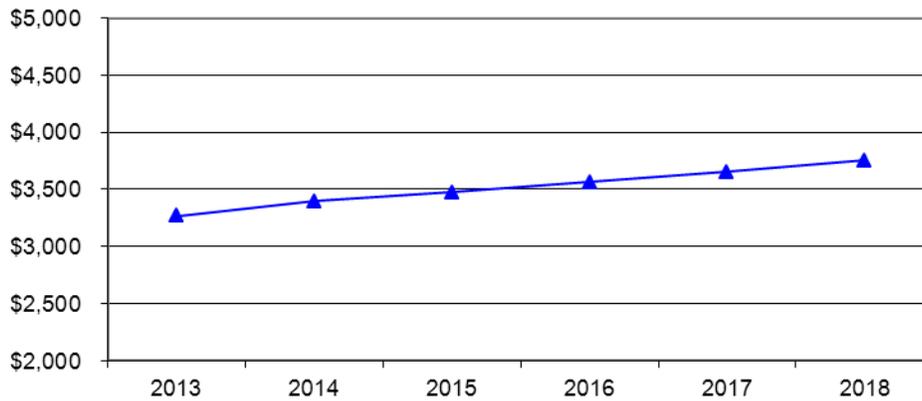
1. Renovations of Bellevue schools (Chinook and Odle Middle Schools and Sammamish High School) and mixed use development projects (Bellevue Park II Apartments, Bellevue Park Hotel, Bellevue at Main, and Soma Towers) are assumed to be in construction in the early years of the forecast.
2. The demand for major project activity is assumed to increase in 2013 as new projects are anticipated to begin the review process. Interest in new single family homes and existing remodels remains steady.
3. The forecast reflects a reduction of 32 positions (including 25 FTEs eliminated/vacated and 6 FTEs redeployed) and consulting services since 2009 in response to the economic downturn. This baseline forecast assumes no additional staffing investments or positions. However, consistent with the long-range financial planning effort, changes in resource levels are continually assessed and modified to accommodate the workload and customer service expectations.

- Development rates 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 an average rate of inflation (2.5%).

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, M&O and capital 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, policy development, and approximately 50% of Land Use discretionary review.

General Fund Subsidy Forecast 2013-2018
(\$ in Thousands)



The General Fund contribution to the Development Services Fund is anticipated to grow at an average rate of approximately 3.0% over the forecast period, consistent with inflation projections and growth in personnel costs (e.g. salaries and benefits).

Development Services Fund Reserves

The Development Services Fund 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 increase to approximately \$5.2 million through 2014. This reflects moderate revenue growth in the near future as the economy begins to recover and permit activity increases. Reserve levels are then assumed to increase slightly from 2014 through 2018 reflecting steady growth in development activity within the forecast period.

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

Development Services Reserves Forecast 2013-2018
(\$ in Thousands)

