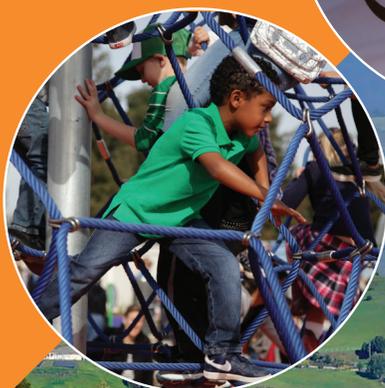


Fiscal Year
2019-2020

Budget in Brief



morganhill.ca.gov/budget



The City of Morgan Hill's Budget in Brief is intended to provide you with information about your City's budget. The City's biennial budget is prepared much like a household spending plan. While a family might plan for such expenses as housing, food, clothing, transportation, or medical bills, the City's focus is for police and fire protection, parks, recreation, water and sewer systems, housing economic development, roads, building maintenance and much more. City teammates work hard to recommend a budget that aligns resources and proposes quality of life enhancements that are consistent with the City Council's and community's priorities, while maintaining fiscal responsibility and sustainability.

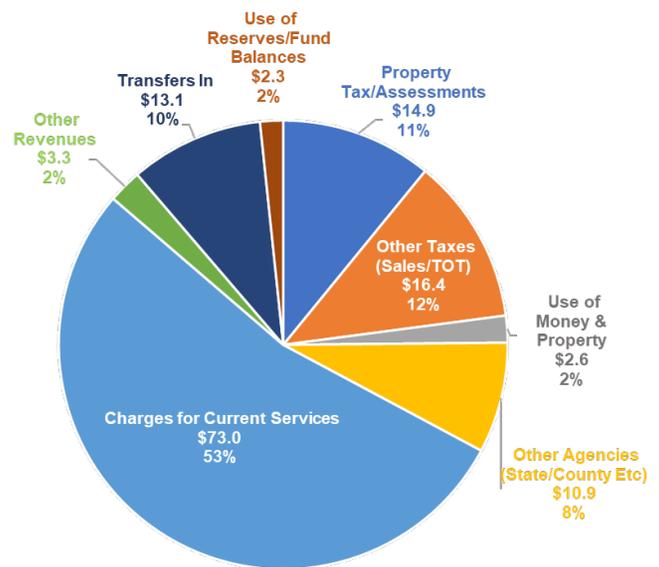
CITYWIDE: REVENUES \$134.2M

Income for the City is generated from taxes, building permit fees, business licenses, recreation memberships, water and wastewater charges, and more. For Fiscal Year (FY) 2019-20, the City expects to generate **\$134.2 million** from these sources. The revenue is deposited into different funds, similar to bank accounts. Unlike personal bank accounts where funds can be transferred from one to another, the City must comply with strict laws that require money be maintained in separate funds; **General and Non-General Funds**.

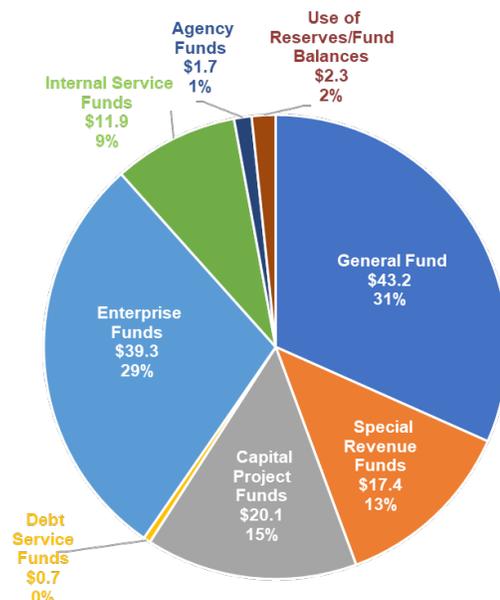
Taxpayer dollars are deposited in the **General Fund** along with fees for recreation services, utility franchise fees, and state shared revenues. This portion of the budget is comprised largely of discretionary funds meaning the City Council can allocate them to programs and services in any area. General Fund dollars are used to support City services such as police, fire, parks and street maintenance, economic development, recreation and community services, all of which contribute to the quality of life of our community as well as internal support functions such as Finance, Human Resources, City Clerk, and Legal Services.

