MEETING DATE: 03/07/05
ITEM NO. 12

COUNCIL/AGENCY AGENDA REPORT

DATE: March 7, 2005

TO: MAYOR AND TOWN COUNCIL/
CHAIR AND MEMBERS OF THE REDEVELOPMENT AGENCY

FROM: DEBRA J. FIGONE, TOWN MANAGER/EXECUTIVE DIRECTOR

SUBJECT: DISCUSS AND PROVIDE DIRECTION REGARDING PRELIMINARY FY 2005/06 BUDGET BALANCING PROPOSALS TO BE INCORPORATED INTO TOWN'S FY 2005/06 PROPOSED OPERATING BUDGET

RECOMMENDATION:

Discuss and provide direction on the preliminary FY 2005/06 budget balancing proposals to be incorporated into the Town's FY 2005/06 Proposed Budget.

PURPOSE:

The purpose of this Council Agenda Item is to discuss the preliminary budget reduction and revenue enhancement proposals currently under consideration to balance the FY 2005/06 Operating Budget. An overview is included which reviews the Town's current financial situation, discusses relevant circumstances for consideration in forthcoming decisions, and describes the approach taken by the departments to develop budget proposals.

The proposals presented at this time are preliminary and will be further developed and refined before they are presented as part of the Proposed Operating Budget in May, 2005. Staff anticipates that Council's review, discussion, and consensus guidance on the impacts and affected service levels from these proposals will bring better alignment to the FY 2005/06 proposed budget considered by Council in May.

PREPARED BY: **STEPHEN D. CONWAY**
Finance & Administrative Services Director

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Reviewed by: DSJ Assistant Town Manager OK Town Attorney _____Clerk_____Finance
_____Community Development Revised: 3/3/05 4:39 pm

Reformatted: 5/30/01

THE REPORT:

This report examines the evolving process and preliminary proposals of budget development for FY 2005/06. Items for Town Council consideration include:

- A brief review of the Town's financial outlook as illustrated through the five-year financial plan
- An update of the considerations and criteria used by the Town in developing plans to meet the Town's budgetary challenges, and the efforts that have been implemented since FY 2001/02
- A matrix of departmental proposals presented in priority order, including a discussion by departments of the service level impacts to the community of each proposal

DISCUSSION:

FIVE-YEAR FINANCIAL PLAN:

Staff recently updated the Town's Five-Year Financial Plan for Council's review in conjunction with the Mid-Year Budget report. This updated financial plan, with five years of projections for the General Fund spanning fiscal years 2005/06 through 2009/10, incorporates the mitigating organizational changes made to date, yet continues to illustrate a widening gap in outlying years and the need to take additional action to maintain the Town's fiscal health. The plan's summary level schedule is included in this report again, on a following page, for your reference.

Financial Plan Assumptions:
Please note that known State ERAF III takes which are built into the FY 2005/06 financial structure, are offset by appropriated reserves as approved by Council last year. There are several additional assumptions that should also be noted for this financial review:

State Takes - The projections assumes that: (1) the State's VLF "back-fill" equal to two-thirds of the VLF tax (approximately $1.2 million for FY 2004/05) will continue in future years as promised by the State; (2) that the State takes of General Fund revenues are limited to the two planned ERAF takes of $476,000 in each of FY 2004/05 and FY 2005/06; (3) that the State will not issue a proclamation declaring there is a "severe state fiscal hardship" which requires the State to temporarily suspend Proposition 1A's basic protection of the property tax; and (4) a suspension of unfunded state mandates (with certain exemptions) is upheld as promised under Proposition 1A.

Revenues - A conservatively optimistic revenue outlook is presented with varying growth rates. On average, the plan assumes a 5% growth rate for tax revenues and in the 3 to 4% ranges for service fees and charges, permits and licences, and other miscellaneous revenues. Revenues with strong uncertainties were reduced in the out-years, including COPS/SLESF annual funding from $200,000 to $61,000, and POST training reimbursements from approximately $35,000 to $5,000. Numerous grant-based funding sources, such as LLEBG technology grants and OTS traffic safety grants, were eliminated as planned revenues as they are unpredictable and unlikely to be substantial in the future.

MAYOR AND TOWN COUNCIL/CHAIR AND MEMBERS OF THE REDEVELOPMENT AGENCY
SUBJECT: PRELIMINARY FY 2005/06 BUDGET BALANCING PROPOSALS TO BE INCORPORATED INTO TOWN'S FY 2005/06 PROPOSED OPERATING BUDGET.
March 07, 2005

Expenditures - With a close scrutiny of multiple years of actual costs, projections are developed with both historical information and ongoing communication of planned department work plans and core service levels. Exact labor cost adjustments are made for future known increases if multi-year labor agreements are in effect, and anticipated adjustments are made for years with no agreements in place. Health and retirement projections are based on industry studies and reflect a significant portion of the expenditure budget increase, despite the recently negotiated cash-back limits incorporated into the projections.

