



BUDGET SNAPSHOT

Fiscal Year 2025 - 2026 General Fund Budget

The Budget Snapshot is designed to give residents a clear, easy-to-read picture of where the City stands financially and why we need to plan ahead. By sharing these trends now, the City hopes to engage the Community early as we work toward responsible solutions that keep the General Fund on stable footing and protect the services Morgan Hill values most.



The General Fund

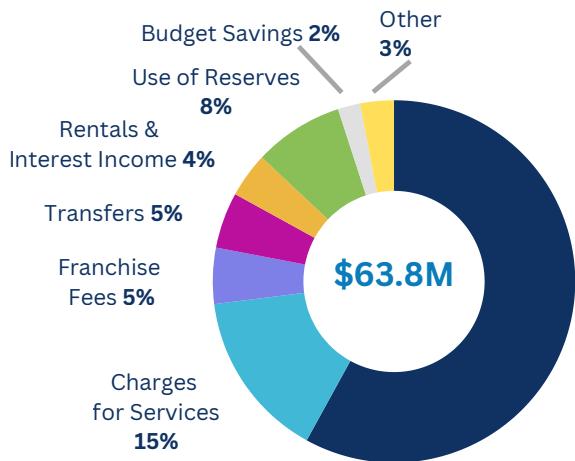
The **General Fund** is unique because it's primarily **"discretionary"**—meaning the City Council can decide how to use these dollars to pay for most of the day-to-day services our Community relies on. These include police, fire, parks and street maintenance, economic development, recreation programs, community events, and other services that keep Morgan Hill safe, welcoming, and well-maintained.

Not all City funds work this way. Many are **Enterprise Funds**, which are **"non-discretionary,"** meaning they are legally restricted for specific purposes. For example, water and sewer fees can only be used to operate and maintain the water and sewer systems or fund specific capital projects. These non-discretionary funds cannot be shifted to the General Fund to support general community services.

WHERE DOES THE MONEY COME FROM?

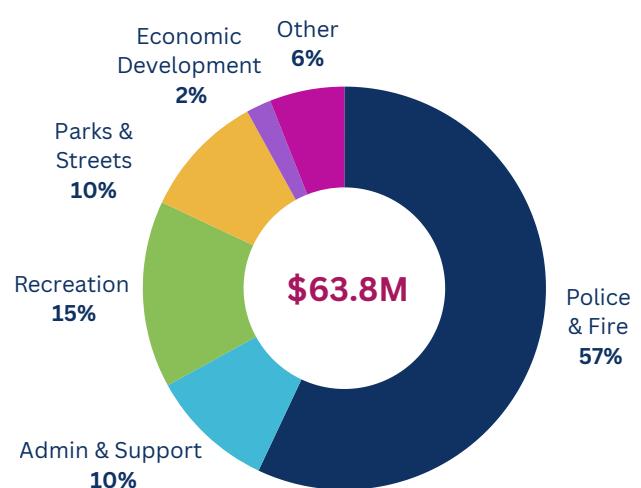
Most of the General Fund money comes from the following primary sources: property tax, sales tax, and hotel tax.

Other sources of General Fund money include charges for services such as recreation fees and business license fees.



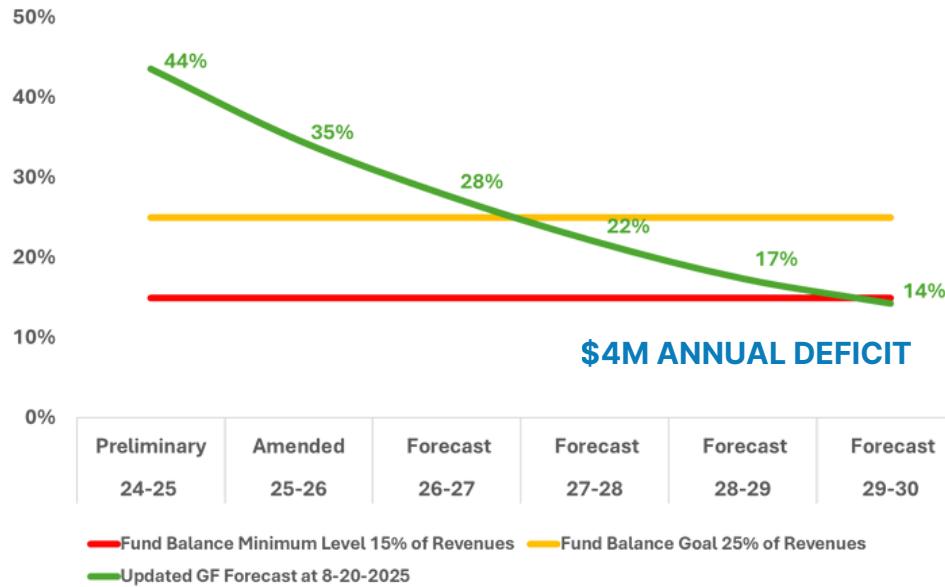
WHERE DOES THE MONEY GO?

The General Fund primarily funds police, fire, parks and street maintenance, economic development, recreation and public services, as well as support services such as finance, human resources, city clerk, and legal services.



