



Engage Morgan Hill Budget Overview July 27, 2019



Today's Overview



- Overview of Budget Process
- City's Funds, Services, and Budget
- Sustainable Morgan Hill

Morgan Hill



Population: 45,742

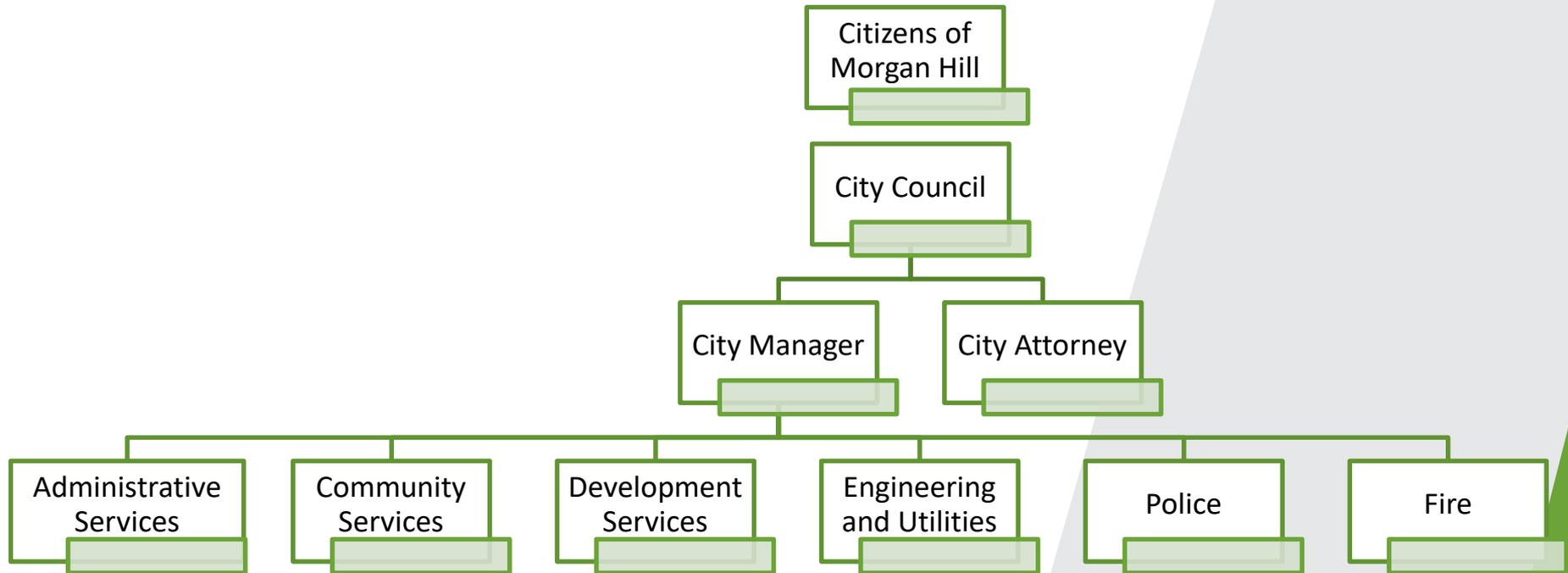
Incorporated: 1906

Area: 12.9 Square Miles

Form of Government: Council/Manager

Personnel: 192.50 Full Time Equivalent

Morgan Hill Organizational Chart



Guiding Documents

- Morgan Hill 2035 General Plan
- Public Safety Master Plan
- Recreation Master Plan
- Economic Blueprint
- Utility Systems Master Plan
- Storm Drain Master Plan
- Vision Zero

[\(Link to Guiding Documents on Website\)](#)

Budget Overview



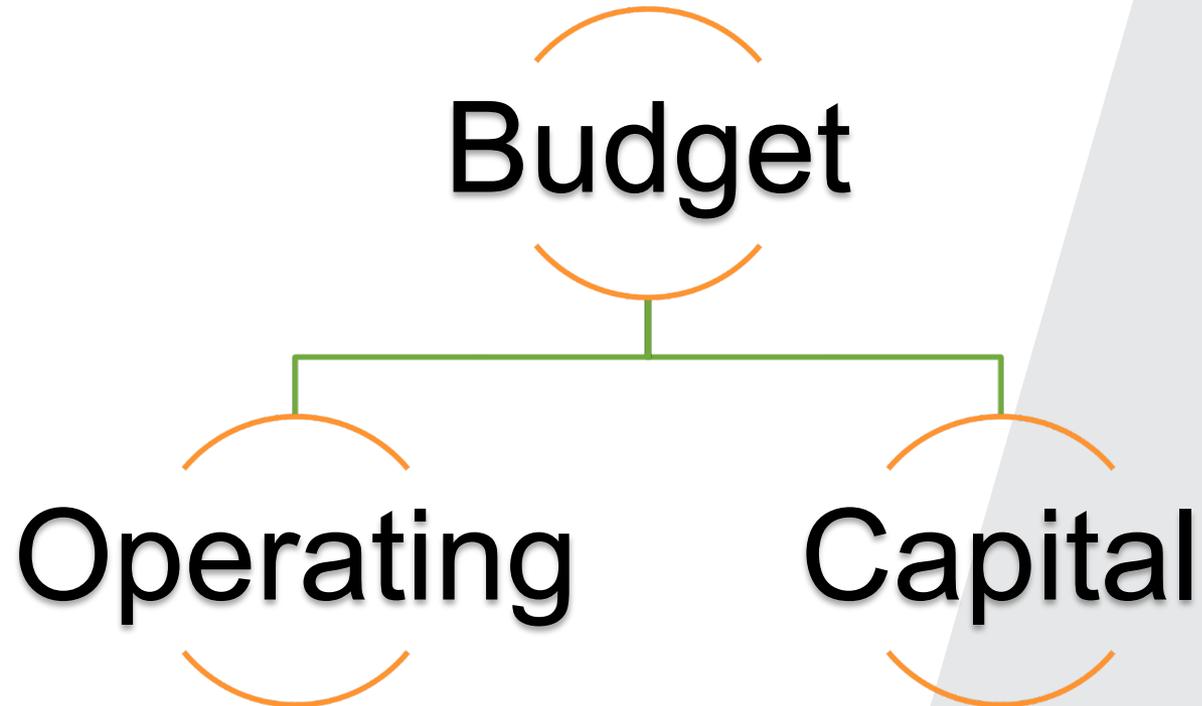
What is a Budget?



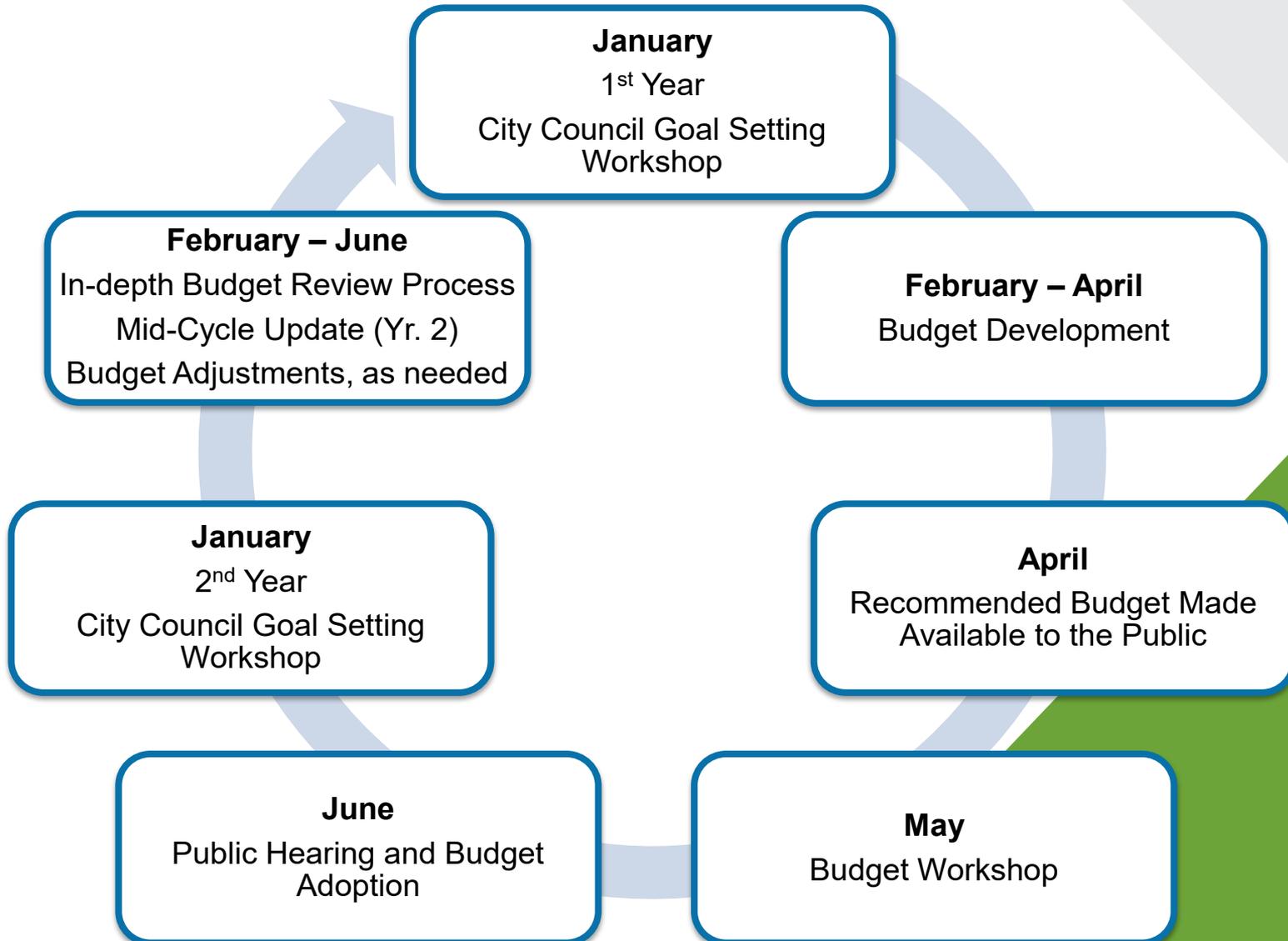
Services and
Capital
Expenses



What is a Budget? (Cont'd)



Biennial Budget Process



General Fund

Special Revenue Funds

Capital Project Funds

Enterprise Funds

Internal Service Funds

Agency Funds

Fund Types

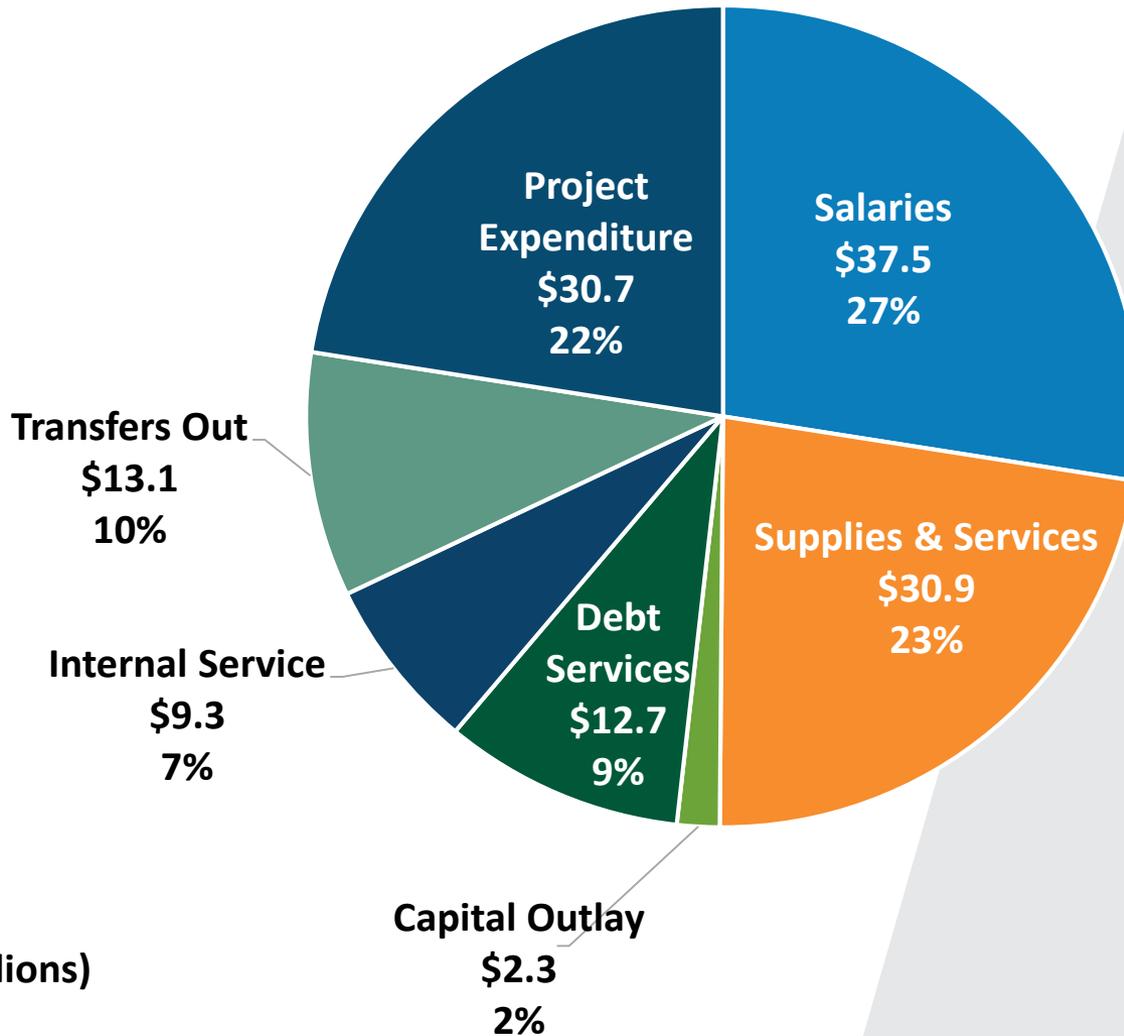
Citywide Sources/Uses (Revenues/Expenditures)