Town of Los Gatos
Five Year Financial Plan FY 2005/06 Through FY 2009/10

Summary Data Revenue Summary	ACTUAL 2003/04	ADOPTED 2004/05	PROJECTED 2005/06	PROJECTED 2006/07	PROJECTED 2007/08	PROJECTED 2008/09	PROJECTED 2009/10
Sales Tax	6,914,526	6,900,000	7,245,000	7,607,250	7,987,613	8,386,993	8,806,343
Property Tax	5,207,381	5,428,893	5,754,627	6,099,904	6,465,898	6,853,852	7,265,083
Charges for Services	2,526,198	2,758,725	2,837,846	2,997,484	3,172,418	3,306,118	3,446,503
VLF Prop Tax Swap	1,298,455	1,700,000	1,796,334	1,898,165	2,005,808	2,119,597	2,239,885
Other Lic. and Permits	936,313	1,276,055	1,314,337	1,353,767	1,394,380	1,436,211	1,479,297
Intergovernmental Rev.	1,914,766	1,194,135	1,299,730	1,803,727	1,833,633	1,865,120	1,897,657
Business Licenses	1,071,865	1,080,000	1,112,400	1,145,772	1,180,145	1,215,550	1,252,016
Franchise Tax	930,997	957,000	1,005,655	1,055,938	1,108,735	1,164,171	1,222,380
Investment Earnings	37,407	931,836	912,619	932,974	953,838	980,145	1,007,232
Hotel/Motel Tax	829,026	900,000	870,000	913,500	959,175	978,359	997,926
Transfers	1,425,019	809,920	605,938	454,076	364,738	325,448	314,994
Miscellaneous	194,445	473,078	488,682	513,416	539,337	566,504	594,979
Fines & Forfeitures	214,232	144,950	150,858	157,020	163,450	168,955	174,656
Total Revenues	**23,500,630**	**24,554,592**	**25,394,025**	**26,932,993**	**28,129,167**	**29,367,022**	**30,698,951**
Town Expenditures							
Salaries	11,469,874	12,143,287	12,820,561	13,375,535	13,898,008	14,429,285	14,961,480
Benefits	3,277,273	4,290,300	5,196,506	5,607,872	5,984,094	6,430,348	6,501,127
Temporary Sal & Ben.	428,163	331,300	397,781	411,286	425,396	439,573	454,949
Paid Overtime	341,814	346,800	417,461	438,334	460,250	480,710	504,746
Total Sal. & Ben.	15,517,124	17,111,687	18,832,308	19,833,026	20,767,748	21,779,916	22,422,302
Grants & Awards	186,431	175,380	175,380	175,380	175,380	184,149	193,356
Training	104,511	190,625	196,344	202,234	208,301	218,716	229,652
Employee Retiree Med.	131,586	153,100	211,000	290,000	363,000	381,150	400,208
Animal Control Oper.	173,553	168,200	185,020	203,522	223,874	235,068	246,821
Supplies and Services	2,424,379	3,123,170	3,216,865	3,313,371	3,412,772	3,583,411	3,762,581
Utilities	402,503	380,215	351,477	369,051	387,503	406,879	427,223
Capital Purchases	90,378	20,400	21,012	21,642	22,292	23,406	24,577
Internal Service Funds	3,056,215	2,699,700	2,780,691	2,864,112	2,950,035	3,097,537	3,252,414
Debt Service/Transfers	1,203,947	1,152,265	1,152,265	1,152,265	1,152,265	1,231,626	1,236,684
Storm Drains	-	-	-	-	-	-	-
Road Maintenance/Rep.	-	-	-	-	-	-	-
Total Expenditures	**23,290,627**	**25,174,742**	**27,122,362**	**28,424,603**	**29,663,170**	**31,141,857**	**32,195,818**
***Authorized Use of Reserves**		**620,150**	**800,150**	-	-	-	
Ongoing Shortfall Mitigation				**928,188**	**563,423**	**970,580**	**804,225**
Revenues Over (Under) Exp.	**210,003**	-	**(928,188)**	**(563,423)**	**(970,580)**	**(804,255)**	**(692,642)**

Financial Plan Overview:
As illustrated in the preceding Financial Plan schedule, projected FY 2005/06 budget shortfalls under the current fiscal structure are estimated at approximately $1.7 million, offset by the planned use of $800,150 in reserves for a net shortfall of just over $928,000. The following overview provides some details into the predominant causes for this ongoing imbalance:

Revenue Influences - The five-year projection portrays a modest recovery in economically sensitive revenues, with the assumption that the economy and its linked revenues grow in line with inflation factors at an overall approximate rate of 4.5%. In the case of Property Taxes however, it is assumed property values will continue to increase at a 6% growth rate, consistent with the high desirability of Town properties. Sales Tax continues to demonstrate a steady rate of increase. It is imperative to note, however, that this gain reflects a netting of the rapidly growing NETFLIX contribution, offset by the overall decline and subsequent tepid re-growth since 2001 of the Town's auto dealerships sales and numerous economic segments. With the understanding that advances in technology and/or a change in NETFLIX's ownership could quickly alter the current situation, the Town would do well to heed a cautious dependence upon this one star sales tax generator. As noted in prior reports, developing a well balanced sales tax base continues to be an important objective.

In an effort to keep a consistent pace with inflation factors each year, the Town undertakes an ongoing annual review of User Fees. This review is critical to ensuring licenses, permits, fees, and service charges are all in line with the cost of doing business. Its continuance is reflected in the financial projections with an average 3% growth rate into the outlying years.

Expenditure Influences - As the above financial plan illustrates, the driving factor in future expenditure increases is the cost of labor. Town government is in the business of providing services which depend on people to deliver; consequently, salaries and benefits of employees comprise the largest share of the Town's General Fund operating expenditures (approximately 70%).

With PERS suffering from several years of negative investment returns in the pension system, and with enhanced retirement formulas for Public Safety, funding costs associated with the pension system have resulted in significant increases in the Town's retirement contributions. Public Safety contribution rates will climb to 32.56% in FY 2005/06, from 28.32% in FY 2004/05, and are expected to remain in this 32 - 33% range in the forthcoming years. This equates to a $250,000 jump from FY 2004/05, an increase on top of the PERS costs doubling from FY 2003/04. In two years time, the Town's budgeted PERS costs for the 44 safety officers will have increased from $638,000 in FY 2003/04 to approximately $1.5 million in FY 2005/06.

Miscellaneous staff pension contributions will increase to 13.813% in FY 2005/06, a significant jump from the FY 2004/05 rate of 8.005%, and rising from 0% actual rates in 2003/04. As the Town continued to charge itself a 7% PERS expense during the 0% rate years (which the Town reserved in a "savings" account), the resulting expenditure impact is not as great of an increase from prior year budgets, however it does represent a doubling of PERS costs in two years: from $581,000 in FY 2003/04 for 130 FTEs to approximately $1.3 million in FY 2005/06 for 123 FTEs.

While lower rates are expected to return under improved investment earnings in the pension system, the typical 7% (Miscellaneous) and 9% (Safety) employer rates of a few years back are not expected to return in the foreseeable future. Health care costs are also experiencing substantial increases; in the last two years health care rates have grown approximately 16 - 20% annually, with similar rate increases expected over the next five years. It is not anticipated that insurance premium amounts will decrease in future years.

The remainder of projected expenditures are calculated to increase along the rate of inflation at about 4%, with the exception of contractual expenditures which are tied to labor costs. Staff's focus on increasing efficiencies and reducing costs is evident in the overall decrease of operating costs from prior years; however, staff qualifies this forecast with the understanding that there is a lack of capacity to absorb future unplanned expenses under this limited structure.

