

**WEST HOLLYWOOD  
CITY COUNCIL FINANCE & BUDGET SUBCOMMITTEE  
AGENDA  
WEDNESDAY, JANUARY 27, 2021  
4:00 P.M.**

**VIA TELECONFERENCE**

To comply with the Americans with Disabilities Act of 1990 if you require special assistance to participate in this meeting (e.g., ASL Interpretation), please email Acting City Clerk Melissa Crowder at [mcrowder@weho.org](mailto:mcrowder@weho.org) at least 48 hours prior to the meeting. You may also contact the City Clerk's Office at 323.848.6409. The City TDD line for the hearing impaired is (323) 848-6496.

***TO VIEW THE CITY COUNCIL FINANCE & BUDGET SUBCOMMITTEE MEETING:***

Please note that the ZOOM Platform is the official viewing platform for this meeting. To afford the public with an additional viewing option and in order to expand access to our public meetings, this meeting is also live streamed as a courtesy on YouTube (<https://www.youtube.com/wehotv>). However, because YouTube is a third party and operates independently from the City of West Hollywood, the streaming reliability cannot be guaranteed.

***TO PARTICIPATE BY PROVIDING PUBLIC COMMENT BY TELEPHONE:***

1. Dial-in 5 minutes prior to the start of the meeting (*the meeting begins at 4:00 p.m.*)  
***You will be placed on HOLD in the "Virtual Meeting Room" until the meeting begins, and you will be placed on mute until it is time for Public Comment.***

- Dial-in Number: (669) 900-6833
- Meeting I.D.: 949 6782 3886, then #

1. **CALL TO ORDER:**
2. **PLEDGE OF ALLEGIANCE:**
3. **ROLL CALL:**
4. **APPROVAL OF THE AGENDA:**
5. **APPROVAL OF THE MINUTES OF MAY 5, 2020**
6. **PUBLIC COMMENTS:** This time has been set aside for members of the public to address the Finance & Budget Subcommittee on Agenda items and items of general interest within the subject matter jurisdiction of the Subcommittee. Although the Subcommittee values your comments, pursuant to the Brown Act it generally cannot take any action on items not listed on the posted agenda. Two minutes are assigned for each speaker.

**7. UNFINISHED BUSINESS:**

**7.A. UPDATE AND DISCUSSION OF THE IMPACT OF COVID-19 ON THE FISCAL YEAR 2020-21 BUDGET [P. AREVALO, D. WILSON, C. SAFRIET]:**

*SUBJECT: The Finance & Budget Subcommittee will receive an update on the impact of COVID-19 on the City's Fiscal Year 2020-21 Budget. The Finance & Budget Subcommittee will have the opportunity to discuss the outlook in relationship to City priorities.*

**RECOMMENDATION:** Receive an update on and discuss the Fiscal Year 2020-21 Budget.

**8. COMMENTS FROM THE SUBCOMMITTEE:** Additional general comments, or requests of staff from the members of the subcommittee.

**9. COMMENTS FROM STAFF**

**10. ADJOURNMENT**

**SUBJECT: UPDATE AND DISCUSSION OF THE IMPACT OF COVID-19 ON THE FISCAL YEAR 2020-21 BUDGET**

**PREPARED BY: CITY MANAGER'S DEPARTMENT**  
(Paul Arevalo, City Manager)  
(David A. Wilson, Assistant City Manager)  
(Christine Safriet, Senior Management Analyst)

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**STATEMENT ON THE SUBJECT:**

The Finance & Budget Subcommittee will receive an update on the impact of COVID-19 on the City's Fiscal Year 2020-21 Budget. The Finance & Budget Subcommittee will have the opportunity to discuss the outlook in relationship to City priorities.

**RECOMMENDATIONS:**

Receive an update on and discuss the Fiscal Year 2020-21 Budget.

**BACKGROUND / ANALYSIS:**

The City is preparing the FY 2020-21 Mid-year Budget Update for City Council discussion and approval at the February 16, 2021 City Council Meeting. Based on actual and expected revenues received through December in the General Fund, the City is projecting a significant revenue shortfall by the end of the fiscal year. To address this gap, the City's plans include continued expenditure restraint, ongoing fiscal monitoring, and use of additional reserves.

The update is organized as follows:

1. Recap of FY 2020-21 Budget and cost-saving measures
2. COVID-19 restrictions continue to impact City revenues
3. Mid-year budget position
4. Items for discussion and next steps

**1. Recap of FY 2020-21 Budget and Cost-Saving Measures**

For fiscal year 2020-21, the City projected a decline in General Fund revenues to \$90 million, a reduction of 20% compared to the \$115 million budget for fiscal year 2019-20. The City took the following cost savings measures to address the revenue shortfall:

- Approved an expenditure budget of \$95 million with 15-20% in cuts, primarily from contracts and administrative costs.
- Issued \$90 million in lease revenue bonds for capital purchases and improvements in June 2020 to preserve liquidity of General Fund reserves.

- Canceled or postponed all in-person City events, co-sponsored events, and large public gatherings.
- Postponed non-essential Capital Improvement Projects (CIP) and capital maintenance expenditures.
- Cancelled all employee travel for professional conferences and events.
- Reduced non-essential contracted services.
- Eliminated all temporary positions, with limited exceptions for as-needed recreation services and specialized professional staff positions.
- Continued a hiring freeze for nineteen vacant staff positions.
- Reassigned staff as necessary after conferencing with the unions.
- Implemented a voluntary one-year furlough program in which all regular employees took a 5% to 15% furlough depending on position level.
- Reopened the retirement incentive program to support voluntary workforce reductions by qualifying employees who were eligible for retirement from CalPERS with at least 10 years of service at the City.
- Used General Fund Reserves to fill the remaining revenue gap (\$4.8M)

With the combined reductions in operating and capital spending described above, the City reduced but did not eliminate the projected financial shortfall anticipated from the COVID-19 pandemic. A planned drawdown of approximately \$5 million from General Fund reserves remained; however, the cost saving measures provided relief to the City’s financial capacity ensuring no staff layoffs and allowing the allocation of emergency reserves to provide emergency services to community members in need of support during this time.

The City also pursued pandemic-related grants and reimbursements to help reduce the impact on the General Fund of costs related to emergency services provided during the pandemic. The City has received approximately \$1 million in federal and local funding to date; details are provided in Table 1 below.

Table 1: Federal and Local Funding

<b>Agency / Program</b>	<b>Amount Received</b>	<b>Use of Funds</b>
U.S. Department of the Treasury - Coronavirus Aid Relief and Economic Security (CARES) Act	\$447,003	Rental Assistance
Federal Emergency Management Agency (FEMA)	\$204,356	Meal Service, PPE, Cleaning Supplies, and Other Expenses
Westside Cities Council of Governments (COG)	\$171,456	Rental Assistance
US Department of Housing and Urban Development - Community Development Block Grant (CDBG) Program	\$138,241	Meal Service
U.S Department of Justice	\$61,053	Technology Software & Equipment

## **2. COVID-19 Restrictions Continue to Impact City Revenues**

The pandemic-related restrictions on travel, business activity, and individual movement have impacted the local and regional economies more severely than initially projected.

Since the initial emergency declaration in March 2020, the Los Angeles region experienced a fluctuating rise in positive case numbers first in July, then more severely in November and December of 2020. This resurgence of COVID-19 cases, hospitalizations, and deaths led to the issuance of the LA County REVISED Safer At Home Health Officer Order (12/9/2020) for all LA County jurisdictions, including West Hollywood. This order required restaurants to cease in-person dining; closure of playgrounds (which was shortly thereafter reversed), cardrooms, movie theaters, personal care, and entertainment operations; set occupancy limits for retail; banned all gatherings of any size with non-household members; and limited hotels and lodging to the provision of critical infrastructure support only.

As a result, City revenues have been significantly and negatively impacted. Hotel occupancies, which had climbed from single digits in March to over 30% in the summer, dropped back to the low teens and single digits in November and December. On-site, in-person retail and dining also fell off substantially. As a result, second quarter hotel and sales tax revenues are significantly lower than initially projected and approved in the FY21 budget. Related revenues, including parking meters and business permits, were similarly impacted.

## **3. Mid-year Budget Position**

For the first six months of the fiscal year (July to December 2020), expenditures have exceeded revenues by \$17 million. This is largely a result of revenue shortfalls compared to budget.

General Fund revenues reached approximately \$34 million, or 38% of budget, in the first half of the fiscal year. Major revenue shortfalls include:

- Transient Occupancy Tax (TOT) receipts of \$3.3 million through December, or 21% of the approved \$16 million TOT budget. The City projects TOT revenues will reach \$6.7 million by the end of the fiscal year, a reduction of \$9.0 million compared to the original budget.
- Parking meter receipts of \$2.2 million through December, or 38% of the approved \$6 million parking meter budget. The City projects parking meter revenues will reach \$4.4 million by the end of the fiscal year, a reduction of \$1.4 million compared to the original budget.
- Other revenues of \$4.5 million through December, or 23% of the approved \$20 million budget for other revenues. This category includes business and franchise tax receipts, state and federal reimbursements, charges for services such as rent stabilization, recreation, and film permits, as well as one-time revenues such as legal settlements, among others. The City is not projecting a reduction at this time, as other revenues fluctuate widely from quarter to quarter and year to year.

Revenues in several categories are on track to reach budget projections. Property tax revenues to date are on track to reach budget projections this fiscal year. Property taxes

are based on assessed values from more than 12 months prior, and as such are a trailing indicator of periods of economic stress. Sales Tax revenues to date have slightly exceeded the reduced budget projections, a result of increases in online retail sales tax payments from state and county pools and declines in local business sales tax, particularly dining, apparel, leisure and entertainment, and electronics/appliances.

