



COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

1600 PACIFIC HIGHWAY, ROOM 335, SAN DIEGO, CALIFORNIA 92101-2470

AGENDA ITEM

DATE: August 26, 2025

23

TO: Board of Supervisors

SUBJECT

**REFORMING THE COUNTY RESERVE POLICY TO PROTECT CORE SERVICES
AND VULNERABLE COMMUNITIES FROM FEDERAL DISINVESTMENT
(DISTRICTS: ALL)**

OVERVIEW

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 That means planning responsibly, spending wisely, and updating outdated financial policies that don't reflect the needs or risks we face today.

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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.

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

1. Approve the introduction of 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

If, on August 26, 2025, the Board takes action on Recommendation 1, then on September 9, 2025:

2. 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

3. 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.

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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.

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

The federal government is retreating from its core responsibilities, and San Diego families are already feeling the consequences. With the passage of H.R. 1, the “One Big Beautiful Bill Act,” the Trump Administration has gutted the social safety net and shifted hundreds of millions of dollars in costs onto local governments. Here in San Diego, the impacts are immediate and severe: upper end estimates of additional costs or lost revenue for County services of over \$300 million,

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and significant cuts to food assistance, healthcare, and core social services that put local families, seniors, and veterans at risk.

These cuts aren't abstract. Nearly 325,000 San Diegans are at risk of losing their healthcare and 100,000 San Diegans are at risk of losing food assistance. The impact is already reverberating throughout our systems of care, impacting hospitals, healthcare workers, grocery stores, farms and farmworkers, and our regional economy.

We have a responsibility to use every tool at our disposal to protect our communities and ensure stability in these uncertain times. We can't control federal decisions, but we can make sure our local fiscal tools are ready for when those federal decisions are enacted. This proposal doesn't authorize new spending, but it ensures the County can make clear-eyed decisions when urgent needs arise.

The County's reserve policy, last updated in 2017, is outdated and includes restrictions over and above the recommendation for fund balances and reserves by the Government Finance Officers Association (GFOA). Today, our minimum reserve target is inflated by including one-time capital expenses, like large infrastructure projects, rather than focusing on recurring, day-to-day operating costs. It's like budgeting for a future kitchen remodel as part of your emergency savings even though it's a purchase you can postpone.

The current policy also overlooks, and thereby undercounts, the true amount of funds that would be available to the County in a crisis. It only recognizes "unassigned" funds, fully flexible dollars available to the Board, as money available during an emergency. But it ignores that "assigned" funds are also under County control and free to be used in an emergency to meet urgent and important needs. The GFOA's recommendation is based on unrestricted fund balance, which includes both "unassigned" and "assigned" funds in reserve calculations, as both of these funds are discretionary, locally controlled, and available when our communities need help.

Updating how we define and report reserves is smart fiscal governance. It improves transparency, aligns San Diego County with national best practices, and gives the Board a clearer picture to guide responsible decisions. With hundreds of millions in flexible reserves, it's simply unsound policy to move toward service cuts that harm our most vulnerable residents when it isn't necessary. A more prudent reserve policy helps us deliver stability and accountability, especially in uncertain times.

Modernizing the County's reserve policy will make available approximately \$380 million in flexible, Board-controlled funds, which will strengthen our ability to safeguard essential services including during this tumultuous period.

Consistent with Keynesian economic theory, which recognizes countercyclical public investment as a foundation of responsible governance, we propose strict, prudent rules for how these newly-available funds may be used. Funds may only be drawn for countercyclical purposes, in periods of economic stress: when federal or State budget cuts cause a decrease in County revenue, or when a recession is formally recognized, typically defined by two consecutive quarters of negative Gross

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Domestic Product (GDP) growth or a determination by the National Bureau of Economic Research. Even then, no more than 25% of the one-time reserve release could be spent in any single fiscal year, ensuring reserves remain available across multiple years of fiscal strain.

This approach reflects best practices in public finance: one-time resources should protect against external shocks, not fund ongoing operations. By aligning with proven countercyclical strategies, the County will preserve fiscal strength, protect community services, and respond to future crises with clarity, resilience, and responsibility.

Fiscal Principles Behind the Reserve Policy Update:

- **Accuracy:** Reserve targets should reflect actual operating costs, not one-time capital projects.
- **Flexibility:** Acknowledge in the reserve policy that Assigned Funds are under local control and available in emergencies.
- **Accountability:** Better data means better Board decisions and public trust.

To implement these changes, we are introducing an ordinance based on the February 11, 2025 (11) recommendation from the Chief Administrative Officer. Although the original item was withdrawn before Board discussion, its docketing reflected consensus among County administrative staff that the policy needed updating. This ordinance carries that work forward through a clear, public process.

Key Policy Reforms:

1. Align Reserve Targets with GFOA Best Practices

Current Policy: 2 Months of All Expenses

The County's current reserve target is based on two months of total expenditures, including one-time capital costs like infrastructure projects. This inflates the reserve requirement and doesn't reflect the County's ongoing, day-to-day fiscal needs. GFOA guidance recommends setting reserve targets based on operating expenses only, to align reserves with actual, recurring financial risk.

Updated Policy to Align with GFOA: 2 Months of Operating Expenses

The updated policy brings the County in line with GFOA best practices by computing the reserve target based on two months of operating expenses, excluding one-time capital costs. It provides a more accurate and appropriate benchmark, ensuring we're setting aside the right amount to maintain core services during disruptions without overcommitting public funds.

