

**SUBJECT: UPDATE ON THE IMPACT OF COVID-19 ON THE FISCAL YEAR  
2020-21 BUDGET AND DISCUSSION OF THE FISCAL YEAR  
2021-22 BUDGET**

**PREPARED BY: CITY MANAGER'S DEPARTMENT**  
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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 and projections for Fiscal Year 2021-22. The Finance & Budget Subcommittee will have the opportunity to discuss the Fiscal Year 2021-22 budget in relationship to City priorities.

**RECOMMENDATIONS:**

Receive an update on and discuss the Fiscal Year 2020-21 and 2021-22 Budgets.

**BACKGROUND / ANALYSIS:**

The City is preparing the FY 2021-22 Budget for City Council discussion and approval in June. Based on actual and expected revenues received through March in the General Fund, the City projects a significant drawdown in reserves by the end of the current fiscal year. To address this gap, the City's plans include expenditure restraint, support for local economic recovery, and ongoing fiscal monitoring.

For fiscal year 2021-22 (FY22), the City anticipates a 30% increase from the current revenue budget to \$104 million in General Fund revenue. This is an increase of \$25 million over the FY21 adjusted revenue budget. Expenditures are projected to reach \$115 million in the preliminary proposed budget.

This update is organized into the following sections:

1. COVID-19 Impacts on City Resources
2. Third Quarter FY21 Budget Position
3. FY2021-22 Budget
4. Discussion and next steps

**1. COVID-19 Impacts on City Resources**

The COVID-19 pandemic and related restrictions on travel, business activity, and individual movement severely impacted the local and regional economies. As a result,

City revenues have been significantly and negatively impacted. Hotel occupancies dropped to the single digits in March 2020, climbed to above 30% in the summer of 2020, and dropped back to the low teens and single digits in the late fall. Occupancies climbed steadily from January to March into the 30% range with average daily rates of \$275. Occupancy rates in the City are substantially lower compared to pre-pandemic baseline values from early 2020 (76% occupancy, ADR of \$280).

On-site, in-person retail and dining services also fell off substantially during the first half of the year due to County restrictions. As a result, sales tax revenues were reduced in the annual budget. Related revenues, including parking meters and business permits, were similarly impacted. The City 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. The City's FY21 adjusted revenue budget of \$79 million is now 31% lower than the pre-pandemic FY20 budget of \$115 million. Additional federal funds of \$6.9 million from President Biden's American Rescue Plan are anticipated to be received before the end of the fiscal year.

The City took numerous cost savings measures to address the revenue shortfall, including cutting expenditures, issuing bonds, postponing capital investments, canceling in-person events and large public gatherings, cancelling employee travel, eliminating temporary positions, continuing a hiring freeze on most vacant positions, implementing an employee furlough, and using reserves to fill the remaining revenue gap. The City's FY2020-21 (FY21) adjusted expenditure budget of \$98 million is 15% lower than the pre-pandemic FY20 budget of \$115 million.

With the combined reductions in operating and capital spending, 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 at the start of the FY21 fiscal year. The drawdown was revised to \$19 million at the midyear budget update. If federal American Rescue Plan funds are received, additional FEMA funds are released by the Biden Administration and the business recovery begins earlier than expected at mid-year, the actual drawdown will be less than projected.

The City is closely monitoring local and state public health guidance and economic projections. Staff continue to meet regularly with our local business community to support their economic health and remain responsive to evolving issues. The Governor recently announced that California will fully reopen its economy across the state on June 15 if there is enough vaccine supply for Californians 16 years and older to be vaccinated and hospitalization rates remain stable and low. This is encouraging news for the economic recovery already underway.

## **2. Third Quarter FY21 Budget Position**

Based on the first nine months of the fiscal year (July 2020 to March 2021), General Fund expenditures are exceeding revenues by \$18 million. This is largely a result of revenue shortfalls compared to the original FY21 Budget. City Council revised the General Fund budget at the midyear budget update by reducing revenues by \$11 million to \$79 million.