Use of Reserves - With this current version of the five-year financial plan, FY 2005/06 projections include the planned use of reserves to fund the State's ERAF III Take, to replenish the Manager's Productivity and Contingency accounts, and to fund the Parking Management Program's excess of expenses over revenues. Reserve appropriations are not built into future year projections as staff will be recommending changes in the following discussion which will impact the current fiscal structure, and the use of reserves is a Council decision in relation to the fiscal structure in place at the time.

BUDGET CONSIDERATIONS AND CRITERIA:

Strategic Reductions

Since the Town wisely began strategic cost reductions in FY 2001/02, cumulative reductions total approximately $3.8 million in Town operating expenditures. To date, staff's efforts have been notably successful in achieving operational efficiencies and cost savings, and developing alternative methods of service delivery without perceptibly impacting Town services.

While one-time cost savings are considered and utilized as appropriate for budget savings, staff has emphasized changes of a more permanent nature as part of the long-range economic correction. "Structural" cost reductions to-date are fixed permanently in the Town's operating costs under the assumption they will carry forward cumulatively each year, lessening the reductions required in subsequent years. To date, these structural changes include the defunding of 22.9 FTE positions and elimination of approximately 18,000 temporary hours, (correlating with a reduction of non-essential services), improving financial linkages between labor costs and expenditures to appropriate non-General Fund funding sources, reducing discretionary expenditures, delaying and/or eliminating facility improvements and equipment replacement, and increasing fees in line with the cost of providing services. At the same time, the Town has tried to remain a competitive employer providing fair compensation and benefits to it employees, and investing in training and productivity enhancements.

Bridge Funding

As a portion of the budget gap is a product of the economic slump and State takes, reserves have been utilized to buffer ongoing operations while structural corrections are made. The availability of excess fund balance is a potential funding option the Town describes as "bridge funding." Sources of bridge funding include: 1) the balance of General Fund revenues over expenditures at the close of the fiscal year (classified as "undesignated" until Council designates elsewhere); 2) "designated" General Fund reserves - which may be re-assigned at Council's discretion; 3) excess fund balance in the Internal Service Funds - which exceed immediate needs or safety levels; and 4) excess funding in the Town's PERS liability account - set-aside funding accumulated as an ongoing labor cost during the very low PERS rates a few years back as a source to help offset future rate increases (as we are currently experiencing).

The strategic use of reserves is conceptualized as a funding source to buy time during a period of downsizing and/or organizational transformation. The availability of bridge funding provides the Town a planning and implementation horizon to develop appropriate organizational structures that align with the new fiscal reality; inform the Town's employees of potential reductions in the workforce; inform the community about potential service level impacts; and to establish appropriate service levels that balance with revenues projected for next fiscal year.

The Town has utilized several of these bridge funding sources in recent budgets. With $3 million in the PERS liability account, the Town Council authorized transferring $300,000 into the General Fund annually, as needed, beginning with the FY 2004/05 adopted budget. A thorough assessment of the Internal Service Funds in early 2002 provided a source for annual transfers from the more than adequate Equipment Replacement, Workers Compensation, and Liability Insurance fund balances

into the General Fund, beginning with the FY 2002/03 budget. The Internal Service fund balances are assessed each fiscal year to determine prudent transfers back to the General Fund for the next fiscal year. Beginning with a total transfer of $800,000 in FY 2002/03, $650,000 was transferred in FY 2003/04, and $520,000 in FY 2004/05. Staff is reducing the transfers by 20% each fiscal year to reduce the General Fund's financial dependence on these prior year savings during this time of organizational transformation, as structural corrections are implemented.

Additional fund balance uses include: (1) the Reserve for Parking transfers to help support the undertaking of the enhanced Parking Management Program approved by Council in FY 2001/02. Approximately $630,000 of the $774,000 reserve will be utilized through FY 2004/05 year-end; and (2) year-end undesignated Fund Balance (net surplus) accumulated since FY 2001/2002 was utilized to pay for the unexpected State takes in FY 2004/05 and FY 2005/06.

Revenue Enhancements

With an understanding of the Town's limited revenue base, staff has become diligent in ensuring user fees and charges adequately recover the cost of services, so as not to subsidize private development or other specialized services the Town provides. To that end, a comprehensive cost study update is included in the March 7th budget discussion session as part of the FY 2005/06 budget process.

Through undertaking these annual User Fee Updates in the last two years, staff has identified approximately $1 million in revenue enhancements ($700,000 in FY 2004/05 and $300,000 in FY 2005/06). This additional funding was generated through both increasing ongoing fees, and through analysis and evaluation of workload functions for new service and fee areas. Staff continues to assess services provided to the community and seek out funding opportunities which were not utilized in the past. This includes pursuing new grant opportunities, aligning fees with market rates, implementing administrative citation processes for failure to comply with town regulations, and employing environmental and technological fees where appropriate and applicable.

Vulnerabilities

Town revenues continue to be susceptible to State funding needs. While Proposition 1A provides some protections for the Town's Property Tax, Sales Tax, and VLF revenues, local governments are cautious of their continued dependence on other State revenues such as Public Library Foundation funding, Booking Fees, and POST reimbursements. Additionally, the Town is experiencing significant service rate increases for contractual services and administrative fees from other government agencies as they too feel the impact of revenue takes from the State. Several of the Town's federally funded programs may be in jeopardy as well. The Community Orientated Policing

Services program (COPS), transportation funding, and Community Development Block Grant (CDBG) funding have all been mentioned as potential areas of reduction in the federal budget for next year.

The Town remains dependent upon, and vulnerable to, the performance of local revenues. Upward trending revenues have given the appearance that an economic recovery is underway, however Sales Tax receipts clearly illustrate that various business segments in the Town continue to lag behind where they were before the slump. Numerous factors such as retail competition outside of Los Gatos, the increase of internet shopping, and the Town's overall business mix may also contribute to the local revenue decline, and should be considered impediments which are likely to impact Sales Tax revenues far into the future.

Infrastructure needs may represent the Town's greatest area of vulnerability. Staff is currently compiling asset management information to better understand Town-wide infrastructure needs and the timing schedules associated with maintaining infrastructure. With the Town's objective to maintain streets at a minimum PCI rating of 72, present information indicates $1.9 million (current year dollars) in annual funding is needed to achieve this goal. Additional maintenance information and annual funding is needed for retaining walls, sidewalks, lighting and signals, trees, parks, street plantings, and medians. Facility funding is needed for both capital maintenance and future renovation of the Town's public buildings. These needs clearly demonstrate a capital funding shortfall not currently built into the Town's five-year plan, as well as representing potential areas for emergency funding, and significant issues for the future.

