

**COUNTY OF SAN DIEGO
BOARD OF SUPERVISORS
TUESDAY, MAY 06, 2025**

MINUTE ORDER NO. 22

SUBJECT: REFORMING THE COUNTY RESERVE POLICY TO PROTECT CORE SERVICES AND VULNERABLE COMMUNITIES AND WAIVE BOARD POLICY A-72 (DISTRICTS: ALL) (DISTRICTS: ALL)

OVERVIEW

The County of San Diego's (County) recently released CAO Recommended Operational Plan for Fiscal Year 2025-26, commonly referred to as the recommended budget, is balanced and demonstrates strong fiscal discipline and careful belt-tightening to manage projected funding deficits. County leadership has shown commendable responsibility in safeguarding taxpayer dollars and prioritizing essential local needs.

However, the County now faces escalating threats from proposed deep cuts to the federal budget-cuts that jeopardize the critical services which thousands of our residents rely on. The proposed reductions include \$40 million lost from the Centers for Disease Control, nearly \$880 billion in national Medicaid cuts, roughly a third of the County's Medicaid dollars, and significant threats to housing assistance 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 walk away from.

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 our local government has the 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 That means planning responsibly, spending wisely, and updating outdated financial policies that don't reflect the needs or risks we face today.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 Our current policy, last updated in 2017, is outdated and overly restrictive. 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.

Today, the County calculates emergency reserves based on *all* spending, including major one-time capital projects. Such spending could easily be delayed in a crisis. That's like saving for a rainy day by budgeting for a future kitchen remodel. Under national best practices from the Government Finance Officers Association (GFOA), reserves should be based on the regular expenses we cover in day-to-day operations. The inflated formula we currently use requires setting aside approximately \$973 million based on Fiscal Year 2024 numbers, tens of millions more than what national best practices suggest. A more accurate standard would be approximately \$945 million for Fiscal Year 2024, based on our true operating costs.

In addition, the County's current reserve policy only counts "unassigned" dollars, overlooking hundreds of millions in "assigned" funds that remain flexible and fully within the Board of Supervisors' (Board) control. GFOA best practices recommend counting both, because in a true emergency, what matters most is whether funds are locally controlled and available to protect our communities.

The updates we propose today will 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 only when the County faces cuts in federal or state funding, 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 in accord with best 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 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.

This ordinance ensures we can do exactly that.

Today’s item is being agendized as a late docket as an urgent response to the CAO’s Draft Operational Plan that was released on May 1, 2025.

RECOMMENDATION(S)

SUPERVISOR TERRA LAWSON-REMER AND SUPERVISOR MONICA MONTGOMERY STEPPE

1. Waive Board Policy A-72 Agenda and Related Process, Section 2.C.2.ii, which establishes required timelines for review when preparing a Board Letter.
2. 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 May 6, 2025, the Board takes action as recommended, then on May 20, 2025:

3. 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
4. Direct the Chief Administrative Officer to develop a list of options and recommendations for potential allocation of the first fiscal year of the “Unlocked Reserves,” consistent with the County’s Strategic Plan; accept input from Board offices through memo submissions, if submitted; and return to the Board by October 21, 2025, with a proposed framework for the first year of “Unlocked Reserves” for further Board direction.

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 today's recommended action. There will be no change in General Fund costs and no additional staff years as a result of acting on the recommendations within this Board letter.

The proposed amendments will include, in part, amounts in the General Fund Reserve that have already been encumbered for operations of the County. While these amounts are identified to support ongoing programs and services, they remain within the control of the Board and may be reallocated. The proposed amendments will also make available an amount of Unassigned General Fund balance, and the proposed direction to the CAO will provide information for the Board's consideration as it relates to management of fund balances and the use of one-time resources in light of federal decisions.

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:

A motion was made by Supervisor Montgomery Steppe, seconded by Supervisor Lawson-Remer, for the Board of Supervisors to take action as recommended.

AYES: Lawson-Remer, Montgomery Steppe

NOES: Desmond

ABSTAIN: Anderson

ABSENT: (District 1 Seat Vacant)

(Motion failed due to lack of required affirmative votes.)

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