General Fund expenditures reached approximately \$51 million, or 53% of budget, in the first half of the fiscal year. Major expenditures include:

- Wages and benefits totaled \$19 million, or 51% of the approved \$38 million wages & benefits budget. This includes one-time accrued leave payouts for employees that retired from the City. Expenditures are on track to meet budget projections.
- Public safety contracts reached \$10 million, or 47% of approved budget. Expenditures are on track to meet budget projections.
- Emergency funds reached \$1.6 million in actual expenditures, with nothing allocated in the original budget. The total allocation of emergency funds from General Fund reserves is \$2.2 million. Emergency funds are being allocated as requests are approved by City Council and will impact the overall FY21 drawdown from the General Fund reserves.

In the tables below, revenues (Table 2) and expenditures (Table 3) are shown for the first quarter of FY21 (July-Sept 2020), the first half of FY21 (July-Dec 2020), the approved FY21 Budget, and the projected year-end values as of the writing of this staff report.

Table 2: FY21 Revenues

General Fund Revenues	First Quarter Actuals (July-Sept 2020)	Mid-year Actuals (July-Dec 2020)	Approved Budget (07/01/21)	Projected Year-End (01/27/21)	Difference
Transient Occupancy Tax	\$1,647,979	\$3,322,671	\$15,638,168	\$6,650,000	(\$8,988,168)
Property Tax	\$559,927	\$8,673,175	\$20,887,160	\$20,887,160	\$0
Sales Tax	\$3,554,532	\$8,232,618	\$14,911,332	\$14,911,332	\$0
Parking Fines	\$1,156,695	\$2,760,215	\$5,459,860	\$5,459,860	\$0
Parking Meters	\$1,139,865	\$2,215,685	\$5,811,840	\$4,430,000	(\$1,381,840)
City Permits	\$2,216,983	\$4,264,608	\$7,639,294	\$7,639,294	\$0
All Other Revenue	\$2,409,614	\$4,507,139	\$19,728,455	\$19,728,455	\$0
<b>Total Revenue</b>	<b>\$12,685,594</b>	<b>\$33,976,109</b>	<b>\$90,076,109</b>	<b>\$79,706,101</b>	<b>(\$10,370,008)</b>

Table 3: FY21 Expenditures

General Fund Expenditures	First Quarter Actuals (July-Sept 2020)	Mid-year Actuals (July-Dec 2020)	Approved Budget (07/01/21)	Projected Year-End (01/27/21)	Difference
Wages & Benefits	\$9,530,559	\$18,953,815	\$37,523,443	\$37,523,443	\$0
Other Operating Costs	\$2,837,452	\$4,232,434	\$7,772,813	\$7,772,813	\$0
Social Services Contracts	\$1,143,842	\$2,640,169	\$5,962,502	\$5,962,502	\$0
Public Safety Contracts	\$4,852,300	\$10,071,894	\$21,469,303	\$21,469,303	\$0
Other Contract Services	\$2,768,373	\$6,236,752	\$15,824,874	\$15,824,874	\$0
Emergency Funds	\$1,111,905	\$1,623,323	\$0	\$2,242,085	\$2,242,085
Capital Projects	\$275,271	\$614,756	\$0	\$0	\$0
Other Financing Uses	\$6,356,455	\$6,356,455	\$6,356,455	\$6,356,455	\$0
<b>Total Expenditures</b>	<b>\$28,876,157</b>	<b>\$50,729,598</b>	<b>\$94,909,390</b>	<b>\$97,151,475</b>	<b>\$2,242,085</b>

Table 4: Summary

General Fund	First Quarter Actuals (July-Sept 2020)	Mid-year Actuals (July-Dec 2020)	Approved Budget (07/01/21)	Projected Year-End (01/27/21)	Difference
Total Revenues	\$12,685,594	\$33,976,109	\$90,076,109	\$79,706,101	(\$10,370,008)
Total Expenditures	\$28,876,157	\$50,729,598	\$94,909,390	\$97,151,475	\$2,242,085
Surplus or (Deficit)	(\$16,190,563)	(\$16,753,489)	(\$4,833,281)	(\$17,445,374)	(\$12,612,093)
One-Time Drawdowns	n/a	n/a	(\$4,833,281)	(\$17,445,374)	(\$12,612,093)

#### **4. Items for Discussion and Next Steps**

The City's strategy to balance the budget for the second half of the fiscal year and beyond continues to recognize that the full extent of the economic reach of the COVID-19 pandemic remains unpredictable and the eventual trajectory of the economic recovery will not be known for some time.

**City Fees and Assessments** – The City Council directed the City Manager to evaluate various options regarding the waiver of City fees and assessments for businesses that have been impacted by COVID-19 health orders, such as encroachment permits, regulatory business license fees, parking credits, and BID assessments as part of its Covid-19 relief measures. Many of these fees and assessments have already been deferred, waived or have gone unpaid by many businesses.

**Use of Reserves** – The City is anticipating the use of additional General Fund reserves to fill the revenue gap in the FY21 budget. The gap is projected to increase from \$4.8 million to \$17.6 million, largely due to sustained historically low hotel occupancy.

**Fiscal Restraint** – City leadership will continue to guide efforts in responsible fiscal stewardship. This includes considering the long-term staffing and financial resources required to initiate new policies and programs while continuing to advance the City's current priorities and work plan. As always, the health and safety of the West Hollywood community remain top priorities.

Planning for the Future – The City anticipates the next year will continue to be a challenging fiscal environment and intends to move forward with a continuation budget for FY22 similar in scale and scope to FY21. The operational program for FY22 will balance ongoing program and service reductions with capital program deferrals and extended phasing to minimize impacts to the community and drawdowns of General Fund Reserves. Revenue and expenditure budgets for FY22 will be developed and refined over the next several months.

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

This item is consistent with the Primary Strategic Goal(s) (PSG) and/or Ongoing Strategic Program(s) (OSP) of:

- PSG-3: Fiscal Sustainability.
- OSP-1: Adaptability to Future Change.

In addition, this item is compliant with the following goal(s) of the West Hollywood General Plan:

- G-2: Maintain transparency and integrity in West Hollywood's decision-making process.

**EVALUATION PROCESSES:**

The City is committed to continue monitoring the changing economic and fiscal conditions and impacts to the local economy. The strategies listed above will assist the City to ensure continued financial stability.

**ENVIRONMENTAL SUSTAINABILITY AND HEALTH:**

The City of West Hollywood is taking every precaution to prioritize community and employee health, slow the rate of transmission of COVID-19, and assist community members who are at higher risk of serious illness.

**COMMUNITY ENGAGEMENT:**

Members of the West Hollywood community are encouraged to send questions to [budget@weho.org](mailto:budget@weho.org).

**OFFICE OF PRIMARY RESPONSIBILITY:**

CITY MANAGER'S DEPARTMENT

**FISCAL IMPACT:**

COVID-19 continues to impact FY21 revenues and expenditures as described in this report. The mid-year general fund budget deficit is estimated to be \$16.8 million prior to any revisions, compared to the approved FY21 budget deficit of \$4.8 million.



**ATTACHMENTS:**

Attachment A: 5/5/2020 Finance & Budget Subcommittee Agenda Packet, including Item 6.A. - UPDATE ON THE IMPACT OF COVID-19 ON THE FISCAL YEAR 2019-20 BUDGET AND DISCUSSION OF THE FISCAL YEAR 2020-21 BUDGET

Attachment B: 11/16/2020 City Council Agenda Item 4.C. – BUDGET UPDATE – FIRST QUARTER FY2020-21

# **ATTACHMENT A**

**WEST HOLLYWOOD  
CITY COUNCIL FINANCE & BUDGET SUBCOMMITTEE  
MEETING AGENDA  
TUESDAY, MAY 5, 2020  
4:00 P.M.**

**VIA TELECONFERENCE**

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- Dial-in Number: (669) 900-6833
- Meeting I.D.: 952 0353 3509, then #

1. **CALL TO ORDER:**
2. **PLEDGE OF ALLEGIANCE:**
3. **ROLL CALL:**
4. **APPROVAL OF THE AGENDA:**
5. **PUBLIC COMMENTS:** This time has been set aside for members of the public to address the Finance & Budget Subcommittee on Agenda items and items of general interest within the subject matter jurisdiction of the Subcommittee. Although the Subcommittee values your comments, pursuant to the Brown Act it generally cannot take any action on items not listed on the posted agenda. Two minutes are assigned for each speaker.
6. **NEW BUSINESS:**
  - 6.A. **UPDATE ON THE IMPACT OF COVID-19 ON THE FISCAL YEAR 2019-20 BUDGET AND DISCUSSION OF THE FISCAL YEAR 2020-21 BUDGET [P. AREVALO, D. WILSON, C. SAFRIET]:**  
*SUBJECT: The Finance and Budget Subcommittee will receive an update on the impact of COVID 19 on the City’s Fiscal Year 2019-20 Budget and the budget outlook for Fiscal Year 2020-21. The Finance & Budget Subcommittee will have the opportunity to discuss the outlook in relationship to City priorities.*

RECOMMENDATION: Receive an update on the impact of COVID-19 on the Fiscal Year 2019-20 Budget and discuss the Fiscal Year 2020-21 Budget.

7. **COMMENTS FROM THE SUBCOMMITTEE:** Additional general comments, or requests of staff from the members of the subcommittee.
8. **COMMENTS FROM STAFF**
9. **ADJOURNMENT**

SUBJECT:           **UPDATE ON THE IMPACT OF COVID-19 ON THE FISCAL YEAR  
2019-20 BUDGET AND DISCUSSION OF THE FISCAL YEAR  
2020-21 BUDGET**

PREPARED BY:   **CITY MANAGER'S DEPARTMENT**  
(Paul Arevalo, City Manager)  
(David A. Wilson, Assistant City Manager)  
(Christine Safriet, Senior Management Analyst)

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**STATEMENT ON THE SUBJECT:**

The Finance and Budget Subcommittee will receive an update on the impact of COVID-19 on the City's Fiscal Year 2019-20 Budget and the budget outlook for Fiscal Year 2020-21. The Finance & Budget Subcommittee will have the opportunity to discuss the outlook in relationship to City priorities.

