

To the members of the:  
CITY COUNCIL  
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Memo ID# 2024004

## Council Memorandum

January 18, 2024

**To:** Honorable Mayor Blackburn and Members of the City Council  
**From:** Scott Chadwick, City Manager  
**Re:** **Overview of the Fiscal Year 2024-25 Budget Process, Timeline and Proposed Position Reductions (Districts – All)**

Consistent with the City Council's desire to reduce ongoing spending due to the forecasted General Fund structural budget deficit and to demonstrate the most prudent use of city resources, staff has prepared this memorandum about the planning and development of the fiscal year 2024-25 budget. Included in this memorandum are:

- An overview of the city's current economic outlook.
- A budget planning calendar.
- Direction provided to departments as they prepare their proposed budgets.
- A new approach that will better align the Capital Improvement Program with the City Council's 5-year Strategic Plan, while increasing transparency and City Council involvement in project timing and funding.
- An overview of the process to propose projects for the Strategic Digital Transformation Investment Program.
- A plan to eliminate the equivalent of 12 full-time positions from the city's workforce in the fiscal year 2024-25 budget, which goes into effect July 1, 2024.

### Background

The City Council sets the overall policy direction for the City of Carlsbad and helps staff prioritize programs, projects and services to support that direction. Public input plays a critical role in setting both the long-range policy direction of the city and decisions about day-to-day spending. The City Council adopted a 5-Year Strategic Plan in 2022, which guides the city and serves as a road map during the budget process by identifying specific, measurable objectives to be achieved during the five-year timeframe. The city's budget, in turn, serves as a financial plan and guiding tool to support the city's mission, including City Council's policy priorities.

The fiscal year 2024-25 budget will preserve the city's continued fiscal sustainability by maintaining its critical core services, achieving its goals and priorities, and being mindful of the economic outlook. While administrative leadership's direction for the fiscal year 2024-25 budget cycle will not require a mandated budget reduction by each department, it will continue the expectation that staff incorporate opportunities to do business more efficiently and focus on spending areas that can be reduced with little to no impact on the community. These continued efforts are in response to the city's anticipated structural deficit, in which the city's expenditures

### City Manager's Office

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are projected to grow at a faster rate than its revenues. The city is in a much better position today than it was even a year ago—in part due to an enhanced revenue outlook and recent efforts by city staff to reduce ongoing costs—nonetheless, the General Fund is projecting an annual deficit beginning in fiscal year 2028-29. It is imperative this year's budget reflect every effort reasonably possible to address this structural deficit.

The COVID-19 pandemic and the negative economic impact it had on many of the city's revenue sources peaked during fiscal year 2020-21 and 2021-22. In response to future economic uncertainty at that time, the adopted budgets in fiscal year 2022-23 and 2023-24 included reductions of nearly 2% and 3%, respectively. An accelerated economic recovery from the COVID-19 pandemic coupled with unprecedented inflation sustained by consumer demand contributed to the city's General Fund ending fiscal year 2022-23 with a healthy surplus. The combined impact of these budget reduction efforts and larger-than-anticipated surplus positively impacted the General Fund's 10-year forecast. The projected deficit is now not anticipated to occur until fiscal year 2028-29, three years later than the timing projected last year.

Since 2021, the city has dealt with unprecedented inflationary increases, reaching a regional high of 8.3% in May 2022. The Federal Reserve responded by increasing target interest rates over the last couple of years. While inflation has begun to decline, regional inflation was still at 5.2% as of November 2023. The Federal Reserve is expected to begin reducing target rates in 2024, and inflation will likely remain a concern the city will continue to manage.

In addition to managing inflation's impact to the city's budget, aging infrastructure is another challenge that is neither new nor unique to the City of Carlsbad. As the city continues its transition from "growth and development" to "maintenance," the operating costs necessary to fund infrastructure maintenance and replacement continues to grow and represent a significant pressure on the General Fund's resources.

Pension funding also continues to have a significant impact on the city's budget. CalPERS' volatile investment performance, particularly over the last two years, has significantly increased the city's costs. The city has taken great steps toward mitigating the long-term risks and associated costs by prefunding and establishing a Section 115 Trust; however, the annual required contributions still represent a significant portion of the city's expenditure budget.