Minimum Reserve Target	How Much County Needs to Set-Aside (<i>in millions</i>)
Current Policy (2 months all expenses)	\$973

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Updated Policy Estimate (2 months operating expenses only)	\$945
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Source: COSD Annual Comprehensive Financial Report Fiscal Year End 2023–24

2. Align Reserve Definitions with GFOA Best Practices

Current Policy: Unassigned Funds Only

The County’s current reserve policy counts only unassigned fund balance, dollars not tied to any specific use and fully available for the Board to allocate. This approach is more restrictive than best practices from the GFOA. It paints an incomplete picture of the resources the Board controls and limits our ability to respond effectively in times of crisis.

Updated Policy to Align with GFOA: Also Include Assigned Funds

This change authorizes no new spending. It simply updates how we define and measure reserves—bringing our policy in line with GFOA best practices. The updated approach includes both unassigned and assigned fund balances (while continuing to exclude “committed” and “restricted” funds). It is appropriate to include assigned funds because even though they are set aside for anticipated operational needs, they remain fully within the Board’s control and can be reallocated in an emergency. This change offers a clearer picture of the County’s true fiscal capacity—supporting transparency, flexibility, and sound decision-making when it matters most in crisis situations.

What Counts Towards the Reserve	Total (in millions)
Current Policy (“Unassigned” funds only)	\$692
Updated Policy (“Unassigned” and “Assigned” funds)	\$1,327

Source: COSD Annual Comprehensive Financial Report Fiscal Year End 2023–24

Together, these updates ensure our reserve targets are realistic and risk-informed, enabling us to plan responsibly, protect vital services, and respond effectively when challenges arise. They modernize how we calculate and report reserves, bringing our policy in line with best-in-class financial standards. Most importantly, they give the Board and the public a clearer picture of the resources we control, so when urgent needs arise, we’re ready to act with clarity, urgency, and accountability. Taken together, these two changes mean the County would actually exceed the reserve target by about \$380 million.

In addition to preparing the County to deal with current challenges, this proposal will also serve as a much-needed fix to how the County budgets its funds. By aligning with national standards, we’re building a reserve policy that not only meets the moment we’re in, but also can stand the test of time. Without reform, we risk false choices between fiscal cushion and maintaining essential services, when in fact, we have the means to sustain both.

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Modernizing the County's reserve policy ensures we can meet rising demand across our core responsibilities, without sacrificing flexibility. It also aligns our budgeting practices with community realities, because rainy day funds are meant to be used when it's raining.

This proposed ordinance strengthens our readiness while preserving public accountability: any use of reserves will still require a Board vote and must be tied to an emergency or the protection of core services. It establishes strict guardrails for the use of newly-available funds, ensuring that funds can only be used for one-time uses to respond to federal or state funding cuts or a formally recognized recession, and even then, no more than 25% of the newly-available funds may be used in any single fiscal year. These safeguards are critical to protecting taxpayer dollars, maintaining the County's long-term financial health, and ensuring we can respond quickly and effectively when our communities need us most.

On June 24, 2025 (3), July 22, 2025 (3) and planned for August 26, 2025, the Compensation Ordinance has been or is anticipated to be updated, based on negotiated labor agreements previously approved by the Board for General employees. The changes include one-time lump sum payments of \$1,000 (one thousand dollars) in fiscal year 2025–26, \$500 (five hundred dollars) in fiscal year 2026–27, and \$250 (two hundred fifty dollars) in fiscal year 2027–28 and will be paid to eligible employees' contingent upon a change to the County's Reserve Policy which provides additional one-time funds. The compensation ordinance requires that the first payment will be made within two pay periods after the effective date of the Board of Supervisors changed reserve policy. The current Fiscal Year 2025–26 Operational Plan does not include funding to support these one-time lump sum payments. If changes to the Reserve Policy are adopted by the Board, additional appropriations will be needed to implement the lump-sum payments as approved by the Board, while maintaining departmental operations throughout the year. Staff would return at a future date with additional recommendations needed to support lump-sum payments in the current year using unassigned General Fund balance from "Unlocked Reserves" for the Board's consideration and approval.

The ordinance will be introduced on August 26, 2025. If approved, it will be scheduled for adoption on September 9, 2025.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

This action directly advances the County of San Diego's 2025–2030 Strategic Plan by fostering safe, healthy, and thriving communities; protecting vulnerable populations; and delivering a responsive and effective government that meets the needs of all San Diegans.

Respectfully submitted,



TERRA LAWSON-REMER
Supervisor, Third District



MONICA MONTGOMERY STEPPE
Supervisor, Fourth District

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ATTACHMENT(S)

Attachment A: AN ORDINANCE AMENDING ARTICLE VII OF THE SAN DIEGO COUNTY ADMINISTRATIVE CODE, RELATING TO BUDGET AND FINANCIAL PROCEDURES AND APPROPRIATION, REVENUE AND STAFFING LIMITATIONS (Clean)

Attachment B: AN ORDINANCE AMENDING ARTICLE VII OF THE SAN DIEGO COUNTY ADMINISTRATIVE CODE, RELATING TO BUDGET AND FINANCIAL PROCEDURES AND APPROPRIATION, REVENUE AND STAFFING LIMITATIONS (Strikethrough)

Attachment C: GFOA Fund Balance Guidelines for the General Fund