**RECOMMENDATIONS:**

Receive an update on the impact of COVID-19 on the Fiscal Year 2019-20 Budget and discuss the Fiscal Year 2020-21 Budget.

**BACKGROUND / ANALYSIS:**

The City of West Hollywood is being impacted by the COVID-19 crisis, just as other cities across the nation and around the world are being impacted. As we have done during times of crisis in the past, the City increased its monitoring of the local and national economy and is adjusting its revenue and expenditure projections accordingly.

The City's quick and deliberate actions during the economic downturns that followed 9/11 in 2001 and the collapse of the housing market in 2008 enabled the City to escape those recessions with relatively limited impact to its financial standing and the services the City provides to constituents. The City is employing the same type of strategic thinking and resilience to navigate the current crisis.

Looking at the immediate budgetary impacts, West Hollywood has the resources and institutional capacity to weather its short-term challenges. For the current fiscal year (FY20), the City is projecting revenues at nearly \$15 million below the current approved budget. In response to the decreased revenue projections in the current year, the City has reduced spending on events and non-essential contract services, put a hold on vacant positions and anticipates a contribution from reserves of below \$5 million.

The City is preparing the 2020-21 Budget for City Council discussion and approval at the June 15, 2020 City Council Meeting. For fiscal year 2020-21 (FY21), the City is currently anticipating a 20% decline from the current revenue budget to about \$90 million in General Fund revenue. To address this revenue shortfall, the City's initial

plans include issuing bonds to pay for capital projects and preserve liquidity, reducing discretionary spending in each department by 20%, and freezing some vacant positions. These are just a few of the cost saving measures that will be considered as this crisis continues to evolve.

Our discussion will be organized into the following categories:

1. COVID-19 Impacts on Current Operations
2. COVID-19 Impacts on Regional and Local Economies
3. COVID-19 Impacts on FY 2019-20 Budget
4. FY 2020-21 Budget Impacts and Cost Saving Measures
5. Long-Term Outlook & Strategy

### **1. COVID-19 Impacts on Current Operations**

The City of West Hollywood is responding to community needs and providing regular updates during the COVID-19 emergency. The City is also taking extensive and proactive measures to safeguard public health and continue providing certain essential services during this time.

#### **Services**

The City of West Hollywood is taking every precaution to prioritize community health, slow the rate of transmission of COVID-19, and assist community members who are at higher risk of serious illness. Although City facilities are closed, services for constituents continue.

The City continues to provide social services and is connecting community members to information and resources during the coronavirus (COVID-19) outbreak. This includes connections to physical, mental, and medical health care, domestic violence resources, and other services.

Assistance for renters has been implemented through the issuance of a residential eviction moratorium for evictions for nonpayment of rent due to financial impact/hardship related to COVID-19 during the local emergency declaration. The City has also developed an emergency grant program to assist with cash rental payments.

The City Council has authorized an additional \$325,000 for emergency funding related to rental assistance, food & nutrition services, transportation, and other needs that may arise during the crisis.

The City suspended most parking regulations including Permit parking on all residential streets, street sweeping enforcement, all AM/PM rush hour enforcement, and residential and commercial moving permits at the onset of the local emergency. Blocked driveways and loading zones are only enforced per complaint to parking enforcement. Safety violations continue to be enforced.

Planning & development services such as entitlement application submittals and reviews, building & safety plan submittals and review, and online payments are operating remotely.

The Recreation Division has developed a new program to access to virtual activities and resources created by staff directly to the community.

City transit continues to operate programs largely unabated. The bus pass subsidy program, Cityline, dial-a-ride/TLC, on-call transportation services continue without changes in service levels. The PickUp and WeHo Sunset Trip shuttle programs have been paused until further notice.

People experiencing homelessness are especially vulnerable during the COVID-19 pandemic. The West Hollywood Homeless Initiative, through its non-profit partners, continues to support community members in accessing critical resources and services. West Hollywood is following the lead of Los Angeles County and the Los Angeles Homeless Services Authority as these agencies increase the availability of emergency resources to support people experiencing homelessness during this time.

The City modified the operation of many traffic signals and pedestrian crossings in West Hollywood so that pedestrians do not have to touch surfaces of pole-mounted buttons to trigger green-light mode in order to reduce the risk of contact exposure.

### **Operations**

The City closed City Facilities, including City Hall, West Hollywood Park and Aquatic Center, Plummer Park, Farmer's Market, Pocket Parks, and iTennis in mid-March. Essential field employees continue to report to the job site.

The City Council authorized \$150,000 for technology upgrades to improve remote access for constituents and employees. A majority of staff are working remotely, safer at home, while continuing to provide continuity of services to our constituents.

All non-essential events and meetings, including City-sponsored events, City co-sponsored events, and City-funded events, as well as any events or filming that require a permit, have been cancelled or postponed. All facility reservations are cancelled through June 30. All public meetings, including Advisory Board and Commission meetings, are cancelled unless the City determines there are essential business items to be agendized and discussed. All recreation and park programs activities and events at City facilities are cancelled through June 30.

Code compliance officers are working both onsite and remotely. The officers onsite are assisting the Sheriff, acting as additional eyes and ears throughout the City. Parking enforcement officers are also coordinating with the Sheriff's and assisting with additional patrols. Staff and Parking Enforcement are assisting Cedars Sinai Medical Center with traffic control at the drive-up COVID-19 mobile testing site.

### **Continued closures, social distancing, slow re-open**

In response to the State, County, and Local Emergency Orders, all Californians are encouraged to stay home, practice social distancing, and only leave home for essential errands (like going to grocery stores, hardware stores or pharmacies), to go to work at locations still operational and deemed essential in the Orders, or for essential medical appointments. While these strict restrictions are in place, all non-essential businesses have been forced to close, which is an extreme hardship for business owners, as well as their employees.

On April 9, 2020, the City Manager issued an Executive Order with emergency measures to close all City parks and dog parks; require specific, safe practices at construction sites; allow non-essential retail businesses with a supply of goods that are needed to slow the spread of COVID-19 to conduct limited retail sidewalk sales through an encroachment permit; and allow closed businesses to board up windows to secure the businesses during the period of closure provided that the coverings are painted.

The City of West Hollywood is taking extensive and proactive actions to support our businesses and workers during this unprecedented time.

## **2. COVID-19 Impacts on Local & Regional Economies**

The COVID-19 pandemic and the related restrictions on travel, business activity, and individual movement are having a significant impact on the economy. About 95% of U.S. population, about 306 million people, are under stay-at-home orders. Consequently, economic activity has been greatly decreased. Local governments, especially cities, depend on economic activity for tax revenues. The length of economic restrictions are unknown, as are potential future recurrences of the disease and additional closures. As a result, we do not know and cannot predict the final impact to our economy.

UCLA Anderson Forecast economists say the U.S. economy has entered a recession, ending the expansion that began in July 2009. For the full 2020 year, it is expected that national GDP will have declined by 0.4%. In 2021, with the abatement of governmental pandemic expenditures and the continued contraction of residential and commercial construction, the economy is forecast to grow at 1.5%. The full recovery and return to trend is expected in 2022. In contradiction to this, another well-respected municipal management consulting firm recently presented a webinar with ICMA suggesting that cities plan for a possible 6- to 18-month recession.

The ULCA Anderson Forecast expects a recession to be more severe in California than for the US overall due to a larger proportion of economic activity in tourism and trans-Pacific transportation. California employment is expected to contract by 0.7% in 2020. The state's unemployment rate will rise to 6.3% by the end of this year and is expected to continue to increase into 2021 to an average of 6.6%. By the first quarter of 2021, California is expected to lose more than 280,000 payroll jobs with more than one-third of those in the leisure and hospitality and transportation and warehousing sectors. Real estate markets will face challenges as well and changes after the crisis, with mortgage finance projected to become more expensive and a reduction in residential construction impacting supply.

In response to the COVID-19 crisis, the League of California Cities recently surveyed its members cities to detail the impact of revenue shortfalls and sales tax deferrals on local budgets and services. Attachment A provides an infographic of the COVID-19 fiscal impact on California cities. The following are the key takeaways from the League of California Cities findings:

- Cities are bracing for a nearly \$7 billion general revenue shortfall over the next two fiscal year



- This shortfall will grow by billions of dollars if COVID-19 stay-at-home orders extend into the summer months and beyond
- Over 90 percent of cities report they are considering cutting/furloughing city staff or decreasing public services, and 72 percent of cities report they may take both actions
- Cities project deep impacts to core services due to revenue shortfalls and deferred revenues, regardless of size and geography - 84 percent of cities report that police services will be adversely impacted
- Cities most severely impacted are those with high dependencies on sales taxes and transient (hotel) occupancy taxes (TOT)

## **Hotels / Tourism**

The coronavirus pandemic has been devastating to the travel industry, with impacts ranging from hotel shutdowns to airlines halting flights in some regions. In addition, stay at home orders have created a shock to the tourism industry with consumers pulling back in discretionary spending and cancelling many large-scale events and conferences.

Visit California, a nonprofit organization tasked with driving domestic and international visitation to the state, analyzed the economic impact of COVID-19 on the tourism industry to bottom out in the next five to six months, then it will begin to recover around in early 2021.

HVS, a leading hotel industry consultancy, believes that even though the pace and degree of the COVID-19 downturn is unprecedented, hospitality industry participants believe that the hospitality industry will recover. Their outlook for the US lodging industry predicts an overall decline of 35% to occupancy levels in 2020, followed by a slow rebound in 2021, with occupancy rates remaining below 2019 levels for four years. Average daily rates follow a similar trajectory, down 15% in 2020, and recovering gradually but not completely through 2024. REVPAR is projected to decline 45% in 2020, improve substantially in 2021, but still not reach 2019 levels for four years. HVS's occupancy forecast anticipates a rebound in demand once travel restrictions are lifted, the COVID-19 virus is contained, and consumers resume business and leisure travel.