### **Discussion**

The city's annual comprehensive budget document includes three sections: Operating Budget, Capital Improvement Program and Strategic Digital Transformation Investment Program. A summary of the fiscal year 2024-25 process to create each of these three budgets, as well as priorities and changes planned for the upcoming fiscal year, are presented below.



Operating Budget

The Operating Budget is designed to provide funding for all ongoing city operations, one-time, non-capital projects and work efforts, general support of the city, and the City Council’s strategic policy goals and work plans. The Operating Budget funds ongoing operating and maintenance costs and provides for appropriate and strategic levels of replacement funding. City staff strive to ensure that, when preparing the annual budget, one-time revenues are only used to cover one-time costs, and ongoing costs are not greater than ongoing revenues.

Before the city’s Operating Budget is presented to the City Council for adoption, city staff in all departments prepare individual budgets for their functional areas. The table below depicts the key phases and dates in the creation and adoption of the city’s Operating Budget. This schedule is subject to change as staff move along in the budget process.

Table 1: Operating Budget calendar for fiscal year 2024-25

<b>Date</b>	<b>Task</b>
Jan. 3	City staff hold Operating Budget kickoff meeting – participants include executive leadership and department budget preparers.
Feb. 1	Special City Council Meeting: Departmental Operations Presentation
Feb. 6	Strategic Plan Update at City Council Meeting.
Feb. 9	Departments submit their requested budgets to the Finance Department budget team.
Feb. 9 – March 20	The Finance Department budget team reviews and evaluates departments’ budget submissions.
Feb. 23	Departments complete narrative sections highlighting services, priorities, accomplishments and budget changes, which are included in the published budget book.
March 15	Departments update their portions of city’s master fee schedule.
March 20-28	Representatives from each department present their budget submissions in meetings with the City Manager, Assistant City Manager and Finance Department budget team.
March 28 – May 21	City leadership makes key funding decisions based on City Council priorities, regulatory requirements, forecast data, and other supporting data. The Finance Department budget team prepares the preliminary budget document.
May 21	City staff present the preliminary budget to the City Council.
May 23	City staff hold a community budget workshop.
June 18	The City Council holds a Public Hearing and considers the annual budget for adoption.

Department budget submissions

There are many components that city staff across all operating departments must complete in their initial budget submissions. Some key activities include, but are not limited to, the following:

- Review full-time and part-time employee allocations for accuracy and opportunities for reductions or reorganizations to enhance efficiency.
- Review base maintenance and operations budgets. The base budget consists of the prior year adopted budget for maintenance and operations, excluding any one-time supplemental budget granted in the prior year and interdepartmental chargebacks, which are calculated separately. Departments have discretion to change how their maintenance and operations budgets are utilized in the upcoming fiscal year, as long as the total requested budget stays within their allocated base.
- Consider supplemental budget needs. As mentioned previously in this memorandum, for the fiscal year 2024-25 budget, the city will strive to achieve continued fiscal sustainability by maintaining its critical core services, achieving its goals and priorities and being mindful of the economic outlook. **As such, the upcoming year's budget preparation does not include a process for departments to request additional funding.** However, city administrative leadership will consider crucial budget needs if they relate to the city's response to a changing regulatory environment, new laws, cost increases for existing essential services and other needs.
- Calculate the interdepartmental chargebacks that will be allocated citywide for costs such as those related to information technology, fleet, workers' compensation, risk management and other miscellaneous administration. City staff from these areas will work with other departments to determine needs for the upcoming fiscal year before calculating chargebacks. The fleet and information technology calculations also include budgeting for capital outlay for planned replacements, such as vehicles and computers that have reached the end of their useful lives.
- Estimate revenue for the upcoming year. Some departments have specific sources of revenue, such as recreation fees. The Finance Department manages general city revenue collected, while city staff budget for revenue that is department specific.

After departments' requested budgets are submitted and reviewed, an integral part of the budget preparation process takes place when department staff meet individually with the City Manager, Assistant City Manager and Finance Department budget team to present their proposed budgets for the upcoming year. During these meetings, department staff justify their requested budgets, which may include presentation of data and analysis to support proposed spending, year-over-year spending trends and information on how programmatic efforts support the city's 5-Year Strategic Plan. The discussions during these meetings help to ensure that executive leadership has thoroughly evaluated requested budgets and planned efforts for the upcoming year, in order to make decisions on the preliminary budget that will be presented to the City Council for consideration.



