

SUBJECT: **UPDATE OF THE 2021-22 MID-YEAR OPERATING BUDGET,
WORK PLAN ACCOMPLISHMENTS, CAPITAL PROJECTS, AND
LIVING WAGE RATE**

PREPARED BY: **CITY MANAGER'S DEPARTMENT**
(David A. Wilson, City Manager)
(Christine Safriet, Budget Officer)

STATEMENT ON THE SUBJECT:

The City Council will receive a mid-year update on the Fiscal Year 2021-22 Budget and will consider updates to the City's living wage rate ordinance. Updates include proposed mid-year budget adjustments, a report on work plan accomplishments and capital projects, and the cost impact of changes to the living wage rate.

RECOMMENDATIONS:

- 1) Receive an update on the Fiscal Year 2021-22 Budget and file:
 - a. Vision 2020 Work Plan Accomplishments (*Attachment A*), and
 - b. Capital Projects Report (*Attachment B*).
- 2) Approve budget adjustments identified in the attached "Proposed Mid-Year Adjustments to the Fiscal Year 2021-22 Budget" (*Attachment C*).
- 3) Accept the \$8,725,595 allocation of American Rescue Plan Act (ARPA) funds under the "revenue loss" category and apply funds to government services.
- 4) Direct staff to return with a legislative item to update the City's Living Wage Ordinance (*Attachment D*).

BACKGROUND / ANALYSIS:

Based on actual and expected revenues received through December in the General Fund, the City is projecting a revenue shortfall by the end of the fiscal year. However, the projected budget deficit is substantially less than initially estimated due to stronger than expected economic performance in the hospitality and retail industries. One-time funding from the Federal Government will fund pandemic-related emergency and general government services in FY 2021-22 (FY22).

The mid-year update is organized as follows:

1. Recap of FY 2021-22 Budget and COVID-19 Impacts
2. Mid-year budget position
3. Proposed changes to the Living Wage Ordinance

4. Subcommittee comments
5. Accomplishments
6. Capital Projects Report
7. Conclusion

1. Recap of FY 2021-22 Budget and COVID-19 Impacts

The City completed the fiscal year ending June 30, 2021 (FY21) in better shape than expected. General Fund revenues exceeded budget projections by \$11 million (15%). General Fund expenditures exceeded budget projections by \$1.3 million (1%), including nearly \$1 million in emergency expenditures. The FY21 expenditure deficit totaled \$9 million and was covered by General Fund Reserves.

The City's current fiscal year budget (FY22) is more expansive than FY21 and returns to revenues and expenditures more in line with FY20 actual values. The City projected General Fund revenues totaling \$104 million and expenditures totaling \$111 million; in comparison, the City's pre-pandemic expenditure budget approved in February 2020 was \$115 million. Significant revenue gains were projected in sales and hotel tax receipts as populations received access to COVID vaccines and travel, business activity, and individual movement increased.

With the significant improvement in revenue expectations for FY22, the City reduced but did not eliminate the projected financial shortfall anticipated from the COVID-19 pandemic. Cost-saving measures taken in FY21 were eased, though many contract services and capital expenditures continued to be constrained. The approved FY22 expenditure budget included increases related to staffing, operations, contracted services, and long-term debt repayment. A planned drawdown of approximately \$6.9 million from General Fund reserves was budgeted and approved for FY22.

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 \$5.4 million in federal and local funding to date; details are provided in Table 1 below. A second installment of approximately \$4.2 million in Federal Funds is anticipated to be received in summer 2022.

Table 1: Federal and Local Funding

Agency / Program	Amount Received	Use of Funds
U.S. Department of the Treasury - Coronavirus Aid Relief and Economic Security (CARES) Act (FY21)	\$447,003	Rental Assistance
Federal Emergency Management Agency (FY21)	\$204,356	Meal Service, PPE, Cleaning Supplies, and Other Expenses
Westside Cities Council of Governments (FY21)	\$172,914	Rental Assistance
US Department of Housing and Urban Development - Community Development Block Grant Program (FY21)	\$138,241	Meal Service
U.S Department of Justice (FY21)	\$61,053	Technology Software & Equipment
Federal American Rescue Plan Act (ARPA) (FY22)	\$4,381,503	Offset Pandemic Revenue Losses

2. Mid-year Budget Position

For the first six months of the fiscal year (July to December 2021), expenditures have exceeded revenues by \$2.5 million. This is largely on track with original budget projections. Table 2 summarizes the City’s mid-year actual position compared to the City’s approved budget as of July 1, 2021 and the projected budget position by the end of the fiscal year. Staff projects a year-end shortfall of (\$3.9 million), which is an improvement of \$2.9 million compared to the approved budget.