HVS anticipates that ADR will take longer to recover than in prior cycles given the magnitude of the rate declines. This reflects the expectation that rate will be a key marketing tool used to stimulate demand recovery. The availability of the shadow supply (Airbnb, Sonder, etc.), which was not a factor in prior cycles, will also influence ADR recovery.

In response to the question of how individual properties and markets will be affected, HVS believes that gateway markets and the top 10 metro markets in the US, including the Los Angeles region, will be more volatile. Drive-to markets are expected to recover faster than markets dependent on air travel, and properties affiliated with strong brands are expected to recover faster. Full-service hotels, dependent on group business, are more vulnerable, as are properties in markets that depend on international visitation and air travel.

Locally, our hotel and lodging companies have seen a sharp decline in room nights

resulting in single-digit occupancy. Currently, only four out of 22 hotels in the City are open; the rest have suspended business during the COVID-19 emergency. Based on current Emergency Orders and discussions with the City's hoteliers, all the City's hotels expect to reopen on or by June 1, 2020.

### **Support for our local economy – Businesses & Employees**

The City is committed to supporting our local economy and is working closely with its business community to achieve its goals. Business relief measures and efforts to date include:

- A weekly call with the Business Leaders to keep them apprised of the City's efforts and discuss the impacts of the crisis. Out of this group, two sub-committees were created to further develop strategies to address the impacts of the crisis: a Workforce Subcommittee to develop resources for the workforce impacted by the crisis, and a Business Resources Subcommittee to develop resources for the City's business owners.
- A weekly call with the City's hoteliers to create a strategic plan on how the City's hotels will re-open.
- Creation of a think tank group focused on "Rebooting the West Hollywood Economy", tasked with drafting strategies to revive the City's local economy and assist with recovery efforts.

Based on communications with the business community, the following relief measures have been put in place:

- Deferred TOT for 30 days
- Deferred Sunset BID Assessments and waived late fees
- Deferred City Business Taxes and waived late fees
- Deferred regulatory business license fees on a three-month rolling basis
- Provide businesses a credit for the Outdoor Dining Encroachment Fees that have already been paid
- Provide businesses a credit for the Valet Meter Encroachment fees that have already been paid
- Allow existing restaurants within hotels to provide to-go meals to non-guests
- Allow off-site alcohol sales for restaurants offering to-go meals
- Relax parking standards and traffic plans for restaurants to provide easier access for customers
- Allow temporary banners for businesses featuring access to food, waiving location requirements outlined in zoning code
- Allow temporary change of use from restaurant to grocery store/market
- Relaxed zoning code standards

- Sidewalk sales for non-essential retail businesses that are selling supplies that are needed to slow down the spread of COVID-19
- Moratorium on Commercial Evictions
- Agreement with the West Hollywood Travel and Tourism Board to provide an advance from the City's Tourism Improvement District Agency Fund in the amount up to \$100,000 per month for three months for critical operational funding
- Development of a program with the West Hollywood Chamber of Commerce for the provision of information, counseling, conciliation and mediation services for dispute resolution between commercial tenants and landlords

The City continues to aggressively collaborate with other municipalities to lobby our state and federal legislature to assist businesses within the City of West Hollywood and to provide financial resources to municipal government as well.

### **3. COVID-19 Impacts on FY2019-20 Budget**

Looking at the immediate budgetary impacts, West Hollywood has the resources and institutional capacity to weather the short-term challenges. For the current fiscal year (FY20), the City is projecting revenues at \$14 million below the current approved budget.

<b>General Fund Revenues</b>	<b>FY 2019-20 Approved Budget (02/18/20)</b>	<b>FY 2019-20 Projected Year-End (06/30/2020)</b>	<b>FY 2019-20 Difference</b>
Transit Occupancy Tax	\$29,050,000	\$21,550,000	(\$7,500,000)
Property Tax	\$20,393,000	\$20,393,000	\$0
Sales Tax	\$17,600,000	\$16,005,000	(\$1,595,000)
Parking Fines	\$7,500,000	\$6,098,000	(\$1,402,000)
Parking Meters	\$8,400,000	\$6,118,000	(\$2,282,000)
City Permits	\$9,273,000	\$10,000,000	\$727,000
All Other Revenue	\$23,273,000	\$21,672,000	(\$1,601,000)
<b>Total Revenue</b>	<b>\$115,490,000</b>	<b>\$101,836,000</b>	<b>(\$13,654,000)</b>

### **Transient Occupancy Tax (TOT)**

- Direct estimated TOT revenue losses are \$7.5 million if hotels are closed until May 31st.
- At the time of writing, 16 of the City's 21 hotels are closed due to the COVID-19 pandemic.
- The City granted hoteliers 30-day extensions to pay TOT through an Executive Order and will experience a cash flow impact of \$1.85 million due for February and March.

- The TOT collection for June is projected at 25% of the prior year due to the expected slow business during phased re-openings.

### Property Tax

- There are no projected impacts to Property Tax revenues this fiscal year. Property taxes are based on assessed values from more than 12 months prior, and as such are a trailing indicator of periods of economic stress.

### Sales Tax

- Direct estimated Sales Tax revenue losses are \$1.6 million and result from the closures of restaurants, hotels, and other retail businesses.
- State actions result in \$2.95 million of delayed cash flow in FY20.
- On March 30, 2020, the Governor signed an Executive Order allowing the California Department of Tax and Fee Administration (CDTFA) to offer a 90-day extension for sales, use and transactions tax returns and tax payments for all businesses filing a return for less than \$1 million in tax liability.
- In addition to the 90-Day extension, small business taxpayers will be able to enter a 12-month, interest free, Installment Plan Agreement.

### Parking Fines & Parking Meters

- Combined loss of \$3.7 million resulting from the suspension of parking regulations combined with the sustained decline of visitor traffic to the City's retail, dining, and entertainment districts.

In order to balance expenditures against projected declines in FY20 revenue, the City has reduced spending on events and non-essential contract services and put a hold on hiring for vacant positions. The City spent approximately 65% of the approved budget through March when the social distancing orders went into place. Staff anticipates a \$3 to \$4 million difference in expenditures over revenue to come from undesignated General Fund Reserves.

<b>General Fund Expenditures</b>	<b>FY 2019-20 Approved Budget (03/16/20)</b>	<b>FY 2019-20 Projected Year-End (06/30/2020)</b>	<b>FY 2019-20 Difference</b>
Wages & Benefits	\$40,946,000	\$40,675,000	\$271,000
Other Operating Costs	\$8,837,000	\$6,726,000	\$2,111,000
Contracted Services	\$53,000,000	\$46,745,000	\$6,255,000
Capital Projects	\$2,497,000	\$3,211,000	(\$714,000)
Other Financing Uses	\$7,750,000	\$7,700,000	\$50,000
<b>Total Expenditures</b>	<b>\$113,031,000</b>	<b>\$105,057,000</b>	<b>\$7,974,000</b>

Actions to reduce projected revenue shortfalls through expenditure management include:

- Cancellation or postponement of all public events and activities from mid-March through June 30, 2020, including Pride, resulting in over \$2 million in savings.
- Significantly curtailed spending for non-essential contract services through the end of the fiscal year. The City has expended 75% of the approved budget through April 30, 2020.
- Placed on hold the recruitment of vacant positions and ended services with temporary employees provided through employment agencies.

#### **4. FY 2020-21 Budget Impacts and Cost Saving Measures**

For fiscal year 2020-21, the City is currently anticipating a decline in revenues of 20% compared to the FY20 budget; this equates to about \$90 million in projected general fund receipts. The City is currently preparing its 2020-21 Budget for City Council approval in June. To address this revenue shortfall, the City plans to:

- Present a City Manager Recommended Budget with 15-20% in cuts from discretionary spending.
- Issue bonds in June of this year to pay for capital projects and preserve liquidity of General Fund reserves.
- Cancel or postpone City events, co-sponsored events and activities that involve large public gatherings.
- Postpone non-essential Capital Improvement Projects (CIP) and capital maintenance
- Reduce non-essential contracted services
- Eliminate non-essential temporary or contracted employees
- Hiring freeze for most vacant staff positions will be continued
- Reassign staff as necessary after conferencing with the unions.
- Seek voluntary workforce reductions by reopening the Retirement Incentive Program
- Use of General Fund Reserves

#### **5. Next Steps**

The City's strategy to balance the budget moving into the next fiscal year recognizes that the full extent of the economic reach of the COVID-19 pandemic will not be known for months.

We are preparing an operational program for FY21 that will balance lower revenues with program and service reductions, capital program phasing evaluation, and minimize

planned drawdowns of General Fund Reserves.

Over the longer term, we are focusing on developing a structurally balanced budget emphasizing:

- Public Safety
- Service to the community, focusing on the delivery of core social services and recreational offerings
- Capital infrastructure maintenance and sustainable capital enhancements

The City is committed to continue monitoring the changing economic conditions and impacts to the local economy. The strategies listed above, including issuing bonds, curtailing expenditures, and supporting businesses and workers with relief measures and aiding in their economic recovery will assist the City to insure continued financial stability.

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

This item is consistent with the Primary Strategic Goal(s) (PSG) and/or Ongoing Strategic Program(s) (OSP) of:

- PSG-3: Fiscal Sustainability.
- OSP-1: Adaptability to Future Change.

In addition, this item is compliant with the following goal(s) of the West Hollywood General Plan:

- G-2: Maintain transparency and integrity in West Hollywood's decision-making process.

### **EVALUATION PROCESSES:**

The City is committed to continue monitoring the changing economic conditions and impacts to the local economy. The strategies listed above, including issuing bonds, curtailing expenditures, and implementing business relief measures will assist the City to insure continued financial stability.

### **ENVIRONMENTAL SUSTAINABILITY AND HEALTH:**

The City of West Hollywood is taking every precaution to prioritize community and employee health, slow the rate of transmission of COVID-19, and assist community members who are at higher risk of serious illness.