### Capital Improvement Program

The City of Carlsbad Capital Improvement Program, or CIP, reflects the city's ongoing commitment to maintaining the highest standards of quality facilities for our community today and in the future. It is a planning document, not a commitment for spending. The five-year program outlines the expenditure plan for future capital projects and the corresponding revenues to pay for those expenditures.

Projects that are shown in the CIP are generally defined as any construction, rehabilitation or replacement of major infrastructure such as streets, libraries, parks, fire stations and administrative facilities, water, sewer and drainage facilities, and other facilities that are located on or in the ground. In most cases, the total construction cost of each of these assets is recorded and tracked as part of the city's inventory of capital infrastructure assets and other city-owned property.

The timeline for developing the upcoming fiscal year's CIP is dictated in Administrative Order No. 50, Capital Improvement Program – Project initiation, Prioritization, Budgeting and Adoption Procedure. City staff may submit proposed new CIP projects in December for the upcoming fiscal year. Project requests are evaluated initially by the CIP Steering Committee Meeting in January and again in April. This evaluation includes project prioritization and scoring, followed by the determination of project timing as forecasted funds are available. Based on funding availability and priority level, proposed CIP projects are then incorporated into the preliminary CIP Budget.

Once the City Council adopts the proposed annual CIP Budget, projects receive an appropriation that authorizes spending in the amount specified for the adopted fiscal year only. Estimated budget information is shown for a 15-year period to provide the most comprehensive information about known future projects. Spending authority in future years is not granted until adoption of the annual proposed CIP Budget associated with each year.

### Changes to the CIP Process

City staff have made changes to the CIP process for fiscal year 2024-25 to accomplish the following:

- Increase transparency around how projects are selected for inclusion, project timing and funding status.
- Demonstrate stronger alignment to the City Council's 5-Year Strategic Plan.
- Establish more realistic expectations for project cost estimates and delivery.
- Continue to comply with Government Finance Officers Association and SANDAG reporting requirements.

These changes include:

- A stronger focus on the next five fiscal years, while remaining a 15-year planning document.

- Introducing four project categories to clearly communicate the project's purpose. These include (1) strategic plan, (2) critical need, (3) maintenance, and (4) closeout.
- Budgeting based on project phase. This means rather than budgeting for the entire cost of a project well in advance of when the project is scheduled to begin, City Council will be asked to consider appropriating money phase by phase. Phases include: scoping, conceptual design, final design and construction.

For example, as part of the annual budget process, city staff will request appropriations for a new project, starting with initial scoping. This typically involves early planning work and a feasibility analysis. When that work is completed, staff will return to City Council to request appropriation for conceptual design. When that is done, staff will return to City Council to request funding for final design, and so on.

These changes will provide the City Council with a greater ability to direct the pace and funding of major projects, while increasing transparency around projects that are planned and underway.

#### Strategic Digital Transformation Investment Program

The Strategic Digital Transformation Investment Program, or SDTIP, is a comprehensive approach to planning for and funding digital transformation efforts throughout the city. The purpose of this program is to provide for an annual investment strategy, not a commitment for spending, that outlines a five-year expenditure plan for future digital transformation and technology projects and the corresponding revenues necessary to pay for them.

The timeline for developing the upcoming fiscal year's technology budget is dictated in Administrative Order No. 89, Strategic Digital Transformation Investment Program – Project initiation, Prioritization, Budgeting and Adoption Procedure. Similar to the CIP, staff are invited to submit proposed new projects annually in December. Projects are then evaluated initially in January and again in April by the city's executive leadership, which assigns a priority level and funding strategy. Priority projects are then added to the preliminary SDTIP Budget. Although budget estimates are included for the total project cost, staff request authorization for funding only the amount needed each budget year. This authorization comes when the City Council approves the annual budget.

#### Positions Recommended for Elimination in the Proposed FY 2024-25 Budget

In response to City Council feedback requesting staff identify additional ways to contain ongoing operational costs within the organization, staff conducted a review of staffing levels, workload and existing vacancies in an effort to find new opportunities for savings. As a result, staff have identified 12 full-time equivalent positions that will be recommended for elimination as part of the fiscal year 2024-25 budget, beginning July 1, 2024. The 12 positions that would sunset June 30, 2024, include nine vacant full-time, two currently filled part-time positions and two currently filled full-time positions.