Non-General Fund, often referred to as dedicated funds, are non-discretionary and spent for specific purposes. For example; the City may not raise water rates to pay for police services, building and inspection fees may only be used to support the delivery of those specific services.

CITYWIDE REVENUES BY CATEGORIES
(in millions)



CITYWIDE REVENUES BY FUND
(in millions)



DID YOU KNOW?

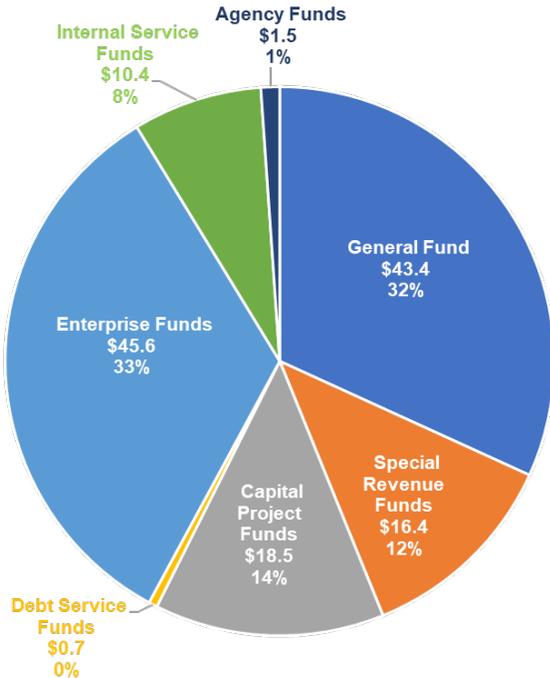
When the General Fund reserves have accumulated to a healthy reserve level, the City Council chooses to use excess reserves to invest in the community.

For FY 2019-20 the General Fund reserve investment in street improvement projects was increased from \$250,000 to \$1 million.

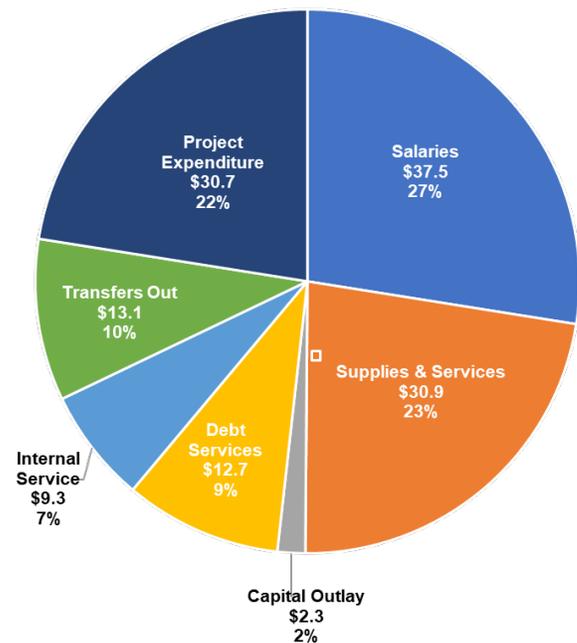
Additionally, \$250,000 of additional funding was invested in the Building Replacement Fund for all city facilities.

\$150,000 was invested in the Park Maintenance Fund to partially offset the expected reduction in Measure S voluntary payments from developers.