	(In Millions)			
	Sources	Uses	Variance	FTE*
General Fund	\$43.2	\$43.4	\$(0.2)	110.67
Special Revenue Funds	17.4	16.4	0.9	24.76
Capital Project Funds	20.1	18.5	1.7	3.24
Debt Service Funds	0.7	\$0.7	(0.0)	
Enterprise Funds	39.3	45.6	(6.3)	35.17
Internal Service Funds	11.9	10.4	1.5	18.66
Agency Funds	1.7	1.5	0.2	
Subtotal	\$134.2	\$136.5	\$(2.3)	192.50
Use of Reserves/Fund Balances	2.3			
TOTAL CITYWIDE	\$136.5	\$136.5		192.50

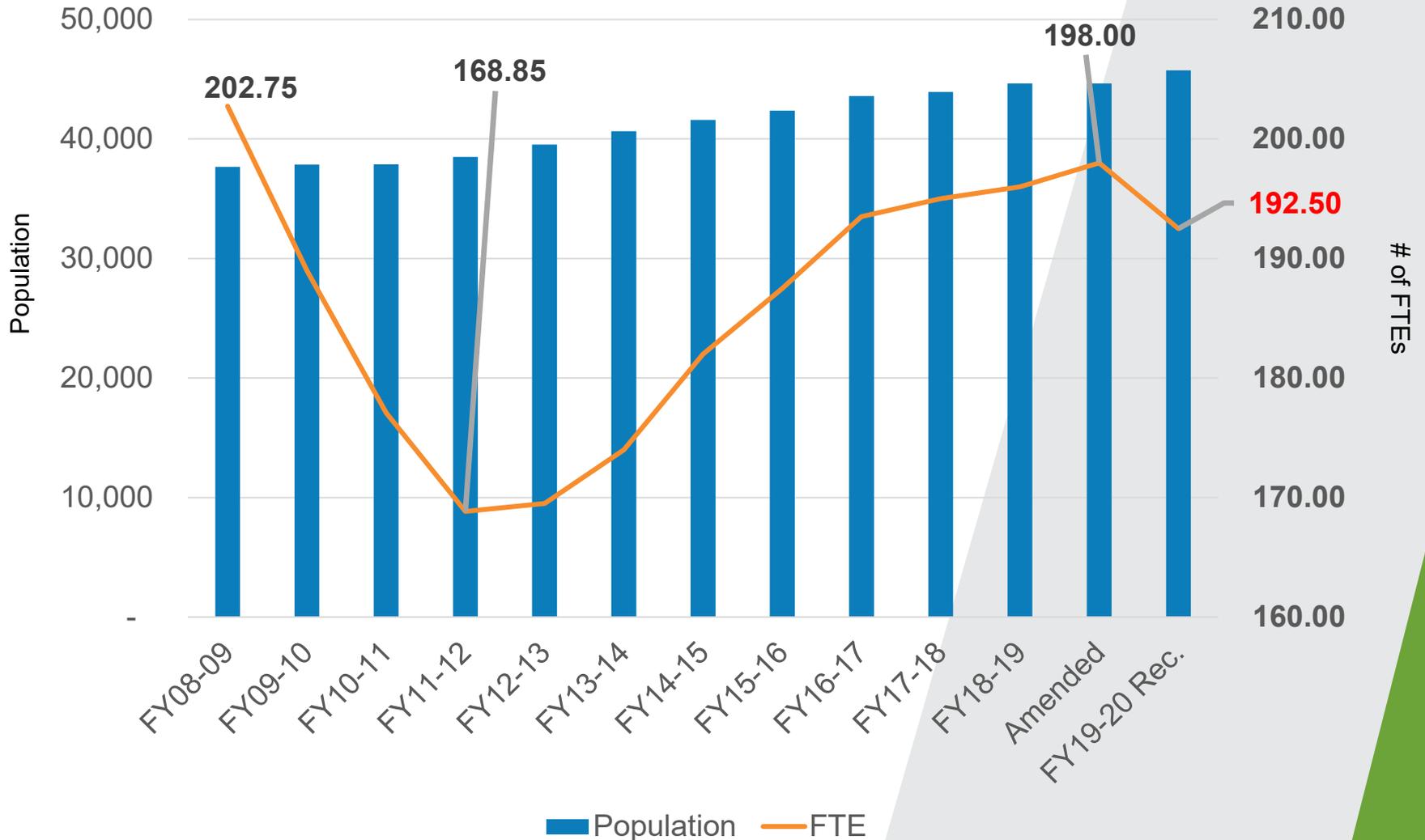
*Full Time Equivalent

Citywide Expenditures - \$136.5M (By Category)



(In Millions)

Personnel vs. Population



Major Funds



General Fund

Majority Discretionary Fund

- Provides Public Safety, Community Services, Economic Development, and various City Infrastructure Maintenance Services.

Development Services Fund

Non-Discretionary Fund - Provides Direct Development Services

- Provides Planning, Building and Engineering Services

Enterprise Funds

Non-Discretionary Funds

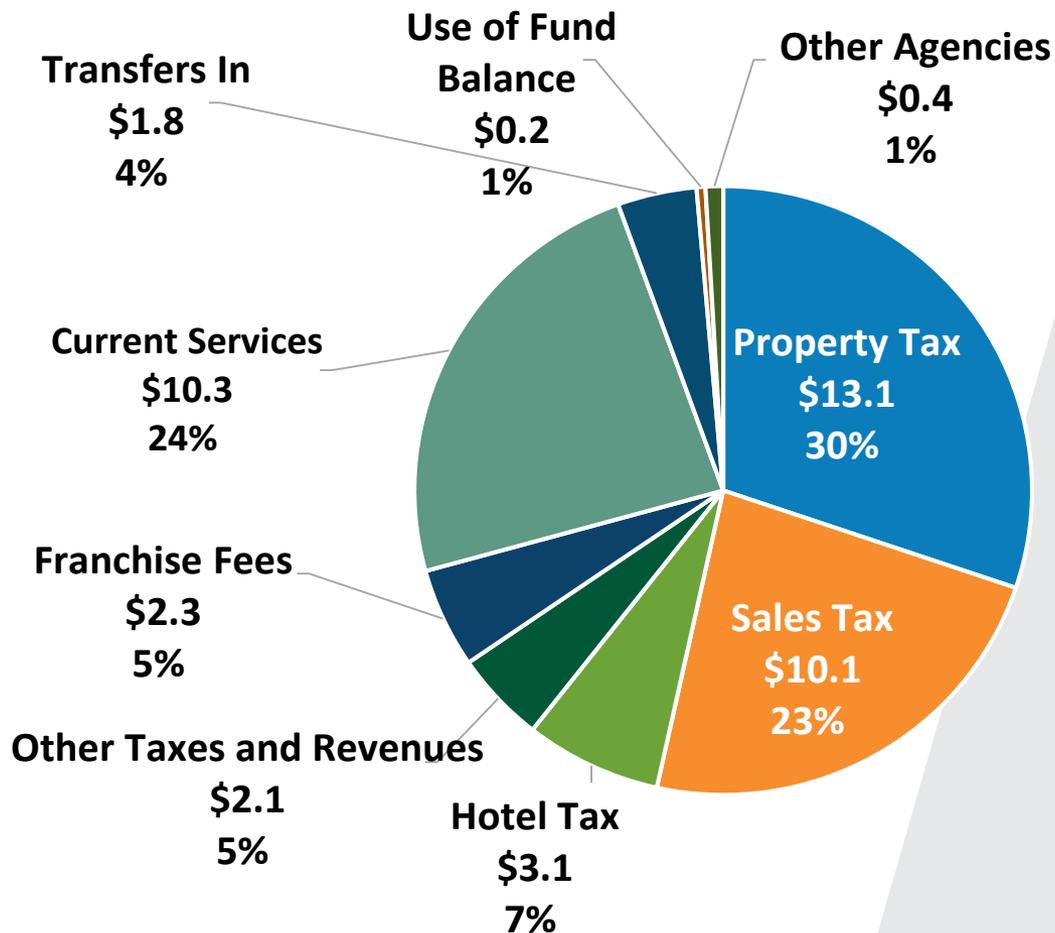
- Provide for Water and Wastewater Utilities' Operations and Infrastructure Improvements

General Fund



General Fund (GF) Revenues (By Type)

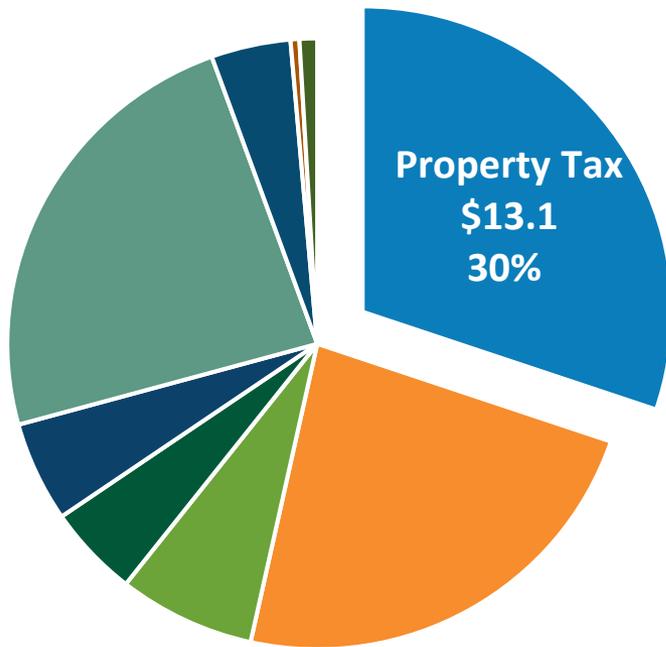
FY 2019-20 = \$43.4M



(In Millions)

