



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 09/08/2025

ITEM NO: 6

DATE: September 3, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: **Review and Recommend Updates to the Town's General Fund Reserve Policy**

RECOMMENDATION: Review and recommend updates to the Town's General Fund Reserve Policy for the Town Council's consideration, incorporating best practices in fiscal policy, reserve management, and financial transparency.

FISCAL IMPACT:

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

BACKGROUND:

The Town of Los Gatos has historically maintained a strong General Fund reserve position, contributing to its fiscal stability and high credit ratings. The current General Fund Reserve Policy was last updated in 2021 and outlines a combined minimum reserve of 25% of General Fund ongoing operating expenditures, split evenly between a Catastrophic Reserve and a Budget Stabilization Reserve.

In light of evolving best practices and benchmarking against peer jurisdictions, staff prepared a revised policy to enhance clarity, structure, and long-term resilience.

DISCUSSION:

The Finance Commission discussed the General Fund Reserve Policy at its March 10, 2025, meeting and provided additional feedback and recommended changes.

PREPARED BY: Name
 Title

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

The revised policy includes Finance Commission feedback from the March meeting, retaining the Town's core reserve structure while incorporating enhancements based on guidance from the Government Finance Officers Association (GFOA) and practices from other California cities.

Staff recommends revising the General Fund Reserve Policy to reflect the establishment of the General Fund Unassigned Fund Balance Reserve with the 2025-26 Adopted Budget. This Reserve is intended to represent available resources that are not allocated for other uses and can be used to address changes in the current year's 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. In addition, staff recommends removing obsolete language related to the Almond Grove Reserve, as the Almond Grove Reserve is no longer in use. Staff recommends establishing a clear order for year-end surplus deposits. The recommended changes are redlined in Attachment 1.

Staff is 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 either forward it to the Town Council for consideration or propose an alternative recommendation.

Attachment:

1. General Fund Reserve Policy-Redlined