General Fund revenues totaled \$59 million, or 75% of the FY21 adjusted budget, through

the third quarter of the fiscal year. Major revenue categories include:

- Transient Occupancy Tax (TOT) receipts of \$4.6 million through March, or 68% of the adjusted 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.
- Property tax receipts of \$13.5 million through March, or 65% of budget. The City projects property tax revenues will reach \$21 million by the end of the fiscal year.
- Sales tax receipts of \$10.9 million through March, or 73% of budget. The City projects sales tax revenues will reach \$15 million by the end of the fiscal year.
- Other tax receipts of \$7.0 million through March, 58% of budget. The City projects other tax revenues will reach \$12 million by the end of the fiscal year, a reduction of \$1.5 million compared to the original budget.
- Parking meter receipts of \$3.3 million through March, or 74% of the adjusted 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.

<b>Table 1</b>	Actual	Actual	Actual	Actual	Actual	Actual	Budget
<b>General Fund Revenues</b>	<b>FY16-Q3</b>	<b>FY17-Q3</b>	<b>FY18-Q3</b>	<b>FY19-Q3</b>	<b>FY20-Q3</b>	<b>FY21-Q3</b>	<b>Adjusted FY21 Budget</b>
Transient Occupancy Tax	\$14,005,869	\$14,865,717	\$15,628,315	\$16,664,136	\$17,759,870	\$4,551,150	\$6,650,000
Property Tax	8,630,539	9,425,043	11,418,324	11,028,996	12,219,051	13,498,513	\$20,887,160
Other Taxes	10,889,758	12,117,464	12,521,660	13,563,275	12,108,071	10,873,522	\$14,911,332
Sales Tax	4,647,188	4,203,643	4,993,184	5,039,923	7,014,805	6,967,620	\$11,953,500
Parking Fines	7,302,756	6,549,938	6,765,071	5,892,160	5,988,487	3,877,965	\$5,459,860
Parking Meters	4,578,400	4,623,640	4,740,524	5,934,611	5,840,552	3,284,643	\$4,430,000
City Permits	6,600,907	7,877,884	9,119,287	7,525,138	9,693,789	6,566,181	\$7,639,294
All Other Revenue	9,503,752	6,828,565	7,162,068	8,457,939	10,146,801	9,173,507	\$6,893,414
<b>Total Revenues</b>	<b>\$66,159,169</b>	<b>\$66,491,894</b>	<b>\$72,348,433</b>	<b>\$74,106,178</b>	<b>\$80,771,425</b>	<b>\$58,793,101</b>	<b>\$78,824,560</b>

General Fund expenditures totaled \$77 million, or 78% of budget, through the third quarter of the fiscal year. After adjusting for bond payments and transfers that are made in one lump sum at the beginning of the fiscal year as well as capital expenditures using funds encumbered in prior fiscal years, General Fund expenditures reached 76% of the FY21 budget.

- Wages and benefits totaled \$29 million, 79% of the approved budget. This includes one-time accrued leave payouts for employees who retired from or left the City.
- Other operating costs, including the costs of maintaining and operating City Hall and other city facilities, totaled \$5 million, 65% of the approved budget. Expenditures were 16% lower than the same period in FY20.
- Expenditures for Social Services Contracts reached \$4 million, 74% of the FY21

approved budget. Expenditures were equivalent to the same period in FY20.

- Public safety contracts reached nearly \$16 million, 73% of approved budget. Public safety costs are \$1 million less (6%) than the same period in FY20. This is primarily due to the cancellation of major special events and the reduction of three Sheriff's contract positions. They included the photo enforcement Deputy (program discontinued), and two reductions to the Community Impact Team, a Sergeant and a Deputy.
- Emergency expenditures specific to Council appropriations in FY21 year to date totaled \$1.8 million. Services provided include rental assistance, meal and grocery delivery, legal assistance and eviction protection/defense, business assistance, and technology upgrades. City Council began approving the expenditure of emergency funding for COVID-19 related services in March 2020. City Council approved \$1.7 million from reserves in FY20 and \$2.9 million year-to-date in FY21, for a total budget authorization of \$4.0 million of which 95% is from the General Fund.
- General Fund expenditures for capital projects and capital maintenance were \$915,000, 63% lower than in FY20. The FY21 approved budget for capital expenditures in the General Fund is \$0; expenditures to date have been for projects using funds encumbered in prior fiscal years and carried forward into FY21.
- 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 typically are processed at the beginning of the fiscal year; therefore, first quarter General Fund expenditures were 100% of the approved FY21 budget. In FY22, bond payments will increase by \$4.6 million as repayment begins on the FY20 bond issuance.
- 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. Third quarter expenditures reached 64% of budget and were 42% lower than in the same period last year.