General Fund – Property Tax

FY 2019-20 = \$13.1M, 30% of GF



Morgan Hill Property Tax 1% Distribution



44%
School K-12

12%
County

11%
RDA
Excess

10%
City of
MH

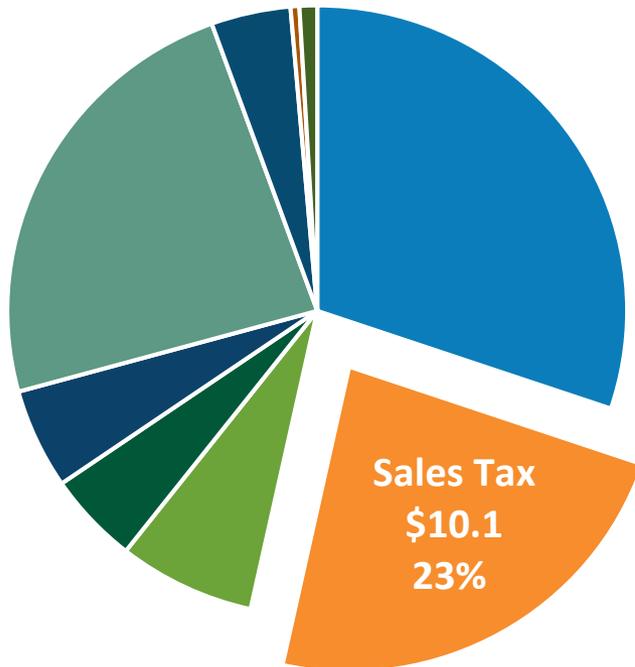
7%
Comm.
College

6%
Special
District

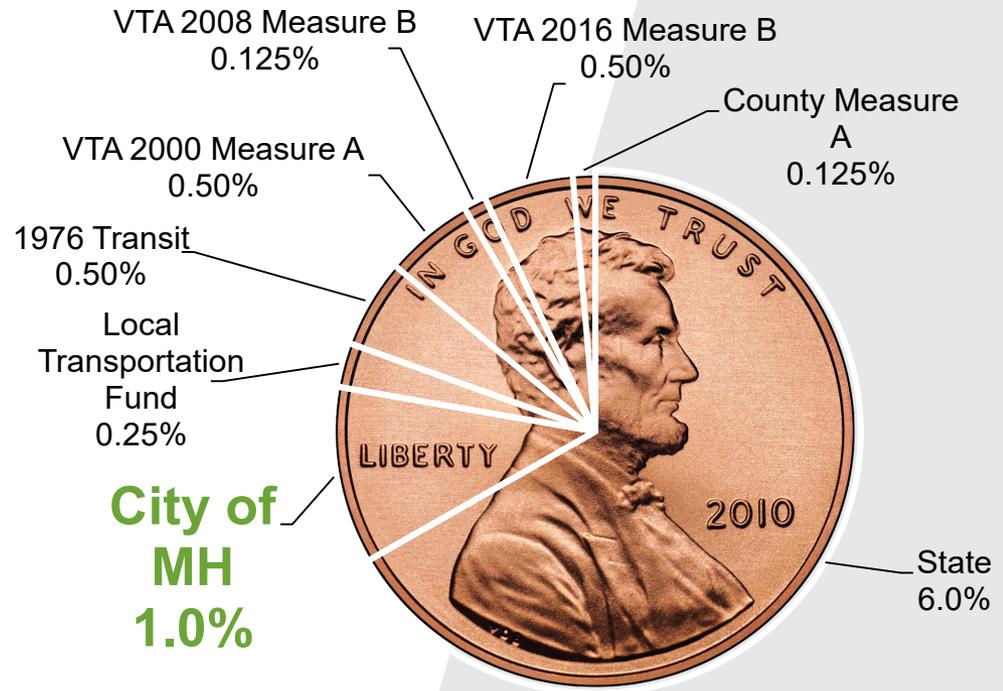
10%
Other

General Fund – Sales Tax

FY 2019-20 = \$10.1M, 23% of GF

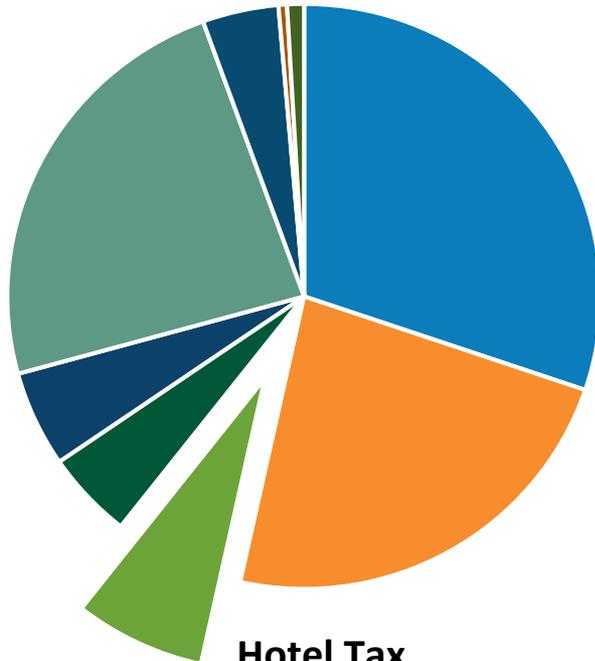


**Allocation of Sales Tax Rate
(Current Sales Tax Rate 9.0%)**



General Fund – Transient Occupancy Tax

FY 2019-20 = \$3.1M, 7% of GF

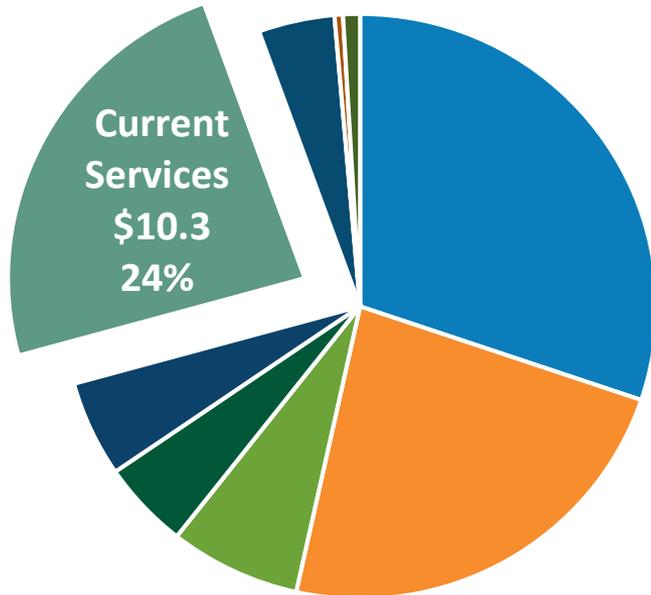


Hotel Tax
\$3.1
7%



General Fund – Charges for Current Services

FY 2019-20 = \$10.3M, 24% of GF

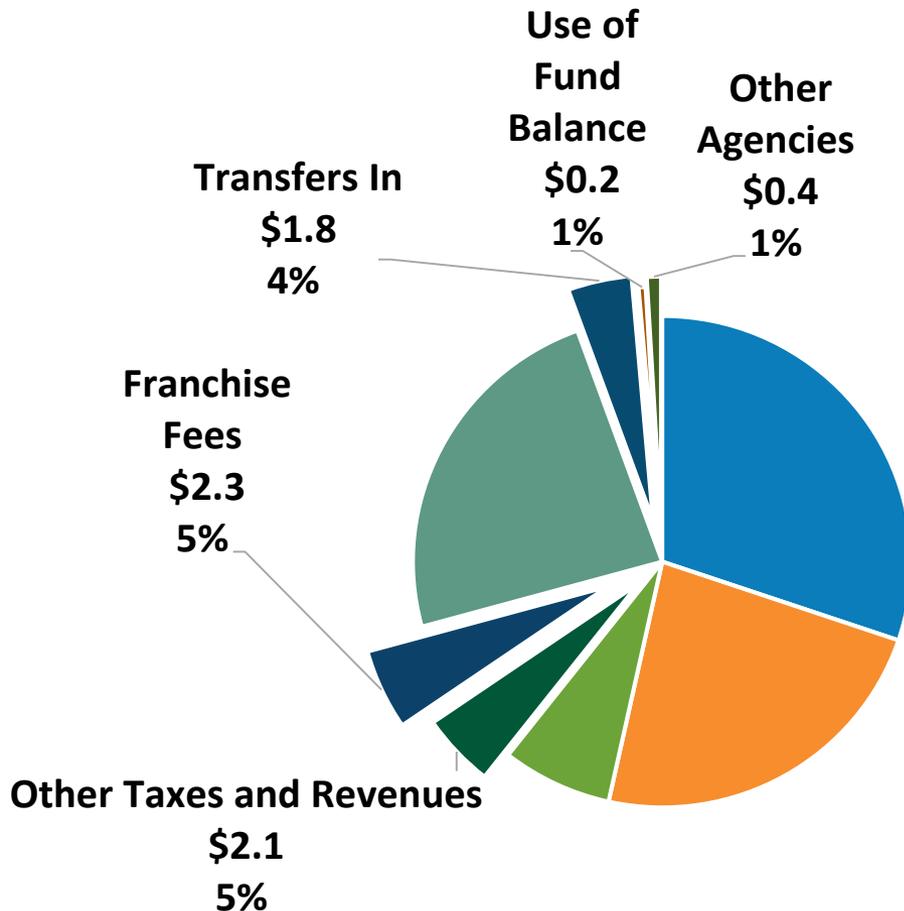


- Recreation
- Police
- Fire
- Others

General Fund – Others

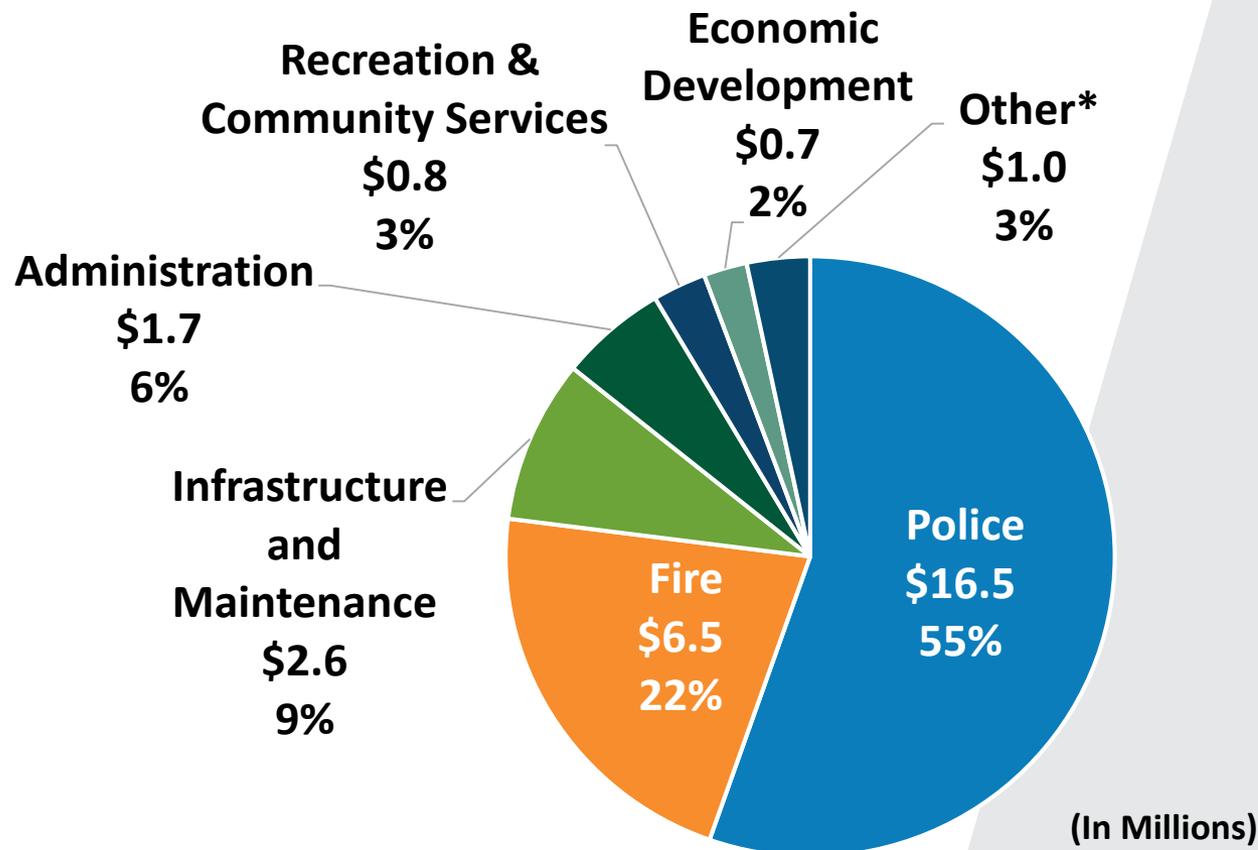
FY 2019-20 = \$6.8M, 16% of GF

- Franchise Fees
- Other Taxes and Revenues
- Other Agencies
- Transfers In
- Use of Fund Balance



General Fund – Discretionary Expenditures

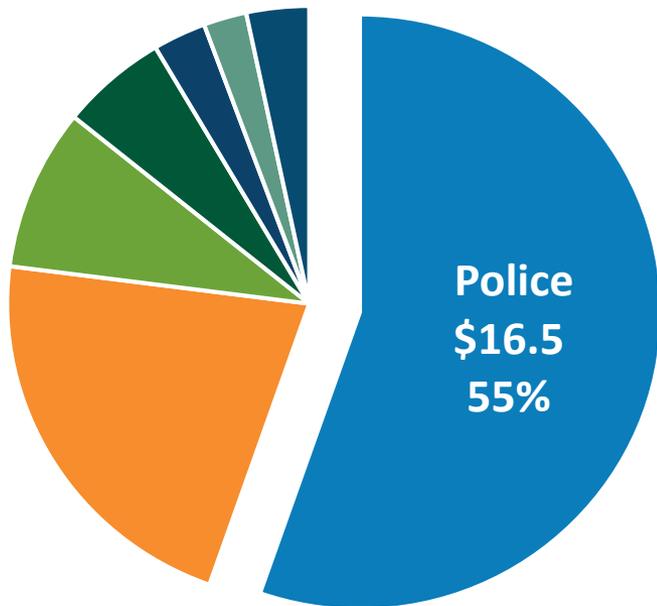
FY 2019-20 = \$29.8M, 69% of GF



*Other: Community Promotions, Environmental Programs, OPEB, Code Compliance, and GF support for Long Range Planning and Pedestrian Safety