CITYWIDE EXPENDITURES BY FUND
(in millions)



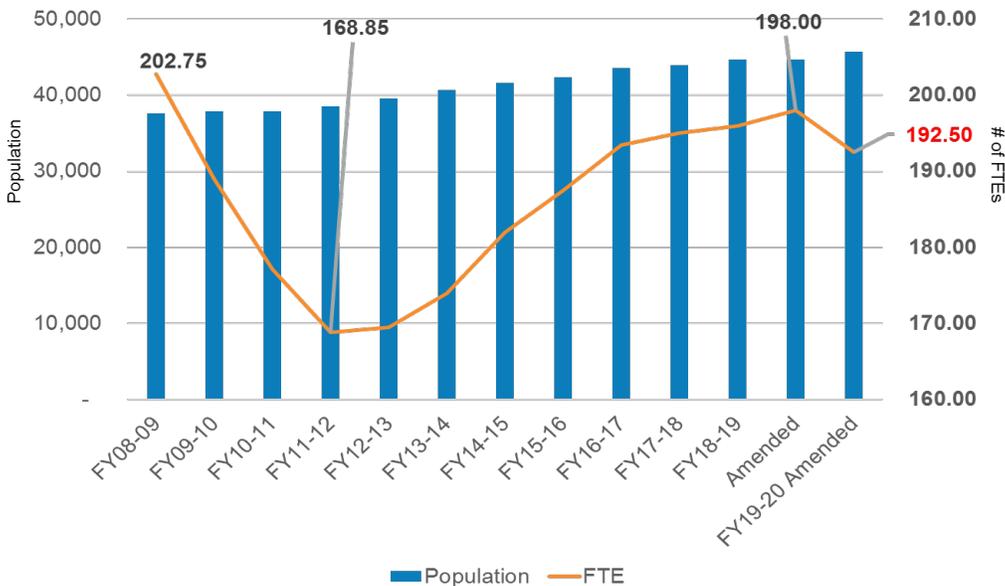
CITYWIDE EXPENDITURES BY CATEGORIES
(in millions)



The FY 2019-20 citywide expenditure budget amount is **\$136.5 million**. As depicted in the pie chart on the left, the largest portion of the expenditures support Enterprise Funds (\$45.6M), which include water and wastewater utility operations and infrastructure improvements. The second largest expense is attributable to the General Fund (\$43.4M) which primarily funds police, fire, recreation and community services, economic development, parks, streets, and downtown maintenance. The third largest expense supports Capital Projects, which maintain or improve the City's infrastructure.

DID YOU KNOW?

CITYWIDE # FULL-TIME EMPLOYEES (FTEs) VS. POPULATION



Staff reduced **17%** per capita

2009: 5.1 city employees per 1,000 residents

2019: 4.2 city employees per 1,000 residents without any service reductions

- Salaries and benefits reduced
- Innovative partnerships with the YMCA and CalFire
- City employees share in paying for pension cost increases and new employees have reduced pension benefits

