



COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

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

AGENDA ITEM

DATE: January 28, 2026

21

TO: Board of Supervisors

SUBJECT

ENSURING TRANSPARENCY AND GOOD FISCAL PLANNING BY ALIGNING THE UNLOCKED RESERVES PROCESS WITH THE QUARTERLY BUDGET ADJUSTMENTS AND ANNUAL BUDGET CYCLE (DISTRICTS: ALL)

OVERVIEW

On September 9, 2025 (23), the Board of Supervisors (Board) adopted updates to the San Diego County Administrative Code relating to General Fund Balances and Reserves, effective as of October 9, 2025, that are aligned with the Government Finance Officers Association's best practice standards. These reforms are intended to maintain strong fiscal reserves while responsibly deploying one-time resources—known as “Unlocked Reserves”—to protect core services and respond to extraordinary fiscal risks.

Unlocked Reserves are designed to function as a strategic, one-time fiscal tool in periods of heightened uncertainty, particularly when federal or State actions threaten County-administered programs. At the time the policy was adopted, the Board directed the Chief Administrative Officer (CAO) to develop a proposed framework for the first year of Unlocked Reserves based on County strategic priorities, identified service gaps, and anticipated impacts from federal and State actions such as House Resolution 1 (H.R. 1). The framework was to incorporate consultant findings, input from relevant ad hoc subcommittees, previous memos, and any memos submitted by Board offices, and return to the Board with the proposed framework for deliberation and adoption no later than January 2026. Therefore, this item is being added to the January 28, 2026 docket agenda.

Since this Board's original direction in September 2025, the County has continued to experience changes in the financial landscape. The Governor's initial State budget proposal did not include backfills for significant federal reductions under H.R. 1, increasing the likelihood that counties will be required to absorb programmatic and administrative impacts without additional support. In parallel, federal and State agencies continue to revise implementation timelines, eligibility requirements, and administrative guidance, creating uncertainty around the timing, magnitude, and duration of impacts to County services.

SUBJECT: ENSURING TRANSPARENCY AND GOOD FISCAL PLANNING BY ALIGNING THE UNLOCKED RESERVES PROCESS WITH THE QUARTERLY BUDGET ADJUSTMENTS AND ANNUAL BUDGET CYCLE (DISTRICTS: ALL)

Given these developments, it is fiscally prudent to ensure that decisions regarding the use of Unlocked Reserves are integrated into the County's established budget planning and oversight processes. Aligning Unlocked Reserves with the annual budget cycle and the quarterly budget adjustment process ensures that one-time resources are evaluated holistically, alongside updated revenue assumptions, ongoing cost pressures, and competing priorities, rather than in isolation. Absent this alignment, one-time Unlocked Reserves risk being allocated without full visibility into the County's broader fiscal tradeoffs and emerging budget pressures, increasing the likelihood of fragmented or misaligned investments.

Today's action provides additional direction to the CAO to continue the work previously authorized by the Board, in coordination with the Ad Hoc Subcommittee on Sustainable Fiscal Planning, and to bring forward recommendations for the use of Unlocked Reserves through the same transparent, public, and deliberative processes used for other major fiscal decisions. This action does not preclude the use of Unlocked Reserves in the near term; rather, it ensures that any proposed appropriations for Fiscal Year 2025–26 can continue to be considered through the quarterly budget adjustment process, while larger or longer-term allocations are evaluated as part of the annual budget. This approach preserves flexibility, strengthens fiscal discipline, and supports responsible long-term planning as the full scope of federal and State impacts becomes clearer.

This item is being submitted as a late agenda item due to time-sensitive changes in federal and State implementation timelines. Immediate Board direction is necessary to ensure Unlocked Reserves are aligned with the County's broader fiscal planning framework and deployed in a manner that protects core services while maintaining long-term fiscal stability.

RECOMMENDATION(S)

CHAIR TERRA LAWSON-REMER AND VICE-CHAIR MONICA MONTGOMERY STEPPE

1. Direct the Chief Administrative Officer (CAO) to develop proposals to utilize Unlocked Reserves for Fiscal Year (FY) 2025–26, in coordination with and with the advice and guidance of the Ad Hoc Subcommittee on Sustainable Fiscal Planning (Subcommittee), and to present recommended appropriations to the Board for consideration as part of the quarterly budget adjustments.
2. Direct the CAO to work with the Subcommittee, with input from community stakeholders through the County budget process, to develop a set of programs and appropriations to be recommended for FY 2026–27 funding by one-time use of the Unlocked Reserves alongside the FY 2026–27 Chief Administrative Officer's Recommended Budget. This work with the Subcommittee shall be completed with sufficient time for the CAO to include the Subcommittee's advice and guidance in the recommended budget. The programs will be identified as line-items with an explanation of the rationale for utilizing one-time Unlocked Reserves.