General Fund – Discretionary Expenditures: Police

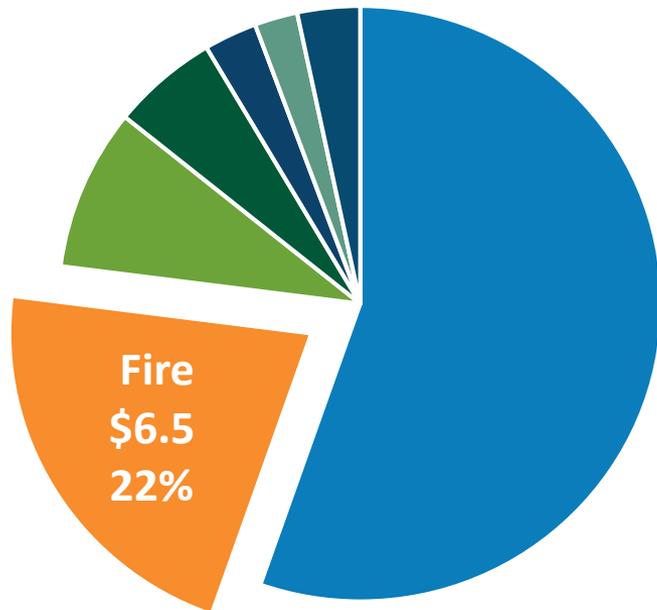
FY 2019-20 = \$16.5M, 55% of GF



- Police Administration
- Field Operations
- Special Operations
- Dispatch and Support Services

General Fund – Discretionary Expenditures: Fire

FY 2019-20 = \$6.5M, 22% of GF

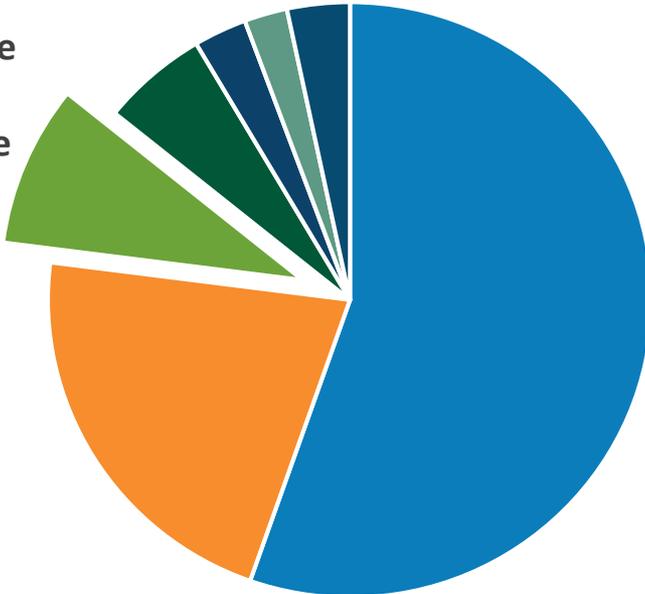


- CalFire Contract Services (Personnel)
- Operation and Maintenance
- Apparatus and Two Fire Stations Debt Service

GF Discretionary –Infrastructure and Maintenance

FY 2019-20 = \$2.6M, 9% of GF

Infrastructure
and
Maintenance
\$2.6
9%



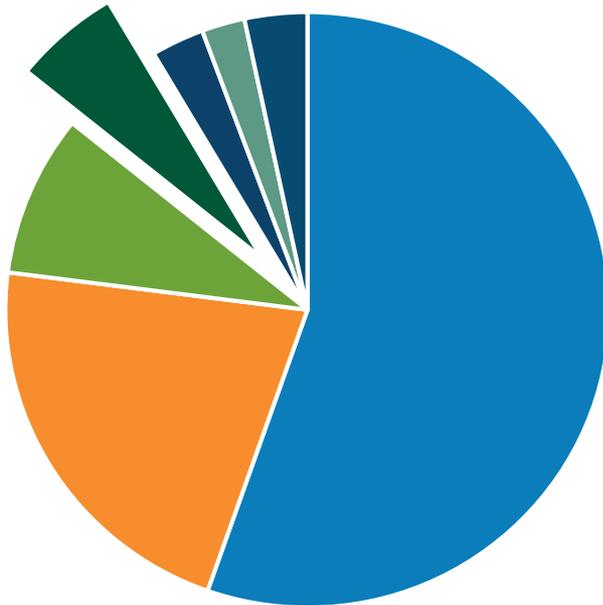
- Park, Downtown, and Street Maintenance
- Pavement Rehab/CIP
- Building Replacement

GF Discretionary – General Administration

FY 2019-20 = \$1.7M, 6% of GF

- City Council
- City Manager
- City Attorney
- Council Services and Records Management
- Human Resources
- Finance

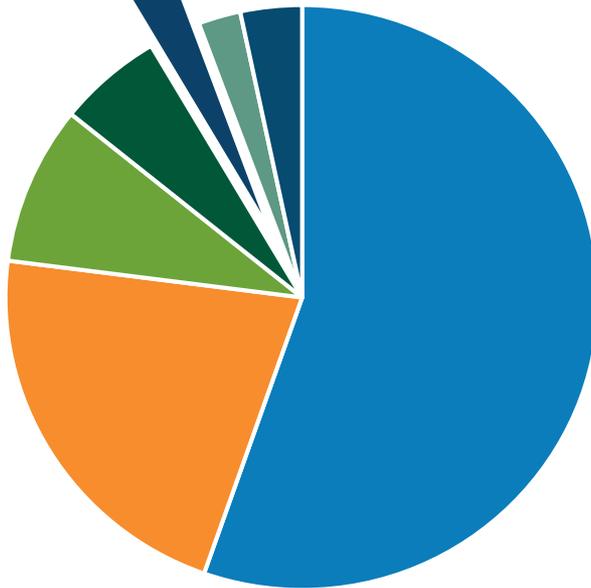
Administration
\$1.7
6%



GF Discretionary –Recreation

FY 2019-20 = \$0.8M, 3% of GF

Recreation &
Community
Services
\$0.8
3%

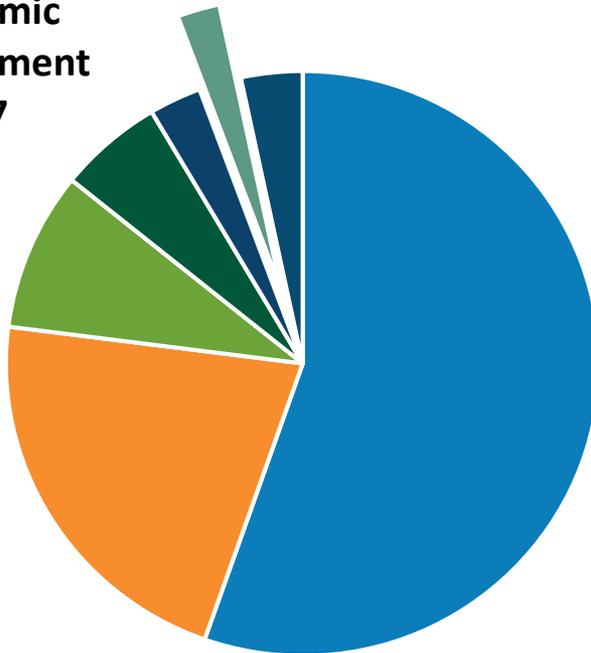


- Membership & Program Services
- Community Services
- Facility Services

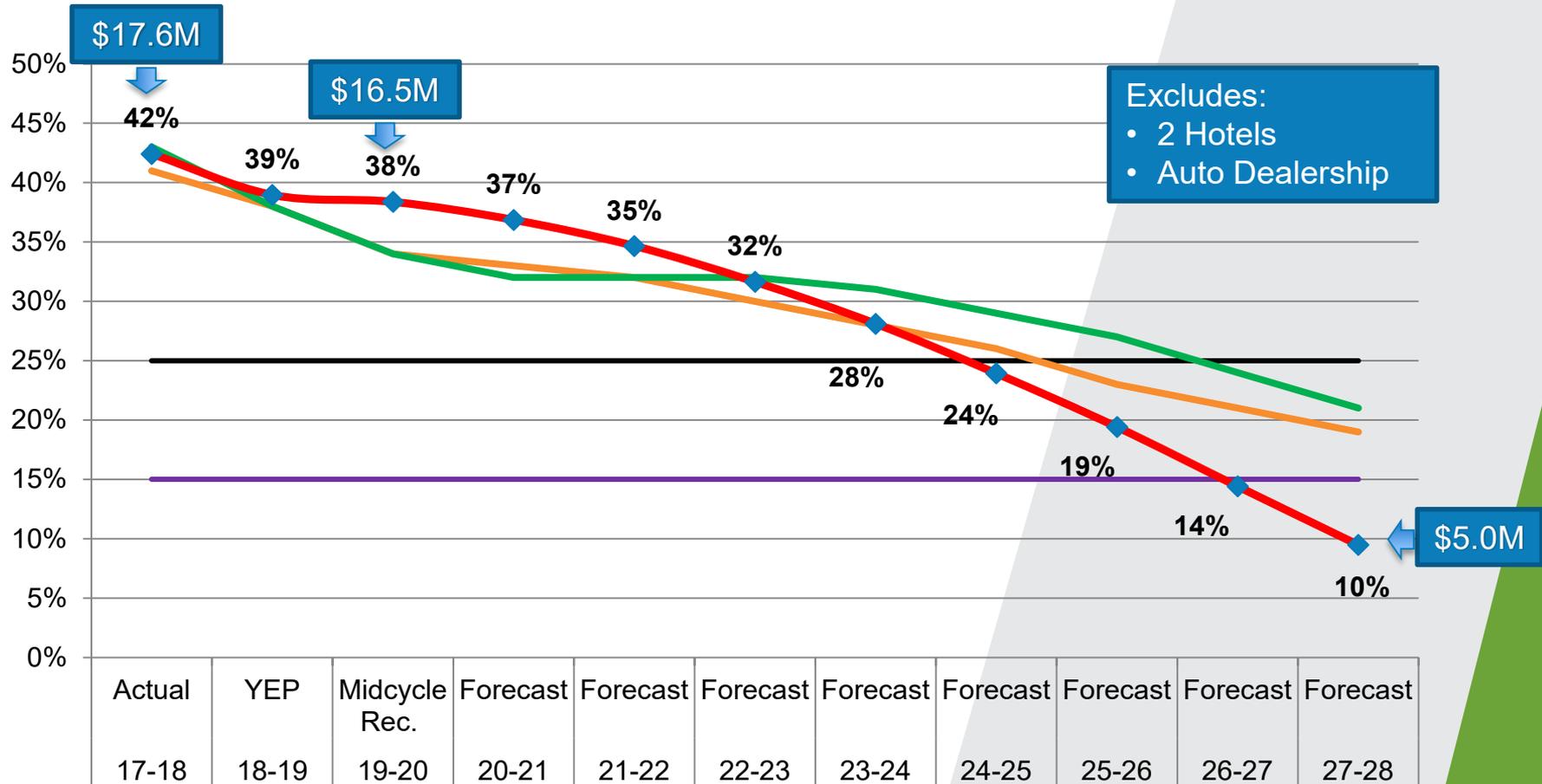
GF Discretionary – Economic Development

FY 2019-20 = \$0.7M, 2% of GF

Economic Development
\$0.7
2%



General Fund Balance: Mid-Cycle



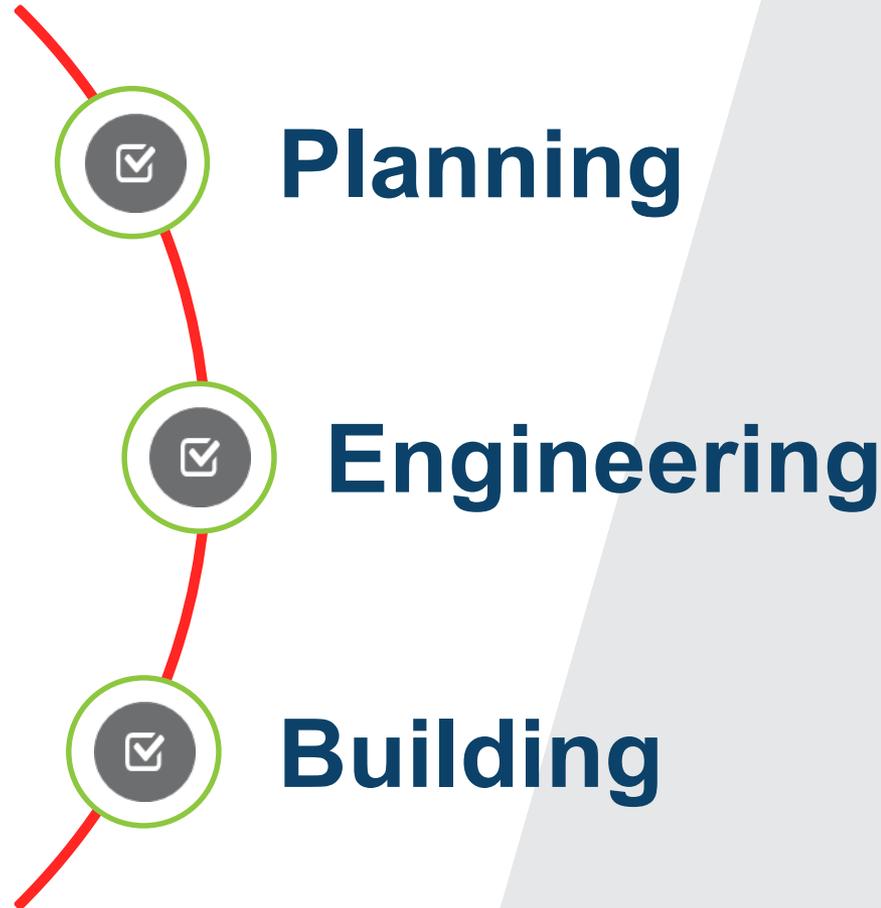
- Fund Balance Goal of 25% of Revenues
- Fund Balance Minimum Level of 15% of Revenues
- General Fund 10 Year Forecast - Adopted (June 2018)
- General Fund 10 Year Forecast - Goal Setting (January 2019)
- General Fund 10 Year Forecast - Mid-Cycle (May 2019)