Budget Reduction Efforts to Date

Since FY 2001/02 the Town has taken numerous steps to keep the Town's operating revenues in balance with operating expenses. In a brief recap , these steps include:

- $3.8 million in expenditure reductions, inclusive of 22.9 FTE reductions, elimination of 18,000 temporary employee hours, and severe reductions in operating materials, supplies, outside services, and training.
- $700,000 in revenue enhancements which include increasing valuation rates for planning and building permit computations up to the community's actual development rates, and bringing various service fees closer to cost levels.
- Implementation of an informal policy to extend equipment replacements where possible. Changes include extending police vehicle replacement from three years to four years, with some low-mileage police vehicles extended to five years. Replacement schedules for Parks and Public Works vehicles were extended out far past their scheduled lives, to the point where

vehicles and equipment are retained until maintenance issues force replacement.

- The re-alignment of cost centers to appropriate non-General Fund programs has generated approximately $350,000 in General Fund savings. This includes the shifting of solid waste duties, such as trash maintenance and street cleaning duties to the Solid Waste Fund, and funding redevelopment engineering project work from the Redevelopment Fund. While it should be recognized that shifting expenditures is not a reduction from a Town-wide perspective, the proper alignment of services with their appropriate funding sources provides more accurate funding information for supportable General Fund operational services.

PROPOSED FY 2005/06 BUDGET REDUCTION & REVENUE ENHANCEMENTS

The Town Manager's office will continue to communicate the ongoing budget challenges we face with employee groups, boards and commissions, service clubs, and other stakeholders who are associated closely with Town Services. These outreach efforts include discussions of the steps the Town has taken over the last several years to reduce costs while maintaining service levels, and the arduous struggle the Town continues to face in State takes, revenue declines, expenditure increases, and the spiraling benefit costs that are outside of Town control. The FY 2005/06 budget planning will prove even more difficult as most of the operational "low hanging fruit" has already been harvested through the cost reduction and revenue enhancements implemented by the organization over these past three fiscal years.

The attached proposals that follow this report are both innovative and painful, and recognize the necessity of correcting the Town's fiscal imbalance. The overarching principles that guided these proposals were (1) managing in a fiscally responsible manner, (2) preserving valued Town services to the community, and (3) mitigating the impact of labor force reductions that provide these services to the community.

The preliminary proposals total approximately $954,100, and include $648,600 in departmental budget reductions and $305,500 in revenue enhancements. There are approximately 4.85 net FTE General Fund reductions (which includes a combination of full and part-time reductions for both vacant and filled positions, offset by partial additions for three positions) and a net reduction of approximately 900 temporary labor hours (exclusive of two proposed Library reduction options). An additional .55 FTE in non-General Fund positions are eliminated in conjunction with the above FTE reductions. Employees impacted by these reductions were notified by February 25, 2005. The Town's Human Resources Department will provide affected employees with transitional support in preparation for this layoff.

It is stressed that the proposals presented at this time are preliminary and will be further developed and refined through Town Council feedback to the Town Manager and continued staff analysis over the next seven weeks before they are presented as part of the Town Manager's Proposed Operating Budget for FY 2005/06.

While the matrices provide reduction efforts by department, the Town Manager will approach the final proposed reductions from a service perspective aligned with community priorities as informed by these Council discussions. Staff would like Town Council's feedback through this review for use in further developing and refining the Town's Proposed FY 2005/06 Operating Budget to be brought to the Town Council in May 2005.

At the March 7th Council meeting, each department director will present their proposals to the Council and be able to discuss service impacts and respond to Council questions about core services and service delivery. Council may want to review this report using the FY 2004/05 Adopted Budget document as a point of reference for the full scope of services provided by each department to the Community so that these proposals are understood in their full context.

ENVIRONMENTAL ASSESSMENT:

This budget report is not a project defined under CEQA, and no further action is required.

FISCAL IMPACT:

There is no fiscal impact generated from this report as this budget session is for Council to review staff's preliminary proposals in developing the Town's FY 2005/06 Proposed Operating Budgets. Information and direction obtained from this study session will be utilized for further budget proposal development; no financial changes or appropriation requests are included at this time.

Attachments:

1. General Fund Departmental Budget Reductions/Revenue Enhancement Proposal Matrix
    a. Administration: Town Offices/Town Manager
    b. Community Development Department
    c. Community Services Department
    d. Library Department
    e. Parks & Public Works Department
    f. Police Department

ADMINISTRATIVE SERVICES
GENERAL FUND PROPOSALS
FY 2005/06

Administrative Services includes the Office of the Town Council, Town Treasurer, and Town Attorney and Town Manager, Clerk, Human Resources, Finance, and Community Services Departments.

Department's Total Reduction Requirement: **$109,900**

PRIORITY ORDER	PROPOSALS	SERVICE IMPACTS
	See FY 2005/06 Proposed Administrative Restructuring Attachment.	

FY 2005/06 Reduction Proposal
Town Offices and Town Manager's Department
Proposed Administrative Restructuring

General Fund Reduction Target for All Administrative Services: $109,900

Purpose

The purpose of this FY 2005/06 Reduction Proposal is to provide a high-level overview of a proposed administrative restructuring. This proposal addresses the 4% reduction target of all administrative services, including Town Offices, Town Manager's Department (including Town Manager's Office and Clerk, Finance, and Human Resources Departments), and Community Services Department. This report discusses phase one and two of the restructuring concept, outcomes, and service impacts. It also addresses the restructuring implementation process and estimated savings.

Administrative Restructuring Concept

Understanding that our fiscal situation is an ongoing one, the Town Manager's Office is evaluating operational efficiencies in administrative services. This evaluation involves assessing the current clerical and administrative capacity and needs in the Town Offices, Town Manager's Department, and Community Services Department. As a result, a preliminary FY 2005/06 administrative restructuring concept is proposed to reduce costs and further improve department efficiencies and customer service.

The proposed FY 2005/06 budget reductions reflect a preliminary administrative restructuring of the Town Attorney's Office, Clerk's Department, Town Manager's Office, and Finance, Human Resources, and Community Services Departments. The administrative restructuring concept involves the implementation of a customer service center and consolidation of support functions and staff. Implementation of the restructuring would occur through a phased process involving Full-Time Equivalent (FTE) reductions, increases, and work reallocations. Implications of these FTE actions are discussed in further detail in the restructuring outcomes and impacts section below.