Table 2: Mid-year Budget Summary

General Fund	Mid-year Actuals (July-Dec 2021)	Approved Budget (July 2021)	% of Budget	Projected Year-End (Feb 2022)	Difference (Projected v. Approved)
Operating Revenues	\$53,849,653	\$104,038,109	52%	\$111,538,109	\$7,500,000
Regular Expenditures	56,346,580	110,899,885	51%	115,465,435	4,565,550
Surplus or (Deficit)	(2,496,927)	(6,861,776)	--	(3,927,326)	2,934,450
One-time Revenue	4,381,508	0	--	4,381,508	4,381,508
Emergency Expenditures	359,319	0	--	433,297	433,297
Emergency Surplus or (Deficit)	\$4,022,188	\$0	--	\$3,948,211	\$3,948,211

General Fund revenues reached approximately \$54 million, or 52% of budget, in the first half of the fiscal year (see Table 3). Major revenue highlights include:

- Transient Occupancy Tax (TOT) receipts of \$14.1 million through December (compared to \$3.3 million in the first half of FY21), or 79% of the approved \$17.7 million TOT budget. The City projects TOT revenues will reach \$21.9 million by the end of the fiscal year, an increase of \$4.2 million compared to the original budget. TOT revenues improved substantially in the summer and early fall compared to the prior year; however, the hospitality industry has experienced a

dip in demand that coincided with the onset of the Omicron variant. The City anticipates continued general improvement in the hospitality sector as well as regular pandemic-related fluctuations moving forward.

- Sales tax receipts of \$16.4 million through December, or 66% of the approved \$25.0 million sales tax budget. This year for the first time the City’s sales tax includes local Measure E receipts, which are providing a significant new source of local government funding. The City projects sales revenues will reach \$28.3 million by the end of the fiscal year, an increase of \$3.3 million compared to the original budget.

Revenue shortfalls in the first half of the fiscal year in the General Fund include Other Taxes at \$0.7 million through December, or 6% of the approved \$12.9 million budget. This category includes receipts from business and franchise taxes and motor vehicle in lieu (MVIL) taxes. These revenues are generally received in the spring so a significant shortfall at mid-year is typical. Business tax receipts are likely to be lower than initially budgeted due to impacts from COVID-19 on business receipts in fall of 2020 and spring of 2021 combined with Council-approved extensions and waivers of late payment penalties.

Revenues in other major categories are on track to reach budget projections. 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. The real estate market remained strong throughout the pandemic and revenues are on track to reach budget projections this fiscal year. Parking meter and parking fine revenues, city permits, and other revenues including charges for city services such as rent stabilization, recreation, and film permits, are meeting original FY22 budget estimates.

Table 3: FY22 Revenues

General Fund Revenues	Mid-year Actuals (July-Dec 2021)	Approved Budget (July 2021)	% of Budget	Projected Year-End (Feb 2022)	Difference (Projected v. Approved)
Transient Occupancy Tax	\$14,092,578	\$17,730,000	79%	\$21,930,000	\$4,200,000
Property Tax	9,067,327	22,115,200	41%	22,115,200	0
Sales Tax	16,399,921	25,000,000	66%	28,300,000	3,300,000
Other Taxes	720,356	12,930,000	6%	12,930,000	0
Parking Fines	2,356,799	5,459,860	43%	5,459,860	0
Parking Meters	2,966,446	6,250,000	47%	6,250,000	0
City Permits	4,443,437	7,638,994	58%	7,638,994	0
All Other Revenues	3,802,789	6,914,055	55%	6,914,055	0
Operating Revenues	\$53,849,653	\$104,038,109	52%	\$111,538,109	\$7,500,000

General Fund expenditures reached approximately \$56 million, or 51% of budget, in the first half of the fiscal year (see Table 4). Major expenditures include:

- Employee costs totaled \$19.3 million, or 45% of the approved \$42.9 million wages & benefits budget. Expenditures are expected to be higher in the second half of

the fiscal year as hiring for the West Hollywood Park Aquatic and Recreation Center accelerates in anticipation of a spring opening. Expenditures in this category are on track to meet budget projections.

