SUBJECT: UPDATE OF THE 2019-20 OPERATING BUDGET & ACCOMPLISHMENTS

INITIATED BY: CITY MANAGER'S DEPARTMENT
(Paul Arevalo, City Manager) (David A. Wilson, Assistant City Manager)

FINANCE AND TECHNOLOGY SERVICES DEPARTMENT
(Lorena Quijano, Director) (Annie Ruiz, Revenue Manager) (Christine Safriet, Senior Management Analyst)

STATEMENT ON THE SUBJECT:
The City Council will consider a mid-year update to the 2019-20 Operating Budget, as well as receive an update on work program accomplishments and organizational changes. The proposed mid-year adjustments to the General Fund include: $3,392,000 in operating revenue, $340,000 in operating expenditures, and $75,000 in capital expenditures from reserves. There are also $790,000 in proposed transfers from the General Fund to the Gas Tax fund and the Sunset Bid Fund to offset negative fund balances. In other funds, proposed mid-year adjustments include: $130,000 in Measure R expenditures; $260,000 in Parking Improvement Fund expenditures; and $150,000 in Debt Funded Capital Project Fund expenditures. The City Council will also consider authorizing a one-time payment towards the City’s unfunded pension liability with CALPERS.

RECOMMENDATIONS:
1) Approve budget adjustments identified in the attached “Proposed Mid-Year Adjustments to the Fiscal Year 2019-20 Budget” (Attachment A).
2) Approve a one-time payment toward the CALPERS unfunded liability up to the amount available from General Fund Reserves for Unfunded Pension Costs (currently $10 million) by June 30, 2020.
3) Receive and file the attached:
   a. Mid-Year Financial Report (Attachment B),
   b. Vision 2020 Work Plan Accomplishments (Attachment C), and

BACKGROUND / ANALYSIS:
Each year, the City of West Hollywood develops a budget that addresses the needs of
the City’s diverse community, reflects shared priorities and moves the City toward the goals and objectives established in the Vision 2020 strategic plan. This is the third update of the 2018-2020 budget cycle. This update includes the following:

- “Proposed Mid-Year Adjustments to the Fiscal Year 2019-20 Budget” (Attachment A) that identifies the recommended budget changes;
- “Mid-Year Financial Report” (Attachment B) that provides a status update on the City’s Fiscal Year 2019-20 Budget; and
- “Mid-Year Report on City Progress toward Accomplishment of the Primary Strategic Goals of Vision 2020” (Attachment C) that details the accomplishments of each City Department between July and December of 2019.
- “Capital Projects Report” (Attachment D) that provides a snapshot of the current status and the key milestones reached to date for projects identified in the City’s five-year capital improvement program.

Proposed Mid-Year Adjustments to the Budget

After thorough review of the City’s General Fund revenues and expenditures to date, staff believes the current budget will meet expectations and allow for a few adjustments to the budget and work plans. Attachment A provides details regarding the proposed mid-year budget adjustments. The adopted budget for Fiscal Year 2019-20 had a General Fund surplus of $24,653. Since the start of the fiscal year, the City Council has approved various supplemental expenditures and revenue reductions in the amount of $18,008,519 from the General Fund, of which $14,936,940 were drawdowns from capital and operating reserves designated for specific projects, $2,431,579 were from unallocated reserves, and $640,000 were reductions in appropriated revenues. Details regarding these supplemental appropriations are provided in Figure 1 of Attachment B.

The following discussion provides an overview of the mid-year budget recommendations.

Revenue Adjustments

As part of the mid-year budget update, staff recommends that the City Council approve General Fund revenue adjustments totaling $3,392,000. The recommended adjustments that are related to ongoing revenues will be incorporated into future budgets.

The first ongoing adjustment is a $700,000 increase to property tax revenues. Although property tax rates remain unchanged, revenue from property tax continues to show moderate and steady gains due to a combination of factors, including rising property values, higher volumes of sales transactions, and the addition of new buildings to the City’s property tax roll.

The second ongoing adjustment is a $450,000 increase in vehicle license fee in lieu of taxes revenue; this is directly related to an increase in property tax receipts.