GENERAL FUND REVENUES

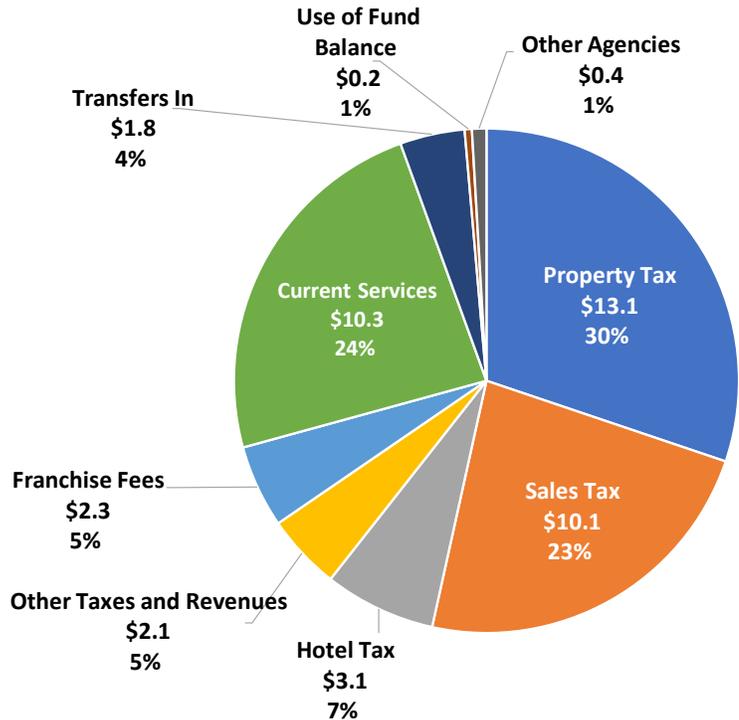
\$43.2M

Most of the General Fund money comes from the following primary sources: property tax, sales tax, and hotel taxes. Current services, in the chart on the right, is made up of recreation fees for service and other service fees. Since many of these revenues are sensitive to economic conditions, the City's economic development efforts are focused on increasing jobs and expanding the tax base.

Other Taxes and Revenues include: Business license tax, permits, fines, rental income, and interest.

Other Agencies includes: revenues such as grants received from State, County and other municipal agencies.

GENERAL FUND REVENUE BY SOURCE
(in millions)

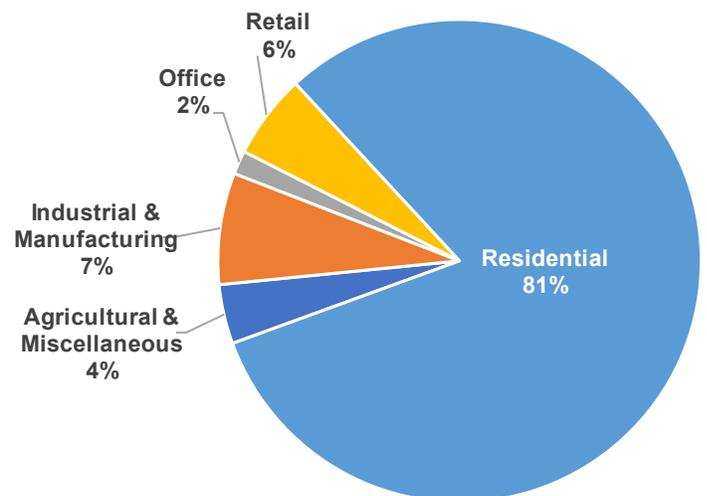


PROPERTY TAX

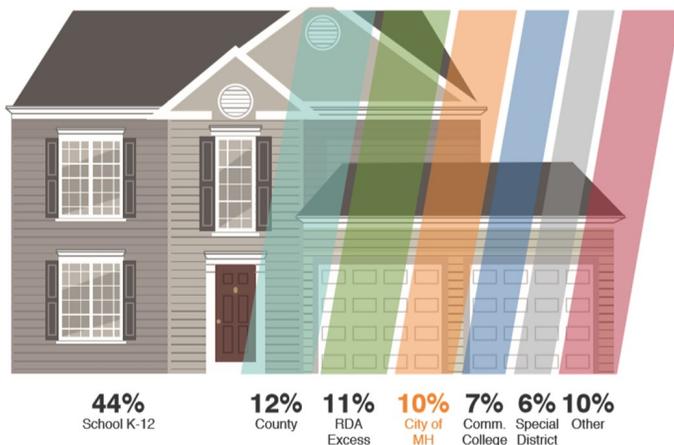
\$13.1M, 30%

Property tax is a tax on real property and tangible personal property based on the property value. The State Constitution limits the real property tax rate to 1% of the property's assessed value plus rates imposed to fund indebtedness approved by the voters. A majority of property taxes supports local schools. Morgan Hill's share of the 1% is equivalent to 10 cents for every \$1.00 collected from property taxes. For example, a home with \$900,000 sale price, the property owner pays \$9,000 (1%) in property tax. Of that \$9,000, the City receives \$900 (10% of the 1%) per year to provide services such as police, fire, parks and street maintenance, economic development, recreation and community services, as well as internal support administrative functions.