- Public safety contracts reached \$10.6 million, or 48% of approved budget. This category includes expenditures for the Los Angeles County Sheriff, Security Ambassadors, and related services. Expenditures are on track to meet budget projections. The City projects public safety contracts will reach \$22.3 million by the end of the fiscal year, an increase of \$0.4 million compared to the original budget. This includes an expansion of security ambassador services and public safety costs related to the production of a Pride festival in June of 2022.
- Other Contract Services reached \$8.1 million, or 39% of approved budget. This category includes expenditures for professional and legal services, general contract services, and parking meter collection and maintenance services. The City projects other contract services will reach \$23.7 million by the end of the fiscal year, an increase of \$3.2 million compared to the original budget. This includes discounted purchases of additional Proposition A transit funding, the production of a Pride festival in June of 2022, and increases to general contract services and professional services.
- Other Financing Uses reached \$10.7 million, or 100% of approved budget, and includes payments for long-term debt obligations and transfers to other funds. These transactions are completed at the beginning of the fiscal year. The City projects other financing uses will reach \$11.5 million by the end of the fiscal year, an increase of \$0.9 million compared to the original budget. This accounts for a transfer to balance the reserves in the Gas Tax Fund.
- Expenditures in other major categories are on track to meet budget projections.

Table 4: FY22 Expenditures

General Fund Expenditures	Mid-year Actuals (July-Dec 2021)	Approved Budget (July 2021)	% of Budget	Projected Year-End (Feb 2022)	Difference (Projected v. Approved)
Wages & Benefits	\$19,306,952	\$42,918,530	45%	\$42,918,530	\$0
Other Operating Costs	3,765,946	8,495,024	44%	8,495,024	0
Social Services Contracts	2,577,280	5,179,267	50%	5,290,267	111,000
Public Safety Contracts	10,598,217	21,891,330	48%	22,336,330	445,000
Other Contract Services	8,077,639	20,573,123	39%	23,732,673	3,159,550
Capital Projects	1,358,735	1,180,800	115%	1,180,800	0
Other Financing Uses	10,661,811	10,661,811	100%	11,511,811	850,000
Expenditures	\$56,346,580	\$110,899,885	51%	\$115,465,435	\$4,565,550

One-time Federal revenues and emergency expenditures related to the pandemic have been broken out from the regular General Fund reporting discussed above (see Table 5).

- Emergency fund expenditures reached \$0.4 million in actual General Fund expenditures this fiscal year. The total allocation of emergency funds from General

Fund reserves is \$3.9 million since the start of the pandemic. Emergency funds are allocated as requests are approved by City Council and funds are carried forward from the prior year until they are expended. Emergency expenditures will impact the overall FY22 drawdown from the General Fund Emergency reserves.

- One-time revenues totaling \$4.4 million from the Federal Government’s American Rescue Plan Act of 2021 have been received in the first half of the fiscal year. These funds are being used to offset emergency and government services expenditures. The total ARPA amount allocated to the City was \$8,725,595; the first half was received in July 2021, and the second half is expected in July 2022. The monies will be allocated to government services as allowed under the regulations under Category C (revenue loss) and will be applied against expenditures that were budgeted in the General Fund. The General Fund was heavily impacted by the pandemic closures and restriction, including significant reductions in receipts from transit occupancy tax, sales tax, business license tax, and other revenues. The City would be replacing revenue lost during the COVID-19 pandemic, up to the amount allocated by ARPA, by spending it on current government services.

Table 5: FY22 One-time Emergency Adjustments

General Fund Position	Mid-year Actuals (July-Dec 2021)	Approved Budget (July 2021)	% of Budget	Projected Year-End (Feb 2022)	Difference (Projected v. Approved)
One-time Revenue	\$4,381,508	\$0	--	\$4,381,508	\$4,381,508
Emergency Expenditures	359,319	0	--	433,297	433,297
Emergency Surplus or (Deficit)	\$4,022,188	\$0	--	\$3,948,211	\$3,948,211

3. Living Wage

Ordinance No. 97-505, adopted by the City in 1997, initiated a living wage rate for contractual service providers to the City of West Hollywood. In enacting this ordinance, the City promoted an economic environment that protected public resources devoted to social support services and required service contractors to pay employees performing City-related work the living wage and benefits designated in it.

In 2011, the City Council amended the Living Wage Ordinance (West Hollywood Municipal Code Chapter 3.20) to provide that the City Council will adjust the living wage rate each July 1. The amendment established that the living wage rate shall reflect increases during the preceding year in the CPI for all urban consumers in the Los Angeles-Long Beach-Anaheim area, as published in January each year by the United States Department of Labor Statistics. The City’s current living wage rate is \$13.91 per hour for employees receiving health benefits contributions of at least \$1.25 per hour and is \$15.16 per hour for employees without health benefits contributions of at least \$1.25 per hour. The current rate became effective on July 1, 2021.