Development Services



Development Services Fund (206)

Divisions
Included:



Development Services Fund (cont'd)



Unrecoverable Expenses:

- Planning: \$514K/year – Public counter, general information, strategic initiatives, and special projects
- Engineering: \$194K/year – Flood and storm water programs, public counter, general information, and special projects
- Building: \$117K/year – Public counter, general information, and code compliance

Development Services Fund (cont'd)

Mid-Cycle Adjustments:

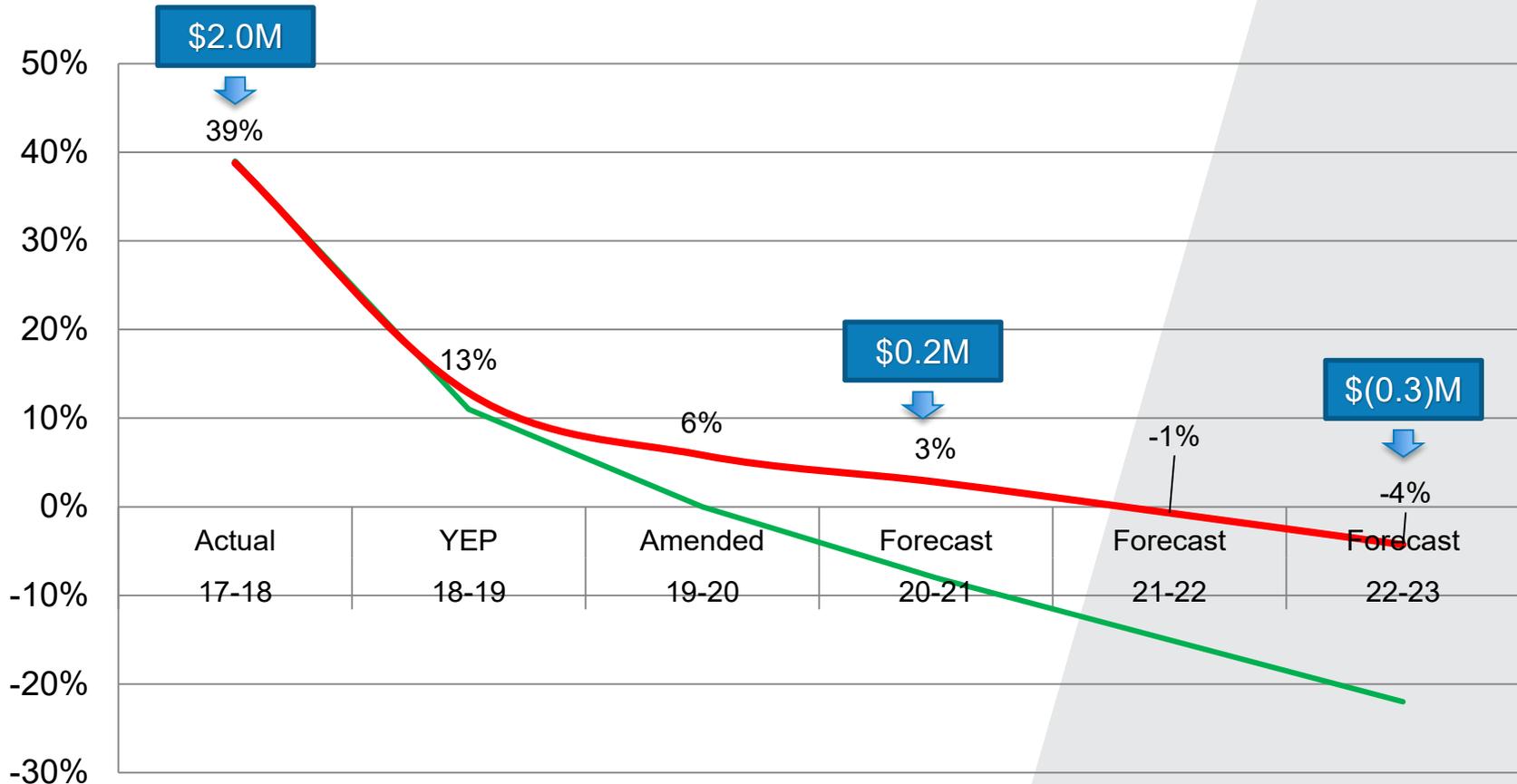
- Staffing Revisions
- Eliminate 1 FTE (Management Analyst)
- User Fee update in FY 2020-21

Development Services Fund (cont'd)

Other considerations:

- Housing impacts by legislations
 - SB 50 – Transit-housing Senate Bill - Delayed
 - SB 330 – Housing Crisis Act of 2019

Development Services Fund (cont'd)



- Development Services 5 Year Forecast - Goal Setting (January 2019)
- Development Services 5 Year Forecast - Mid-Cycle (May 2019)

Enterprise Funds



Enterprise Funds - Water



- **Water Operations**

- Revenues: Water rates, account setup fees, new meter installs, etc.
- Expenditures: Water Operations, Utility Billing and Water Conservation

- **Water Infrastructure**

- Revenues
 - Water Rates— rate payer funded capital improvements for existing infrastructure
 - Impact Fees – development funded capacity improvements
- Expenditures: Repairs and improvements of water facilities, tanks, and pipeline

Enterprise Funds - Wastewater



- **Wastewater Operations**

- Revenues: Service Fees
- Expenditures: City Wastewater Operations, SCRWA Treatment Plant Operations & Maintenance and Annual Debt Service

- **Wastewater Infrastructure**

- Revenues
 - Service Fees— rate payer funded capital improvements for existing infrastructure
 - Impact Fees – development funded capacity improvements
- Expenditures: Repairs and improvements of wastewater facilities, mains and pipelines

Capital Improvement Program



The Capital Improvement Program (CIP) is the primary tool that local governments use to plan for major capital projects and acquisitions.

Project Categories	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	Totals
1 Parks & Recreation	\$11,738,493	\$6,012,400	\$2,920,000	\$1,320,000	\$4,965,000	\$1,955,500	\$28,911,393
2 Public Facilities	\$3,662,364	\$160,000	\$110,000	\$220,000	\$3,700,000	\$100,000	\$7,952,364
3 Storm Drainage	\$835,000	\$2,624,000	\$2,940,000	\$250,000	\$150,000	\$150,000	\$6,949,000
4 Streets & Roads	\$25,515,000	\$6,582,000	\$3,483,600	\$3,290,000	\$3,090,000	\$4,590,000	\$46,550,600
5 Wastewater	\$7,496,523	\$13,298,196	\$9,421,719	\$6,996,900	\$4,284,668	\$3,000,000	\$44,498,006
6 Water	\$740,154	\$1,783,596	\$2,997,636	\$3,647,636	\$4,995,176	\$2,476,286	\$16,640,484
Totals	\$49,987,534	\$30,460,192	\$21,872,955	\$15,724,536	\$21,184,844	\$12,271,786	\$151,501,847

Sustainable Morgan Hill



SUSTAINABLE MORGAN HILL



VISION To sustain a safe, inclusive, socially responsible, environmentally conscious, and economically sound community

Choose Morgan Hill The City of Morgan Hill is the best community for people to live, work, visit, and operate their businesses.

- City Council Ongoing Priorities**
- Enhancing Public Safety
 - Protecting the Environment
 - Maintaining Fiscal Responsibility
 - Supporting our Youth, Seniors, and Entire Community
 - Fostering a Positive Organizational Culture
 - Preserving and Cultivating Public Trust
 - Preserving our Community History
 - Enhancing Diversity and Inclusiveness
 - Advancing Regional Initiatives

- 2019-2020 Strategic Priorities**
- Agricultural Preservation
 - Cannabis Policy
 - Community Engagement and Messaging
 - Economic Development
 - Financial Stewardship
 - High Speed Rail
 - Homelessness
 - Housing
 - Infrastructure
 - Telecommunications
 - Traffic/Transportation

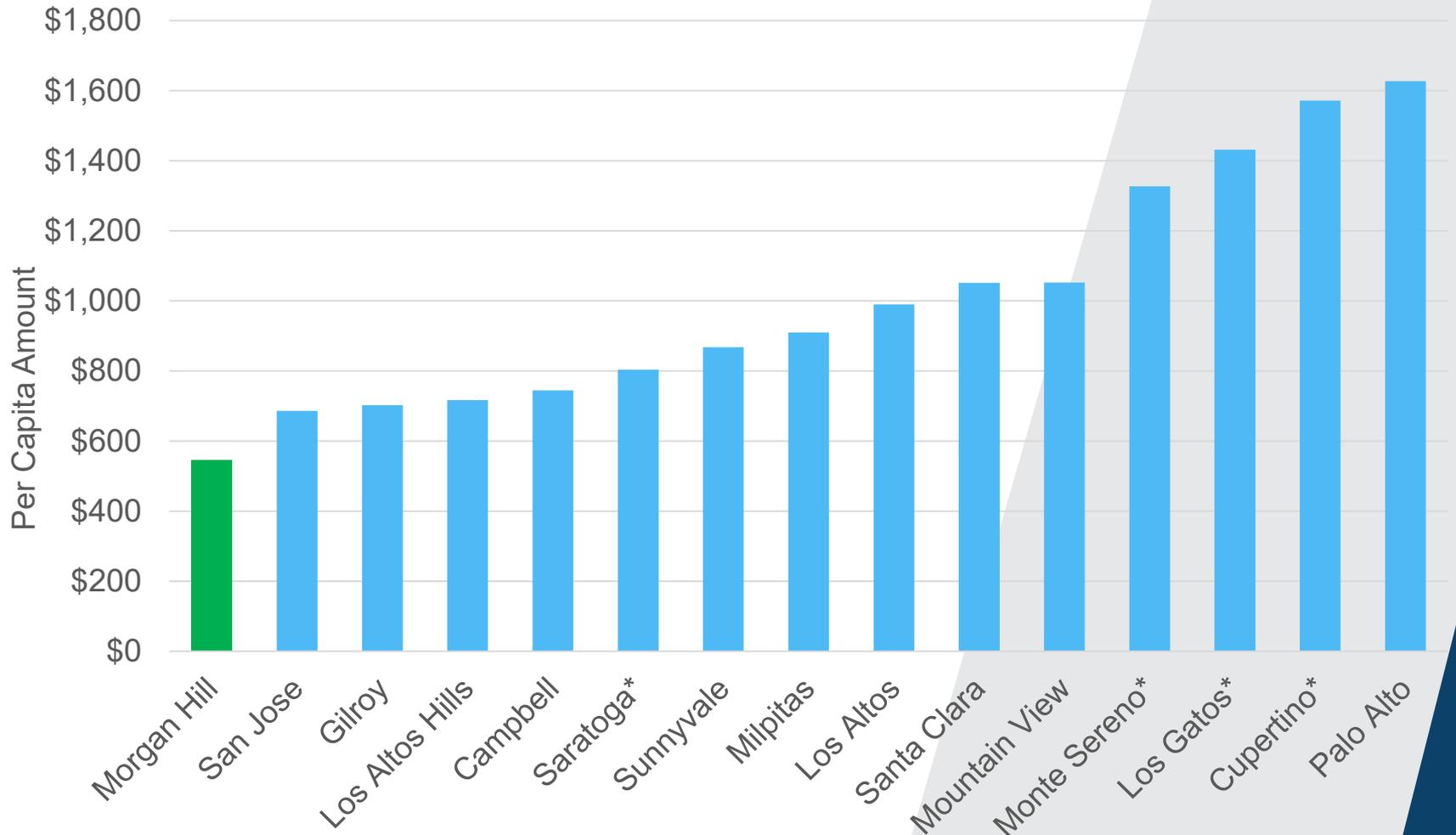


Fiscal Sustainability = Sustainable Morgan Hill

Continuing to be Strategic, with Limited Resources!



