

SUBJECT: FY 2023-24 SECOND-YEAR UPDATE TO THE CITY'S TWO-YEAR OPERATING BUDGET AND CAPITAL WORK PLAN

PREPARED BY: CITY MANAGER'S DEPARTMENT
(David A. Wilson, City Manager)
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FINANCE & TECHNOLOGY SERVICES DEPARTMENT
(Lorena Quijano, Director)
(Annie Ruiz, Revenue Manager)

STATEMENT ON THE SUBJECT:

The City Council will consider adopting the second-year update to the West Hollywood Operating Budget and Capital Work Plan for Fiscal Years 2022-23 & 2023-24.

RECOMMENDATIONS:

- 1) Adopt Resolution No. 23-_____ "A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WEST HOLLYWOOD ADOPTING THE BUDGET FOR FISCAL YEAR 2023-24" (Attachment A) as specified in the Statement of Changes to Fund Balance, or as amended by the City Council.
- 2) Authorize the Director of Finance & Technology Services to allocate \$2 million in General Fund Reserves for purchase of Proposition A Funds.
- 3) Adopt the division and capital work plans presented in the Second-Year Update to the Two-Year Operating Budget and Capital Work Plan, as previously provided to the City Council and the public on the City's website, www.weho.org/budget.
- 4) Approve the list of Pre-Approved Organizations and Events for City

Councilmembers to attend at the City's expense (Attachment B).

5) Approve the list of Budgeted Special Events (Attachment C).

BACKGROUND / ANALYSIS:

This item presents the second-year update to the Fiscal Year 2022-23 and 2023-24 Budget for the City of West Hollywood (Two-Year Budget) that addresses the key priorities and strategic goals of our city, constituents, and elected officials. This staff report provides excerpts for the City Manager's Transmittal Letter in the budget document.

The budget proposal for the second-year update reflects the City's continued commitment to fiscal responsibility, economic growth, and the overall well-being of our community. It builds upon the foundation laid in the first year of the Two-Year Budget and takes into account changes in the economic landscape, new initiatives, and feedback received from stakeholders throughout the past year.

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.

The second year of the Two-Year Budget cycle will include extensive planning, design, and implementation of both ongoing operational programs and long-term capital improvements. We continue to move forward with a budget and work plan that is significantly more expansive than prior budgeting periods. 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 Community Safety programs. The City's operational program for FY24 requires balancing programmatic expansions with ongoing maintenance of community services to preserve a healthy and balanced fiscal position.

The City continues to focus on maintaining a structurally balanced budget emphasizing:

- Financial Stability: The budget proposal emphasizes prudent financial

management to ensure the City's long-term financial sustainability. We have conducted a thorough analysis of revenue projections, expenditure requirements, and debt obligations to ensure that the City remains in a strong financial position.

- **Community Safety and Well-Being:** The safety and security of our community members are paramount. The budget proposal allocates resources to enhance public safety services, including law enforcement, health and well-being, behavioral crisis response, and neighborhood and business safety initiatives.
- **Infrastructure Development:** Recognizing the importance of maintaining and improving our city's capital infrastructure, a substantial portion of the budget has been allocated to capital improvement projects. This includes investments in streets and sidewalks, parks and public facilities, public transit, and technology upgrades.
- **Community Service:** We are committed to fostering a vibrant and inclusive community and providing services that enhance neighborhood and economic vitality. The budget proposal allocates funds for various community services and community development programs, including rent stabilization and affordable housing initiatives, neighborhood revitalization projects, and the provision of other services.

Proposed Budget for Fiscal Year 2023-24

All Funds

The budget for FY24 presents a spending plan across all funds that anticipates total revenues of \$185 million, inter-fund transfers of \$19.2 million, and total operating expenses of \$179 million. The budgeted amount for capital improvement projects is \$15.8 million for all funds.

General Fund

In the General Fund, FY24 revenues are projected to exceed expenditures by \$39,115. The General Fund budget anticipates revenues of \$151 million, operating expenditures

of \$136 million, capital expenditures of \$5.2 million, and transfers out to other funds of \$10.1 million.

The total change in proposed General Fund expenditures for FY24 is an increase of \$11 million compared to the FY23 approved mid-year budget. Planned drawdowns are projected at \$2.0 million from reserves for Proposition A purchases.

The remainder of this staff analysis is organized into the following discussion areas:

1. Risk Factors
2. Revenues
3. Expenditures
4. Community Safety & Well-Being
5. City Events
6. Capital Program
7. Organizational Enhancements
8. Subcommittee Comments
9. Conclusion

1. Risk Factors

The City is carefully monitoring state and national indicators to plan for and respond to changes in economic conditions. In May 2023, U.S. debt ceiling negotiations and the possibility of a default dominated economic discussions; a subsequent Congressional deal suspended the debt ceiling cap to January 2025. At the national level, this alleviated near-term uncertainty in economic markets and turned the focus back to the macroeconomic factors including inflation and a tight labor market.