When considering a reduction in workforce, our goal is to reduce to the extent possible any negative effects on the service we deliver to the community. The anticipated impacts of eliminating the positions along with the cost savings are identified below.

**1. Management Analyst – Office of the City Manager (Vacant)**

The primary function of this position is to prepare and monitor the budget for the City Manager and City Council offices, perform data analysis, assist with special events, prepare Administrative Orders for City Manager consideration and triage requests for action that were directed to the City Manager's Office. This position became vacant in December 2023. The duties of the position have been delegated to the Executive Assistant to the City Manager, Legislative & Constituent Services Director and Intergovernmental Affairs Director. The potential impacts of this position remaining vacant is the increased workload assigned to other staff in the office, which may result in a delay to the completion of special projects.

Savings: \$132,625

**2. Senior Office Specialist – Office of the City Council (Vacant)**

The primary function of this position is to coordinate City Council proclamation presentations, assist with special events and serve as the contact to the City Council when the Executive Assistant is not available. This position has been vacant since July 2023. Staff have found efficiencies and redistributed work that will allow this position to be eliminated while still supporting the City Council's clerical needs. The duties of the position have been redistributed to the Executive Assistant to the City Council and the Secretary/Receptionist in the City Manager's Office. Staff have not identified any negative impacts of this position remaining unfilled.

Savings: \$83,681

**3. Deputy City Clerk – City Clerk (Vacant)**

The primary function of this position is to prepare City Council agendas and minutes; serve as Clerk for the Legislative Subcommittee and Economic Subcommittee: process recorded documents, claims, bonds, agreements and contracts; provide notarization services; and maintain Form 700 filings for city consultants. This position became vacant in December 2023. The duties of the position have been delegated to the Senior Deputy City Clerk and Deputy City Clerk. The potential impacts of this position remaining vacant include potential delays in preparation of City Council meeting minutes, responding to City Council inquiries, and processing of contracts, agreements, bond releases and recorded documents. In addition, City Clerk's Office staff will no longer be able to perform quality control on all board, commission and committee meeting materials that are prepared by staff in departments with commissions.

Savings: \$94,346

**4. Lead Librarian – Library & Cultural Arts (Vacant)**

The primary function of this position is to support public services at the Carlsbad City Library on Dove Lane. This position became vacant in November 2023 due to a promotion of an employee to Senior Librarian. Management of full-time and part-time employees, including training, mentoring and payroll, previously handled by the Lead Librarian will be delegated to a Senior Librarian. A librarian or part-time librarian would assume the workload at the public service desks. The potential impacts of this position remaining vacant include reduced public programs. The city currently has three other Lead Librarians and those positions are currently filled.

Savings: \$111,742

**5. Production Technician – Library & Cultural Arts (Vacant)**

This was a new position approved as part of the fiscal year 2023-24 budget that has remained unfilled since approval of the budget. The primary function of this position was to coordinate audio-visual, technical and front-of-house support in the Schulman Auditorium, Cannon Art Gallery, Gowland Meeting Room and Community Room. Job responsibilities are currently managed by one Production Technician who accrues about \$10,000 in unbudgeted overtime. Without a second Production Technician, the plan is to distribute some of the work to library staff at a comparable job classification level. Without a second Production Technician, program offerings and rentals in the Schulman Auditorium may need to be reduced.

Savings: \$80,957

**6. Parks Maintenance Worker – Parks & Recreation (Vacant)**

The primary function of this position is to perform general skilled trade work within parks, beach accesses and trails. Work includes general repairs and replacements of assets (e.g., broken or worn park/beach access/streetscape amenities, such as benches and trash receptacles). This position became vacant in December 2023. The duties of the position will be performed by a combination of other Park Maintenance Workers and contracts for outside services. Repairs and replacement of assets, painting/graffiti abatement, and trail surface refurbishment will be routinely reviewed and prioritized.

Savings: \$89,371

**7. Associate Engineer – Community Development (Vacant)**

The primary function of this position is to perform grading and improvement plan checks and discretionary permit reviews. This position became vacant in May 2023. The duties of the position will be distributed to the three existing senior engineering positions within the Land Development Engineering Division of Community Development without a significant service level impact.

Savings: \$50,239



**8. Business Systems Specialist – Information Technology (Vacant)**

The primary function of this position is to implement and support public safety technology, develop requirements, and gather and analyze data for operational reports. The position became vacant in May 2023. The duties of the position have and will continue to be absorbed by existing Information Technology staff. Low priority projects may be delayed.