The third ongoing adjustment is a $400,000 increase to sales tax revenues. Sales tax revenue has shown steady growth in recent years and is expected to continue to increase in the near future. The major driver is the increase in revenues received from
sales at restaurants and hotels. Another significant factor is the addition of recreational Cannabis sales that began on January 1, 2018.

There are also three one-time revenue adjustments totaling $1,842,000. These include an increase in building permit revenues, a one-time park grant reimbursement to the General Fund, and a developer fee forfeiture.

**Expenditure Adjustments**

As part of the mid-year budget update, staff recommends additional General Fund expenditures totaling $415,000, and additional expenditures in other funds of $540,000. The recommended adjustments are described below and are organized by the key initiatives for enhanced services as identified in the two-year budget.

- **Neighborhood Livability**

  Since August, the Code Compliance Division has had one vacant field position. Simultaneously, the City experienced a 30 percent increase in service requests. The proposed budget adjustments include $75,000 for temporary staffing support for the for the remainder of the fiscal year.

  The Planning Department originally requested $100,000 to cover one vacant position but has since needed to utilize two additional temporary workers to cover additional vacancies. Since the start of the year, two additional vacancies have occurred. Temporary contract planners have been hired while recruitments are underway. The proposed budget adjustments include $200,000 for continued staffing support to advance work program items including parklet evaluations, the Climate Action and Adaption Program, and the Sunset Arts and Advertising Program, among other projects.

- **Capital Project Management**

  The proposed budget adjustments include $260,000 to complete the construction of electric vehicle charging locations in City-owned parking garages. The design for the EV charging stations has been completed and Con Edision has provided power connection points. Bids from the construction portion of the project have been opened and the project is expected to be awarded in March. The additional funding will be used to pay the winning bidder.

  The proposed budget adjustments include $90,000 to pave the alleys below Melrose and Melrose Place and to stencil addresses on the curb.

  The proposed budget adjustments include $130,000 for sidewalk inspections and additional curb, gutter, and road repairs. The sidewalk maintenance program in the Field and Recreation Services Department has been expanded to include inspection services previously done by the Engineering Department and were not originally budgeted. Additionally, excess tree growth has led to an increase in repair work and additional funding is required to continue fielding street maintenance requests.

  The proposed budget adjustments include $150,000 for the Plummer Park parking lot rehabilitation to install pervious concrete. The original budget of $200,000 considered only standard soil conditions, but the geotechnical report indicates that the scope of soil excavation will need to increase.
Organizational Development

The proposed budget adjustments include $50,000 for consultant-led employee training on conflict resolution, communication skills, learning assessments, and providing critical feedback. The training program provides individual and group assessment of the issues that are causing conflict and what tools and coping methods can be employed to support a work culture of empathy, cohesiveness, and collaboration. This training program will help ensure that the City continues to be a high-performing workplace.

Transfers to Other Funds

There are $790,000 in proposed transfers from the General Fund to the Gas Tax fund and the Sunset Bid Fund to offset negative fund balances. The Gas Tax fund has a negative fund balance of $602,314 related to prior year project expenditures that were in excess of the amount received from the State; the proposed adjustment includes a transfer from the General Fund of $605,000 to eliminate the deficit. The Sunset Strip BID fund has a negative fund balance of $184,448 related to prior year waived penalties that were previously recorded as revenue; the proposed budget adjustments include a transfer from the General Fund of $185,000 to eliminate the deficit.

City of West Hollywood Mid-Year Financial Report

Analysis of the City’s actual revenues and expenditures compared to budgeted values is provided in Attachment B.

Revenues

During the first half of fiscal year 2019-20, the City’s General Fund revenue reached 49% of budget and increased by 13% compared to the same period in the prior year. Several of the City’s General Fund revenues, particularly transient occupancy taxes and property taxes, are seasonal with a higher percentage received in the second half of the fiscal year. Based on the strength of the economy and revenue performance this fiscal year to date, it is anticipated that the City will meet its revenue budget projection for the 2019-20 fiscal year.