MORGAN HILL ASSESSED PROPERTY VALUES BY TYPE
(2018-2019)



Morgan Hill Property Tax 1% Distribution



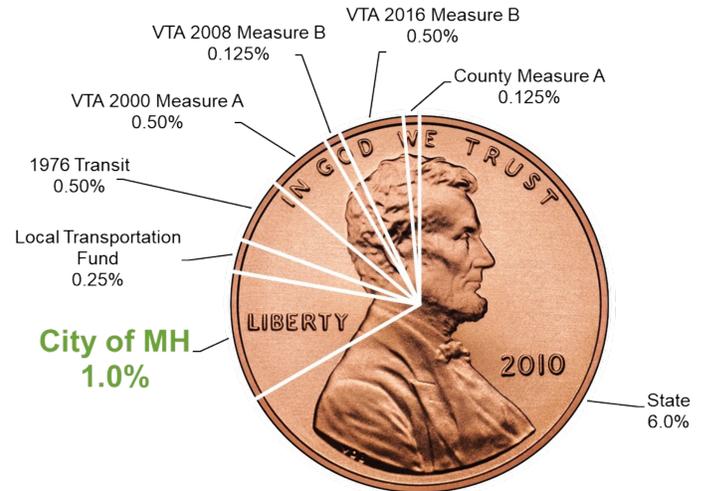
GENERAL FUND REVENUES (cont'd)

SALES TAX

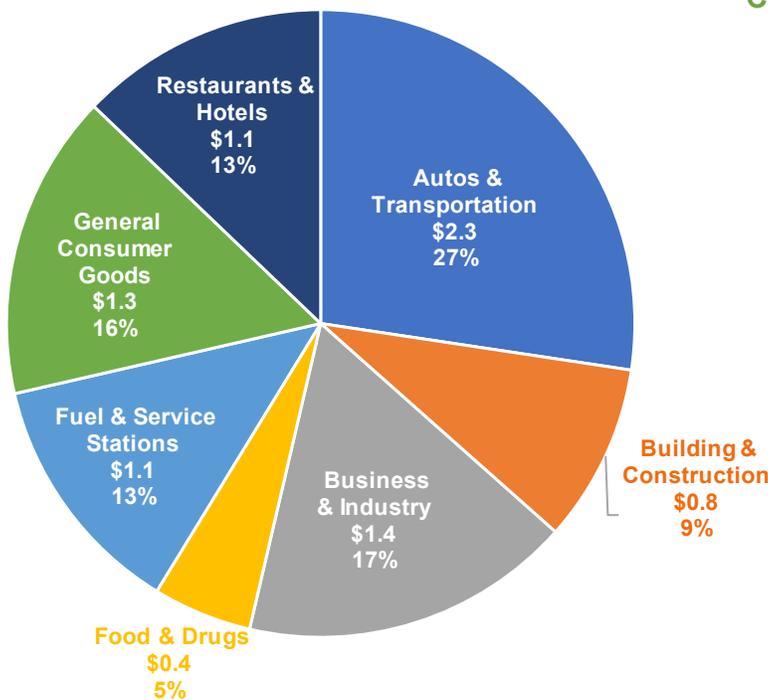
\$10.1M, 23%

Sales tax is imposed on retailers for selling tangible personal property in California. The sales and use tax rate for Santa Clara County is 9.0% of which Morgan Hill's share is 1%. Revenues from sales tax are expected to reach **\$10.1 million** during FY 2019-20 or 23% of the total General Fund revenue projected. It is the second largest revenue source for the City's general fund. The pie chart below illustrates sales tax revenue by major industries.

