

SUBJECT: **UPDATE AND DISCUSSION OF THE FISCAL YEAR 2022-23 & 2023-24 BUDGET**

PREPARED BY: **CITY MANAGER'S DEPARTMENT**
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STATEMENT ON THE SUBJECT:

The Finance & Budget Subcommittee will receive an update on projections for the Two-Year Budget (Fiscal Years 2022-23 and 2023-24). The Finance & Budget Subcommittee will have the opportunity to discuss the Two-Year Budget in relationship to City priorities.

RECOMMENDATIONS:

Receive an update on and discuss the Two-Year Budget (Fiscal Years 2022-23 and 2023-24).

BACKGROUND / ANALYSIS:

The City is preparing the Two-Year Operating Budget and Capital Work Plan for City Council review, discussion, and approval in June. Based on actual and expected revenues received through March in the General Fund, the City projects the current fiscal year budget (FY2021-22 or FY22) will be balanced at the end of the fiscal year.

For Fiscal Year 2022-23 (FY23), the City anticipates a 17% increase to approximately \$130 million compared to the current fiscal year. This is an increase of nearly \$19 million over the approved, mid-year adjusted revenue budget. Expenditures are projected to balance with revenues in the Two-Year Budget. For Fiscal Year 2023-24 (FY24), the City projects General Fund revenues and expenditures will increase by 5% to \$36 million.

Two-Year Budget

Planning for the next fiscal year is ongoing. As California, the US, and other parts of the world begin to respond to COVID-19 as an endemic rather than pandemic state, social and economic behaviors have returned to those similar to 2019 and early 2020.

West Hollywood depends on a healthy tourism industry to provide a significant portion of its municipal revenues. Optimism regarding regional, national, and global travel and tourism spending suggest robust revenue growth when budgeting for the next fiscal year. The City will approach balancing revenue growth with continued expenditure restraint and prudent moderation in future expenditure obligations.

Risk factors that could substantially impact revenue collections in the Two-Year Budget

include uncertainty in the financial markets related to inflation and related Federal Reserve actions to raise interest rates. Higher interest rates make the cost of doing business go up, curtailing inflation, but can also stifle economic growth. The future course of the pandemic remains unclear, and if we have learned anything, it is that we do not know what will happen next. With the ongoing strength of vaccine effectiveness at preventing serious illness and death, we are hopeful that the worst is behind us.

Revenues

The City's FY22 General Fund revenue budget is \$111.5 million. In FY23, revenues are projected to increase by approximately \$18.7 million (17% growth). This projection is \$21 million higher than actual revenues received of \$109 million in 2020. In FY24, revenues are projected to increase by approximately \$ 6.0 million (5% growth).

- Taxes have historically comprised 70% of the City's General Fund revenues. In FY23 and FY24, taxes are expected to reach 75% of total revenues. This increase is primarily driven by higher sales tax receipts from the passage of local sales tax Measure E in 2020.
 - Sales Tax revenues are projected to increase by \$4 million in FY23 and another \$1 million in FY24, due to continued strong demand for goods and services combined with higher prices from supply-demand imbalances and inflationary pressure.
 - Property Tax revenues have remained steady and the regional housing market appears to be strong. Revenues are projected to grow by 7% in FY23 and 6% in FY24.
 - Transient Occupancy Tax revenues reflect a substantial rebound in tourism and visitation to the region. The City took a moderate approach to estimating the recovery speed and volume of the tourism industry in FY22 and actual receipts are on track to exceed budget expectations. TOT revenues are projected to grow by nearly 30% to \$28 million in FY23 and by another 7% in FY24. TOT revenue growth projections are supported by increases in occupancy to pre-pandemic levels and historic highs in average daily room rates. Room rates are reflective of the gradual shift in West Hollywood hotel brands to higher-end products and services.
 - Business License Tax revenues are projected to grow by 8% in FY23 and then remain flat in FY24. This reflects an expectation of strong growth over actual receipts in the current fiscal year, due to the strong pace of economic activity.
- License and permits are projected to remain a modest source of revenue for the City with limited growth over the current year, providing 5% of total revenues in FY23 and FY24. 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. Revenues are based on project planning and construction, which are subject to the demands of the real

estate market and development cycle, as so can fluctuate from year to year in total volume and payment timing.

- Parking Meter collections are a singular but substantial revenue source for the City at 5% of the General Fund. As we learned during the pandemic, parking meter receipts are closely tied to visitor-driven tourism. Parking meter revenues are projected to grow 5% each year and reach levels equivalent to FY18. Changes in visitor modes of travel, such as increases in the use of ride-share services, may be impacting total parking meter demand compared to peak revenues generated in 2019.
- Parking Fines provide 5% of General Fund revenues and are projected to grow by 1.5 million in FY23 and remain flat in FY24; receipts are currently ahead of projections in FY22.
- Other areas of revenue growth include sources related to the use of property, primarily revenues derived from digital advertising and building rents. These revenues are projected to grow by more than \$4 million in FY23, and by another \$1 million in FY24.