<b>Table 2</b>	Actual	Actual	Actual	Actual	Actual	Actual	Budget
<b>General Fund Expenditures</b>	<b>FY16-Q3</b>	<b>FY17-Q3</b>	<b>FY18-Q3</b>	<b>FY19-Q3</b>	<b>FY20-Q3</b>	<b>FY21-Q3</b>	<b>Adjusted FY21 Budget</b>
Wages & Benefits	\$19,295,915	\$21,011,182	\$21,423,408	\$25,907,228	\$28,499,568	\$29,489,839	\$37,523,443
Other Operating Costs	4,624,443	5,104,964	5,685,584	5,667,491	6,004,141	5,040,515	\$7,772,813
Social Services Contracts	3,240,423	3,364,398	3,627,311	3,481,707	4,052,506	4,080,667	\$5,962,502
Public Safety Contracts	11,422,160	13,928,575	14,324,677	15,565,432	16,650,094	15,668,703	\$21,469,303
Other Contract Services	14,232,791	13,176,953	14,063,236	15,481,403	17,450,199	10,189,436	\$15,824,874
Emergency Funds	10,509	0	0	0	52,500	1,794,666	\$2,920,544
Capital Projects	1,185,903	3,511,252	1,168,227	2,672,362	2,486,230	915,245	\$0
Financing & Trfs.	4,473,056	8,000,078	7,517,091	8,985,877	7,700,391	6,356,455	\$6,356,455
<b>Total Expenditures</b>	<b>\$58,485,200</b>	<b>\$68,097,401</b>	<b>\$67,809,533</b>	<b>\$77,761,499</b>	<b>\$82,895,629</b>	<b>\$73,535,525</b>	<b>\$97,829,934</b>

### **3. FY2021-22 Budget**

Planning for the next fiscal year is ongoing. As COVID-19 infection rates continue to fall and vaccination rates rise in California and across the US, our local economic conditions will improve. West Hollywood depends on a healthy tourism industry to provide a significant portion of its municipal revenues. Ongoing uncertainty regarding global travel and tourism suggest prudent moderation when budgeting for the next fiscal year by balancing revenue growth with continued expenditure restraint. This is an unusual and challenging position for the City, which typically responds to budgeting expansions with enthusiasm.

Revenues: The City's FY21 General Fund revenue budget is \$79 million. In FY22, revenues are projected to increase by approximately \$25 million (30% growth). This remains \$6 million lower than the FY20 budget, when actual revenues reached \$109 million.

- Taxes typically comprise about 70% of the City's General Fund revenues. In FY22, taxes are expected to grow to 75% of total revenues.
  - Sales Tax revenues are projected to increase by \$10 million due to the new local sales tax approved by voters in November 2020. Regular sales tax revenues are projected to remain relatively flat, growing by less than 1%.
  - Property Tax revenues have remained steady and the regional housing market appears to be fundamentally healthy. Revenues are projected to grow by 6%.
  - Transient Occupancy Tax revenues reflect a substantial rebound in tourism and visitation to the region. The City is taking a moderate approach to estimating the recovery speed and volume of the tourism industry. TOT revenues are projected to grow by more than 150% compared to current receipts, are still projected to be lower than any year since FY13 with the exception of FY21.