SUBJECT: ENSURING TRANSPARENCY AND GOOD FISCAL PLANNING BY ALIGNING THE UNLOCKED RESERVES PROCESS WITH THE QUARTERLY BUDGET ADJUSTMENTS AND ANNUAL BUDGET CYCLE (DISTRICTS: ALL)

EQUITY IMPACT STATEMENT

Aligning decisions about Unlocked Reserves with the County's established budget and quarterly adjustment processes promotes more equitable fiscal decision-making by ensuring one-time resources are evaluated in the context of the County's full set of obligations, service levels, and community needs. This approach helps prevent fragmented or uneven investments and supports consistent consideration of how funding decisions affect populations that are most vulnerable to service disruptions.

SUSTAINABILITY IMPACT STATEMENT

Aligning the County's Unlocked Reserves funding framework with the County's budget process 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 recommendation. There will be future fiscal impacts when staff returns to the full Board through the budget development process and/or via quarterly budget adjustments. At this time, there will be no change in net General Fund cost and no additional staff years.

BUSINESS IMPACT STATEMENT

N/A

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

On September 9, 2025 (23), the Board of Supervisors (Board) adopted changes to the San Diego County Administrative Code, effective as of October 9, 2025, to strengthen how we manage General Fund Balances and Reserves. These changes align with practices recommended by the Government Finance Officers Association.

At the time the policy was adopted, the most recent Annual Comprehensive Financial Report for the Fiscal Year ending June 30, 2024, showed that the County's unrestricted fund balance exceeded the reserve requirement by more than \$381 million. This amount is considered the "Unlocked Reserves." The Administrative Code limits how much of the Unlocked Reserves can be appropriated in a single fiscal year to 25%.

The Board directed the Chief Administrative Officer (CAO) to develop a framework of funding recommendations for the first year of Unlocked Reserves based on core County strategic priorities and 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 House Resolution 1 (H.R. 1). The analysis was to incorporate consultant findings, input from relevant ad hoc subcommittees, previous memos, and any memos submitted by Board offices. In addition, the

SUBJECT: ENSURING TRANSPARENCY AND GOOD FISCAL PLANNING BY ALIGNING THE UNLOCKED RESERVES PROCESS WITH THE QUARTERLY BUDGET ADJUSTMENTS AND ANNUAL BUDGET CYCLE (DISTRICTS: ALL)

Board directed the CAO to return to the Board with the proposed framework for deliberation and adoption no later than January 2026.

On September 30, 2025 (14), the Board created an Ad Hoc Subcommittee on Sustainable Fiscal Planning (Subcommittee) for the purpose of exploring, studying, planning, and developing a strategy to address emerging fiscal threats in order to sustain County services and invest in the well-being of all San Diegans. The Subcommittee works with the CAO to undertake this fiscal scenario planning.

Since this Board's original direction in September 2025, the County has continued to experience changes in the financial landscape. The Governor's initial State budget proposal did not include backfills for significant federal reductions under H.R. 1, increasing the likelihood that counties will be required to absorb programmatic and administrative impacts without additional support. In parallel, federal and State agencies continue to revise implementation timelines, eligibility requirements, and administrative guidance, creating uncertainty around the timing, magnitude, and duration of impacts to County services.

Given these developments, it is fiscally prudent to ensure that decisions regarding the use of Unlocked Reserves are integrated into the County's established budget planning and oversight processes. Aligning Unlocked Reserves with the annual budget cycle and the quarterly budget adjustment processes ensures that one-time resources are evaluated holistically, alongside updated revenue assumptions, ongoing cost pressures, and competing priorities, rather than in isolation. Absent this alignment, one-time Unlocked Reserves risk being allocated without full visibility into the County's broader fiscal tradeoffs and emerging budget pressures, increasing the likelihood of fragmented or misaligned investments.

If approved, the CAO will continue the work previously directed by the Board, in coordination with and with the advice and guidance of the Subcommittee, to develop recommendations for the use of Unlocked Reserves that are aligned with the County's established budget development and quarterly budget adjustment processes. This approach preserves the County's ability to act in the near term through quarterly budget adjustments while ensuring that larger or longer-term allocations are evaluated as part of the annual budget process. Staff will return to the full Board for consideration through these processes, ensuring that decisions regarding one-time resources are informed by the County's evolving fiscal landscape and made through transparent, deliberative public review.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

Today's proposed actions support the Strategic Initiatives of Sustainability, Equity, Empower, Community and Justice in the County of San Diego's 2026–2031 Strategic Plan by fully committing to use County resources to meet the highest priority needs of residents.

SUBJECT: ENSURING TRANSPARENCY AND GOOD FISCAL PLANNING BY ALIGNING THE UNLOCKED RESERVES PROCESS WITH THE QUARTERLY BUDGET ADJUSTMENTS AND ANNUAL BUDGET CYCLE (DISTRICTS: ALL)

Respectfully submitted,



TERRA LAWSON-REMER
Supervisor, Third District



MONICA MONTGOMERY STEPPE
Supervisor, Fourth District

ATTACHMENT(S)
N/A