At the state level, following two years of unprecedented growth, state revenues fell short of monthly projections going back to June 2022. Consistent under-performance in personal income tax withholding from high-income taxpayers translated into lower state revenue. Combined with high inflation and higher interest rates, the Governor of California's "May Revision" to the state budget (published in May 2023) projects a \$31.5 billion shortfall. While the May Revision does not project a recession, it recognizes increased risks that could significantly change the state's fiscal trajectory in the near term, which would impact county and local finances. These include higher interest rates,

uncertainty in financial institutions (regional bank failures), and delayed federal and state tax filings.

2. Revenues

Over the past decade, the City of West Hollywood experienced significant revenue growth in multiple tax revenue sources. The COVID-19 pandemic had a substantial negative impact on the City's revenue receipts in FY20 and FY21. Revenues have recovered and are projected to exceed pre-pandemic levels in the second year of the Two-Year Budget. The City's tourism industry, which has historically been one of the City's strongest sectors for both private employment and tax revenue, continued to operate robustly, from a revenue point of view, in the first half of the calendar year 2023 and performance is projected to remain healthy.

In FY24, the City anticipates sustained growth in tax revenues. Taxes have historically comprised 70-75% of the City's General Fund revenues. In FY24, taxes are expected to reach 71% of total revenues. A relatively new area of revenue growth for the City includes sources related to the use of property, primarily revenues derived from digital advertising and property leasing agreements.

The City believes that the proposed revenue estimates for the second-year update to the Two-Year Budget are reasonable under current conditions.

3. Expenditures

As we move into the second year of the Two-Year Budget, the City will continue to focus on the priorities identified in recent years: community safety and well-being; neighborhood livability; economic vitality; and capital project management. Staff continue to closely monitor the economic trends of the region and nation and regularly evaluate the impacts of the proposed programmatic changes to the City's core municipal service offerings.

The City's original FY23 expenditure budget was approved at \$130.3 million on July 1, 2022. The approved mid-year expenditure budget increased to \$139.5 million. Based on projected FY24 revenues of \$151 million, the second-year update to the Two-Year Budget can accommodate approximately \$11.4 million in expenditure growth to remain balanced. This represents an increase of 8% over the approved FY23 mid-year budget.

4. Community Safety & Well-Being

For nearly four decades, the City has worked diligently to develop programs that defend the fundamental rights of our community members and also contribute to the safety and well-being of our constituents. These programs are balanced with a deep commitment to provide community safety and social services. In order to reduce crime and increase safety, the City contracts with the Los Angeles County Sheriff's Department for law enforcement services, with Block-By-Block for unarmed safety and security services, and is part of the Los Angeles County Fire District for fire protection services. The City also provides robust social services to support community members and has done so for decades. The City currently funds programs that include services for seniors, people with HIV and AIDS, members of the LGBTQ community, people with disabilities, alcohol and drug use recovery, support programs for Russian-speaking immigrants, services for people who are homeless, food programs, and health care services for people who are uninsured. The City's commitment to social justice and equal rights is the foundation of this approach.

5. City Events

The City hosted the second annual West Hollywood Pride, drawing thousands of visitors to the City to celebrate. The FY24 budget includes \$6.0 million in funding for public safety, production, and logistics support for WeHo Pride 2024.

The City Council Finance and Budget Subcommittee recommended including funding in the FY24 budget for a city-wide Halloween activation in October 2023. This budget update includes \$1.5 million in funding for a one-night Halloween celebration with a full street closure of Santa Monica Blvd from La Cienega to Doheny, public safety, and event services and logistics support.

The FY24 Budget includes \$250,000 in funding for visioning and planning of an arts and cultural events experience and activities to support the local business community during the 2028 Olympics (Los Angeles). By engaging now in this visioning exercise, the City will have time to develop ideas and perspectives for an experience that will spark dialogue, ignite imaginations, and leave a lasting impression on all who attend. As part of the FY24 budget allocation, we will establish a plan (purpose, goals, and vision) for the

experience, engage creators and curators, and begin work with relevant City Commissions, Advisory Boards, and Task Forces.

The City is budgeting \$150,000 for contracted event support services to provide planning and logistical support for community events managed by the Community Services Department. This includes support for both existing and new events, programs, and co-sponsorships planned throughout the fiscal year.

6. Capital Program

In FY24, capital funding will increase by \$1.6 million to a total of \$5.2 million. Increases include higher costs for regularly scheduled capital maintenance to streets, sidewalks, and city facilities, combined with the implementation of several priority initiatives. Major project funding in the General Fund continues to be directed to an upgrade to the City's land management and permitting system, ongoing 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.

7. Organizational Enhancements

The City Manager's recommended second-year budget update includes additional enhancements within the organization that will continue to advance the City's commitment to providing effective and efficient public services, civic engagement, and transparency. The new fiscal year includes the organizational structure changes approved by Council on May 15, 2023.

8. Subcommittee Comments

The City Council Finance & Budget Subcommittee, comprising Mayor Shyne and Mayor Pro Tempore Erickson, held a public meeting on April 20, 2023 to discuss priorities for the Second-Year Update to the Two-Year Budget. The meeting included public comment, presentation of significant budget changes including a recommendation to host a city-wide Halloween event, and Subcommittee discussion.

