**COUNTY OF SAN DIEGO**
**BOARD OF SUPERVISORS**
**TUESDAY, SEPTEMBER 09, 2025**

**MINUTE ORDER NO. 23**

**SUBJECT: SECOND CONSIDERATION AND ADOPTION OF ORDINANCE: REFORMING THE COUNTY RESERVE POLICY TO PROTECT CORE SERVICES AND VULNERABLE COMMUNITIES FROM FEDERAL DISINVESTMENT (DISTRICTS: ALL)**

## OVERVIEW

On August 26, 2025 (23), the Board of Supervisors took action to further consider and adopt the Ordinance on September 9, 2025.

The County of San Diego's (County) recently adopted Operational Plan for Fiscal Year 2025-26 is balanced and demonstrates strong fiscal discipline and careful belt-tightening to manage projected funding shortfalls. County leadership has shown commendable responsibility in safeguarding taxpayer dollars and prioritizing essential local needs.

However, the County now faces threats from deep cuts due to the passage of H.R. 1, or the "One Big Beautiful Bill Act"-a law that hands massive tax breaks to billionaires and big corporations while slashing the critical services thousands of our residents rely on. In San Diego, the impacts are immediate and severe: over $300 million in new annual costs to the County, and significant cuts to food assistance, healthcare, and core social services that put local families, seniors, and veterans at risk. These aren't abstract numbers. The proposed cuts will impact our neighbors, children, parents, and seniors who rely on the services the federal government now wants to discontinue.

Over 350,000 San Diegans on Medicaid will soon be required to double their redetermination paperwork, and 325,000 San Diegans will face new Medicaid work requirements. CalFresh food assistance is also affected, with nearly 100,000 San Diegans potentially facing new work requirements. These federal policies will cause people to lose access to food, healthcare, and critical support. Moreover, the impacts will ripple across our communities, hurting our hospitals, healthcare workers, grocery stores, farms and farmworkers, and lead to rising costs for all San Diegans.

The County must step in to fill the void the federal government leaves behind. We can't control what Congress does, but we can ensure we leverage all our tools to protect our communities. That means planning responsibly, spending wisely, and updating outdated financial policies that don't reflect the needs or risks we face today.

It is time to update our County's reserve policy. Our current policy, last updated in 2017, does not align with national best practice standards from the Government Finance Officers Association (GFOA). It inflates reserve requirements by including one-time capital projects and ignores significant flexible funds already under local control, limiting our ability to respond to federal shortfalls. Two key problems must be fixed:

- **Our reserve formula is inflated.** Today, we base our emergency savings on total spending, including one-time capital projects that could be delayed in a crisis. That's like saving for a rainy day by setting aside money for a kitchen remodel. GFOA recommends basing reserve levels on everyday operating expenses. Using the current formula, the County must hold about

$973 million in reserves as of June 30, 2024. Under GFOA's approach, it would be closer to $945 million.

- **We ignore hundreds of millions in flexible funds.** The County's current policy only counts "unassigned" reserves, even though "assigned" funds are also fully within the Board's control. GFOA's recommendation is based on "unrestricted fund balance," which includes both, because what matters most in a crisis is whether the money is local, flexible, and ready to protect the public.

The updates proposed today would free up approximately $380 million in flexible, Board-controlled funds-"Unlocked Reserves." To protect taxpayers and safeguard core services, we propose guardrails on how these funds may be used. We propose that these funds may be used for one-time uses only when the County faces cuts in federal or State funding to core programs, or during a recognized economic recession. Even then, no more than 25% could be spent in any single fiscal year. This ensures the County stays ready to respond to real emergencies, not short-term pressures, preserving fiscal strength while protecting San Diego families when they need it most.

The Chief Administrative Officer (CAO) flagged the need to reform the reserve policy earlier this year, on February 11, 2025, recognizing that the County's current approach is not aligned with recommended fiscal practice. By modernizing our reserve policy, we will ensure our fiscal house remains strong, without forcing false choices between maintaining a prudent reserve and meeting urgent community needs. The ordinance also preserves accountability: any use of reserves or the Unlocked Reserves would still require a Board vote and must be tied to an emergency or core service protection.

When federal leaders walk away, local government must lead. This ordinance ensures our ability to act with clarity, flexibility, and responsibility, not austerity. Our job isn't just to protect balance sheets or protect people. It's to protect both, ensuring we meet urgent needs today while safeguarding San Diego's future.