General Fund Major Tax Revenue Comparison – Per Capita



*Includes property tax revenues for Santa Clara County Central Fire District

How Are We Being Strategic?



- Partnerships
- Grants
- Economic Development
- Employee Pension Cost Sharing

How Are We Being Strategic? (Cont'd)



- Establishment of Pension and OPEB Trust
- Ongoing evaluation of staffing levels and organizational structure
- Citywide staffing levels per capita lower today than 10 years ago

Partnerships



HouseKeys
Unlock Opportunity

Grants Awarded (recent fiscal years)

- **Police - \$1.6M**
 - Domestic Violence
 - Mobile Command Vehicle
 - State Tobacco Grant
- **Fire - \$0.7M**
 - SVRIA Equipment
 - Fire Station Equipment
 - Chest Compression Devices
- **Community Services - \$7.4M**
 - Housing Related Parks Grants
 - Magical Bridge Playground
 - Urban Greening

Grants Awarded Cont'd

(recent fiscal years)



- **Engineering and Utilities - \$2.4M**
 - One Bay Area Grant (OBAG)
 - Metropolitan Transportation Commission (MTC)
 - Transportation Fund for Clean Air (TFCA)

Did you know?



Tax revenue from new businesses helps our community.

 TAX Revenue



1 Hotel



1.5 Police Officers



 TAX Revenue



1 Dealership



2.5 Police Officers



 TAX Revenue



1 Costco

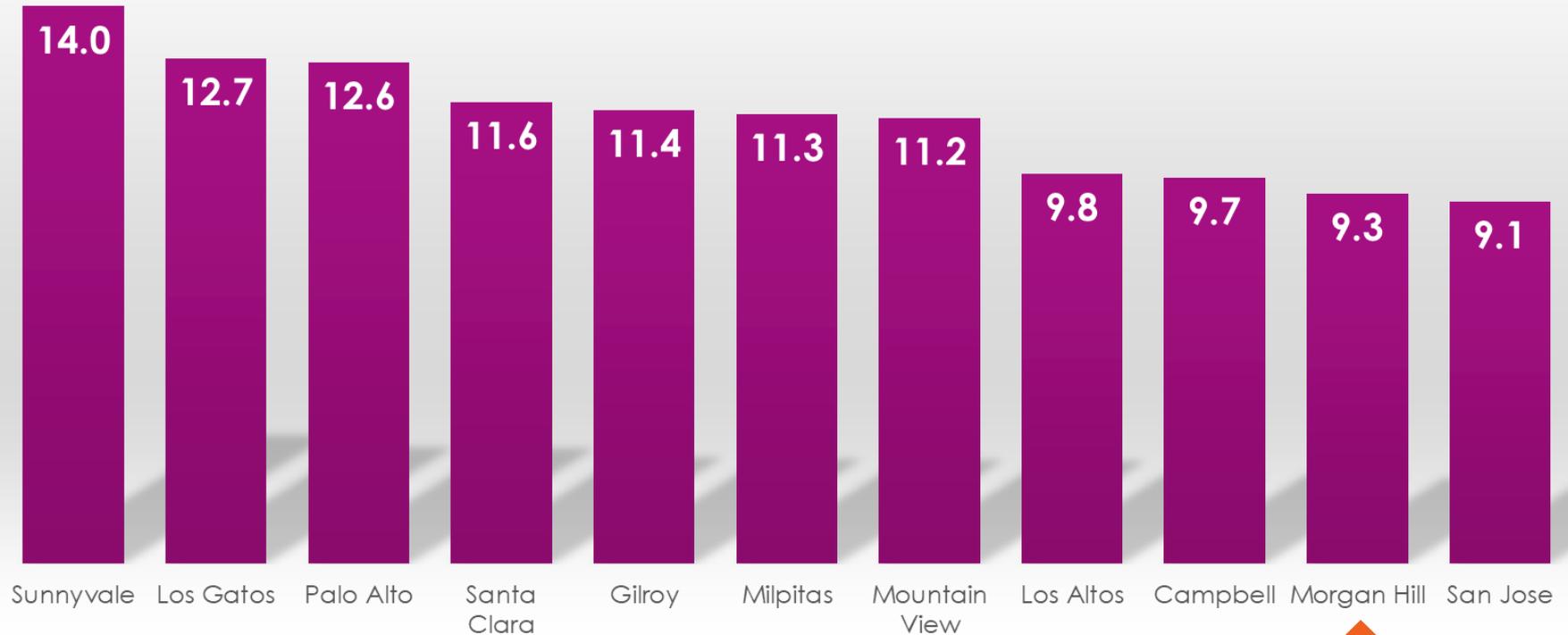


4.5 Police Officers

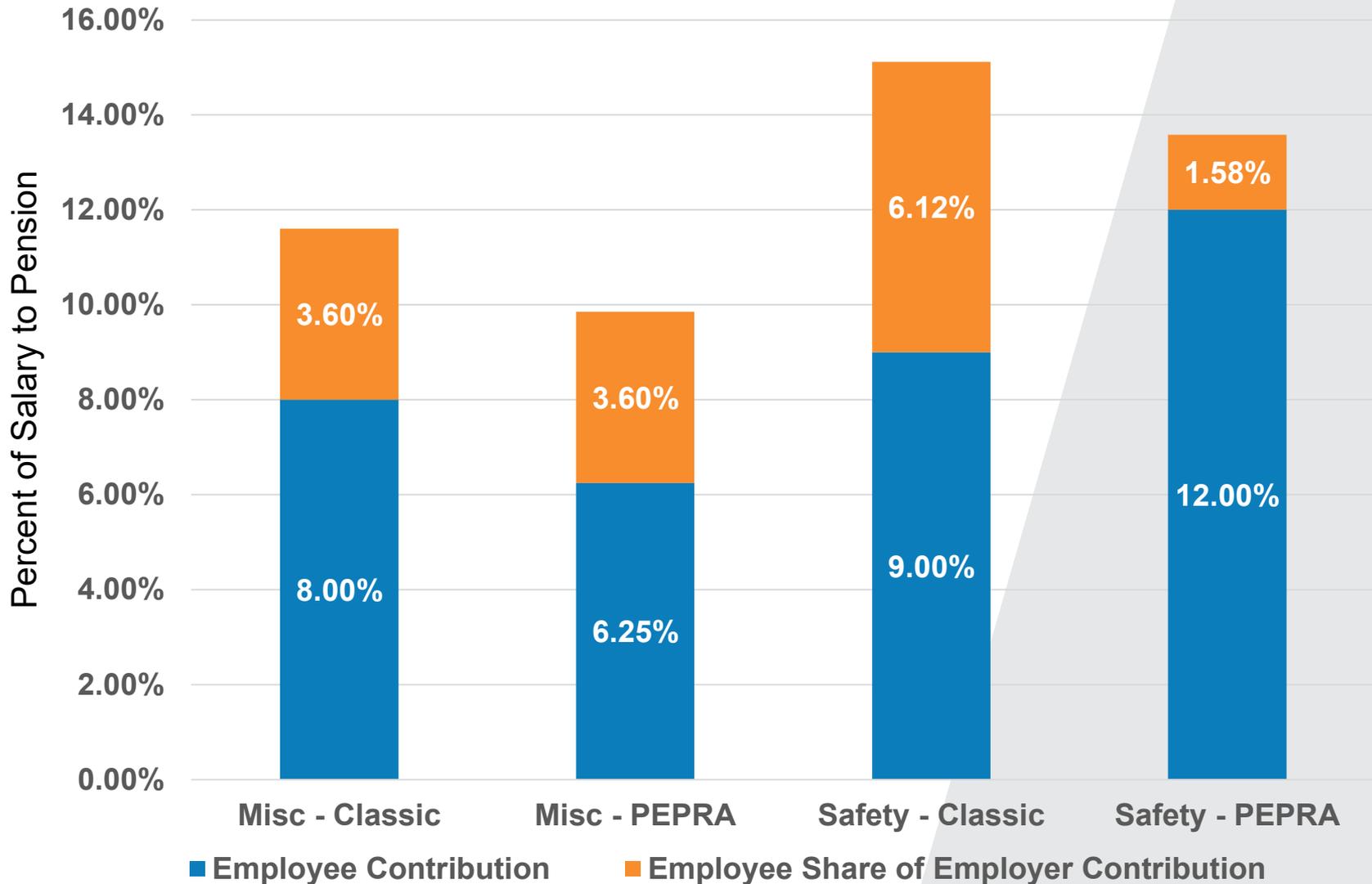


Police Officers Per Capita

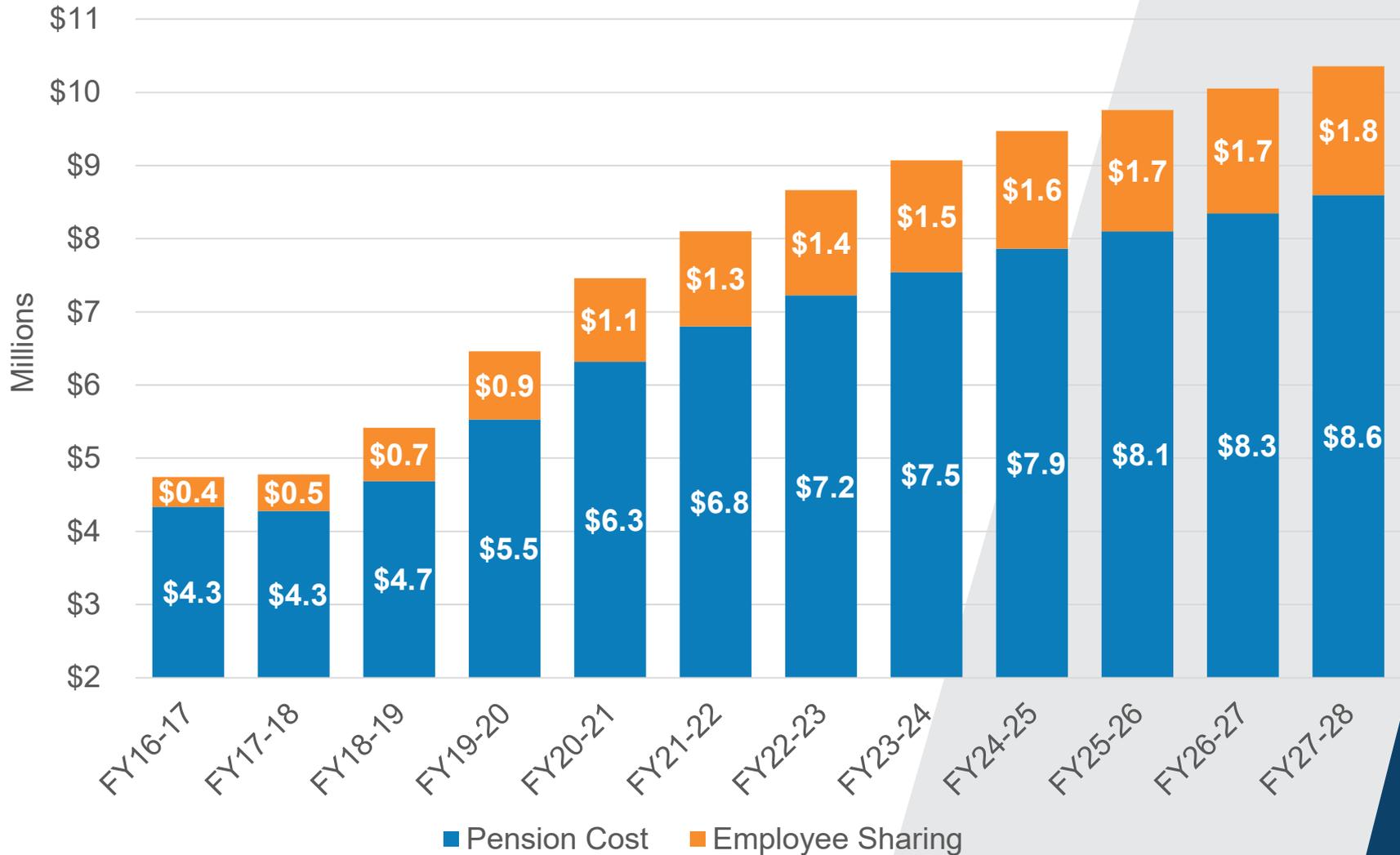
Santa Clara County Agencies:
Officers per 10,000 Residents (2017)



Employee Cost Sharing



Employee Cost Sharing (Cont'd)



How Did We Get Here?