ALLOCATION OF SALES TAX RATE (Current Sales Tax Rate 9.0%)



SALES TAX BY MAJOR INDUSTRY GROUP FY 2017-18 (in millions)



TRANSIENT OCCUPANCY TAX

\$3.1M, 7%

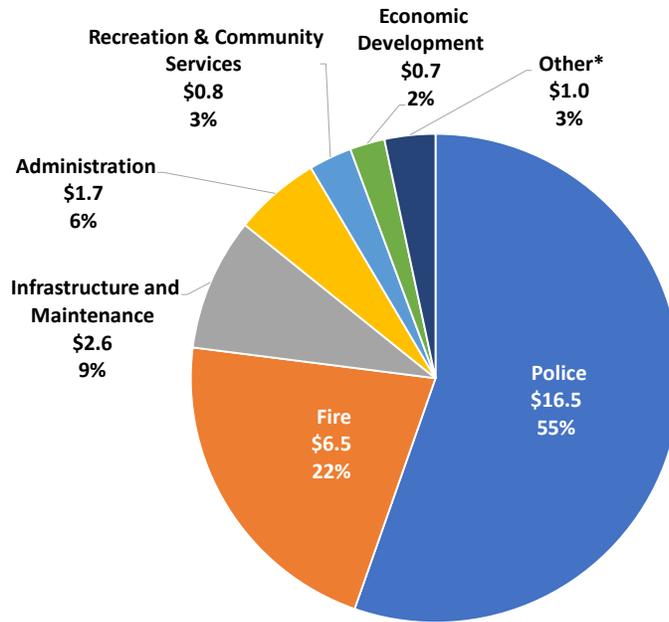
The City of Morgan Hill's Transient Occupancy Tax code requires that any person or business engaged in the renting of space for the purpose of lodging must collect, report, and remit Transient Occupancy Tax (TOT).

On November 6, 2018, Morgan Hill voters approved Measure H, which increased ongoing TOT from 10% to **11%**, in the City of Morgan Hill., effective March 1, 2019.

In FY 2019-20, the TOT revenue is projected at **\$3.1 million** or 7% of the total general fund revenues.

GENERAL FUND DISCRETIONARY EXPENDITURES \$29.8M

GENERAL FUND DISCRETIONARY EXPENDITURES
(in millions)



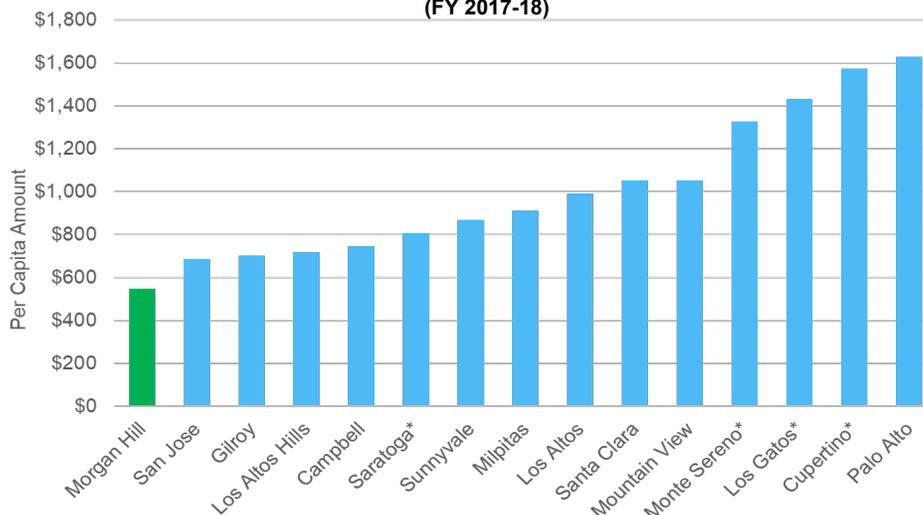
*Other includes: Environmental Programs, Code Compliance, Congestion Management, Long Range Planning, OPEB, Community Promotions

DID YOU KNOW?

