



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 3/10/2025

ITEM NO:

DATE: March 5, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Review and Recommend to the Town Council Changes to the Town's General Fund Reserve Policy

RECOMMENDATION:

Review and Recommend to the Town Council Changes to the Town's General Fund Reserve Policy

DISCUSSION:

The Town's General Fund Reserve Policy was last reviewed by the Finance Commission on September 13, 2021, and adopted by the Council on September 21, 2021. The 2021 revision added a threshold (\$10,000) for reserving unrealized gains resulting from market fluctuation gains.

Reviewing Reserve Policies

It is a good practice to periodically review the policy. While this staff report discusses some potential changes to policy, staff note that discussion of our approach to reserving, the target amounts specified for a reserve, as well as the criteria for use of such reserve may need to be an ongoing discussion. For the purpose of the Finance Commission's workplan, the current discussion would address the need to review the policy. However, there are more areas that may need consideration and so future discussions may be necessary to gather the commission's perspective as we move forward. This may include consolidation of the number of reserves into fewer reserve categories as well as determining whether certain reserves may benefit from being specified as committed as opposed to assigned fund balances.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

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SUBJECT: Discussion and Consideration of General Fund Reserve Policy Changes

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Initial Staff Recommendations for the Finance Commission's Consideration

Staff recommends consideration to revise the General Fund Reserve Policy by establishing the General Fund Unassigned Fund Balance Reserve for \$3,000,000. This Reserve is intended to represent available resources that are not allocated for other uses and are available for changes in current year changes in net revenue. Changes may include net revenue that falls to the bottom line or additional expenditures that are not covered by revenue or transfers into the General Fund.

Staff recommend funding for unassigned fund balance be initially established by reclassifying the ERAR Risk Reserve and a portion of the Capital/Special Project Reserve to unassigned fund balance. In addition, staff recommend removing obsolete language related to the Almond Grove Reserve, as the Almond Grove Reserve is no longer in use. The recommended change is redlined in Attachment 1.

Staff are open to more advise and perspective from the Finance Commission as well as keeping dialog going on opportunities to refine how we maintain and fund reserves.

The Finance Commission should review the recommendation and consider its recommendation for Town Council's consideration.

FISCAL IMPACT:

There is no fiscal impact of reviewing and modifying the General Fund Reserve Policy.

Attachment:

1. General Fund Reserve Policy-Redlined

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