- State impacts on local control and funding
 - (Example: Redevelopment Agency and Housing)
- Decrease in funds from our growth control system - Residential Development Control System (RDCS)
- Deferred maintenance through economic downturn
- Rising pension costs

Unfunded General Fund Needs



Total Annual Unfunded General Fund Needs
= \$7.0M

- Police \$1.3M
- Fire \$2.3M
- Building Maintenance \$0.2M
- Pavement Rehabilitation \$2.3M
- Street Maintenance \$0.2M
- Park Maintenance \$0.7M

Unfunded General Fund Needs (Cont'd)

Other General Fund Considerations:

- Development Services Fund Support
- Regional Housing Need Allocation (RHNA) and housing impacts by potential legislations (Impact Fee Cap, and elimination of growth control system)
- Long Range Planning

Unfunded Liabilities

Total Unfunded Liabilities = \$49M

- Pension: Public Employees Retirement System (PERS)
- Other Postemployment Benefits (OPEB)

General Fund Share = 67% or \$33M

Unfunded Liabilities (Cont'd)



Current Funded Status

- Misc. Plan – 73.10%
- Safety Plan – 69.90%

Healthy Status = 80.00% or above

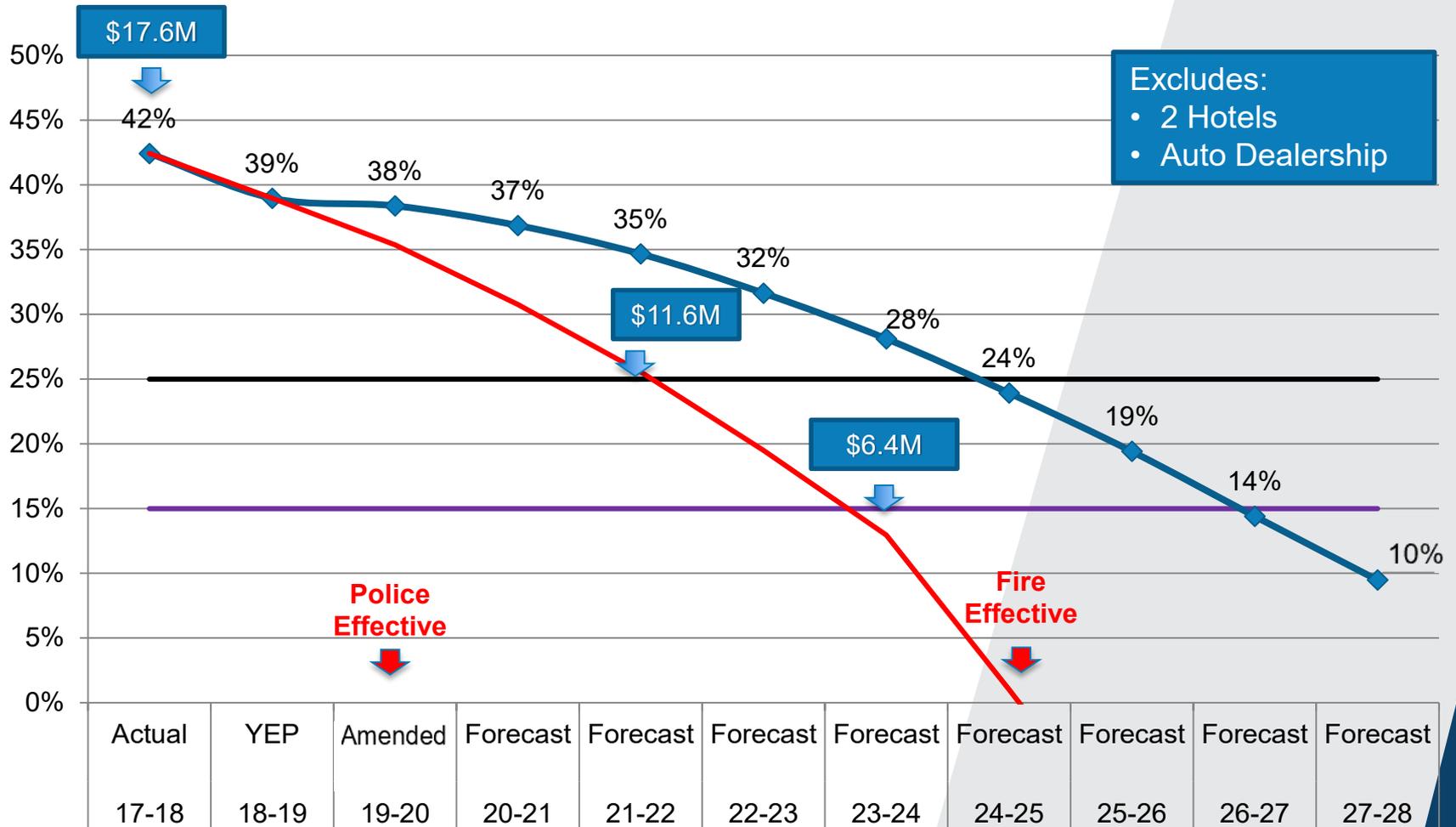
Gap to Healthy Status = \$20M

- General Fund Share = 67% or \$13M

AGENCY NAME	SAFETY PLAN	MISC. PLAN
Morgan Hill	69.90%	73.10%
Santa Clara (City)	66.00%	62.00%
Palo Alto	63.50%	66.30%
Cupertino	N/A	68.10%
Sunnyvale	67.60%	69.80%
Milpitas	64.50%	70.10%
Mountain View	68.90%	70.70%
Santa Clara (County)	68.40%	70.90%
Gilroy	68.20%	71.10%
Campbell	68.90%	73.70%
Saratoga	N/A	83.10%

CalPERS Funded Status for Public Agencies is at 69.5% as of 2016-17.

General Fund Balance (With Public Safety Master Plan)

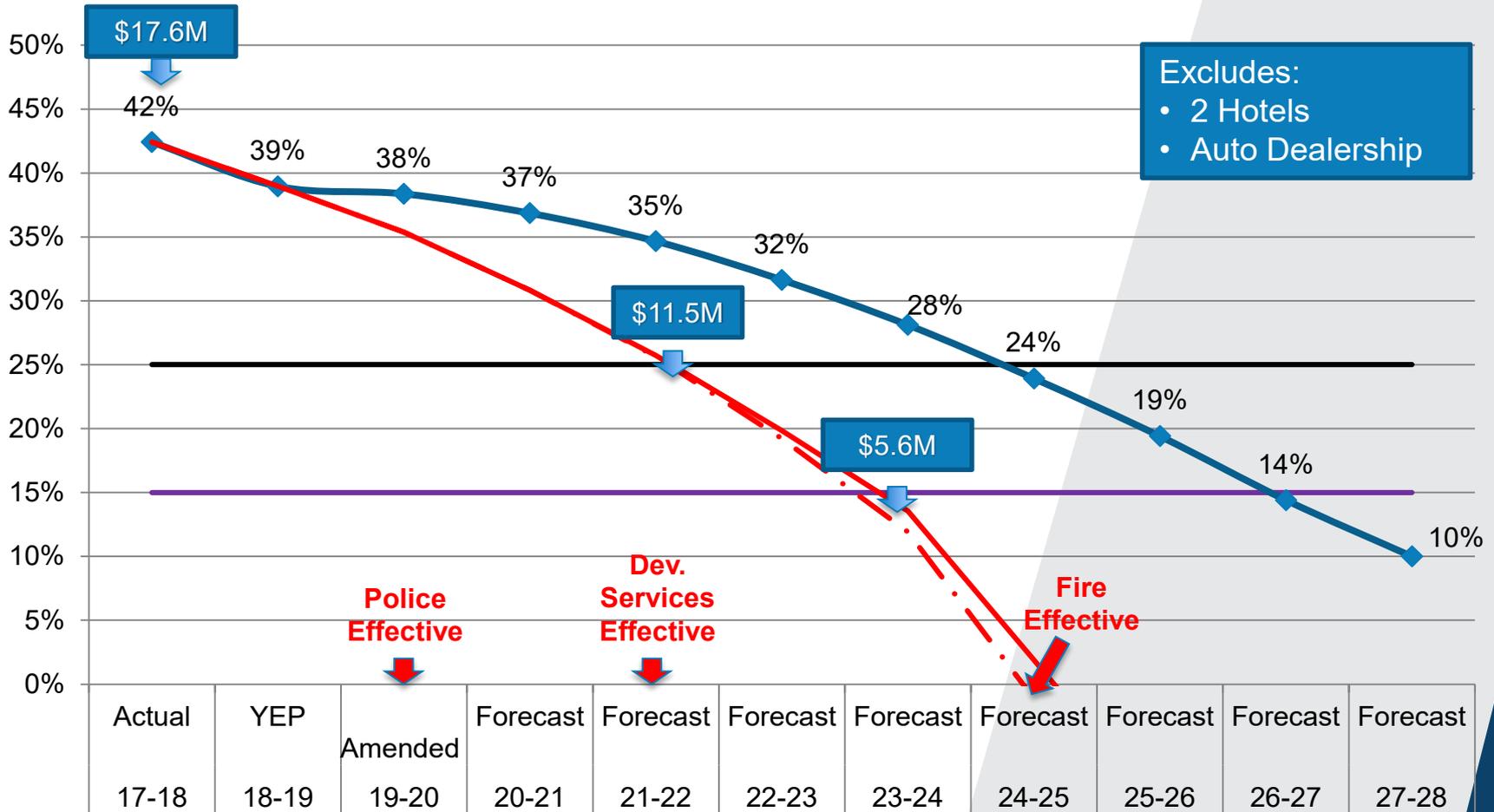


Excludes:
 • 2 Hotels
 • Auto Dealership

- Fund Balance Goal of 25% of Revenues
- Fund Balance Minimum Level of 15% of Revenues
- ◆ General Fund 10 Year Forecast - Mid-Cycle (May 2019)
- General Fund 10 Year Forecast - with Additional PD and Fire

General Fund Balance

(With Public Safety Master Plan and Development Services Support)



Excludes:
 • 2 Hotels
 • Auto Dealership

- Fund Balance Goal of 25% of Revenues
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- ◆ General Fund 10 Year Forecast - Mid-Cycle (May 2019)
- General Fund 10 Year Forecast - with Additional PD and Fire
- · - General Fund 10 year Forecast - With PD, Fire, and Development Services Support

Key Takeaways



- Understand the City has various funding buckets (Funds) which cannot be intermixed, and General Fund is the primary bucket the Council has discretion over
- Morgan Hill has lowest tax revenue per capita in the County, while being a full-service City
- Sustainability of the General Fund is the primary purpose of Engage Morgan Hill effort

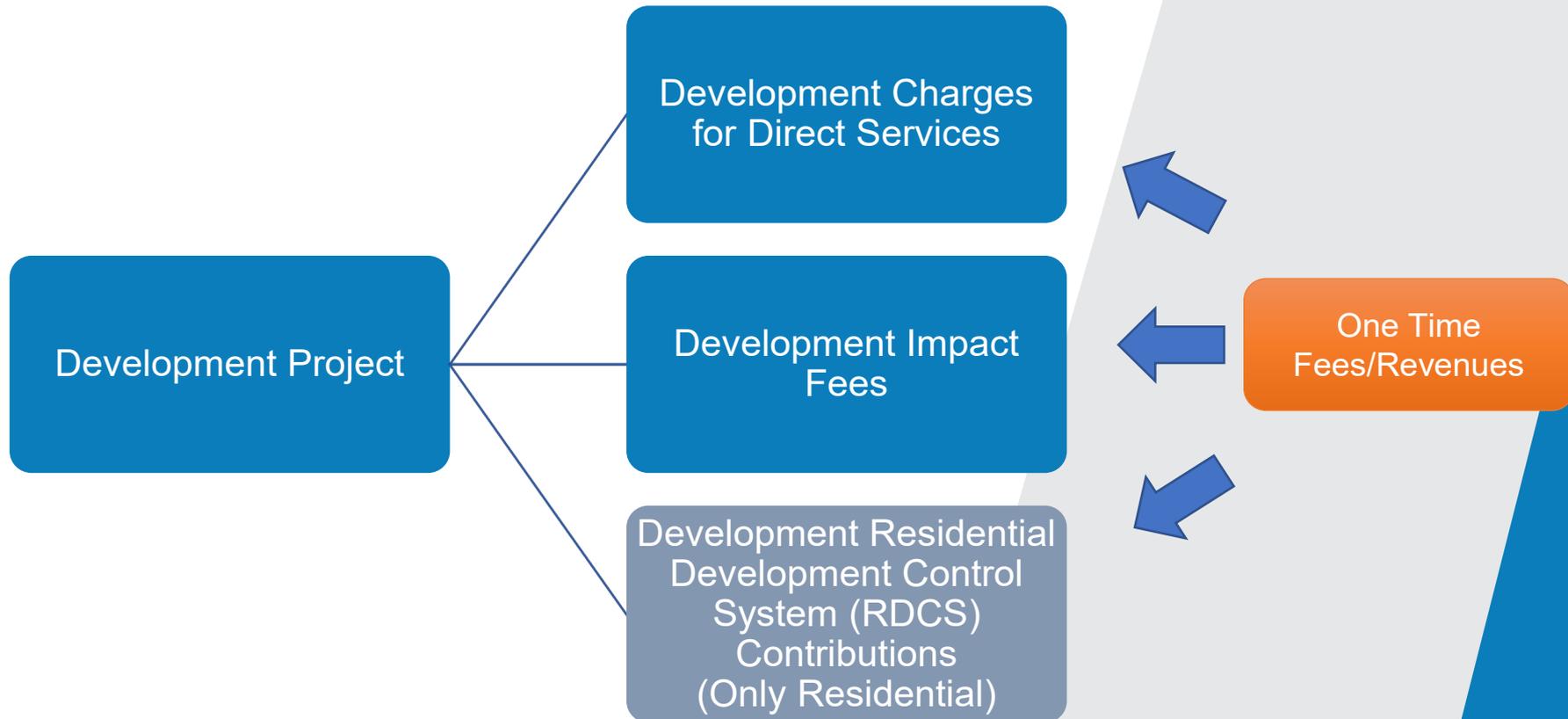
Questions?