Administrative Restructuring Outcomes and Impacts – Phase 1

The first phase of the administrative restructuring would be effective August 1, 2005 and involves the implementation of a customer service center and consolidation of administrative and clerical support services. The following section discusses the proposed outcomes and impacts.

Customer Service Center

The implementation of a customer service center would begin the process of centralizing customer requests for information and other Town-wide administrative processes to improve customer service and achieve inter-departmental operational efficiencies. This concept also

begins to initiate the efficiency and service recommendations identified in the Civic Center Master Plan.

The customer service center would be located in the Clerk's Department and serve as the main point of contact for customers seeking assistance via telephone or in person. The customer service center would initially be designed to address community inquiries and/or requests for information typically received by the Town Manager's Office, Clerk's Department, and Community Services Department. Examples of customer service center duties would include, but are not limited to: providing general telephone information about Town events, board, commissions, and committee vacancies, recycling, and volunteer and senior services programs. Other duties would include coordinating Town facility rentals, reservations, and the preferential parking program. The Clerk's Department would continue to be responsible for clerk-related duties, including records management and retention, public meeting notification, insurance coordination, and Fair Political Practices Commission filing and tracking requirements among others.

The initial expectation of the customer service center is to increase workload capacity within the administrative services division and begin centralizing general information requests received by the Town Manager's Office, Town Attorney's Office, and Clerk and Community Service Departments. This centralization would improve the productivity levels of administrative services support staff. This proposed first phase would also involve exploring the center's capacity to assume other responsibilities including, but not limited to, special events permit coordination, park reservations, and other document processing activities. A future phase of the customer service center would be to centralize all general information requests/inquiries through the introduction and marketing of a new Town telephone number. A new phone system may be needed to complete this centralization.

Service Impacts

The implementation of the customer service center would involve the elimination of passport services. Elimination of passport services would provide the capacity needed for a customer service center and allow the Clerk's Department to address a wide range of customer service issues and inter-departmental duties. This capacity could also help mitigate other Town-wide service impacts. Although passport services have benefited customers who use this service, it is not a core Town service. In addition, the provision of passport services has not been cost recoverable. In FY 2003/04, the Los Gatos U.S. Postal Service began providing passport services. Since that time, the Town's passport revenue has decreased by $46,000. The FY 2004/05 estimated annual passport revenue of $35,000 would not sufficiently support salary and benefit costs required for passport services.

As discussed earlier, the implementation of the customer service center would require the Clerk's Department to address calls and/or requests for information received by the Community Services Department. Currently, the Community Services Department uses a temporary Secretary II position to provide customer service and clerical support for community services and solid waste activities. Under the proposed administrative restructuring, the Secretary II position would continue to support the Solid Waste program at a reduced capacity and hours for community

services customer and clerical assistance would be eliminated. The additional capacity gained as a result of eliminating passports would allow the Clerk's Department to assume the position's community services clerical/customer service responsibilities and continue its core duties, such as records maintenance and retention, public notification coordination, and legal document tracking.

Consolidation of Clerical and Administrative Support Services

The proposed administrative restructuring would consolidate existing clerical and administrative support services through several FTE reductions and moderate FTE increases. The FTE changes and impacts are discussed below and occur in the Town Attorney's Office and Clerk, Finance, and Human Resources Departments.

Clerk's Department and Town Attorney's Office

Under the proposed administrative restructuring, the clerical and administrative duties in the Town Attorney's Office would be merged with those in the Clerk's Department. To accomplish this consolidation, the Legal Assistant position (.50 FTE) would be defunded. Given the nature of the work performed in the Clerk's Department coupled with its knowledge of Town processes as it relates to resolutions, ordinances, contracts, and other time-sensitive, legal documents, it is believed that consolidation with the Clerk's Department would be the most effective and efficient to provide support services to the Town Attorney and Self-Insurance Liability Fund under a budget reduction scenario. This consolidation would require a .25 FTE increase in the Clerk's Department. Approximately .05 FTE would provide clerical and administrative needs of the Town Attorney's Office. The remaining .20 FTE would support Town claims processing, which is funded through the Liability Self-Insurance Fund. Reception support for the Town Attorney's Office could be addressed through the Customer Service Center. It is important to note that although a .25 FTE is proposed, the consolidation generates a significant budget savings.

Finance Department

The administrative restructuring proposes to defund the Finance Project Coordinator position (.80 FTE). This position provides support to the Finance Department (.55 FTE) and Management Information Systems – MIS Department for web site support (.25 FTE). The defunding of the Finance Project Coordinator position would slow financial administrative duties related to the Capital Improvement Program (CIP), invoice processing, and accounts payable/payroll staff report generation and other finance-related projects. To mitigate service impacts, the financial, clerical, and administrative responsibilities would be further evaluated and partially assigned to existing Finance and Parks and Public Works staff. Further consolidation of these duties would be explored through a second administrative restructuring phase (discussed later in this report). Web site management would be assigned to the Town Manager's Office, as part of a broader emphasis on public information and marketing. Implementation of the web site redesign and new content management program, scheduled for Summer, 2005 will allow this transition to occur.

Human Resources Department

The administrative restructuring also proposes to further reduce the Human Resources Specialist positions. The positions would be reduced from .75 and .65 FTE to .50 FTE. Both of these positions were partially defunded in the FY 2004/05 budget.

The proposed FTE reductions would impact the department's ability to deliver Human Resources programs and service in a timely manner. Service impacts could include delays in benefit and workers' compensation claims administration and employee relations activities. Clerical back-up for the Town Manager's Office would also be reduced. Mitigation of these impacts could be addressed by exploring the consolidation of the Human Resources Specialist positions through a second administrative restructuring phase (discussed later in this report).

Additional Operational Reductions

The restructuring process also involves a partial reduction of temporary hours in the Town Council and Town Manager's Office. It is anticipated that defunding the temporary hours would not have a service impact as they were not used during FY 2004/05. Operating expenses, including material and supplies are also proposed to be reduced. These reductions would generate minimal service impacts, however, the loss of these funds would reduce capacity and flexibility to address unanticipated service requests.

