



General Fund Reserve	6/30/2022 Actual	6/30/2023 Actual	6/30/2024 Actual	6/30/2025 Actual	6/30/2026 Estimated	6/30/2027 Proposed
<b>Restricted for:</b>						
Pension	\$ 690,000	\$ 1,400,163	\$ 2,188,659	\$ 3,090,731	\$ 3,780,731	\$ 4,170,731
Property Held for Resale		44,338	344,338	-	-	-
<b>Committed to:</b>						
Budget Stabilization	\$ 5,991,566	\$ 6,129,774	\$ 6,736,781	\$ 7,870,639	\$ 7,709,347	\$ 7,709,347
Catastrophic	\$ 5,991,566	6,129,775	6,736,781	7,870,639	7,709,347	7,709,347
Pension/OPEB	300,000	300,000	300,000	1,000,000	1,300,000	1,300,000
Measure G District Sales Tax - Operating	-	590,581	590,581	-	-	-
<b>Assigned to:</b>						
Open Space	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553
Capital / Special Projects	11,071,231	10,359,577	8,651,056	1,983,271	1,983,271	1,983,271
Authorized Carryforward	33,145	37,698	85,861	6,367	6,367	6,367
Compensated Absences	1,519,147	1,580,623	1,555,478	1,519,243	1,519,243	1,519,243
Market Fluctuations	-	-	1,712,246	1,201,824	1,201,824	1,201,824
ERAF Risk Reserve	-	689,608	1,430,054	-	-	-
Council Priorities - Economic Recovery	-	1,556,614	20,684	-	-	-
Other	159,000	159,000	159,000	159,000	159,000	159,000
Unassigned Fund Balance				10,211,049	14,605,431	14,056,109
<b>Total General Fund Reserve</b>	<b>\$ 26,896,789</b>	<b>\$ 29,528,304</b>	<b>\$ 31,062,072</b>	<b>\$ 35,463,316</b>	<b>\$ 40,525,114</b>	<b>\$ 40,365,792</b>

**Changes to Fund Balance**

As part of the FY 2024-25 Final Budget, Council approved the creation of unassigned fund balance of \$4 million. This was created by reducing the “ERAF Risk Reserve” by \$400,000, decreasing the “Measure G District Sales Tax - Operating” by \$600,000 and lastly, reducing the “Capital/Special Project” by \$3,000,000.

Subsequently, FY 2024-25 ended the year with a surplus of \$4.7 million. Of this surplus \$2.5 million was allocated to the unassigned category. In addition, there were several changes across multiple reserves that resulted in an additional \$3.7 million being allocated for a total of \$10.2 million in unassigned fund balance at the end of FY 2024-25. Unassigned fund balance is projected to increase to \$10.8 million at end of FY 2025-26 due to anticipated budget surplus of \$0.6 million, then decrease by about \$3 million to \$7.8 million due to the transfer out of funds from the General Fund to a new capital fund “Long-term Community Benefit”. This transfer was meant to pre distribute

anticipated proceeds from the sale of town property. The sale of property will be included in FY 2025-26 carryforward revenue and will in estimated fund balance increasing to \$10.8 million.

### **Revenue Options**

Cities typically seek revenue sources to fund essential services, often aiming for full-cost recovery. However, fee studies frequently reveal that actual service costs significantly exceed existing fees, making large increases difficult to implement due to public resistance. As a result, cities adopt strategies to soften the impact of these necessary increases. Common approaches include gradually phasing in fee increases over several years or intentionally setting fees below full-cost recovery levels to lessen opposition. While these measures may reduce immediate pushback, they inevitably result in lower overall revenue.

The same outcome occurs when cities hesitate to introduce new revenue programs, such as revenue recovery measures that did not previously exist. Though these gradual, partial, or new approaches initially appear politically manageable and mitigate short-term resistance, they can inadvertently shift fiscal pressures to future budgets.

Over time, the increased costs of providing programs and services plus the cumulative impact of consistently under-recovering costs or delaying necessary revenue increases creates structural deficits. These deficits progressively intensify fiscal pressures, eventually requiring more drastic actions in future budgets when available resources are insufficient to sustain existing services and operations.

Los Gatos faces similar challenges as other cities regarding revenue generation and cost recovery. Given the projected deficits and the need for potential expenditure reductions, exploring options to increase revenue becomes critical for balancing the Town's ability to provide essential services. Revenue-generating options differ significantly based on implementation timelines. For instance, economic development initiatives designed to attract visitors and increase hotel occupancy could require upfront investment and years to yield substantial returns. In contrast, updating a fee schedule or renegotiating agreements may offer quicker financial benefits but face greater immediate opposition.

Town staff are presenting several short-term and medium-term revenue generating options for Town Council's consideration. Balancing expenditure reductions with increasing revenue, preferably ongoing revenue, reduces the risk the Town enters into a spiral of reductions and reducing the extent and quality of local programs and services.

### **Efficiency and Innovation**

Lastly, it is prudent for the Town to find opportunities to enhance the efficiency with which we operate and to look towards innovation where such can maintain or improve delivery at reduced costs. This area is a multi-year effort, so it is not contemplated that it will provide direct benefit in the very short-term to address projected deficits, but it is an important addition that residents and taxpayers will expect as part of a holistic effort to achieve fiscal sustainability.