General Fund Reserves Are Declining Over Time

The City of Morgan Hill's savings (General Fund reserves) are projected to steadily decline over the next five years and fall below the City's minimum policy reserve goal. Without additional revenue or changes in spending, the City will not have enough reserves to continue providing the level of services our Community relies on.



What is included in the General Fund?

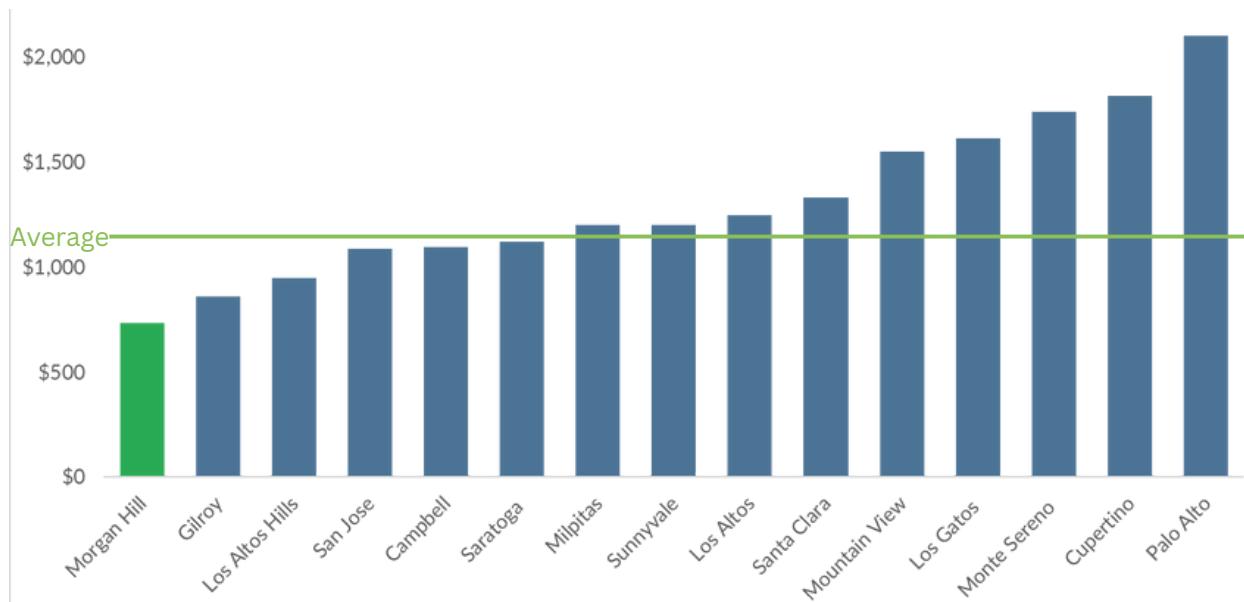
| | |
|--|---|
| | 3 Fire Stations |
| | 74 Person Police Department (44 Sworn Officers) |
| | Parks & Recreation |
| | Economic Development |
| | Street Maintenance |

Morgan Hill Taxpayer Landscape

Did you know Morgan Hill residents pay the lowest taxes per capita in Santa Clara County per year?

Why do Morgan Hill residents pay the lowest taxes?

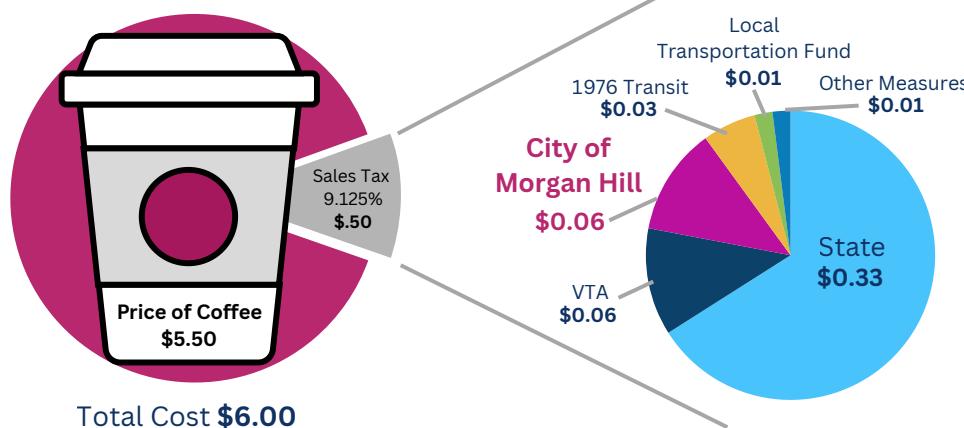
Because Morgan Hill does not have additional local taxes such as Sales and Utility User Tax.



Morgan Hill's Share of Sales Tax

Hotel Tax

The City of Morgan Hill receives approximately **\$12.1 million** annually in Sales Tax revenue.



The City receives approximately **\$2.7 million** in Hotel Tax revenue.



Paid for by visitors and 100% retained by the City as revenue.

