COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

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

AGENDA ITEM

DATE: **May 6, 2025** 22

TO: Board of Supervisors

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 That means planning responsibly, spending wisely, and updating outdated financial policies that don't reflect the needs or risks we face today.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 Our current policy, last updated in 2017, is outdated and overly restrictive.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

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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

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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.

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

The federal government is retreating from core responsibilities, and San Diego families are already feeling the consequences. The Centers for Disease Control and Prevention (CDC) has cut $40 million for County of San Diego (County) infectious disease testing and emergency preparedness. House Republicans have proposed $880 billion in Medicaid cuts, roughly a third of the County's Medicaid dollars, threatening behavioral health, maternal care, and lifesaving treatment for thousands. Proposed cuts to the Department of Housing and Urban Development (HUD) could affect up to 1,500 low-income residents in San Diego County, putting many at risk of displacement or homelessness.

These cuts aren't abstract. They will hit home. We have a responsibility to use every tool at our disposal to protect our communities and ensure stability in 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, overly restrictive, and misaligned with the best practices from 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. That's why GFOA recommends including both "unassigned" and "assigned" funds in reserve calculations, as both 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 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 outlays. 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 *(in millions)***
Current Policy (2 months all expenses)	$973
Updated Policy Estimate (2 months operating expenses only)	$945

Source: COSD Annual Comprehensive Financial Report Fiscal Year End 2024

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 2024

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.

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.

Modernizing the County's reserve policy ensures we can meet rising demand across our core responsibilities, without sacrificing flexibility or passing the burden to others. 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 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.

The ordinance will be introduced on May 6, 2025. If approved, it will be scheduled for adoption on May 20, 2025.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

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

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Respectfully submitted,

TERRA LAWSON-REMER
Supervisor, Third District

MONICA MONTGOMERY STEPPE
Supervisor, Fourth District

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
Attachment B: GFOA Fund Balance Guidelines for the General Fund