- Business License Tax revenues are projected to decline by 20% compared to the FY21 budget. This will mean significant growth over actual receipts in the current fiscal year, while also reflecting a steady pace of economic activity and business recovery.
- License and permits are projected to remain a steady source of revenue for the City with no growth over the current year, providing 7% of total revenues. These are primarily fee recoveries used to provide Building & Safety plan check and permit-related services, Planning review and related permit services, encroachment permit services, and various other permitting services from Code Compliance, the Film Office, and Public Safety. These revenues are unpredictable as many are based on real project planning and construction, which are subject to the demands of the real estate market and development cycle.
- Parking Meter collections are another substantial revenue source for the City at 6% of the General Fund. As we learned this year, parking meter receipts are closely tied to visitor-driven tourism. Parking meter revenues are projected to grow 40% from the current year and reach levels equivalent to FY18.
- Parking Fines provide 5% of General Fund revenues and are projected to remain flat in FY22; receipts are currently on target in FY21.
- The City is looking into extending the deferrals of Business License Taxes, Parking Fees, and Regulatory Business Licenses until the end of the calendar year in order to support business recovery.

Expenditures: The City's FY21 General Fund expenditure budget is \$98 million, including \$95 million for operations and \$3 million in emergency appropriations. Based on projected revenues, the FY22 Budget can accommodate \$9 million in expenditure growth before deficit spending. \$104 million is equivalent to FY19 expenditure levels.

Major expenditure categories include wages and benefits, other operating costs, public safety, contract services, capital projects, and financing. Significant increases are projected in the following areas:

- West Hollywood Park and the new Aquatics & Recreation Center: \$5 million, and projected to grow to \$8 million in FY23.
- Financing costs will increase by \$4.6 million for payments on the bonds issued in 2020.
- Wages & Benefits will increase by \$1.6 million to fill select vacancies and cover increases for the costs of healthcare and other MOU provisions.
- As a contract city, West Hollywood utilizes the services of the Los Angeles County Sheriff's Department to provide police and protective services to our community. This year, General Fund staffing & liability costs for regularly contracted Sheriff services will increase by \$320,000 to \$20.1 million, 1.6% higher than FY21. Liability premiums for the Sheriff are charged to the City at a rate of 11% and comprise \$1.8 million of the total contract. The liability rate has nearly doubled from 6% in FY16.

Public Safety: In addition to general patrol deputies, which are delivered based on minutes of services, the City contracts for Community Impact Teams (CIT), which are delivered as positions. At the start of FY21, the West Hollywood Sheriff's Station staffing was reduced by 3 positions: a photo enforcement Deputy (program discontinued) and two reductions to the CIT, a Sergeant and a Deputy, resulting in an 11-member CIT program. The CIT program is \$5 million annually.

- The City is considering the addition of a second West Hollywood MET team at a cost of \$530,000 to support encounters with homeless community members. The City currently contracts for one MET team (a Deputy and a licensed social worker); another regional MET team is based out of the West Hollywood Sheriff's Station and responds to calls across the region. The City also recommends adding \$150,000 to address homelessness-related impacts on the community.
- The City is considering how to tackle special events in light of ongoing COVID-19 health and safety concerns along with budgetary constraints.
  - Halloween Carnival is a \$2 million, one-night event and is not recommended in the FY22 budget. 60% of costs are directly for Public Safety.
  - Pride celebrations are estimated to cost up to \$4 million for a hypothetical 3-day event. At this time, the preliminary proposed budget includes up to \$2 million for Pride-related activities and events throughout the month of June, including public safety and production support. Given the City's financial position, it would be prudent to exercise fiscal discipline with respect to the Pride budget. Monitoring developments in public health and in the City's financial position will allow for evaluation of the safety and fiscal impact of hosting a large event in FY22.
- Over the past five years, the City has supplemented its Public Safety response through the expansion of the Block By Block Security Ambassador program in the community and through contracted Security Guards at City parks and facilities.
  - Security Ambassadors were initiated as a form of community public safety support in 2012. Due to its success with providing high touch services and visibility to residents and businesses, the program gradually expanded and has grown from a budget of \$692,000 in FY16 to \$2.1 million in FY22.
  - Security Guards have been provided at Plummer Park for more than a decade. Guards were implemented as an additional layer of public safety and public assistance at other City parks and facilities over the past several years. The program has a projected FY22 budget of \$500,000.