### **COMMUNITY ENGAGEMENT:**

Members of the West Hollywood community are encouraged to send questions to [budget@weho.org](mailto:budget@weho.org).

**OFFICE OF PRIMARY RESPONSIBILITY:**

CITY MANAGER'S DEPARTMENT

**FISCAL IMPACT:**

COVID-19 has and continues to impact FY20 revenues. Staff expect a significant fiscal impact to the City in FY20 and FY21 with projected revenue reductions as described in this report. Staff are taking the actions outlined in this report to prepare a balanced budget with reduced expenditures and a responsible use of fund reserves to smooth the transition into this recession and recovery.

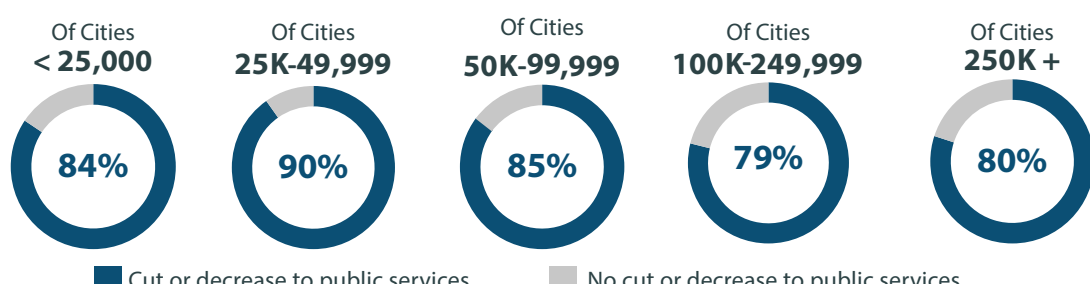
**ATTACHMENTS:**

Attachment A – League of California Cities Infographic of the COVID-19 Fiscal Impact on California Cities

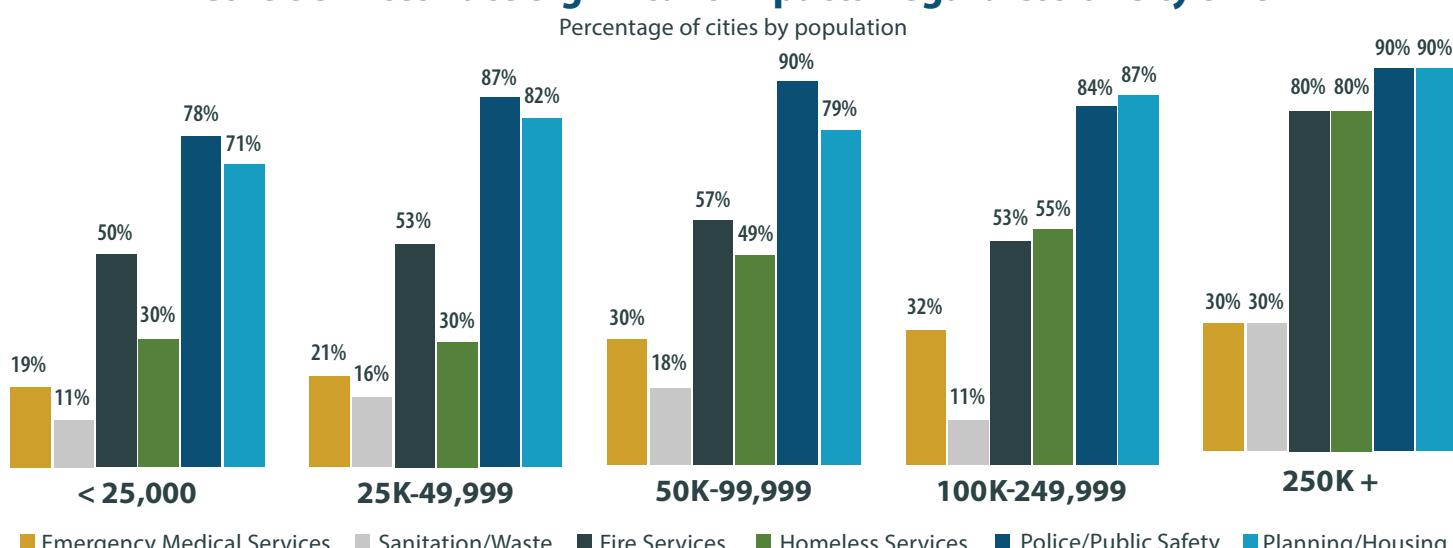
# COVID-19 Fiscal Impact on California Cities

California cities face severe revenue shortfalls due to the impact of the COVID-19 pandemic on their economies and increased emergency costs. As a result, cities will be forced to make significant reductions or cuts to a broad range of core public services and staff, regardless of population size. Given current and projected revenue shortfalls, cities need fiscal assistance to stabilize local government operations to offset the devastating impacts the crisis is having on California's communities. These findings are part of a new data analysis\* by the League of California Cities.

## Public Services Will Be Impacted By Drastic Revenue Loss



## Core Services Face Significant Impacts Regardless of City Size



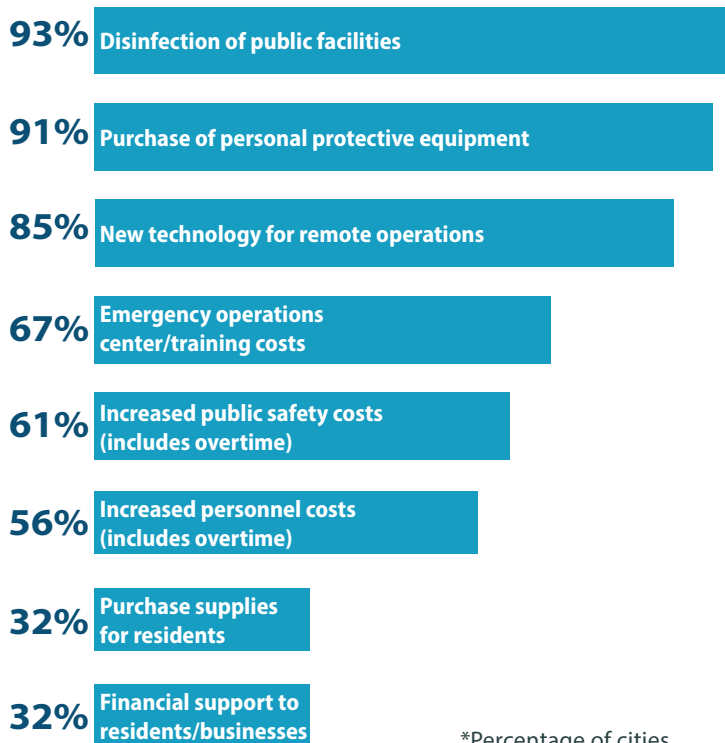
Cities anticipate a nearly **\$7 BILLION GENERAL REVENUE SHORTFALL** over the next two fiscal years. This shortfall will grow by billions of dollars if COVID-19 stay-at-home orders extend into the summer months and beyond.

## City Leaders Report Immediate Impact to Core Revenue Sources

- 100%** Sales Taxes
- 89%** Hotel/Bed Taxes
- 72%** Property Transfer Taxes
- 42%** Utility Taxes
- 15%** Investments, Forfeitures, and Fines
- 4%** Parking and Admissions

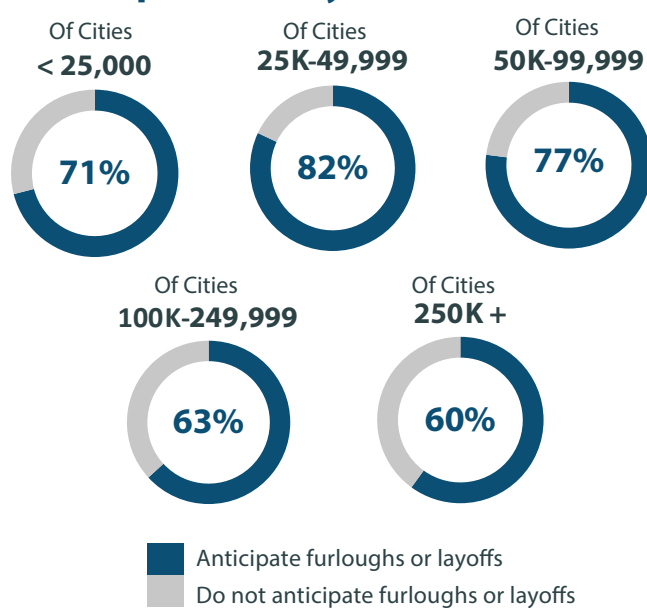
**12%** of cities report spending **> \$500k** to help control the COVID-19 pandemic

## Unanticipated COVID-19 Expenses



**100%** of California cities, regardless of population size, face projected revenue loss this year

## COVID-19 Has Staggering Impact on City Workforce



Over **90%** of cities are considering **LAYOFFS OR EMPLOYEE FURLOUGHS**, or **CUTTING PUBLIC SERVICES**. **72%** are considering doing **BOTH**.

## Cities Key Revenue Loss by Source through FY 21-22



For more information email [communications@cacities.org](mailto:communications@cacities.org).

**\*Data and Assumptions:** The current revenue shortfall projections assume the ending of strict stay-at-home orders by the end of May 2020 with a transition to normalcy and a gradual return to taxable activities. The revenue shortfall projections include FY 2021-22, as there will be delayed revenue impacts from multiple sources, including business license taxes (based on prior year receipts). If strict stay-at-home orders remain in place through the summer of 2020, there will be additional significant revenue losses – adding billions to overall city shortfalls. Over 260 cities, encompassing all of California's diverse geographies and city sizes, participated in the League's COVID-19 Fiscal Impact Survey. The survey requested primary source data on projected revenue losses in key, general revenue categories, and local impacts to city services and operations. The survey data reinforces projections produced from an in depth financial model built from annual reports by the State Controller and the California Department of Tax and Fee Administration, survey data, granular analysis by government revenue specialists, industry specific outlooks, and forecasts from respected economists.