Expenditures

The City's FY22 General Fund regular expenditure budget is \$115.5 million. Based on projected revenues, the FY23 Budget can accommodate approximately \$14.5 million in expenditure growth to remain balanced. This would represent an increase of 12% in FY23. Expenditure growth of 5% is projected in FY24.

Major expenditure categories include wages and benefits, other operating costs, public safety, contract services, capital projects, and financing. Expenditures are expected to remain similar to the current fiscal year in the following areas:

- Financing and debt costs for the city's various bond issuances remain steady. Transfers from the General Fund to other funds have been removed from the base Two-Year Budget and will be brought forward if necessary to Council.
- 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 \$290,000 to \$19.5 million, 1.5% higher than FY22 and related entirely to contractual cost increases. Liability premiums for the Sheriff are charged to the City at a rate of 11% and comprise \$1.9 million of the contract. The liability rate has remained steady at 11% for the past three fiscal years. The city is proposing to add funding to the public safety budget for special event coverage. The City also budgets funding for as-needed supplemental patrol services.

Significant budget increases are projected in the following areas:

- Wages & Benefits will increase by \$3 million in FY23 as the city continues to fill positions held vacant at the onset of the pandemic and cover increases in healthcare and other MOU provisions. \$2 million is budgeted for seasonal recreation and aquatic employees in FY23. Full seasonal staffing costs for

recreational and aquatic coverage between West Hollywood Park, the Aquatic and Recreation Center, a Plummer Park are projected to increase to \$3 million in FY24 once all facilities are operating at normal capacity.

- Total contract services costs are projected to increase by 13 percent in FY23. This is largely driven by increases in operating and general maintenance contracts for city facilities and parking operations. The contracts budget for West Hollywood Park, Library, and the ARC has increased from \$2.2 million to \$3.7 million, partially driven by an increase from partial to full year operations and partially driven by higher service costs. Costs have risen due to cost-of-living adjustments, living wage impacts, and increases in the costs of underlying supplies and materials.
- Maintenance & utility expenditures are anticipated to rise by nearly 50%, largely driven by significant utility costs increases at city facilities.
- Property and earthquake insurance costs have increased by \$320,000. Attorney services costs have increased by a similar amount.
- Capital funding in the Two-Year Budget will increase by \$2.2 million to a projected total of \$3.4 million annually. Increases are a combination of the resumption of regularly scheduled capital maintenance to streets, sidewalks, and city facilities, combined with the initiation of several new initiatives. Major project funding in the General Fund is directed to an upgrade to the City's land management and permitting system, initiation of design work for the installation of electric vehicle charging stations throughout the city, advancement of the Santa Monica and Sunset Boulevard Fiber and Wi-Fi networks, ongoing support for Bicycle and Pedestrian plan Implementation, and expansion of the automated license plate reader (ALPR) camera system.

Carryover and new funding from other (non-General Fund) sources will be used to continue the community outreach, comprehensive planning and design, and eventual redevelopment of numerous city facilities, including the former Coast Playhouse, Plummer Park, Log Cabin, Laurel House, and Hart Park. The Design District will continue construction of the current phase of work; funding for the next phase is anticipated in FY24. Advocacy for bringing Metro rail service to West Hollywood remains fully funded.

- Community Safety & Well-Being continues to be a high priority of the City. The preliminary budget includes \$700,000 in new annual funding for new social services programming related to food security and expanded street-based services focusing on the unhoused, including the addition of outreach teams that have the capacity for timely response and evening and weekend shifts. The budget also includes regular cost of living increases for contracted vendors, and the transfer of several social service contracts from the Public Safety department into the Human Services & Rent Stabilization Department. The City is moving aggressively forward in developing the CARES Team implementation plan. The Two-Year Budget does not include FY23 funding for the program, as those estimates are still being refined and will be brought to Council for approval at the time funds are needed; initial estimates are about \$1.5 million for the first year. The projected annual operating budget for 24/7 operations of the West Hollywood Care

Team, once fully operational, ranges from \$2.5 million to \$4 million. The Two-Year budget also includes \$500,000 for an audit of the Sheriff's contract and a feasibility analysis of creating a municipal police department.

- Other proposed one-time projects and expenditure adjustments to the Two-Year Budget include:
 - \$500,000 for completion of the Housing Element and updates to General Plan updates.
 - \$325,000 for reactivation of economic and business development services.
 - \$225,000 for development of a transportation demand management oversight program for monitoring and evaluation.

Community Safety & Well-Being

The following provides information on various elements of the city's community safety and well-being program.