Subcommittee members Shyne and Erickson were generally supportive of the concepts

presented regarding Halloween. Subcommittee member Shyne commented on her interest in ensuring the visible presence by Block by Block Security Ambassadors. She commented on her concerns regarding the inclusion of live music or DJ performances. She asked that the City consider waiving special event permit fees for businesses and for a post-event survey. The City Council subsequently considered and approved an item at the May 15, 2023 City Council meeting outlining the general program and budget for Halloween 2023 including street closures, temporary infrastructure, Special Event Permit fee waivers, enhanced public safety resources, and a DJ.

Mayor Pro Tempore Erickson noted that the County of Los Angeles determines the Cost-of-Living Increases for the Sheriff's Department and mentioned the increase in the liability rate charged by the County for Sheriff's services.

Mayor Shyne noted that with the minimum wage ordinance codified, the City continued to experience a growth in revenue and that economic recovery includes everyone.

Mayor Pro Tempore noted his priorities are housing, community safety, and businesses. He was open to increasing the number of Code Compliance/Enforcement Officers and with adding a historic preservation planner. He would like additional Security Ambassadors along Sunset Boulevard. He noted that the Care Team is key and should receive adequate funding.

Mayor Shyne stressed the importance of both the MIT (mobile interdisciplinary team) and Care Team moving forward. She indicated her support for the items of importance to the Public Facilities, Recreation, and Infrastructure Commission as reported by Andrew Solomon, Commissioner, under Public Comment including shade for the Plummer Park playground, the vestibule at the West Hollywood Library, windows and stucco for the Werle Building, a new roof for Great Hall/Long Hall at Plummer Park, and updates and maintenance of the City's Pickleball facilities.

9. Conclusion

The City's strategy to balance the budget remains focused on supporting a well-balanced revenue strategy and managing expenditure growth. One-time capital investments are largely proposed to be funded using remaining reserves from long-term debt financing or

one-time drawdowns from capital reserves.

The FY24 General Fund budget is currently balanced; any excess of revenues over expenditures will be used to build reserves for future emergencies and fund the City's ambitious capital program.

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.

EVALUATION PROCESSES:

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

ENVIRONMENTAL SUSTAINABILITY AND HEALTH:

Financial reports and information have been provided electronically to improve environmental sustainability and accessibility. Current and historical budget documents are available online at www.weho.org/budget. Detailed budget data is also available at <https://data.weho.org>.

COMMUNITY ENGAGEMENT:

On Thursday, April 20, 2023 at 6:30 p.m., the City hosted a public meeting of the City Council Finance and Budget Subcommittee at City Hall to discuss budget priorities for the Two-Year Budget. The meeting included public comment, staff presentation, and Subcommittee discussion. The meeting was announced in advance by News Release, social media postings, and was listed on the City's website calendar. The meeting agenda, staff presentation, Clerk's record of the meeting, and audio recording are available on the City's website at the City Council Agenda webpage, in the Finance and Budget Subcommittee section, at <https://www.weho.org/city-government/city-council/council-agendas>.

On June 12, 2023, staff distributed the Preliminary Second-Year Update to the Two-Year Operating Budget and Capital Work Plan, including work plans and accomplishments, to the City Council and the public by electronic copy. The interactive preliminary budget book is available on the City's website at www.weho.org/budget.

Detailed budget data can be viewed and downloaded from the City's Budget Transparency center. This allows interested individuals to drill down into the proposed budget using various charts and graphs, including current and historic budget line-item account level detail in an easy to use and exportable format. The transparency center may be accessed at www.weho.org/budget.

OFFICE OF PRIMARY RESPONSIBILITY:

CITY MANAGER'S DEPARTMENT / CITY MANAGER'S OFFICE

FISCAL IMPACT:

All Funds: The budget for FY24 presents a spending plan across all funds that anticipates total revenues of \$185 million, inter-fund transfers of \$19.2 million, and total operating expenses of \$179 million. The budgeted amount for capital improvement projects is \$15.8 million for all funds.

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	FY24
General Fund	
Revenues	\$150,936,245
Transfers out to Other Funds	(\$10,085,020)
Operating Expenditures	\$135,634,635
Capital Expenditures	\$5,177,475
Change to Fund Balance	\$39,115
All Funds	
Revenues	\$185,360,506
Inter-Fund Transfers	\$19,182,256
Operating Expenditures	\$178,725,842
Capital Expenditures	\$15,775,383
Change to Fund Balance	(\$9,140,719)

ATTACHMENTS:

Attachment A: Resolution No. 23-_____ “A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF WEST HOLLYWOOD ADOPTING THE BUDGET FOR FISCAL YEAR 2023-24”, including the 2023-24 Statement of Changes to Fund Balance

Attachment B: List of Pre-Approved Organizations and Events for Councilmember Travel

Attachment C: List of Budgeted Special Events

Attachment D: City Manager-Recommended Second-Year Update to the Two-Year Budget