## **ATTACHMENT B**

**SUBJECT: BUDGET UPDATE – FIRST QUARTER FY2020-21**  
**INITIATED BY: CITY MANAGER'S DEPARTMENT**  
(Paul Arevalo, City Manager)  
(David A. Wilson, Assistant City Manager)  
(Christine Safriet, Senior Management Analyst)

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**STATEMENT ON THE SUBJECT:**

The City Council will receive an update on Fiscal Year 2019-20 actual revenue and expenditures and the first quarter of Fiscal Year 2020-21.

**RECOMMENDATION:**

Receive and file.

**BACKGROUND / ANALYSIS:**

The City of West Hollywood continues to be impacted by the COVID-19 crisis. As we have done during times of crisis in the past, the City increased its monitoring of the local and national economy and has adjusted revenue and expenditure projections accordingly.

The City came out of the fiscal year ending June 30, 2020 (FY20) on solid ground. General Fund revenues exceeded COVID-19 budget projections by \$7.0 million (7%). General Fund expenditures exceeded the COVID-19 budget projection by \$5 million (5%) while including nearly \$1 million in emergency expenditures. General Fund reserves were used to cover the FY20 expenditure deficit of \$1.1 million. FY20 revenues were down by 4% while expenditures were higher by 5% compared to prior year totals.

The City's current fiscal year budget (FY21) is more conservative than FY20. The City has projected General Fund revenues of \$90.1 million and expenditures of \$94.9 million; in comparison, the City's pre-pandemic budget approved in February 2020 totaled \$115.5 million. First quarter FY21 General Fund revenues were 14% of budget. Of note, first quarter transient occupancy tax revenues were 64% lower than the same period last year. This reflects the extended duration of the safer-at-home orders implemented across the county, state and nation, along with travel restrictions implemented worldwide. The City projected substantially lower hotel occupancies in the first half of the fiscal year, and actual receipts are aligned with expectations. First quarter sales tax revenues were on track for FY21 budget projections and the City is expecting property tax receipts to align with budget expectations. General Fund expenditures in the first quarter were \$3 million lower compared to last year. After adjusting for bond payments and transfers that are made in one lump sum at the beginning of the fiscal year, Q1 expenditures reached 25% of the FY21 budget.

Based on current information, staff anticipate the City will meet FY21 budget

expectations. Revenues are expected to come in at a modest pace during the second quarter and to pick up in volume after the start of the 2021 calendar year. While growth in revenue is expected compared to the first quarter, current revenue sources are not expected to recover to pre-COVID-19 levels for several years. If initial election results are confirmed, the sales tax increase will go into effect on April 1, 2021. There may be a nominal increase in sales tax revenue in the fourth quarter of FY21; however, staff does not expect any significant sales tax revenue impact until the next fiscal year.

The City will continue to draw down from emergency reserves to fund emergency services during the pandemic and has budgeted a drawdown from unallocated reserves to balance the current budget.

- **Organization of the remainder of this report**

The following detailed discussion is organized into the following sections:

1. FY 2019-20 Full Year Revenues & Expenditures
2. FY 2020-21 First Quarter Revenues & Expenditures
3. Next Steps

Financial analysis is provided for the General Fund only and values presented for FY20 have not yet been audited. The General Fund is the general operating fund for the City and includes a majority of the City’s revenues and operating program expenditures.

### **1. Fiscal Year 2019-20**

The following discussion summarizes the City’s financial performance for the twelve months ending June 30, 2020 (FY20) in the City’s General Fund.

Table 1	Actual	Actual	Actual	Actual	Actual	Budget	Budget
General Fund	FY16	FY17	FY18	FY19	FY20	Approved FY20 Budget (3/16/20)	COVID-19 FY20 Update (05/05/20)
Revenues	\$95,081,381	\$102,287,980	\$101,265,304	\$113,153,362	\$108,850,616	\$115,489,896	\$101,836,030
Expenditures	\$78,193,928	\$92,853,781	\$91,021,240	\$105,194,299	\$109,983,381	\$113,030,971	\$106,847,151
Surplus/(Deficit)	\$16,887,453	\$9,434,199	\$10,244,064	\$7,959,063	(\$1,132,765)	\$2,458,925	(\$5,011,121)
One-Time Drawdowns	\$0	\$0	\$0	\$0	(\$5,000,000)	\$0	\$0

As presented to the Finance & Budget Subcommittee of the City Council on May 5, 2020 in response to the COVID-19 pandemic, staff’s updated FY20 budget projection for revenues was \$101.8 million and for expenditures was \$105.1 million, with a projected expenditure deficit of \$3.2 million from unallocated reserves. The expenditure budget included capital projects and capital maintenance of \$3.2 million. The expenditure budget was subsequently revised internally to reflect previously approved expenditures of +\$1.8 million for transfers to other funds that were approved earlier in the fiscal year but not included in the Finance & Budget subcommittee estimate. The revised total for expenditures was \$106.8 million, with a projected expenditure deficit of \$5.0 million from reserves.

For the year ending June 30, 2020, General Fund actual operating revenues totaled \$108.8 million, exceeding the updated budget projection by \$7.1 million or 7%. Actual

General Fund operating expenditures were \$110.0 million, which included \$0.9 million in emergency funds, and exceeded the updated budget projection by \$4.9 million or 5%. General Fund expenditures in excess of revenues totaled \$1.1 million in FY20, which was \$2.1 million less than the updated budget projections and was covered by General Fund Reserves.

In addition to regular operating expenditures, the City made a planned drawdown of \$5.0 million from General Fund Reserves specifically assigned to future retirement costs to prepay a portion of its CALPERS unfunded pension liability. The addition of this payment results in a total drawdown of \$6.1 million from the City's General Fund Reserves.

- **FY20 Operating Revenues**

General Fund operating revenues for all program areas totaled \$108.9 million in FY20, a decrease of \$4.3 million from FY19 revenues of \$113.2 million. FY20 revenues were 107% of the projected COVID-19 budget.

Table 2	Actual	Actual	Actual	Actual	Actual	Budget	Budget
General Fund Revenues	FY16	FY17	FY18	FY19	FY20	Midyear FY20 Budget (2/18/20)	COVID-19 FY20 Update (05/05/20)
Transient Occupancy Tax	\$22,268,519	\$22,636,844	\$24,775,813	\$25,989,558	\$20,740,065	\$29,050,000	\$21,550,000
Property Tax	15,931,816	17,290,520	18,521,887	20,212,711	21,619,622	20,393,080	20,393,080
Sales Tax	16,094,074	16,242,475	16,944,964	18,211,472	15,645,332	17,600,000	16,005,277
Parking Fines	8,795,111	8,154,689	6,091,383	7,279,819	5,890,776	7,500,000	6,097,868
Parking Meters	5,992,534	5,986,433	6,178,474	7,749,120	6,008,622	8,400,000	6,117,918
City Permits	9,301,204	9,515,384	10,975,685	9,921,980	9,641,959	9,273,455	10,000,000
All Other Revenue	16,698,124	22,461,634	17,777,097	23,788,702	29,304,239	23,273,361	21,671,888
<b>Total Revenues</b>	<b>\$95,081,381</b>	<b>\$102,287,980</b>	<b>\$101,265,304</b>	<b>\$113,153,362</b>	<b>\$108,850,616</b>	<b>\$115,489,896</b>	<b>\$101,836,030</b>

Transient Occupancy Tax: In May 2020, the updated budget projection for TOT revenue was reduced to \$21.6 million from the \$29.1 million approved during the midyear budget update, in anticipation of revenue losses and deferrals in response to COVID-19. Actual TOT revenues of \$20.7 million were 97% of the updated projection. The annual growth rate for hotel tax in FY20 was -20%, reflecting the extended duration of the safer-at-home orders implemented across the state, country, and travel restrictions implemented worldwide. TOT collections in FY20 were lower than any of the previous four fiscal years (FY16-FY19).

Property Tax: The approved budget projection for property taxes at the midyear budget update was \$20.4 million and was not changed in response to COVID-19. Actual property tax revenues of \$21.6 million were 106% of projections. The annual growth rate for property tax revenues was 7% in FY20, an increase of \$1.4 million over the prior year. Property tax revenues reflect an annualized growth rate of 8% per year since FY16.

Sales & Use Tax: In May 2020, the updated budget projection for sales tax revenue was reduced to \$16.0 million in anticipation of revenue losses and deferrals due to COVID-19 from the \$17.6 million approved during the midyear budget update. FY20 actual sales tax revenues of \$15.6 million were 98% of the May projection. The annual growth rate for

sales tax in FY20 was -14%, reflecting the extended duration of the safer-at-home orders and mandatory business closures. Sales tax collections in FY20 were lower than any of the previous four fiscal years (FY16-FY19).

Parking Fines & Parking Meters: In May 2020, the updated budget projections for Parking Fines and Parking Meters tax were reduced to \$6.1 million each (\$12.2 million combined) in anticipation of revenue declines in response to COVID-19. Approved budgets during the midyear update were \$7.5 million and \$8.4 million respectively (\$15.9 million combined). FY20 actual revenues of \$5.9 million (parking fines) and \$6.0 million (parking meters) reached 97% and 98% of the May budget projection. The annual growth rate for parking fines was -19% and for parking meters was -22%. Parking fine revenues in FY20 were lower than any of the previous four fiscal years (FY16-FY19). Revenues from parking meters in FY20 were equivalent to FY16 revenues. The reduction in revenues is reflective of both a significant decline in visitor volume to the City combined with the suspension of most parking fines during the last quarter of the fiscal year.

