

SUBJECT: UPDATE OF THE 2015-16 OPERATING BUDGET &  
ACCOMPLISHMENTS

INITIATED BY: CITY MANAGER'S DEPARTMENT  
(Paul Arevalo, City Manager)

DEPARTMENT OF FINANCE AND TECHNOLOGY SERVICES  
(David A. Wilson, Director)  
(John Leonard, Revenue Management Manager)  
(Christine Safriet, Senior Management Analyst)

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STATEMENT ON THE SUBJECT:

The City Council will consider the mid-year update of the City's 2015-16 Operating Budget and Capital Work Plan, as well as receive an update on work program accomplishments. The mid-year adjustment proposes \$1,704,282 in additional General Fund revenues, \$3,171,340 in General Fund Expenditures, a transfer of \$50,000 from the General Fund to the Computer Master Plan Fund to fund WehoX, \$75,000 in Traffic Mitigation Fund expenditures, and \$30,000 in Air Quality Management District Fund expenditures. This mid-year adjustment also requests two new full-time staff positions.

RECOMMENDATIONS:

1. Approve budget adjustments identified in the attached "Proposed Mid-Year Changes to the Fiscal Year 2015-16 Budget" (Attachment A);
2. Receive and file the attached Mid-Year Financial Report (Attachment B) and Vision 2020 Work Plan Accomplishments (Attachment C);
3. Approve the addition of a position that will perform principal planner duties in the Long Range and Range & Mobility Planning Division;
4. Approve the addition of a position that will perform construction management supervision in the Facilities & Field Services Division.

BACKGROUND ANALYSIS:

Each year, the City of West Hollywood develops a budget that addresses the needs of the City's diverse community, reflects shared priorities and moves the City toward the goals and objectives established in the Vision 2020 strategic plan. This is the third update of the 2014-2016 budget cycle. This update includes the following:

- "Proposed Mid-Year Changes to the Fiscal Year 2015-16 Budget" (Attachment A) that identifies the recommended budget adjustments and organizational changes; and

- “Mid-Year Financial Report” (Attachment B) that provides a status update on the City’s current budget; and
- “Mid-Year Report on City Progress toward Accomplishment of the Primary Strategic Goals of Vision 2020” (Attachment C) that details the accomplishments of each City Department between July and December of 2015.

### ***Proposed Mid-Year Changes to Fiscal Year 2015-16 Budget (Attachment A)***

After thorough review of the City’s General Fund revenues and expenditures to date, staff believes the current budget will meet expectations and allow for a few adjustments to the budget and work plans. Attachment A provides details regarding the 2015-16 mid-year budget adjustments. The adopted budget for Fiscal Year 2015-16 contained a General Fund surplus of \$41,197. Since the start of the fiscal year, the City Council has approved various supplemental expenditures in the amount of \$2,199,675, which includes a drawdown of \$1,267,000 from funds reserved for Proposition A purchases, as detailed in Attachment B. Staff recommends increasing revenue by \$1,704,282 to accommodate the supplemental appropriations and additional expenditure adjustments. The following discussion provides an overview of the mid-year budget change requests.

#### ***Revenue Adjustments***

As part of the mid-year budget update, staff recommends that City Council approve revenue adjustments totaling \$1,704,282. The recommended adjustments are broken down into ongoing and one-time revenues, in which ongoing revenues will be incorporated into future budgets, while one-time revenues are not.

The first ongoing revenue adjustment would increase Property Tax Revenues by \$275,000. This adjustment is warranted because property tax receipts continue to remain strong and have grown for the last several years. In fact, the City saw the largest increase in assessed valuations in the County this year, at 9.85%. The growth in assessed values in the City can be attributed to three factors: property value increases, sales volume increases, and the construction of new real development projects in the City. The second ongoing revenue adjustment would increase Transient Occupancy Tax Revenues by \$450,000 to a total of \$20,650,000 for fiscal year 2015-16. Staff believes this budget adjustment is reasonable, because receipts for 2015-16 are up approximately 4% from the same period last year. The third ongoing revenue adjustment would increase permitted sign payments by \$400,000. These are payments the City receives from owners of billboards on the Sunset Strip. This adjustment is warranted because several new billboards were completed on the Sunset Strip within the last year, and the City aggressively pursued the payment of back-due amounts (all owners are now current on their payments).