Savings: \$135,382

**9. Senior Environmental Specialist – Environmental Sustainability (Vacant)**

The primary function of this position is to supervise staff and coordinate environmental sustainability programs to ensure compliance with regulatory requirements of SB 1383. This position became vacant in September 2023. The duties and responsibilities of the position will be reassigned to the Senior Program Manager. Because this program is now in its second year of implementation, minimal service level impacts are expected.

Savings: \$131,959

**10. Chief Innovation Officer – Innovation & Economic Development**

The Innovation and Economic Development Department is led by a Chief Innovation Officer (CIO). The position directs city process improvements, data governance and economic development. Potential impacts of eliminating this position may include diminished representation, advice and counsel on cross-departmental leadership groups and diminished opportunities within city departments to advance innovative concepts and technology. Necessary responsibilities of the position will be absorbed by existing staff within the Innovation and Economic Development Department. In addition, the Senior Program Manager and the Economic Development Manager will report directly to the Deputy City Manager, Administrative Services. The Data Services Manager, Strategic Plan Analyst and five Geographic Information Services positions will report to the Information Technology Director.

Savings: \$280,893

**11. Senior Program Manager for Diversity, Equity & Inclusion (DEI) – Human Resources**

This position was created as part of the fiscal year 2021-22 budget, and the primary function and intent of the position was to develop, implement and lead a diversity, equity and inclusion program including the review of current practices and policies to support the city's DEI Work Plan and maintain knowledge of diversity best practices. Staff has determined that management and implementation of the DEI related work can be delegated to other staff in the Human Resources Department now that the DEI program has been operationalized throughout the organization.

Savings: \$155,785

**12. Administrative Assistant – Administrative Services (Part-time)**

The primary function of this position is to perform administrative work within the Administrative Services Branch. This position reports to the Deputy City Manager in Administrative Services. Work includes processing accounts payable batches, purchase order processing, contract routing, credit card statements and various other administrative work for the department. This position is also responsible for the preparation of Carlsbad Tourism Business Improvement District (CTBID) agendas, attending and preparing minutes for the CTBID quarterly board meetings. This position will become vacant January 22, 2024. The duties of the position will be distributed among the relative departments within Administrative Services with minimal service level impacts.

Savings: \$31,733

**Hourly Professional – Communications & Engagement (Part-time)**

The primary function of this position is to promote awareness of and participation in city programs, services and events, primarily focused on community services. Because the Communication & Engagement Department has taken advantage of several new technologies to streamline both its operations and how it communicates with the public, this position could be eliminated while continuing to meet the city's core communication and engagement needs. Parks, recreation, library and cultural arts programs would continue to be supported by the Communication & Engagement Department; however, some non-essential communication efforts may be scaled back as needed.

Savings: \$30,167

**Fiscal Impact of Proposed Position Eliminations**

General Fund savings resulting from the elimination of these positions is estimated at \$1.11M in fiscal year 2024-25. General Fund cumulative compounded savings at year five is anticipated to be \$6.63 million. Non-General Fund savings is estimated at year five to be \$1.61 million, for a combined compounded savings at year five of \$8.25 million.

**Comprehensive Annual Budget**

City staff will bring forward a preliminary version of all three budget programs described above in the fiscal year 2024-25 comprehensive budget at a regular City Council meeting in May 2024. City staff will also hold a Community Budget Workshop in May 2024 and communicate the feedback received to the City Council in a Council Memorandum. The City Council will receive the final comprehensive budget in June 2024 for adoption. Following budget adoption, city staff will prepare the fiscal year 2024-25 budget book and make it available to the public by September 2024.

**Next Steps**

A special City Council meeting will be held on February 1, 2024, which will include a presentation on departmental operations, current budgets, staffing and services. The purpose of this



presentation is to inform the City Council as they prepare to make decisions about the 5-Year Strategic Plan and its priorities for the upcoming fiscal year. Following the regular City Council meeting on February 6, 2024, when the 5-Year Strategic Plan will be discussed, staff will incorporate input received from the City Council into the annual budget process and resulting preliminary budget, which will be presented at the regular City Council meeting currently scheduled for May 21, 2024.

cc: Cindie McMahon, City Attorney  
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