- Care Team: The West Hollywood Care Team is being developed as a first responder service for community members experiencing a behavioral health crisis; the Care Team will function as an alternative to law enforcement to address mental health and social service needs. The Two-Year Budget work plan includes continued focus on the future integration of the West Hollywood Care Team into the design of the region's 988 call center; exploration of additional partnerships with non-profit, government and healthcare agencies for the provision of services; conducting a proposal process to contract with some of those partners, and the ultimate deployment of the service program.

The projected annual operating budget for continuous operation of the West Hollywood Care Team is currently between \$2.5 million and \$4 million, which includes 988 telephone access line, crisis counseling call center, dispatch, and the Care Team's direct service to community members. The projected expense to build and begin Care Team operations in FY23 is \$1.5M. Expenditures are likely to include purchase, retrofit and branding the Care Team vans; producing marketing and communications assets; up to six months of Care Team staffing on a limited schedule; cost of call center and dispatch services; and purchase of technology and supplies for contracted Care Team provider. To help with programmatic costs, the Strategic Initiatives Division is working to partner with LA County and the Department of Mental Health to ensure that all eligible direct services provided by the Care Team are billed to Medi-Cal for reimbursement; this enables the City to leverage federal and state support for mobile crisis care. A request for funding to support the start-up phase of the program will be brought forward separately from the Two-Year Budget.

- Security Ambassadors: Over the past five years, the City has supplemented its Community 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 from a budget of \$692,000 in FY16 to \$2.4 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 had a FY22 budget of \$500,000.

The city re-bid security services in the spring of 2022 and has selected the current Security Ambassador program vendor, Block by Block, to deliver services formerly provided by security guards. This will consolidate non-armed community public safety support across city facilities and in our public realm.

Additional funding has been added to the Two-Year budget for expanded security ambassador services, including fixed-post and kiosk services at several parks and along several major roadways.

- In Person Events: The City Council has indicated support for the return of in-person events. Funding for council-initiated events and for public safety support for other city events has been included in the Two-Year Budget.

The City has budgeted \$1.8 million from FY22 reserves for the inaugural WeHo Pride celebration and Pride Parade in June 2022. The preliminary proposed Two-Year Budget includes up to \$1.8 million for Pride and related activities and events in June each year. These costs include public safety and production support. The FY23 budget may need to be adjusted after the inaugural event and funding reconciliation is complete.

Halloween Carnival is a \$2 million, one-night event. 60% of costs are directly for Public Safety. The City Council Events Subcommittee did not recommend including it in the Two-Year budget.

- Sheriff Contract: In addition to general patrol deputies, which are delivered based on minutes of services, the City contracts for a Mental Evaluation Team (MET) and Community Impact Teams (CIT), both of which are position-based units. MET specializes in serving individuals experiencing a mental health crisis with the goal of diverting their path from the criminal justice system into behavioral health services and housing. When not on crisis calls, the MET unit proactively engages with homeless community members to build rapport and provide ongoing assessment. The MET unit coordinates with the City, as well as City-contracted service providers, to connect people to services. Additionally, the MET unit has been vital in preventing homelessness among West Hollywood's older adult residents who are impacted by mental health symptoms or cognitive decline due to dementia.

In 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 included in the regularly contracted Sheriff services costs described above.

The Community Impact Team currently consists of a 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 neighborhood quality of life concerns. CIT conducts weekly 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. 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 various crime-prevention operations such as saturation patrols and plain clothes operations targeting criminal activity such as burglaries, mail theft, and robberies.

Items for Discussion and Next Steps

The City's strategy to balance the Two-Year Budget focuses on supporting a well-balanced revenue strategy and managing expenditure growth. One-time capital investments are largely planned to be funded using remaining reserves from long-term debt financing or one-time drawdowns from capital reserves.

Use of Reserves – The Two-Year General Fund budget is currently balanced; any excess of revenues over expenditures will be used to replenish reserves during the pandemic to maintain operations and provide emergency 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 – Staff anticipates that the next two years will include extensive planning, design, and implementation of both ongoing operational programs and long-term capital assets. We are moving forward with a Two-Year Budget and work plan that is significantly more expansive than prior years. It includes a fully operational and programmed Aquatic and Recreation Center, implementation of the Care Team, increases in social services delivery to the community, and expansion of the Security Ambassador program. 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 FY23 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.

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.

OFFICE OF PRIMARY RESPONSIBILITY:

CITY MANAGER'S DEPARTMENT

FISCAL IMPACT:

The City appears to be experiencing a rapid fiscal rebound from the COVID-19 pandemic. Compared to actual and projected General Fund budget deficits of the past three years, the Two-Year Budget projects a return to fiscal balance and a resumption of expansive program and service delivery. General Fund revenues and expenditures are preliminarily projected to reach \$130 million in FY23 and \$136 million in FY24.

ATTACHMENTS:

None