Development Related Revenues & Expenditures



Development Revenue Sources



Development Expenditures



Development Charges for Direct Services

- Development Services
 - Planning, Building & Engineering
- Wastewater Connection
- Water Meter Connection



Development Impact Fees

- Park Impact
- Traffic Impact
- Fire Impact
- Public Facilities
- Library Impact
- Rec. Center Impact
- Storm Drain Impact
- Wastewater Impact
- Water Impact



RDCS Development Contributions

- Park Maintenance
- School Pedestrian & Traffic Safety
- Public Facilities
- Agricultural and Open Space Preservation
- Local Drainage
- Undergrounding
- Housing

Development Charges for Services

Development Services (Fund 206)

- All 3 activities have unrecoverable expenses; activities not related to a permit process
 - Planning
 - Building
 - Engineering

Utilities (Fund 640 & 650)

- Water – Front Footage/Offsite & Meter Install
- Wastewater – Front Footage/Offsite

Development Impact Fees

- A fee imposed on a new or proposed development project to ensure that new development pays the capital costs associated with growth
- Growth expected to pay its own way

Development Impact Fees (cont'd)

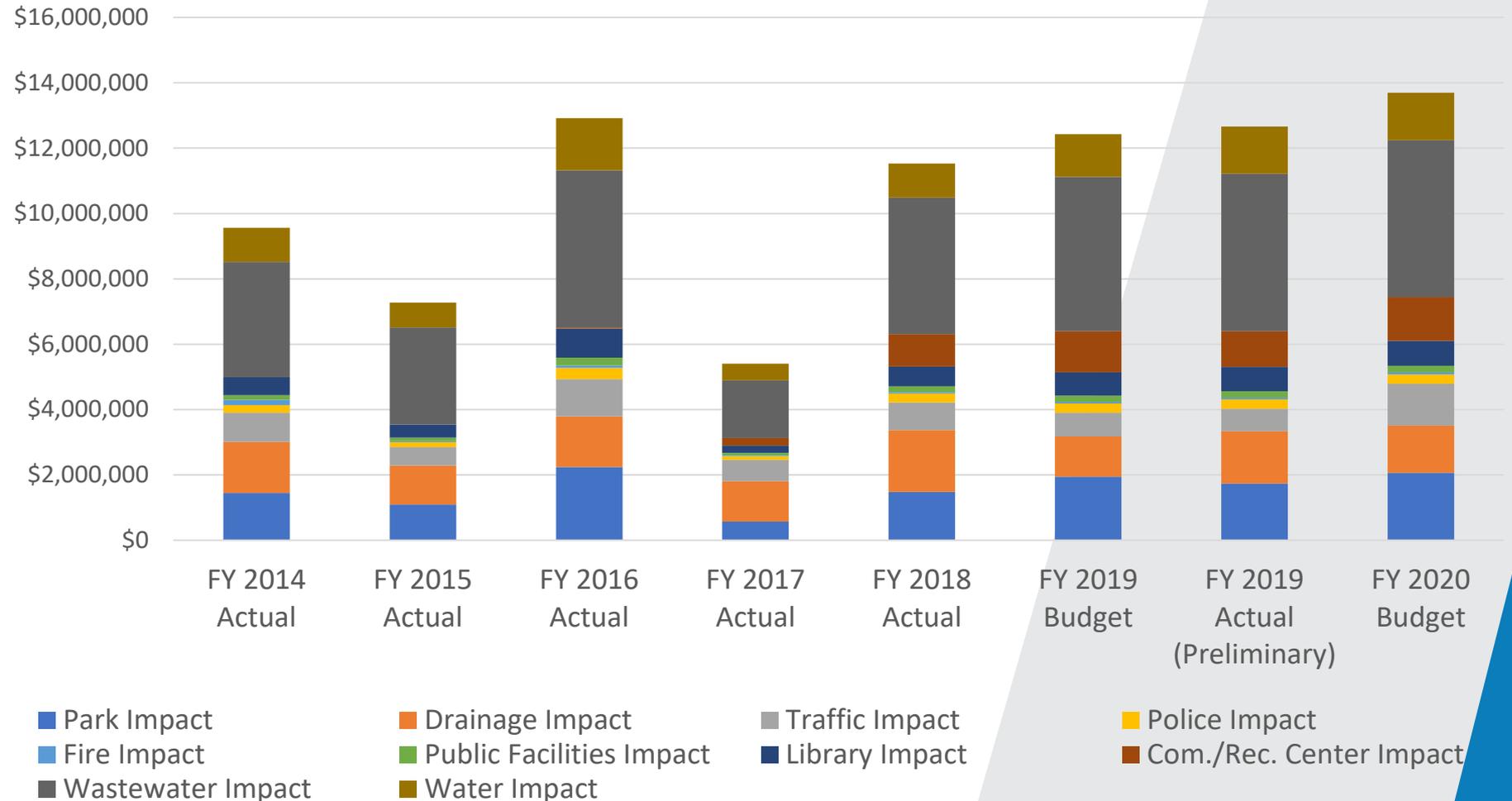


- **Project Examples:**
 - West Little Llagas Creek Trail, Magical Bridge Inclusive Playground, Llagas Flood Control, Hale Avenue Extension, New Fire Station, Corp. Yard Expansion, Library Expansion, CRC Expansion, SCRWA Plant Expansion, and Water Mains

Development Impact Fees (cont'd)



Historical Revenue



Residential Development Control System (RDCS)

Development Contributions

- Voluntary Contributions made by Developers to various City funds, to receive RDCS scoring points
- Used to fund on-going maintenance (Parks and Sidewalks), one-time infrastructure improvements, or contribute to affordable housing initiatives/services

Residential Development Control System (RDCS)

Development Contributions (cont'd)

- One-Time Project Examples:
 - Downtown Safety Enhancements, Britton School Frontage Improvements, Enhanced Crosswalks, Main Avenue Bike Lane Project, Intersection Improvements, Developer Funded Repaving (Projects outside Pavement Rehab. Program), Safe Parking Program, and Homeless Outreach

RDCS

Development Contributions (cont'd)

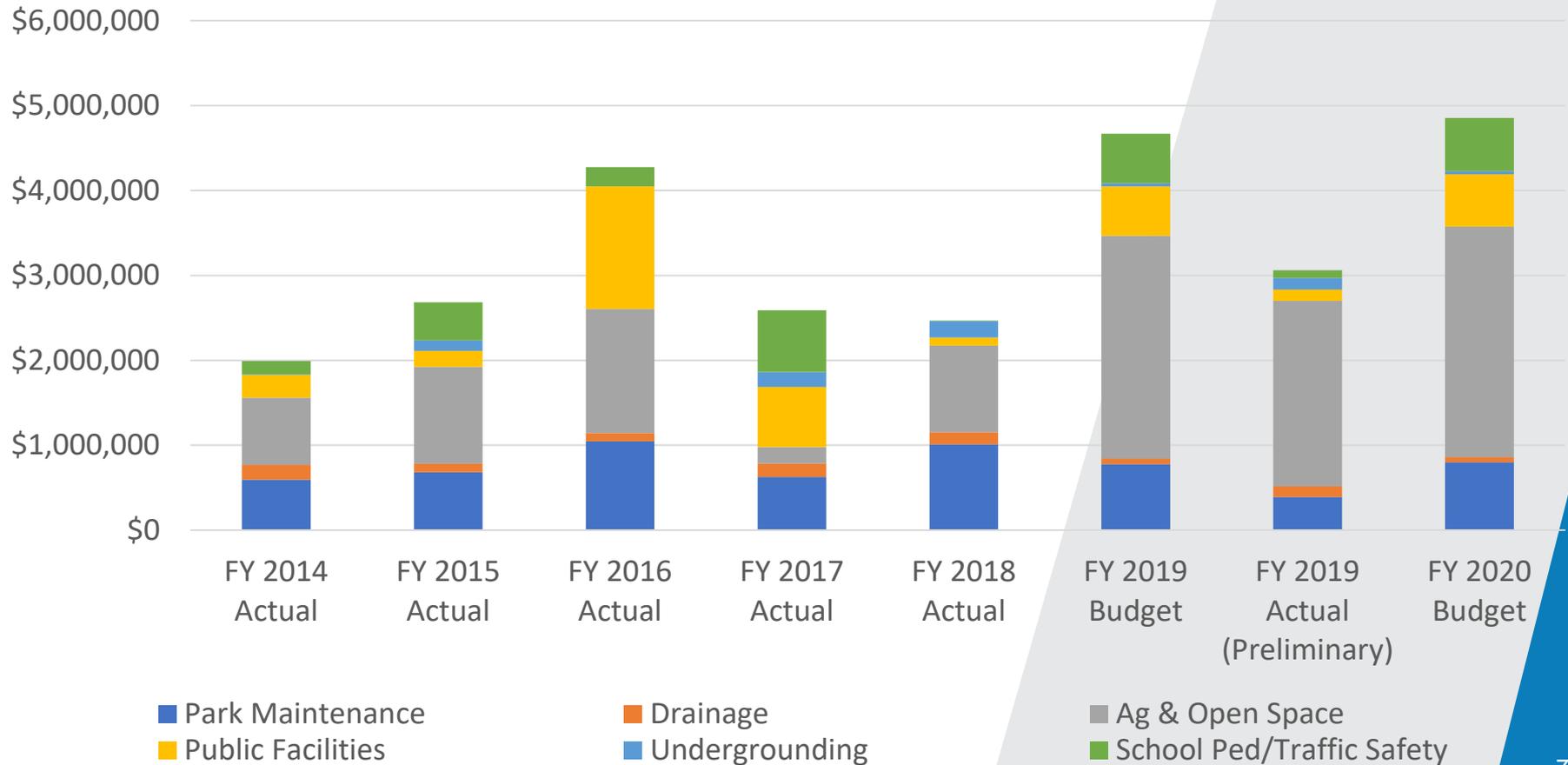


Fund	Maintenance/Operations	One-time Capital Projects/Infrastructure	Fiscal Impact
302 - Park Maintenance	Park Maintenance Sidewalk Maintenance	-	General Fund support in future of \$750,000/year at the minimum.
304 - Local Drainage	-	-	General Fund dollars to fund any future projects
306 - Agricultural and Open Space Preservation	Weed Abatement	Park/Agricultural Land Preservation Acquisitions	General Fund support in future of \$57,000/ year at the minimum. Likely eliminate Ag. Preservation Program
346 - Public Facilities	Parking Lot Maintenance	Intersection Improvements Downtown Improvements Bicycle Improvements Sidewalk Connections	General Fund support in future of \$40,000/year minimum for Parking Lot.
350 - Undergrounding Fund	-	-	Likely eliminated future undergrounding projects or require alternative funding source
355 - School Pedestrian & Traffic Safety	Sidewalk Maintenance	School Offsite Safety Improvements Planned Vision Zero	General Fund support in future of \$150,000/year for Sidewalk Maintenance. Likely eliminate one-time projects
236 - Housing	Rapid rehousing, homelessness services	-	Eliminate or identify alternative funding source

RDCS Development Contributions (cont'd)



Historical Revenue



Key Takeaways

- Three main sources of revenue from development:
 - Development Charges for Services
 - Development Impact Fees
 - Development RDCS Contributions
- State impacts on local control (e.g. Capping Impact Fees)
- Decrease in funds from RDCS, possible elimination of RDCS
- Additional General Fund support may be needed for Operations and Infrastructure items currently funded by RDCS:
 - Parks Maintenance, Parking Lot and Sidewalk Maintenance, Weed Abatement and Housing Programs