The City’s leading source of revenue, transient occupancy tax, increased by 11% in the first half of the fiscal year compared to the same period last year; this is primarily due to the opening of the Edition hotel in the fall of 2019, as well as continued strong performance across the market with average occupancy in the low 80 percent range and average daily rates of approximately $300. TOT collection through the first six months of the fiscal year totaled approximately $14 million, which is on pace to meet the City’s projected budget (TOT collections are typically higher during the second half of the fiscal year).

The City’s second major revenue source is property tax, which reached 41% of budgeted revenue for the first half of the fiscal year. Approximately forty percent of property taxes collected by the County are forwarded to the City in December and the annual administration fee is deducted from that amount. The remaining property tax collections are received by the City during the second half of the fiscal year. Receipts indicate property tax revenues are on pace to surpass budget projections. The increase
in property taxes is due to a combination of factors, including rising property values, steady sales volume, and the addition of new buildings to the City’s property tax roll.

The City’s other major revenue sources in the General Fund showed mixed results compared to the same period last year. Revenues in other funds were approximately on pace with the same period last fiscal year.

**Expenditures**

Expenditures are normal for the first half of the fiscal year; 38% of the General Fund budget has been expended, keeping on pace with the same period last year. Public safety costs are 6% higher compared to the same period last year. This is due to a budgeted increase in the Sheriff’s contract as well as expansion of the Community Impact team and the Security Ambassador program. Expenditures for city wages and benefits increased by 10% compared to the prior year, while expenditures for capital projects and financing and transfers both decreased.

The City expended 25% of budgeted funds from all other funds (non-General Fund dollars). Expenditures in other funds decreased by 3% compared to the same period last year. This change is primarily attributable to the timing, scope, and size of capital project expenditures and the timing of debt payments and related transactions.

Over the last several years, the City’s budget has remained structurally sound with balanced growth projections for operating revenues and expenditures. The City will continue to closely watch local, regional, state, and national indicators and trends.

Further information can be found in **Attachment B**.

**Vision 2020 Work Plan Accomplishments**

This item also provides a mid-year report on City progress toward accomplishment of the City’s Primary Strategic Goals and Vision 2020 in **Attachment C**. Each City division and department has reported on its progress as of December 31, 2019.

**Capital Projects Report**

This item also provides a report on City progress toward accomplishment of the City’s Capital Improvement Program in **Attachment D**. Each capital project funded in the five-year capital work plan has been updated to report significant accomplishments and project status as of December 31, 2019.

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

**EVALUATION PROCESSES:**
The Finance and Technology Services Department continuously monitors the City’s revenues and expenditures, and brings forth budget adjustment recommendations as necessary, to ensure budget projections are met. The Department also monitors the external economic environment to seek fiscal savings and determine impacts of the business climate and State legislation. Staff provides periodic reports to other Departments and the City Council.

**ENVIRONMENTAL SUSTAINABILITY AND HEALTH:**
Efforts have been made to provide financial reports and information electronically to increase environmental sustainability.

**OFFICE OF PRIMARY RESPONSIBILITY:**
FINANCE & TECHNOLOGY SERVICES 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 2019-20 Budget (Attachment A). The item also authorized the Director of Finance and Technology Services to make a one-time payment toward the City’s unfunded liability with CALPERS in an amount up to the amount available from General Fund Reserves for Unfunded Pension Costs (currently $10 million) by June 30, 2020.

**ATTACHMENTS:**
A. Proposed Mid-Year Adjustments to the Fiscal Year 2019-20 Budget
B. Mid-Year Financial Report
C. Mid-Year Report on City Progress toward Accomplishment of the Primary Strategic Goals of Vision 2020
D. Capital Projects Report
ATTACHMENTS

2019-20 Mid-Year Budget Update

Attachment A - (Page 2) Proposed Mid-Year Adjustments to the Fiscal Year 2019-20 Budget

Attachment B - (Page 4) Mid-Year Financial Report (July 1, 2019 - December 31, 2019)

Attachment C - (Page 14) Mid-Year Report on City Progress toward Accomplishment of the Primary Strategic Goals of Vision 2020 (as of December 31, 2019)

Attachment D - (Page 60) Capital Projects Report (as of December 31, 2019)