City Permits: Includes building and safety, planning, transportation, code compliance, film, and public safety permits. In May 2020, the updated budget projection for city permits was increased to \$10.0 million based on year-to-date receipts and anticipated projects, from \$9.3 million approved during the midyear budget update. FY20 actual city permit revenues of \$9.6 million were 96% of the May projection but \$300,000 higher than the midyear budget. The annual growth rate for city permits in FY20 was -3% compared to FY19. Permit revenues reflect an annualized growth rate of 1% per year since FY16.

All other revenue: Includes business taxes, franchise taxes, MVIL fees, charges for services, use of money and property, and miscellaneous one-time or unpredictable revenues. In May 2020, the updated budget projection for all other revenue was decreased to \$21.7 million based on year to date receipts and anticipated projects, from \$23.3 million approved during the midyear budget update. FY20 actual revenues of \$29.3 million were 135% of the May projection. The annual growth rate for other revenues in FY20 was -4%, down 4.3 million from FY19 revenues. Major receipts in FY20 included a one-time contract settlement of \$4.0 million and a one-time public benefit payment of \$500,000. Business license taxes were \$2.3 million higher than FY19.

- **FY20 Expenditures**

General Fund expenditures for all program areas totaled \$110.0 million in FY20, an increase of \$4.8 million over FY19 expenditures of \$105.2 million. FY20 expenditures were 105% of the projected COVID-19 budget.

Table 3	Actual	Actual	Actual	Actual	Actual	Budget	Budget
General Fund Expenditures	FY16	FY17	FY18	FY19	FY20	Approved FY20 Budget (3/16/20)	COVID-19 FY20 Update (05/05/20)
Wages & Benefits	\$26,382,276	\$29,271,421	\$29,826,897	\$36,422,264	\$39,501,793	\$40,945,993	\$40,675,177
Other Operating Costs	6,040,014	6,548,453	7,374,004	7,383,800	7,298,104	8,837,246	6,725,657
Social Services Contracts	4,305,105	4,602,535	4,817,063	4,760,564	5,545,635	5,751,652	5,751,652
Public Safety Contracts	16,195,014	19,270,147	20,104,611	22,481,550	22,107,245	23,813,993	23,813,993
Other Contract Services	18,357,148	17,438,108	18,170,247	21,724,863	21,886,333	23,434,406	17,179,546
Emergency Funds	10,509	0	0	0	873,305	0	0
Capital Projects	1,527,707	4,008,495	2,148,600	3,433,302	3,218,102	2,497,290	3,210,735
Other Financing Uses / Trf. Out	5,376,156	11,714,623	8,579,818	8,987,955	9,552,863	7,750,391	9,490,391
<b>Total Expenditures</b>	<b>\$78,193,928</b>	<b>\$92,853,781</b>	<b>\$91,021,240</b>	<b>\$105,194,299</b>	<b>\$109,983,381</b>	<b>\$113,030,971</b>	<b>\$106,847,151</b>

**Wages and Benefits:** General Fund expenditures for wages and benefits reached \$39.5 million, or 97% of budgeted values. In May 2020, the updated budget projection for wages and benefits was reduced to \$40.7 million to reflect hiring freezes and vacancies. Personnel costs for the period were 8% higher than FY19. This was primarily due to ongoing hiring for previously vacant positions in the first 9 months of the year, the ongoing use in-house temporary staff during the Staffing Optimization Study, employee retirement cash outs and one-time upfront costs of the retirement incentive program, and the increased costs of benefits related to healthcare and cost of living adjustments. These adjustments were part of the memorandums of understanding the City has with each of its employee bargaining units.

**Other Operating Costs:** Other General Fund operating costs, including the costs of maintaining and operating City Hall and other city facilities, reached \$7.3 million, or 109% of budgeted expenditures in FY20. In May 2020, the updated budget projection for other costs was reduced by \$2.1 million to \$6.7 million to reflect the reduction in operating costs after employees were asked to work from home. This budget update did not accurately estimate the unanticipated additional costs required to adequately modify and sanitize public facilities according to public health guidance, which led to higher than projected costs. Other operating costs for the period were 1% lower than FY19. Other operating costs reflects an annualized growth rate of 5% per year since FY16.

**Social Services Contracts:** Spending on social services contracts includes only those contracts developed through the City's three-year funding cycle and managed by the Social Services division. Expenditures in FY20 reached \$5.5 million, or 96% of the approved \$5.8 million budget. Spending was \$785,000 higher than in FY19, an increase of 16% over FY19 reflecting the one-time budget enhancement approved by City Council in September 2019 for the provision of additional enhanced services.

**Public Safety Contracts:** General Fund spending for Public Safety totaled \$22.1 million in FY20, or 96% of the approved \$23.8 million budget, and were 2% lower than FY19 expenditures. Costs include an annual cost of living adjustment as well as expansion of

the community policing programs (primarily Security Ambassadors and Community Impact Teams). County increases of 0.5% in liability rates for contract services were also reflected in the annual costs. At the same time, COVID-19-related cancellations of public events including Pride in June 2020 resulted in savings of more than a million dollars.

Other Contract Services: Other contract services in the General Fund include the remainder of services provided by contracted vendors to the City, including administrative, urban livability, human services and homelessness prevention, parks and recreation, legal services, streets and transportation, and housing and redevelopment services. General Fund spending for these contracts totaled \$21.9 million in FY20 and were 1% higher than FY19 expenditures.

Emergency Funds: The City Council began approving the expenditure of emergency funding for COVID-19 related services in March 2020. Emergency expenditures specific to council appropriations in FY20 totaled \$873,000 and were charged against emergency reserves in the General Fund. Services included rental assistance, meal and grocery delivery, legal assistance, business assistance, and technology to enable business continuity during the transition to a fully remote City Hall. Additional expenditures for various COVID-19 related operational changes, not included in these emergency funds, are enhanced sanitation of public facilities, digital engagement projects, and other costs supporting the provision of direct constituent services, which were absorbed into the other operating costs accounts described above.

Capital Projects: Capital Projects expenditures in the General Fund include citywide routine capital maintenance, such as improvements to streets, infrastructure, and public facilities. The budgeted amount for capital projects in the General Fund was \$3.2 million of appropriations approved in FY20 and carryover appropriations in the amount \$13 million from the prior year (FY19). In FY20, the City expended \$3.2 million, or 100% of budget. FY20 capital expenditures were 6% lower than FY19.

Other Financing Uses: Financing and transfers from the General Fund include expenditures for fees and payments on various debt financing instruments as well as transfers to the debt service funds to cover principal and interest payments on City-issued bonds. General fund expenditures of \$9.6 million were 101% of the updated budget of \$9.5 million; this updated total includes the revision of +\$1.8 million for transfers to other funds that were approved earlier in the fiscal year but not included in the estimate to the Finance & Budget Subcommittee. Expenditures included completion of scheduled payments into debt service funds for annual bond payments as well as transfers from the General Fund for West Hollywood Park Phase 2 expenditures and one-time offsets to negative balances in the Gas Tax and Sunset BID funds.

## **2. Fiscal Year 2020-21 First Quarter Revenues & Expenditures**

The following discussion includes revenues and expenditures in the City's General Fund from July through September 2020, collectively referred to as Q1 or the first quarter of the City's fiscal year.

- **FY21-Q1 Revenues**

General Fund operating revenues for all program areas totaled \$12.7 million in the first quarter of FY21, reaching 14% of the approved FY21 budget.

Table 4	Actual	Actual	Actual	Actual	Actual	Actual	Budget
General Fund Revenues	FY16-Q1	FY17-Q1	FY18-Q1	FY19-Q1	FY20-Q1	FY21-Q1	Approved FY21 Budget (07/01/20)
Transient Occupancy Tax	\$3,688,498	\$4,286,245	\$3,990,114	\$4,347,762	\$4,574,307	\$1,647,979	\$15,638,168
Property Tax	457,542	439,685	584,879	535,007	634,435	559,927	20,887,160
Sales Tax	4,324,467	4,013,358	4,198,268	4,932,228	4,547,058	3,554,532	14,911,332
Parking Fines	2,503,373	2,099,073	2,328,005	1,924,737	2,064,391	1,156,695	5,459,860
Parking Meters	1,530,068	1,609,667	1,598,214	2,047,975	2,164,085	1,139,865	5,811,840
City Permits	2,725,671	3,267,426	2,224,954	2,456,414	2,850,770	2,216,983	7,639,294
All Other Revenue	4,675,828	3,519,373	4,693,635	5,215,560	6,350,960	2,409,614	19,728,455
<b>Total Revenues</b>	<b>\$19,905,447</b>	<b>\$19,234,827</b>	<b>\$19,618,070</b>	<b>\$21,459,683</b>	<b>\$23,186,007</b>	<b>\$12,685,594</b>	<b>\$90,076,109</b>

**Transient Occupancy Tax:** Estimated first quarter TOT revenues of \$1.6 million reached 11% of the projected FY21 budget of \$15.6 million and were 64% lower than first quarter receipts in FY20. TOT revenues reflect the extended duration of the safer-at-home orders implemented across the state and nation, along with travel restrictions implemented worldwide. Occupancies at the City’s hotels averaged 25% in early July and improved to the low 30% range by the end of September. Room supply steadily increased over the period as hotels that had completely shuttered at the start of the pandemic reopened to the public, with 4,900 rooms sold weekly in late September 2020. Average daily room rates have improved from \$245 in early July to about \$280 in late September. At the same time, all major metrics are substantially lower compared to pre-pandemic baseline values from early March 2020 (76% occupancy, 14,200 weekly rooms sold, ADR of \$280). The City projected substantially lower occupancies in the first half of the year and actual receipts are aligned with expectations.

**Property Tax:** First quarter property tax receipts of \$560,000 reached 3% of the FY21 approved budget of \$20.9 million and were 12% lower than FY20-Q1 receipts. The decline appears to be in property transfer taxes, which are collected when a property is sold or transferred to a new owner. Lower transfer tax collections suggest that either the volume or value of sales transactions in the City was lower than the prior year. While the City has received a small amount of property tax revenues, most property tax receipts are typically distributed to cities in two major payments in December and May. The first major property tax distribution in FY21 is anticipated to be \$7.9 million. The second major distribution is expected in May 2021.