Key provisions of the City’s living wage ordinance are summarized as follows:

- Applies to contractors who provide services to or for the City of West Hollywood

with a contract value over \$25,000 and a term of 3 months or more.

- Requires employers to pay a wage at least as high as the City's Living Wage to employees and subcontractors who expend any of their time in the performance of work related to a service contract with the City.
- Wages are adjusted annually by the consumer price index.

At the August 31, 2021 Study Session of the City Council, staff requested direction from the City Council regarding the City's Living Wage:

- Should the City continue to have a living wage?
- Should the current living wage rate be adjusted to a higher amount?
- Should the City continue to use a two-tiered approach for the living wage, including a rate for employees with employer provided healthcare and one for employees without employer provided healthcare?
- Should the living wage rate be applied to more than only City contractors?
- Should development agreements be subject to the living wage or should the City continue to evaluate this on a case by case basis?

Council provided direction to make the City living wage at least \$19.35 with no distinction between employees who receive health insurance and those who do not receive health insurance from their employer. Council also directed staff to study and come back with the fiscal impact of this increase to the City's budget and social service agencies and a timeline and analysis for phasing it in.

Pending direction from the City Council, revisions to the living wage ordinance include the following to clarify its application and related administrative processes:

- Increasing the wage rate to \$19.35 per hour.
- Removing provisions related to health benefits.
- Modifying the annual cost adjustment factor to align with recently adopted language in the minimum wage ordinance.
- Updating the language related to supercession by collective bargaining agreement to align with recently adopted language in the minimum wage ordinance.
- Specifying an exemption for transitional employers to align with recently adopted language in the minimum wage ordinance.
- Specifying an exemption for employers that provide supported employment and job-related supportive services for individuals with significant disabilities.
- Options to delay implementation for the City's social service providers by three months, to October 1, 2022, to align with the new social services contract cycle.
- Options to align with the minimum wage ordinance.

Staff analyzed the impact of the proposed change in the living wage rate to the City's active service contracts. The proposed change is likely to affect approximately 30 contracts with an increase of \$1.2 million in annual contracting costs, as shown in the

table below (Table 5).

Table 5: Living Wage Analysis

Division	Description	Annual Cost Impact
Parking	3 affected contracts: Parking enforcement, parking facility operations, meter maintenance	\$350,000
Public Safety	2 affected contracts: Security Ambassadors, Security Guards	\$315,000
Social Services	14 affected contracts: Social Services (12), Transit Services (2)	\$35,000 \$100,000
Facilities & Field Services	8 affected contracts: Janitorial, landscaping, sidewalk & waste receptacle maintenance	\$330,000
Event Services	1 affected contract: Production assistance	\$30,000
Total Annual Cost Estimate		\$1,160,000

- **Alternative: Align with Hotel Worker / Minimum Wage on July 1, 2022**

Staff also modeled an option to the living wage rate that would align wages across the City based on the City’s recently adopted minimum wage ordinance. Under this alternative, the City Council would increase the Living Wage on July 1, 2022 to an hourly rate of approximately \$18.35 (about one dollar less than the originally proposed rate of \$19.35), which will be equal to the minimum wage for hotel employees on that date. The actual amount will be determined with the minimum wage ordinance and administrative regulation update. Under this alternative, the Living Wage would then be increased annually at the same rate as the City’s minimum wage. The same service contracts shown in Table 5 would be affected with an estimated annual cost impact to the City of approximately \$800,000.

4. Subcommittee Comments

The Finance and Budget Subcommittee, comprising the Mayor and Mayor Pro Tempore, held a public meeting on January 31, 2022. The subcommittee received a staff presentation on the FY22 Mid-Year Budget and proposed changes to the Living Wage Ordinance and provided feedback for incorporation into this item.

Regarding the update on the FY22 mid-year budget, the subcommittee discussed the impact of the Federal ARPA revenues on the city’s reserves. Staff clarified that the City continues to experience an operating deficit in which annual operating expenditures are projected to be higher than annual revenues in the General Fund. One-time funding such as from ARPA will be used to offset expenditures and will improve the City’s financial position by reducing the overall deficit resulting from the pandemic. The final installment of ARPA funding is expected to be received in July 2022. The subcommittee inquired about the development of the City’s mental health crisis response unit services and budget; staff confirmed that funding for the program would be discussed as part of the upcoming Fiscal Year 2022-23 (FY23) budget cycle.