Administrative Restructuring Outcomes and Impacts – Phase 2

A preliminary second phase of the administrative restructuring involves the complete defunding of the Human Resources Specialist positions and would be brought forward to Council as part of the mid-year budget review in Fall 2005. While phase two continues to evolve, it is tentatively proposed that the responsibilities of the defunded Human Resources positions and the Finance Project Coordinator (defunded in phase one) be consolidated into an Administrative Analyst position. The Analyst position would assume some of the duties of the defunded positions and other higher-level responsibilities, including but not limited to budget analysis and policy development. The position would be shared between the Finance and Human Resources Department.

Although this consolidation generates both efficiency and savings, further assessment would be required given that the responsibilities of 1.95 FTEs would be merged into one position. This assessment would determine the appropriate workload for the Analyst position and need for additional support. If additional support was warranted, a variety of alternatives would be explored, including the reevaluation of the organization's collective capacity and use of temporary hours and/or FTE increases, especially for clerical and paraprofessional duties.

Administrative Restructuring Implementation Process

Given sensitive and complex nature of the restructuring, supervision of the process will be necessary. To ensure a smooth transition, the Administrative Analyst would be increased from .80 FTE to its authorized level of 1.00 FTE to oversee and coordinate the implementation of the

administrative restructuring. Supervision and coordination of the restructuring would include an assessment of service and organizational impacts and development of transitional training, processes, and policies. The Analyst would also assume other managerial duties, including web management. Web management support would be funded through the MIS Fund.

Given the managerial level of responsibility delegated to the Analyst, it is recommended that the position be reconfigured to the role of Administrative Officer. The technical title and classification will be determined by the Human Resource Director based on a review of duties through the benchmarking of other public agencies. The Administrative Analyst position would be defunded. The reconfiguration of the Analyst position would occur in phase one of the restructuring process.

Administrative Restructuring Estimated Savings

Under phase one of the proposed administrative restructuring, the combined FTEs for the Town Attorney's Office, Town Manager's Office, and Clerk, Finance, and Human Resources Departments would be reduced from 21.50 FTE to 19.80 FTE.

It is anticipated that the proposed administrative restructuring would generate a general fund savings of $110,184 and other non-general fund savings of $16,109. The estimated total savings would be $126,293. It is important to note that the estimated total savings does not reflect the $35,000 loss of passport revenue.

Conclusion

Successfully controlling costs and balancing the needs of the community and Town organization are a priority. Given the Town's ongoing fiscal challenges, it is prudent to evaluate our collective capacity to provide services, both internally and externally. The Town Manager's Office has examined, and will continue to assess the clerical and administrative support needs of the Town Offices and Town Manager's Department. This initial evaluation revealed a phased administrative restructuring opportunity to further improve department efficiencies and customer service. Effective August 1, 2005, the proposed first phase of the administrative restructuring would involve the implementation of a customer service center and consolidation of administrative and clerical support services. A preliminary second phase has been developed and would be brought forward to Council in conjunction with the mid-year budget review in Fall 2005.

COMMUNITY DEVELOPMENT DEPARTMENT
GENERAL FUND PROPOSALS
FY 2005/06

Department's Total $Reductions/Additions: **$102,600**

PRIORITY ORDER	PROPOSALS	ADDITION	SERVICE IMPACTS
1	***Revenue Increase through Development Fees*** A. CDD proposes to increase the user fee revenues by the percentage increase of operating expenses (salary and benefits) projected for CDD instead of increasing the user fees by the CPI. For 05/06, the projection is 4%. The goal is to assure that the fees rise at the same rate as the cost of providing the service. The user fee revenues in Planning and Building are proposed to be increased by the 4%. B. Utilize Construction Cost Index for determining valuation for construction projects. This will ensure that building valuations are calculated in the same manner as used by the private sector. Several fee adjustments are proposed to align fees to the cost of providing service as follows: 1. Reduce valuation for Commercial Tenant Improvements, 2. Increase the valuation for hillside single family homes, and 3. Add new planning fee – DRC application that requires Planning Commission approval for subdivisions.	$102,600 Revenue Enhancement	There will be no service impact. Without these fee increases, the General Fund will subsidize Community Development by a like amount.
	TOTAL	**$102,600**	

COMMUNITY SERVICES DEPARTMENT
GENERAL FUND PROPOSALS
FY 2005/06

Department's Total $ Reduction Requirement: **$38,900**

PRIORITY ORDER	PROPOSALS	ADDITION/ REDUCTION	SERVICE IMPACTS
1	**Reduction of Community Promotions budget** Eliminate entire budget for ad hoc public information pieces. No such pieces produced to date in FY 2004/05. Past pieces have included "Shop Los Gatos" promotions.	$13,800 Expenditure Reduction	Eliminates ability to produce ad hoc public information pieces. Only media produced would be twice-yearly Los Gatos Vista and six-yearly Senior Center Newsletter. Town Marketing Budget would be limited to the Chamber of Commerce contract allocation – and some funding in the Redevelopment Agency Budget.
2	**Reduction of Neighborhood Center furniture budget** Reduce furniture replacement allocation from $9,000 to $3,500. Funds are for replacement of damaged and worn-out furniture in Neighborhood Center.	$5,500 Expenditure Reduction	Replacement of damaged and worn-out furniture may be delayed. Neighborhood Center patrons might have diminished quality of furniture available.
3	**Reduction in Secretary II position** Reduce Secretary II position from 23 hours per week to 16 hours per week. Convert from contract employee to temporary employee. Fund position entirely from the Solid Waste Fund, eliminating General Fund budget for contract temporary employees (from $19,600 to $0).	$19,600 Expenditure Reduction / Funding Shift	Position would focus on support of Solid Waste program, with other duties as assigned. Primary responsibility for answering telephone and making room reservations would go to Customer Service Center. Walk-in requests for Neighborhood Center information and reservations would be accommodated during Secretary II scheduled hours.
	TOTAL	**$38,900**	