Morgan Hill has the lowest tax revenue per capita, in the County. What does that mean? It means Morgan Hill provides more services with limited resources, when compared to other cities in the County. The City has stretched its dollars through partnerships such as those with CalFire and the YMCA, pursuing state and federal grants, and by creatively designing cost effective programs, all the while maintaining its good financial rating, and taking proactive steps towards addressing unfunded needs and liabilities.

Other cities, like Milpitas and Los Gatos, have additional revenues source like community facilities districts that generate parcel revenue to be used for operations and maintenance, freeing up General Fund dollars for other purposes.

GENERAL FUND MAJOR TAX REVENUE COMPARISON PER CAPITA
(FY 2017-18)



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

UNFUNDED NEEDS & THE CHALLENGES AHEAD

Steady revenue growth and conservative spending has put the City in a stable financial position. This is due primarily to the fiscally responsible actions taken in prior years by the City Council including continuing to adhere to the sustainable budget strategy, prudently investing in service level enhancements as resources allow and addressing areas of financial concern. This has resulted in the ability to include additional near-term funding for maintaining street and public facility infrastructure, enhancing public safety services, providing quality youth and senior services, continuing to address unfunded Other Post-Employment Benefits (OPEB) and pension obligations, and undertake many exciting and needed capital improvement projects

However, there are significant needs in a variety of areas such as funding additional public safety resources, maintaining adequate levels of park maintenance, and addressing aging infrastructure, which will require additional resources. Using the Infrastructure Update Report and Master Plans as guides of policy discussions, City staff continue to engage the City Council and the community to both educate and strategize the best way to move forward with a sustainable funding source for the General Fund. The City has launched **Engage Morgan Hill—a conversation about services, funding, and priorities** to formally involve the community in this important process.

How Did We Get Here?

Like many other California cities, the City of Morgan Hill has challenges ahead.

- **State impacts on local control and funding (example: Redevelopment Agency and Housing):** Historically we have seen state impacts on local controls. More recently, potential housing legislations in the pipeline (like SB330) would impact the local controls and how cities fund services and infrastructures.
- **Decrease in funds from our growth control system - Residential Development Control System (RDSCS):** recent changes to the RDSCS process and manual have reduced the developer contributions which traditionally helped fund some of the infrastructure and operational costs. With the latest proposed legislation the RDSCS measure may be viewed as an impediment to affordable housing and the City could be forced to eliminate it.
- **Deferred maintenance through economic downturn:** during the great recession, the City had to defer much of its maintenance, and has had a tough time catching up since.
- **Rising pension costs:** impacts of rising pension costs have increased the City's liabilities. While the State has responded by implementing the California Public Employee Pension Reform Act (PEPRA), which took effect January 1, 2013, the impacts of these adjustments are not immediate, and will be seen over time. In 2015, the Council approved the creation of Section 115 Trusts to set aside monies for Pension and Other Post Employment Benefits (OPEB). The contributions and investments of trusts are separate from CalPERS, and the City maintains oversight of the investments, therefore allowing more local control over assets.



ENGAGE MORGAN HILL
A conversation about services, funding, and priorities.
www.EngageMorganHill.org

Total Annual Unfunded General Fund Needs:
\$7.0M

- Police: \$1.3M
- Fire: \$2.3M (Staffing & Operations of 3rd Fire Station)
- Building Maintenance: \$0.2M
- Pavement Rehabilitation: \$2.3M
- Street Maintenance: \$0.2M
- Park Maintenance: \$0.7M

Other General Fund Considerations:

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



For More Information:

The City of Morgan Hill's Adopted Operating and Capital Improvement Program Budget document can be found on the City's website at www.morgan-hill.ca.gov/budget

The entire document is also available at City Hall and the Morgan Hill Public Library. For more information about the City of Morgan Hill Budget, please contact the Budget Manager, Monica Delgado at monica.delgado@morganhill.ca.gov