The first one-time revenue adjustment includes a property tax settlement payment of \$343,996 from Los Angeles County for administrative fees over-collected by the County for a number of years. The second one-time revenue adjustment is a retrospective liability insurance payment of \$207,286 from the City’s former insurance authority,

CJPIA. The third one-time revenue adjustment is a return of \$28,000 in unspent funds from Social Services contracts.

### *Expenditure Adjustments*

As part of the mid-year budget update, staff also recommends additional expenditure adjustments totaling \$3,171,340. The recommended adjustments are broken down based on the key initiatives for enhanced services as identified in the two-year budget.

- Technology

The budget adjustments include \$50,000 towards the WehoX Innovation Fund. At the December 7, 2015 City Council meeting, staff introduced the creation of a WehoX Innovation Fund designed to support innovate ideas in the delivery of city services. The WeHoX Innovation Fund will provide small grants for pilot projects that can demonstrate the impact of new ideas. The \$50,000 in funding will be transferred from the General Fund to an internal services fund, currently called the Computer Master Plan Fund. An additional \$50,000 will be included in the annual City Manager Recommended Budget and any unspent funds will rollover to the next fiscal year.

- Arts & Culture

The budget adjustments include \$2.4 million for the purchase of the Coast Playhouse. The Coast Playhouse redevelopment and activation will anchor a potential Central City Arts District in the City and support numerous economic development goals and policies. Staff is developing a plan for renovation and operation of the theater, along with a strategy for revenue sources, which will be included in the next two-year budget. The \$2.4 million in funding for the purchase of the property will come from general funds reserves assigned to capital improvements.

- Human Services & Homelessness

The budget adjustments include \$25,000 to continue work identified in the “Aging in Place, Aging in Community” 5-Year Strategic Plan. The funds will be used to develop a structure for the evaluation model. The evaluation portion of this strategic plan will measure, refine, and demonstrate the impact of specific programs and also demonstrate that there has been a collective impact across the community. This is a one-time increase that will result in \$75,000 in total funding for aging in place this fiscal year.

The budget adjustments also include \$28,000 for expanding the social services agreement with AID for AIDS. The increase in funding will provide additional availability of Housing Case Management service and access to crisis shelter beds for low-income community members living with HIV and other chronic illnesses. This is a one-time increase that will result in \$126,486 in funding for AID for AIDS this fiscal year.

The proposed budget adjustments include a commitment to transfer up to \$494,000 from the General Fund to the Affordable Housing Trust Fund. In the 2014-15 budget, the City committed \$1 million from General Funds to the Affordable Housing Trust Fund and the City Council directed staff to develop a plan to ensure ongoing funding of the Affordable Housing Trust Fund. Staff recommends supplementing developer fees to

ensure that at least \$1 million is deposited into the Affordable Housing Trust every year (i.e., if developer fee deposits are less than \$1 million in any given year, there will be a transfer of General Funds to achieve \$1 million). To date, \$506,000 developer in-lieu fees have been deposited into the AHTF, thus the transfer for this fiscal year will be no more than \$494,000.

- Expanded Eastside Services/Welcome New Eastside Residents

The budget adjustments include \$80,000 to add four additional bicycle security ambassadors to the patrol schedule. These new ambassadors would primarily focus on the Eastside with a daytime schedule to address neighborhood complaints related to security as well as homeless individuals loitering in residential neighborhoods, vandalizing businesses, and harassing neighbors. Ongoing annual costs for these additional security ambassadors will total approximately \$190,000.

- Other Budget Enhancements

The budget adjustments include \$59,340 in additional capital investments in the public bike share program. The original fiscal year 2015-16 budget for capital improvements for the bike share program was approved at \$500,000. The actual cost for these capital improvements were \$559,340, which included upgrades to bicycle stations for enhanced revenue purposes, as presented to Council in the fall of 2015. Ongoing operating costs for the program will be offset by revenue generated from advertising, sponsorship, and user fees received from the program.