Reductions to the CIT beyond the 2 positions that were eliminated in FY21 would mean less proactive policing regarding crime suppression, homelessness, park patrols, nuisance and code enforcement, neighborhood livability, and entertainment related issues. The CIT Sergeant that was eliminated also served as the point person for the City's major and routine special events and filming. Less Deputies on CIT also impacts the ability to schedule Deputies upon request to attend City staff meetings such as vacant properties meetings, Coffee with the COPPS, and Neighborhood Watch meetings. CIT also helps to improve overall response times as CIT Deputies are able to assist Patrol

Deputies with calls for service. The proactive actions by the CIT Teams also helps to prevent crimes from occurring, thus preventing a future call for service. The General Law Deputy Units required based on calls for service are set by the County. If it is possible to reduce these units, it would impact response times to calls for service, especially routine and non-emergent calls, as there would be less Deputies working each shift.

CIT is currently comprised of the Service Area Lieutenant, a CIT Sergeant, 5 COPPS Team Deputies, and 4 Entertainment Policing Team (EPT) Deputies. CIT collectively manages community concerns and promotes crime prevention through a variety of intervention and enforcement techniques. Team members work with Residential and Commercial Code Compliance, Animal Control, Rent Stabilization, Social Services, and many other City staff to address the quality of life concerns. The CIT (COPPS and EPT) conduct weekly CARE Outreach Homeless Operations (Contact, Assist, Resources, Enforcement). Deputies from the Teams conduct outreach to people experiencing homelessness in our Community and offer resources and help. West Hollywood Sheriff's Station also has a partnership with the Tarzana Treatment Center. During the weekly CARE Outreach Operations, when CIT members contact people experiencing substance use disorder, the person contacted has an opportunity to participate in a treatment program with the Tarzana Treatment Center. The CIT also conducts different crime focused operations such as saturation patrols and plain clothes operations targeting criminal activity such as burglaries, mail theft, and robberies.

The Entertainment Policing Team continues its work on Sunset Boulevard, as well as on Santa Monica and Robertson Boulevards. Entertainment Policing deputies primarily focus on "entertainment" and "alcohol" related law enforcement issues in the city. On a nightly basis they actively patrol over ninety bars, nightclubs, and hotels. While patrolling the different venues the team members make contact with the management of the different establishments to maintain a cooperative working relationship and to stay informed on individual business concerns and events. The Team issues vehicle citations, tows vehicles, and completes field investigations and arrests. As part of their regular duties, EPT handles crowd control issues and Alcoholic Beverage Control (ABC) enforcement. Personnel also continue to work closely with the Sunset Strip Business Association (SSBA), their related security detail, SSBA members, and City Code Compliance officers through illegal taxicab enforcement and other specialized operations. In addition, the deputies enforce the code with regard to modified exhausts, loud music, and other quality of life issues. Another aspect of their duties includes assisting the West Hollywood Detective Bureau by documenting and monitoring gang members, probationers, and parolees in the City's limits. The team has received numerous commendations from both the station Captain and the City.

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

The City's strategy to balance the budget for Fiscal Year 2021-22 and beyond continues to recognize that the full extent of the economic reach of the COVID-19 pandemic and the trajectory of the economic recovery will not be known for some time.

Use of Reserves – General Fund reserves will be used to fill the revenue gap in the current FY21 and projected FY22 budgets. As described above, the FY21 budget gap is projected to increase from \$4.8 million to \$19 million, largely due to sustained historically



low hotel occupancy and including \$2.9 million in emergency funding. In FY22, the city is facing a budget position in which expenditures are projected to exceed revenues by \$11 million.

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 – Staff anticipates the next year will continue to be a challenging fiscal environment. We are moving forward with an expanded continuation budget for FY22 similar in scope to FY21 with the addition of an expansive new public facility and redesigned West Hollywood Park. Given the positive public health outlook and vaccination uptake rate, substantial increases in revenues are projected. At the same time, the City’s operational program for FY22 requires balancing ongoing program and service maintenance with capital program deferrals and extended capital phasing to minimize community impacts and drawdowns of General Fund Reserves.

**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 FY21 General Fund budget deficit is currently \$17.7 million at the end of the third quarter. The City's adjusted FY21 budget projects a FY21 deficit of \$19 million. The FY20 budget deficit was \$6.2 million. In FY22, expenditures are preliminarily projected to exceed revenues by \$11 million.

**ATTACHMENTS:**

None