**Sales Tax:** Q1 sales tax receipts of \$3.6 million reached 24% of the FY21 approved budget of \$14.9 million and were 22% lower than FY20-Q1 receipts. Business types in West Hollywood most deeply affected by the pandemic to date include Casual and Fine Dining, Family Apparel, Leisure and Entertainment, Hotels-Liquor, Home Furnishings, and Electronics/Appliance Stores. Preliminary results from the November 3, 2020 election indicate that Measure E, a 3/4 cent local sales tax increase for the City, will pass with voter approval rate over 70%. If these results are confirmed, the sales tax increase will go into effect on April 1, 2021. There may be a nominal increase in sales tax revenue in the last quarter of FY20; however, staff does not expect any significant revenue impact until FY21.



Parking Fines & Parking Meters: First quarter parking fine revenues of \$1.2 million reached 21% of the FY21 approved budget of \$5.5 million and were 44% lower than FY20-Q1 receipts. Q1 parking meter revenues of \$1.1 million reached 20% of the approved \$5.8 million budget and were 47% lower than the first quarter of FY20. Due to the COVID-19 pandemic, the City suspended enforcement of various parking regulations citywide in March 2020. These suspensions remained in effect through August 17, 2020, when the City resumed enforcing residential street sweeping parking restrictions. Enforcement for peak/rush-hour zone restrictions (on La Brea Avenue, Crescent Heights Boulevard, and Fountain Avenue) remained suspended until October 15th, 2020, when peak hour parking violations on N. La Brea Avenue and N. Crescent Heights Boulevard resumed. Peak hour parking enforcement on Fountain Ave is still suspended until further notice. All other parking regulations are in effect. In enforcing parking regulations, the City of West Hollywood remains committed to doing everything possible to respond to residents' concerns about keeping streets clean with regular sweeping and ensuring the availability of spaces in residential parking districts.

City Permits: First quarter permit revenues of \$2.2 million reached 29% of the FY21 approved budget of \$7.6 million. In addition, there is \$1.6 million in building permit fees and \$2.0 million in plan check fees that were collected in prior years for ongoing projects. These funds are available and have been set aside for expected project expenditures. In the first quarter of FY21, Building and Safety has received an equal number of plan check projects and inspection requests compared to the first quarter of FY20.

All Other Revenue: First quarter revenues of \$2.4 million reached 12% of the FY21 approved budget of \$19.7 million and are 62% lower than the first quarter of FY20. Many of the revenues in this category (business taxes, franchise taxes, MVIL fees, charges for services, use of money and property, and miscellaneous one-time or unpredictable revenues) are received during the second half of the fiscal year. Additionally, the city has deferred regulatory business license fees on a three-month rolling basis and waived late fees for BID assessments and business tax certificates.

- **FY21-Q1 Expenditures**

General Fund expenditures for all program areas totaled \$28.9 million in the first quarter of FY21, 30% of the approved FY21 budget and a decrease of \$3.1 million from FY20 first quarter expenditures. After adjusting for bond payments and transfers that are made in one lump sum at the beginning of the fiscal year, Q1 expenditures reached 25% of the FY21 budget.

Table 5	Actual	Actual	Actual	Actual	Actual	Actual	Budget
General Fund Expenditures	FY16-Q1	FY17-Q1	FY18-Q1	FY19-Q1	FY20-Q1	FY21-Q1	Approved FY21 Budget (07/01/20)
Wages & Benefits	\$5,657,514	\$6,322,386	\$6,447,237	\$7,919,961	\$8,767,556	\$9,530,559	\$37,523,443
Other Operating Costs	2,339,310	2,365,930	3,135,170	2,747,344	3,013,312	2,837,452	7,772,813
Social Services Contracts	1,056,652	1,059,989	1,284,971	1,182,046	1,278,914	1,143,842	5,962,502
Public Safety Contracts	3,570,860	4,133,328	4,344,791	4,771,070	5,033,483	4,852,300	21,469,303
Other Contract Services	4,630,368	3,743,112	4,073,992	4,851,079	5,433,241	2,768,373	15,824,874
Emergency Funds	6,609	0	0	0	0	1,111,905	0
Capital Projects	93,265	321,677	-66,401	715,884	703,699	275,271	0
Other Financing Uses / Trf. Out	\$4,473,037	\$8,000,078	\$7,517,091	\$8,985,877	\$7,700,391	\$6,356,455	\$6,356,455
<b>Total Expenditures</b>	<b>\$21,827,615</b>	<b>\$25,946,499</b>	<b>\$26,736,850</b>	<b>\$31,173,260</b>	<b>\$31,930,595</b>	<b>\$28,876,157</b>	<b>\$94,909,390</b>

**Wages and Benefits:** First quarter General Fund expenditures for wages and benefits reached 25% of the FY21 approved budget of \$37.5 million. Personnel costs for the period were 9% higher than FY20. This was primarily due to employee retirement cash outs and one-time costs of the retirement incentive program, combined with annual increases in the costs of benefits related to healthcare and cost of living adjustments. The City and its employee bargaining units also agreed to furloughs of 5-15% beginning July 1, 2020.

**Other Operating Costs:** For the first quarter, other operating costs, including the costs of maintaining and operating City Hall and other city facilities, reached 37% of the FY21 approved budget of \$7.8 million. This is primarily due to the continued increased sanitizing of public facilities according to public health guidance. Expenditures were 6% lower than the same period in FY20.

**Social Services Contracts:** First quarter expenditures for social services contracts reached 19% of the FY21 approved budget of \$5.5 million. Expenditures for the period were \$135,000 lower than FY20. Social services contracts are on an October 1 through September 31 contract cycle, so this period reflects for the final quarter of the previous contract year. The reduction from this period last year is due to some agencies no longer providing services and delays in invoicing by some service providers. The Social Services division works closely with contracted agencies to ensure constituent needs are addressed.

**Public Safety Contracts:** Public safety expenditures in the first quarter of FY21 totaled \$4.9 million, 23% of the FY21 approved budget of \$21.5 million. Expenditures were 4% lower than the same period in FY20.

**Other Contract Services:** Other contracted services in the General Fund include the remainder of services provided by contracted vendors to the City, including administrative, urban livability, human services and homelessness prevention, parks and recreation, legal services, streets and transportation, and housing and redevelopment services. First quarter expenditures reached 17% of the FY21 approved budget of \$15.8 million and were 49% lower than in the same period last year. The City continues to limit

many contract services during the pandemic.

Emergency Funds: The City Council began approving the expenditure of emergency funding for COVID-19 related services in March 2020. Emergency expenditures specific to Council appropriations in the first quarter of FY21 totaled \$1.1 million. City Council approved \$1.7 million in emergency funding from reserves in FY20, for a total of \$2.8 million in emergency funding approved to date. Funded services included rental assistance, meal and grocery delivery, legal assistance and eviction protection/defense, business assistance, and technology upgrades.

Capital Projects: First quarter General Fund expenditures for capital projects and capital maintenance were \$275,000, 61% lower than in FY20. The FY21 approved budget for capital expenditures in the General Fund was \$0; expenditures to date were for projects that were already underway in the prior fiscal year from funds encumbered in FY20.

Other Financing Uses: Financing and transfers in the General Fund include expenditures for fees and payments on various debt financing instruments and transfers to the debt service funds to cover principal and interest payments on various bonds. Transfers are typically processed at the beginning of the fiscal year; therefore, first quarter General Fund expenditures were 100% of the approved FY21 budget.

### **3. Next Steps**

The City is committed to continuing to monitor the changing economic conditions, while responding to community needs and providing regular updates during the COVID-19 pandemic. The City is also taking extensive and proactive measures to safeguard public health and continue providing certain essential services during this time. The next scheduled report back to the City Council will be the Mid-Year Budget Update in February 2021, which will focus on the first two quarters of the fiscal year (July 1, 2020 through December 31, 2020).

Staff anticipates that revenues will continue to be modest during the second quarter of the fiscal year but will pick up after the start of the calendar year and the City will meet current budget expectations. As previously planned, we will continue to draw down from emergency reserves to fund emergency services during the pandemic and have budgeted a drawdown from unallocated reserves to balance the current budget. While growth from the current revenue lows is expected in the second half of the fiscal year, current revenue sources are not expected to recover to pre-COVID-19 levels for several years. The City will continue to seek other sources of revenue, such as the sales tax increase and the Sunset Boulevard Arts & Advertising Program, to supplement revenue during the short term.

Over the longer term, the City will continue to focus on maintaining a structurally balanced budget emphasizing public safety, service to the community with the delivery of core social services and recreational offerings, and capital infrastructure maintenance and sustainable capital enhancements.

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

This item is consistent with the Primary Strategic Goal(s) (PSG) and/or Ongoing

Strategic Program(s) (OSP) of:

- PSG-3: Fiscal Sustainability.
- OSP-1: Adaptability to Future Change.

In addition, this item is compliant with the following goal(s) of the West Hollywood General Plan:

- G-2: Maintain transparency and integrity in West Hollywood's decision-making process.

**EVALUATION PROCESSES:**

The City is committed to continue monitoring the changing economic conditions and impacts to the local economy. The strategies listed above, including issuing bonds, curtailing expenditures, and implementing business relief measures will assist the City to insure continued financial stability.

**ENVIRONMENTAL SUSTAINABILITY AND HEALTH:**

The City of West Hollywood is taking every precaution to prioritize community and employee health, slow the rate of transmission of COVID-19, and assist community members who are at higher risk of serious illness.

**COMMUNITY ENGAGEMENT:**

Members of the West Hollywood community are encouraged to send questions to [budget@weho.org](mailto:budget@weho.org).

**OFFICE OF PRIMARY RESPONSIBILITY:**

CITY MANAGER'S DEPARTMENT

**FISCAL IMPACT:**

None at this time.

**ATTACHMENTS:**

None.