LIBRARY DEPARTMENT
GENERAL FUND PROPOSALS
FY 2005/06

Department's Total $ Reduction: **$68,000 w/Option 2a**
$79,600 w/Option 2b

PRIORITY ORDER	PROPOSALS	ADDITION/ REDUCTION	SERVICE IMPACTS
1	***Staffing Restructure – Net Reduction*** One Principal Librarian ($102,973) functions, on a daily basis, as: Circulation Supervisor, System Administrator for Library Information technology, (including Horizon - the Integrated Library System database and all Network and Technical Support) and works on public service desks on Saturdays and Tuesday evenings. The Library's current Associate Librarian position ($90,642). serves as the day-to day Circulation Services Supervisor, and works reference desks, but does not function at any technical or systems administration level. This reorganization eliminates the Principal Librarian position and converts the Associate Librarian to a Circulation Supervisor ($93,986), along with the following structure of staff and duties: Restore: .60 FTE Youth Librarian to .75 FTE - $14,784 Add: Veicon (thin client) support - $2,500 Add: Hourly Principal Librarian - $9,307 Add: Hourly Librarian, Sundays (235 hours) - $7,875 Add: Hourly Librarian, Saturdays (78 hours) - $2,614 Add: Hourly Librarian, Tuesday evenings (150 hrs) - $5,026 Add: Training for new duties in Circulation Supervision, Horizon and System Administration - $5,000.00	$52,500 Expenditure Reduction	**BENEFITS** This proposal will maintain current hours and levels of service at 54 hours and 7 days per week, with the following benefits: ➢ Work assignments pushed down to lowest level possible ➢ Personnel costs are permanently reduced ➢ Appropriate lines of supervision and responsibility ➢ Growth opportunity for existing staff as technology support is distributed across positions ➢ Maintains quality of operations by replacing outgoing position with currently trained permanent and hourly staff ➢ Continues to fund temporary hours for Sundays **RISKS** This proposal does not address the ongoing reduction in the library materials budget, as well as incurring new risks of: ➢ Slower response to maintenance and upgrades of services as staff trains for new duties. ➢ Slower response to problems in service for thin client (Veicon) who is an outside vendor. ➢ Failure of training objectives Operating without a highly trained systems administrator presents significant risks and challenges in the operation of the library. This will present a steep learning curve to those staff asked to assume these complex duties and responsibilities. This new configuration needs to be monitored and evaluated as the year progresses, and adjustments may need to be made.

2a	***Reduced hours of service on Mondays and Tuesdays*** **Remain open 7 days and 50 hours per week** Take Monday and Tuesday to eight open hours – single staff shifts Hourly Clerk (388 hours), - $8,272.16 Hourly Page – (194 hours) - $2,186.54 Hourly Librarian – (150 hours) - $5,026.50	$15,500 Expenditure Reduction	Loss of 4 hours/week public service, from 54 to 50 Loss of access for morning or evening customers. New Schedule would be: Mon & Tues: 12pm -8pm (from 10am – 8pm) Wed & Thur: 10am – 6pm (from 12pm - 8pm) Fri & Sat: 10am – 5pm Sunday: 1pm – 5pm May result in circulation drop, proportionate to customers adjusting to new schedule. Loss of one or more Children's programs. Since available staff hours are reduced, long-term staff may elect to leave Town employment. New staff requires training, which impacts customer service responses.
	TOTAL	**$68,000 w/2a**	
OR			
2b	***Close on Sundays – Reduction*** **Open 6 days and 50 hours per week** Hourly Clerk (705 hours) - $15,030.16 Hourly Page (376 hours) - $4,237.52 Hourly Librarian (235 hours) - $7,874.85	$27,100 Expenditure Reduction	Loss of 4 hours/week public service, from 54 to 50. Loss of access for weekend customers, since weekend access is reduced by 36%. New schedule would be: Mon & Tues: 10 am -8pm Wed & Thur: 12pm – 8pm Fri & Sat: 10am – 5pm Sunday: Closed (from 1pm – 5pm) May result in circulation drop proportionate to ability of customers to adjust to new schedule. Since available staff hours are reduced, long-term staff may elect to leave Town employment. New staff requires training, which impacts customer service responses.
	TOTAL	**$79,600 w/2b**	

PARKS & PUBLIC WORKS DEPARTMENT
GENERAL FUND PROPOSALS
FY 2005/06

Department's Total $ Reductions/Additions: **$ 186,800**

PRIORITY ORDER	PROPOSALS	ADDITION/ REDUCTION	SERVICE IMPACTS
1	Increase various Parks Program fees as recommended by fee study consultant.	$ 30,500 Revenue Enhancement	Increase parks fees to recover cost of providing service, in line with market rates; Town residents will continue to receive reduced park fee rates. Multiple-site reservation discounts will be eliminated, non-resident parking fee will be increased to align with Vasona Park's entrance fee, and the park use permit, park reservations fees and tree removal permit will be increased as recommended by the fee study. This estimate reflects a conservative revenue increase based on current year activity.
2	Increase Engineering Program development fees as recommended by fee consultant, and add three more fees for services not charged fees previously.	$ 65,000 Revenue Enhancement	Additional and increased fees to cover cost of providing engineering services, as recommended by fee consultant. Also reflects increased activity for encroachment permits, engineering fees and grading inspections that are anticipated to continue into FY 2005/06.
3	Additional PG&E Streetlight Rate reductions.	$ 13,700 Expenditure Reduction	Reduces energy expenditures identified by staff during internal audits. Specifically, the elimination of 30 streetlights not in Town jurisdiction,($2K), 159 streetlights charged incorrect rate ($4K) and elimination of 64 Metricom unit charges ($7.7K).

4	Reduce services and supplies in Parks, Engineering and Streets Programs.	$ 35,000 Expenditure Reduction	Eliminates various services and supplies. Loss of these budget items may limit the department's flexibility to address unexpected events, such as hazardous materials removal. Some eliminated services and supply expenditures are one time expenses, such as the Grading Ordinance Consultant and lap-top expenses, while other are ongoing, such as Engineering's postage and Parks Department uniform laundry expenses.
5	Reduce Office Intern hours.	$ 23,300 Expenditure Reduction	Reduces Temporary Office Intern hours from 1495 to 400 hours. Remaining temporary labor hours will provide peak period assistance (May – September) at 20 hours per week for 20 weeks. This reduction will cause some delays in data input and customer service during the rest of the year.
6	Reduce engineering consultant services funding, offset with Temporary Engineering Technician hours.	$ 18,100 Expenditure Reduction	The Engineering program historically hires part-time consultants to assist in CIP and development review projects. This proposal reduces the program's line item expenditure ($45K) for consulting services, with an offset of temporary hours ($27K), netting a savings of $18,100. Exchanging outside consultant support with a part-time temporary in-house Engineering Technician position maintains the ability to provide engineering service to the CIP projects; however it will reduce engineering support for development review activities. This will cause a slowdown in the development review process.
7	Reduce overtime budget.	$ 1,200 Expenditure Reduction	This reduction of overtime budget reflects a savings in estimated over-time costs due to service delivery changes. Minimal service impact as overtime for stand-by and storm response budgeted. Specifically, several staff were budgeted for a significantly higher amount of overtime than are actually utilized in voluntary overtime and stand-by. Potential impact of reduced capacity to staff special events due to current low staffing levels, as staff are paid overtime to work special events.
	TOTAL	**$ 186,800**	