**RECOMMENDATION(S)**
**SUPERVISOR TERRA LAWSON-REMER AND SUPERVISOR MONICA MONTGOMERY STEPPE**

1. Consider and adopt the Ordinance:
   AN ORDINANCE AMENDING ARTICLE VII OF THE SAN DIEGO COUNTY ADMINISTRATIVE CODE, RELATING TO BUDGET AND FINANCIAL PROCEDURES AND APPROPRIATION, REVENUE AND STAFFING LIMITATIONS

2. Direct the Chief Administrative Officer to develop a framework of funding recommendations for the first year of "Unlocked Reserves," based on core County strategic priorities, prior assessments of program and investment gaps, along with an analysis of service gaps resulting from federal and State cuts, including eligibility and administrative changes under H.R. 1. The analysis should incorporate consultant findings, input from relevant Ad Hoc Subcommittees, previous memos, and any memos submitted by Board offices. Provide interim updates on the framework to relevant Ad Hoc Subcommittees and return to the Board with the proposed framework for deliberation and adoption no later than January 2026.

**EQUITY IMPACT STATEMENT**
Modernizing the County's reserve policy enhances our ability to respond to emergencies and fiscal challenges in a way that protects core services relied upon by historically underserved communities. By ensuring greater flexibility and transparency in how reserves are defined and managed, this policy change supports more equitable budget decisions, particularly during times of economic uncertainty when service disruptions disproportionately affect low-income residents, seniors, and working families.

**SUSTAINABILITY IMPACT STATEMENT**
Aligning the County's reserve policy with best practices strengthens long-term fiscal sustainability by ensuring that reserve targets are realistic, risk-informed, and based on ongoing operational needs. A more accurate and transparent reserve framework allows for better planning, reduces the risk of unnecessary service cuts, and supports a resilient public sector capable of withstanding economic and environmental disruptions over time.

**FISCAL IMPACT**
There is no fiscal impact associated with introduction and adoption of the Ordinance as requested in Recommendations 1 and 2. Funds for the actions requested in Recommendation 3 are included in the Fiscal Year (FY) 2025-26 Operational Plan based on existing staff time in the Finance and General Government Group funded by General Purpose Revenue. There will be no change in net General Fund cost and no additional staff years.

If adopted, the proposed amendments would impact, in part, amounts in the General Fund Reserve that have been designated for operations of the County. While these amounts have been previously allocated to support various programs and services, they remain within the control of the Board of Supervisors (Board) and may be reallocated. The proposed amendments would make available an amount of Unassigned General Fund fund balance, and the proposed direction to the CAO would provide information for the Board's consideration as it relates to management of General Fund fund balance and the use of this one-time resource in light of federal decisions.

A revision of the County's Reserve Policy will prompt one-time lump sum payments to employees, as provided in the Compensation Ordinance, which the Board updated, based on negotiated labor agreements. The Compensation Ordinance updates include one-time lump sum payments to General employees in fiscal years 2025-26 through 2027-28 contingent upon a change to the County's Reserve Policy. Funds for the one-time lump sum payments are not included in the fiscal year 2025-26 Operational Plan. If changes to the Reserve Policy are adopted, there will be fiscal impacts based on these one-time lump sum payments in the current fiscal year, and appropriations will be needed to implement the agreements approved by the Board. Staff will return with additional recommendations to fund lump-sum payments in the current year using unassigned General Fund balance from "Unlocked Reserves" for the Board's consideration and approval. Costs for future fiscal years will be included in future Operational Plans based on available funding source(s).

**BUSINESS IMPACT STATEMENT**
Modernizing the County's reserve policy supports a more stable and predictable fiscal environment, which benefits the broader business community. By aligning with best practices and ensuring greater transparency in reserve planning, this policy change reduces the likelihood of abrupt service reductions that could disrupt local economic activity. A well-calibrated reserve framework also signals strong fiscal governance, reinforcing confidence among private sector partners, vendors, and investors in the County's long-term financial health.

**ACTION:**
ON MOTION of Supervisor Lawson-Remer, seconded by Supervisor Montgomery Steppe, the Board of Supervisors took action as recommended, adopting Ordinance No. 10955 (N.S), entitled: AN ORDINANCE AMENDING ARTICLE VII OF THE SAN DIEGO COUNTY ADMINISTRATIVE CODE, RELATING TO BUDGET AND FINANCIAL PROCEDURES AND APPROPRIATION, REVENUE AND STAFFING LIMITATIONS.

AYES: Aguirre, Lawson-Remer, Montgomery Steppe
NOES: Anderson, Desmond

State of California)
County of San Diego) §

I hereby certify that the foregoing is a full, true and correct copy of the Original entered in the Minutes of the Board of Supervisors.

ANDREW POTTER
Clerk of the Board of Supervisors

**Signed by** Andrew Potter