Opportunity for Future Fiscal Sustainability

Pass a $\frac{1}{4}$ cent or 0.25% sales tax increase equating to **1 additional cent** on a cup of coffee. This would generate an **additional \$2.9M per year** for the City.

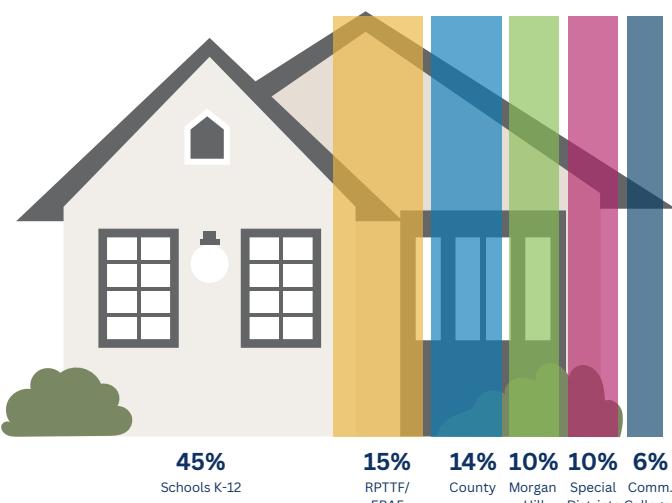
Morgan Hill's Share of Property Tax

The City of Morgan Hill generates approximately **\$21.4 million** annually in Property Taxes.

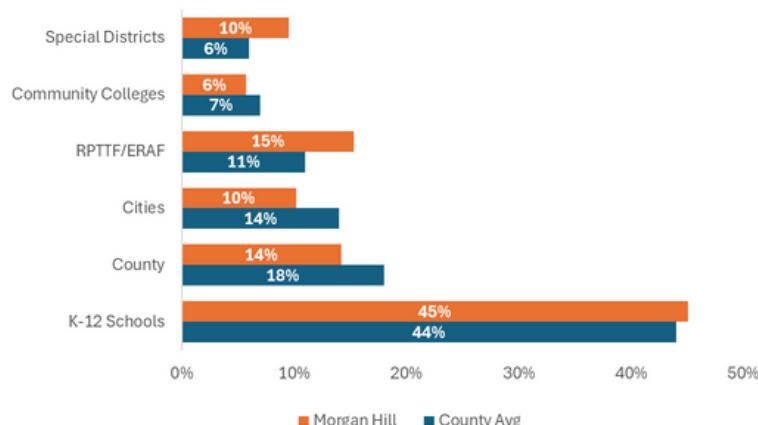
For example, the City receives 10% of the 1% base property tax, which equals \$1,000 per year on a \$1 million home.

Where do Property Tax dollars go?

About \$83 per month from the average homeowner funds essential City services such as police, fire protection, parks, economic development and streets.



Morgan Hill's Share of Property Tax Compared to Countywide Average



Looking Ahead...

Just like many Morgan Hill households, the City is experiencing higher costs for goods and services and they are outpacing the amount of income received from property, sales, hotel taxes, charges for services, and fees, etc.

~\$4M annual General Fund structural deficit

Fiscal Sustainability Steps Taken

- **Cost Savings** - Continued conservative spending, strategically freezing vacant positions, and new solar project to save about \$0.5 million per year.
- **Recreation Cost Recovery** - Increased fees and revenues to achieve higher level of cost recovery.
- **Revenue Growth** - Increased the Transient Occupancy Tax (TOT); created a Tourism and Business Improvement District (TBID); established a Downtown Property-Based Improvement District (PBID); updated Development Services Fees.
- **Economic Development Blueprint** - Adopted in 2017 and reaffirmed in 2024, a long-term guide to land-use, policies, and strategies to support prosperity and quality of life.
- **Business Development** - Modernized zoning rules to remove barriers and actively recruit new businesses.
- **Future Obligations** - Set-aside \$8.2 million since FY20-21 to address unfunded General Fund needs:
 - \$2.6 M to Street Capital Improvement Program
 - \$2.5 M to Pension/OPEB
 - \$1.8 M for Public Safety Equipment
 - \$1.3 M for Park Maintenance

Community Feedback

As the City works to balance the budget, should we consider adjusting service levels or pursuing additional revenue options?



We want to hear from you!

This December, we will launch **Balancing Act by Polco**, an interactive online tool that lets you “step into the shoes” of City decision makers. Through this easy-to-use simulation, you’ll see how budget choices are made, learn how different decisions impact community services, and explore potential tradeoffs.

Your participation matters. The feedback you share will help inform future fiscal decisions and community priorities.



Online
Interactive
Tool

Upcoming Engagement Opportunities

Budget Development Community Meeting

Wednesday, December 10, 2025 | 6 PM
Community and Cultural Center

City Council Goal Setting Workshop

Friday, February 6, 2026 | 9 AM
Saturday, February 7, 2026 | 9 AM
Council Chamber

City Council Budget Workshop

Wednesday, May 20, 2026 | 6 PM
Council Chamber

The City welcomes your questions and encourages you to participate in the upcoming budget discussions to learn more and provide feedback. Please e-mail questions to monica.delgado@morganhill.ca.gov