LOS GATOS/MONTE SERENO POLICE DEPARTMENT
GENERAL FUND PROPOSALS
FY 2005/06

Department's Total $ Reductions/Additions: **$ 463,400**

PRIORITY ORDER	PROPOSALS	ADDITION/ REDUCTION	SERVICE IMPACTS
1	**Potential Increase in Fees and Charges:** Based on increasing fees according to the User Fee Study completed by PRM. Projections reflect increases at 2/3of total projected increased fee revenue.	$48,400 Revenue Enhancement	Better cost recovery for services rendered, paid for by the users of the service.
2	**Increase – Livescan Fingerprinting:** This proposal increases the amount of on-line fingerprinting done for the public on the Livescan machine from 700 per year to 3000 per year. This estimate is based on the number of people currently fingerprinted, and the number of people declined due to lack of staffing.	$59,000 Revenue Enhancement	The department intends to restructure an existing Community Service Officer position to this fingerprinting appointment duty or other duties which would allow the police department to meet current and projected requests of our citizens. Service impacts resulting from this restructuring include reductions in non-essential internal and external services, such as: the "Police Connection" crime prevention production, neighborhood presentations, volunteer facilitation, and community outreach services.
3	**Restoration of the Records/Communications Manager position and reclassification to Administrative Officer:** This non-sworn position supervises all 7 Communications Dispatchers and 2 Records Specialist positions. Position also serves as a Custodian of Records, DOJ Agency Terminal Coordinator, and security and training coordinator for NCIC/CLETS/CJIC. The reclassification of the position would include duties to oversee the department's budget and provide needed analytical services which were reduced in the FY 2004/05 budget.	($58,000) Expenditure Addition	Restores this non-sworn position (reduced from full to part time last fiscal year) to a full time position. Due to the previous elimination of the Administrative Analyst and the .5 FTE reduction of the Records/Communication Manager, internal service impacts have included: reduced ability to manage core services and pursue necessary dispatch center technology and wireless 9-1-1 upgrades, and the shifting of fiscal analysis to the Crime Analyst. This reorganized position will perform financial/budget and general analysis, and restore Records and Communications supervision to required levels.

4	**Reduction of 1.0 FTE Parking Control Officer:** Defund 1 full-time Parking Control Officer (PCO) position, reducing the number of PCO positions from 4 to 3. These non-sworn positions are held in the Parking Management Fund, a special fund partially subsidized by the General Fund. PCOs are responsible for daily town-wide enforcement of parking regulations, including issuance of parking violations. In FY 2004/05, it is estimated that PCOs will generate approximately $400,000 in parking violation revenue.	$74,000 Expenditure Reduction	This would cause the layoff of one full time existing employee reducing PCO staff from four to three (Two full-time positions were previously defunded in the 2004/05 budget). The proposal would result in reduced number of PCOs available for enforcement of parking regulations. This proposal may result in further reduced citation revenue and may require an adjustment of shifts. As PCOs also provide support to Patrol staff on an as-needed basis, and perform non-law enforcement tasks; this proposal would reduce the ability of PCOs to provide such support. The department is pursuing transferring non-parking duties to other employees, or to volunteers as appropriate.
5	**Reduction of .5 FTE Parking Coordinator:** Defund the part-time Parking Coordinator position. This Parking Management Fund position is responsible for overall coordination of the Parking Management Plan, which includes the annual Holiday Parking Program, and supervision of Parking Control Officers. In 2004/05 this position was reduced to .80 FTE, with .5 FTE of the position allocated to the parking coordination role and .3FTE to RDA Downtown Parking Capital Projects. This defunding will eliminate both the .5 General Fund FTE and the .3 RDA FTE.	$64,000 Expenditure Reduction	This would cause the layoff of one existing 80% time employee. Duties of this position would be transferred to a Sergeant-level employee who would assume oversight of the Parking Management Plan and supervisory duties for Parking Control Officers. The department would reorganize some of the sergeant's existing duties, such as the special events permit processing, to another position within the town. It is expected that elements of the Parking Management Plan will not be sustained at current or prior levels. The department would explore using other existing staff to support on-going community support of parking issues, although at a reduced level.

6	**Reduction of 1.0 FTE Police Officer:** Defund 1 vacant Police Officer position	$138,000 Expenditure Reduction	This proposal would reduce the total number of funded Police Officer positions from 32 to 31 (2 authorized positions were defunded in the 2003/04 Adopted Budget.) This defunding would occur in the patrol force and would reduce the patrol staff from 23 to 22. It would reduce the department's ability to respond to lower priority calls for service, follow up on crimes or initiate investigations and engage in community problem solving. Use of on-line reporting would be increased. The department expects to modify the patrol schedule to mitigate the vacancy or potentially reassign an officer from a special assignment. This reduced level of staffing will require a continued use of overtime to staff Police Officer absences. **This position defunding could be partially offset with the addition of a Community Services Officer – Intern (part-time) at an additional cost of approx. $20,000.**
7	**Reduction of 1.0 FTE Police Officer:** Defund 1 vacant Police Officer position	$138,000 Expenditure Reduction	This proposal would further reduce the total number of funded Police Officer positions from 31to 30. This defunding would also occur in the patrol force and would reduce the patrol staff from 22 to 21. This will preclude restoring specialized motorcycle services reduced in FY 2004/05. It would further reduce the department's ability to respond to lower priority calls for service, follow up on certain crimes or initiate investigations and engage in community problem solving. On-line reporting or other non-police response alternatives will be utilized for lower priority incidents. The department would have to modify the patrol schedule to mitigate the vacancy or potentially reassign an officer from a special assignment This reduced level of staffing will require a continued use of overtime to staff Police Officer absences. **This position defunding could be partially offset with the addition of a Community Services Officer – Intern (part-time) at an additional cost of approx. $20,000.**
	TOTAL	**$463,400**	