AGENDA MATERIAL
DATE 9/16/25 ITEM NO. RA 18

MEMORANDUM

Date: September 12, 2025

To: The Honorable Chair and Members
Pima County Board of Supervisors

From: Jan Lesher
County Administrator

Re: **General Fund Budget Reserve Policy**

As part of the Fiscal Year (FY) 2023/24 budget development process, the Board of Supervisors adopted a Fund Balance Policy for the General Fund. This policy was implemented to provide greater financial stability, improve transparency, and align with national best practices. The Government Finance Officers Association (GFOA) and independent credit rating agencies recommend maintaining reserves equal to at least two months of operating expenditures, which for Pima County is approximately 17 percent of General Fund expenditures, to ensure sufficient capacity to maintain favorable credit ratings and manage economic volatility, emergencies, and unforeseen circumstances.

For FY 2025/26, the Board approved a one-time exception to reduce the requirement to 15 percent to meet overall budgetary needs and provide additional budgetary flexibility. This exception was intended to be temporary, reflecting specific fiscal conditions at that time.

Based on these factors, achieving the 17 percent requirement remains critically important. Doing so directly aligns with GFOA recommendations and rating agency expectations. Maintaining this standard ensures the County is well positioned to retain its strong overall credit ratings (currently AA-/AA), which directly impacts borrowing costs and the ability to finance critical infrastructure projects.

Additionally, a 17 percent reserve enhances the County's financial resilience. Conservative revenue forecasts, combined with the volatility of state-shared revenues and broader economic cycles, underscore the need for a robust reserve. This policy provides the necessary cushion to withstand unexpected events such as revenue shortfalls, cost spikes, or economic downturns without immediate service reductions.

Further, a stable reserve benchmark promotes consistency and predictability in the County's financial practices. While the FY 2025/26 exception served a necessary purpose at the time, extending a reduced target would weaken financial stability and raise concerns among the rating agencies, auditors, and the general public.

Finally, the 17 percent requirement supports long-term sustainability by balancing the need to maintain adequate reserves with the flexibility to fund ongoing operations.

Recommendation

Reaffirming the 17 percent fund balance requirement restores the County's alignment with nationally recognized standards, preserves the County's strong credit standing, and provides the financial resilience necessary to navigate future uncertainties. I recommend the continued application of the 17 percent reserve requirement for future budget processes.

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c: Carmine DeBonis Jr., Deputy County Administrator
Steve Holmes, Deputy County Administrator
Art Cuaron, Director, Finance and Risk Management
Andy Welch, Deputy Director, Finance and Risk Management
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