Regarding the potential changes to the Living Wage Ordinance, the subcommittee discussed whether nonprofits should be exempted from the Living Wage Ordinance or if a blanket exemption was warranted. They were open to considering a waiver process similar to that in the minimum wage ordinance. The subcommittee asked for clarification regarding how and when the Living Wage Ordinance is applied; staff clarified that currently the ordinance only applies to those employees providing services to the City through a qualified service contract (typically more than \$25,000 and longer than 3 months). The subcommittee discussed when contracts subject to the ordinance would be renegotiated; staff indicated that contracts impacted by an update to the living wage rate would be renegotiated for a July 1, 2022 implementation date. Since most of the City's contracts are on a fiscal-year term (July 1 to June 30), the timing for renegotiation for many contracts will coincide with the implementation of any updates to the Living Wage Ordinance. An increase in the living wage rate typically results in higher costs to the City, as estimated above in Table 5. The subcommittee was supportive of including an alternative living wage rate in the staff report that would align the living wage with the City's minimum wage / hotel worker wage rate and annual increases in order to provide an equitable wage standard for workers and employers providing services to and throughout the City.

5. Vision 2020 Work Plan Accomplishments

This item provides a mid-year report on City progress toward accomplishment of the City's Primary Strategic Goals and Vision 2020 in *Attachment A*. Each City division and department has reported on its progress as of December 31, 2021. This year, accomplishments are shown in context next to the annual departmental work plans.

6. Capital Projects Report

This item provides a report on City progress toward accomplishment of the City's Capital Improvement Program in *Attachment B*. Each capital project funded in the five-year capital work plan has been updated to report on budget position, significant accomplishments, and project status as of December 31, 2021.

7. Conclusion

The City's approach to budgeting 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.

Use of Reserves – The original FY22 budget adopted in June of 2021 projected a budget deficit of \$6.9M using funds from General Fund Reserves. The updated budgeted deficit projected at mid-year is reduced to \$3.9M, primarily due to a sooner-than-anticipated recovery in hotel and sales tax revenues. Additionally, the City received \$4.4M in Federal emergency funds to date this fiscal year; these funds will be used to offset General Fund expenditures. In essence, the City will be replacing revenue lost during the COVID-19 pandemic, up to the total \$8.7 million amount allocated by ARPA, by spending it on current government services.

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 due to ongoing uncertainties related to the evolving nature of the pandemic. The operational program for FY23 will need to balance ongoing program and service expansions, for example: programming and staffing of the West Hollywood Park and the Recreation and Aquatic Center, startup of the Behavioral Health Crisis Unit, implementation of the seismic retrofit program, project labor agreements, and potential increases to the living wage; with revenue projections that allow for pandemic-related fluctuations. Operational revenue and expenditure budgets for FY23 and for the City’s capital program 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

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.
- ED-4: Monitor and evaluate economic conditions affecting the City’s economic climate.

EVALUATION PROCESSES:

The City is committed to monitoring the economic and fiscal conditions and impacts to the local economy. The strategies listed above will assist the City to ensure continued financial stability. Staff provides periodic reports to other Departments and the City Council.

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 or financial stress.

COMMUNITY ENGAGEMENT:

Information in this item was presented to the City Council Finance & Budget Committee on January 31, 2022. Public comment was included as part of the agenda. The meeting was streamed live and a recording remains available to the public on the City’s YouTube

channel at https://www.youtube.com/watch?v=3g_nZbX_Bms.

West Hollywood community members are encouraged to send questions to budget@weho.org.

OFFICE OF PRIMARY RESPONSIBILITY:

CITY MANAGER'S DEPARTMENT

FISCAL IMPACT:

This item provides an update on the City's current budget and authorizes the Director of Finance & Technology Services to make budget adjustments identified in the attached "Proposed Mid-Year Adjustments to the Fiscal Year 2021-22 Budget (*Attachment C*).

Increasing the Living Wage rate to \$19.35 per hour on July 1, 2022 is anticipated to cost the City approximately \$1.2 million annually due to increases in vendor costs; changing the alternative Living Wage rate to match the citywide hotel worker / minimum wage is estimated to cost approximately \$800,000 annually.

ATTACHMENTS:

- A. Mid-Year Report on City Progress toward Accomplishment of the Work Plan and Primary Strategic Goals of Vision 2020
- B. Capital Projects Report
- C. Proposed Mid-Year Adjustments to the Fiscal Year 2021-22 Budget
- D. City of West Hollywood Living Wage Ordinance (municipal code Chapter 3.20)