The budget adjustments include \$35,000 to provide plan review by a traffic engineer for proposed development projects. This work includes evaluation of vehicle access and circulation, on-site parking/loading, and related traffic considerations upon submittal of a planning application as well as during the concurrent plan check process. These duties are currently performed by City staff. By shifting them to a contract consultant (similar to Plan Check services) City staff will be available to focus on community and neighborhood traffic studies and improvements. It does not address traffic impact studies pursuant to CEQA, which continue to be conducted as pass-through contracts, paid by the project applicant. In the future, it is expected that this expense will be covered by permit application fees, following conclusion of the current fee study.

The budget adjustments include \$75,000 for consulting services to complete traffic studies and community outreach that will identify needed neighborhood traffic calming improvements for four West Hollywood neighborhoods. There is currently \$22,000 budgeted in the Traffic Mitigation Fund for these services. This additional \$75,000 will bring the total Traffic Mitigation funds for these services to \$97,000.

The budget adjustments also include \$30,000 in funding to cover previously approved employee incentives to reduce traffic by using alternative modes of transportation, such as biking, transit and carpooling, from the Air Quality Management District Fund.

### *Organizational Changes*

The mid-year budget also proposes two organizational changes that have been recently contemplated and are necessary to meet specific goals and needs of the City and

constituents. There is no budgetary impact in the current fiscal year due to these changes; the changes can be absorbed into the approved operating budget. The next two-year budget will include the full fiscal impacts of these recommendations, which are estimated at approximately \$341,180 annually. The proposed organizational changes include the following:

Add a position to the Long Range and Mobility Planning Division that will perform principal planner functions. The position is for a new principal-level planner who will address the need for enhanced project management and supervision for the most complex policy projects. The position will also increase the Division's capacity to oversee multiple complex projects simultaneously. Staff is currently developing the class specification for the position, including the grade, which will be presented to the City Council for approval at a future meeting. The estimated annual compensation, including benefits, is \$178,680.

Add a position to the Facilities & Field Services Division that will perform construction management supervision of the City's major capital improvement projects. The position will oversee construction of the City major capital projects, such as West Hollywood Park Phase II Project, Plummer Park Project, Werle Building Project and Laurel Project. Staff is currently developing the class specification for the position, including the grade, which will be presented to the City Council for approval at a future meeting. The estimated annual compensation, including benefits, is \$162,500.

### ***City of West Hollywood Mid-Year Financial Report (Attachment B)***

The City's budget continues to remain structurally sound with expenditures remaining within budgeted amounts and revenues exceeding budgeted amounts during the first half of fiscal year 2015-16.

Since the end of the great recession, the City has seen steadily increasing revenues, with the largest gains coming in the last three fiscal years. During the first half of 2015-16, the City's revenue increased by 6% from the same period a year earlier. Finance staff anticipates that revenues will continue to increase at a steady and reasonable pace if the economy continues to grow. However, there have been a number of negative economic indicators and events that have caused some in the financial industry to predict that the country will fall into a recession within the next six months to two years. Some of these negative indicators include depressed oil prices, a falling stock market (10% decrease so far this year), economic instability in other nations (particularly China), and increased corporate debt that could become problematic if corporate earnings start to decrease. Due to this uncertainty, Finance staff is only recommending modest revenue adjustments as part of the mid-year budget.

Two of the City's three primary revenue sources increased during the first half of 2015-16 when compared to the same period in the prior year. The City's leading source of revenue is transient occupancy tax ("TOT") which increased by 4% in the first half of the fiscal year, as discussed previously. TOT collection through the first six months of

the fiscal year totaled approximately \$10.6 million, which is on pace to exceed the City's budgeted amount for the entire fiscal year of \$20.2 million, and is why a budget increase of \$450,000 is being recommended. The City continues to experience very high occupancy levels and average daily rates. Occupancy has remained relatively steady over the last two years, with only slight decreases. However, average daily rates have grown by nearly 10%, which has been driving the continued growth in the City's TOT revenues. In general, the City's high TOT revenues have been driven by a record number of tourists visiting the Los Angeles region over the last two years, and a limited supply of hotels in the region. The City continues to be one of the top travel destinations in the region due to its central location, quality hotels, and large number of restaurants and nightlife options. Finance staff anticipates that TOT revenue will continue to remain steady until The James Hotel and Kimpton La Peer open at the end of 2016, which provide a boost to the City's future TOT revenues.

