



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 9/13/2021

ITEM NO: 5

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DATE: September 8, 2021  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Review Recommended Changes to the Town's General Fund Reserve Policy to Address the Finance Commission's Request to Document the Market Fluctuation Reserve in a Town Policy and Forward a Recommendation to the Town Council.

**RECOMMENDATION:**

Review recommended changes to the Town's General Fund Reserve Policy to address the Finance Commission's request to document the Market Fluctuation Reserve in a Town Policy and forward a recommendation to the Town Council.

**DISCUSSION:**

The Governmental Accounting Standards Board (GASB) 31 requires that at year end the Town must compare or "mark" its historical cost of investments against the market value of those investments as determined at its fiscal year end date. If the market value is below cost, a negative interest earned adjustment is made to the Town's interest earned for the fiscal year. Conversely, if the market valuations exceed historical cost, a positive increase is added to the calculation of interest earned for the fiscal year.

Staff has utilized a Reserve for Market Fluctuations to assign or reserve Town General Fund balance when substantial unrealized gains (market value of investment above its historical cost to the Town) on its operating portfolio are determined upon the last day of the fiscal year.

At its August 9<sup>th</sup> meeting the Finance Commission requested that staff develop a threshold for unrealized gains so reserve balances resulting from market fluctuation gains are consistently applied from year to year. Staff recommends reserving the market fluctuation gains that are equal or higher than \$10,000. The recommended changes have been incorporated into existing

**PREPARED BY:** Stephen Conway  
Finance Director

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

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SUBJECT: Market Fluctuation Reserve Policy

DATE: September 7, 2021

GASB 31 language and can be seen in the redlined General Fund Reserve Policy in Attachment 1.

FISCAL IMPACT:

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

Attachment:

1. Town General Fund Reserve Policy - Redlined