The City's second major revenue source is property tax, which increased by 6% in the first half of the fiscal year. The increase in property taxes is due to a combination of factors, including rising property values, increased sales, and the addition of new buildings to the City's property tax roll, such as the new apartment buildings on the Eastside (The Dylan and The Huxley). Finance staff anticipates that property tax revenues will continue to increase at a moderate pace over the next few years as property values continue to rise and new real estate development projects are completed, such as the Sunset/La Cienega Project, Avalon West Hollywood (Movietown Plaza), Domain West Hollywood, the EDITION, and other various smaller projects.

The City's third largest source of revenue is sales tax. Compared to last year, collections decreased by less than one percent in the first half of the fiscal year. This can be attributed to several one-time corrections to sales tax amounts that had been misallocated in the past. It should be noted that mid-year sales tax amounts only include five months of data, as there is a two-month delay in the remittance of the tax from the state. The City's sales tax revenues have been fairly constant compared to last year, and have been spread across all major consumer sectors, including general consumer goods (35% during the third quarter of 2015), restaurants and hotels (36%), food and drugs (sales at grocery stores and pharmacies) (10%), and business and industry (8%). Finance staff anticipates that sales tax revenues will show slow but steady increases over the next few years, if the economy and consumer spending both continue to grow. Increased growth may come from new businesses opening in the City as real estate development projects are completed, and as businesses and their workers occupy vacant office space at locations such as the PDC.

Other City revenues, including licenses and permits, parking fines, parking meters, and all other revenues, also increased during the first half of the fiscal year. Licenses & Permits for the first half of the year reached 99% of the annual budgeted amount. This significant over-performance compared to budget is due largely to the payment of various community development fees by the developers of several large real estate development projects.

Over the last several years, the City's budget has remained structurally sound and revenues have increased. While these trends are anticipated to continue into the near future, the City will continue to budget conservatively and closely watch local, regional, state, and national indicators and trends. The Department of Finance and Technology Services approaches the budgeting process in this way to buffer against the effects of recessions and unforeseen major events, such as the September 11<sup>th</sup> terrorist attacks, which can dramatically affect the economy, and significantly decrease revenues.

Further information about the City's budget and mid-year reporting can be found in Attachment B "City of West Hollywood Mid-Year Financial Report".

### ***Vision 2020 Work Plan Accomplishments (Attachment C)***

This item also provides a mid-year report on City progress toward accomplishment of the City's Primary Strategic Goals and Vision 2020. Each City division and department was asked to report on their progress, as of December 31, 2015. The information provided by each City division and department has been combined as Attachment C.

### CONFORMANCE WITH VISION 2020 AND THE GOALS OF THE WEST HOLLYWOOD GENERAL PLAN

This item is consistent with Primary Strategic Goal of **Fiscal Sustainability** and General Plan Goal to **(G-2) Maintain transparency and integrity in West Hollywood's decision-making process.**

### EVALUATION

The Finance and Technology Services Department continuously monitors the City's revenues and expenditures, and brings forth budget adjustment recommendations as necessary, to ensure budget projections are being met. The Department also monitors the external economic environment to seek fiscal savings and determine impacts of the business climate and State legislation. Staff provides periodic reports to other Departments and the City Council.

### ENVIRONMENTAL SUSTAINABILITY AND HEALTH

Efforts have been made to provide financial reports and information electronically to increase environmental sustainability.

### OFFICE OF PRIMARY RESPONSIBILITY

Finance and Technology Services Department

### FISCAL IMPACT

This item provides an update on the City's current budget and authorizes the Director of Finance & Technology Services to make budget adjustments identified in the attached "Proposed Mid-Year Changes to the Fiscal Year 2015-16 Budget (Attachment A).

ATTACHMENTS

- A. Proposed Mid-Year Changes to the Fiscal Year 2015-16 Budget
- B. Mid-Year Financial Report for July 1, 2015 through December 31, 2015
- C. Mid-Year Report of City Progress toward Accomplishment of the Primary Strategic Goals of Vision 2020