



# 2019 Mid-Cycle Budget Update and Engage Morgan Hill



# Tonight's Overview



- Fiscal Sustainability Lens
- Mid-Cycle Budget Update
- Sustainable Morgan Hill
- Engage Morgan Hill

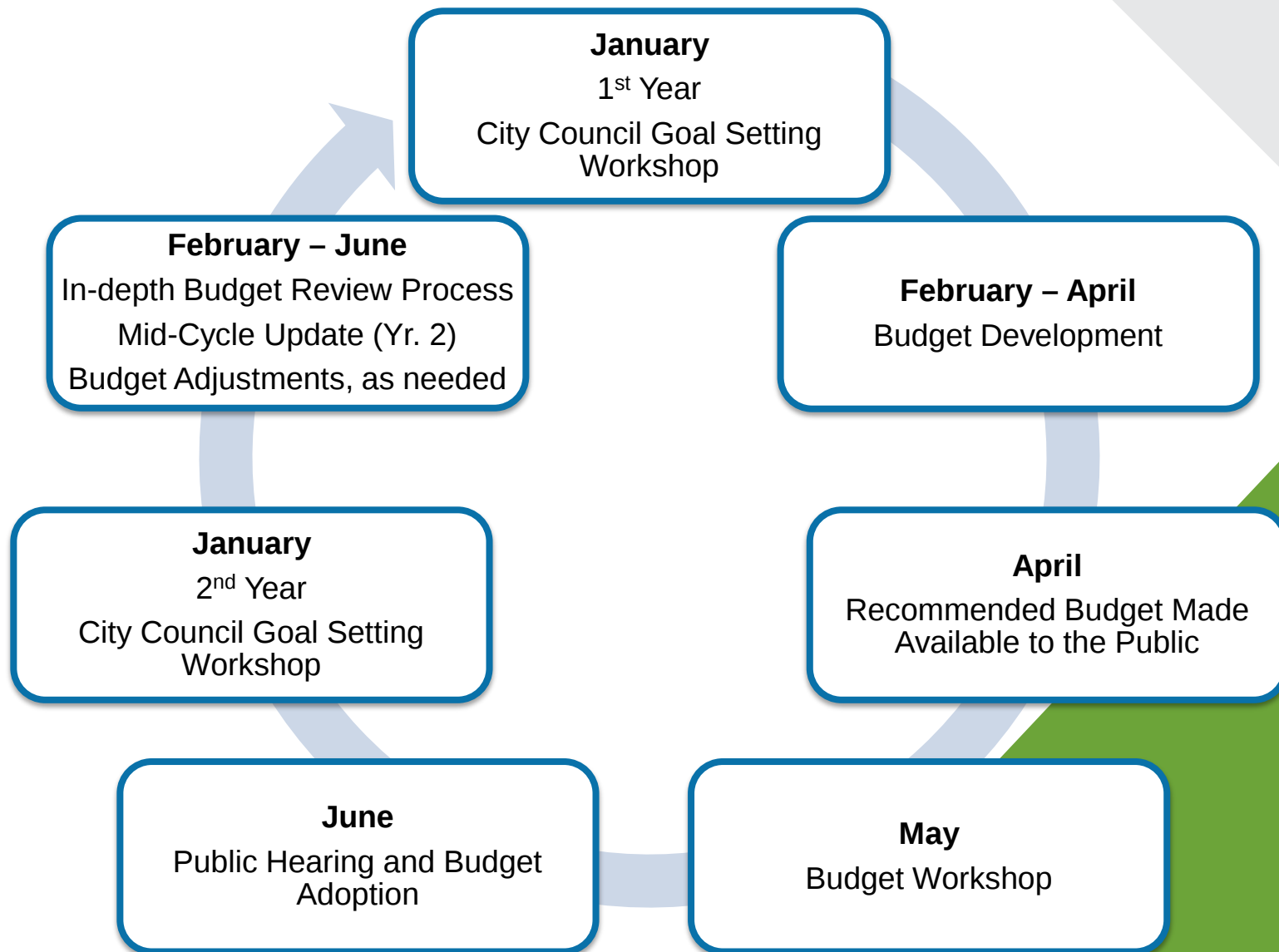
# Fiscal Sustainability Lens On!



# Mid-Cycle Budget Update



# Biennial Budget Process



General Fund

Special Revenue  
Funds

Capital Project  
Funds

Internal Service  
Funds

Enterprise Funds

# Fund Types

# Citywide Revenues



(In Millions)

| Revenues by Fund Type     | Adopted        | Proposed       | Change       |
|---------------------------|----------------|----------------|--------------|
|                           | FY2019-20      | FY2019-20      |              |
| General Fund              | \$41.6         | \$43.1         | \$1.5        |
| Development Services Fund | 5.3            | 5.3            | -            |
| Enterprise Funds          | 39.2           | 39.3           | 0.1          |
| All Other Funds           | 46.2           | 46.2           | -            |
| <b>Total</b>              | <b>\$132.3</b> | <b>\$133.9</b> | <b>\$1.6</b> |

# Citywide Expenditures



(In Millions)

| <b>Expenditures by Fund Type</b> | <b>Adopted<br/>FY2019-20</b> | <b>Proposed<br/>FY2019-20</b> | <b>Change</b> |
|----------------------------------|------------------------------|-------------------------------|---------------|
| General Fund                     | \$42.8                       | \$43.4                        | \$0.6         |
| Development Services Fund        | 6.0                          | 5.7                           | (0.3)         |
| Enterprise Funds                 | 45.4                         | 45.6                          | 0.2           |
| All other Funds                  | 41.3                         | 41.6                          | 0.3           |
| <b>Total</b>                     | <b>\$135.5</b>               | <b>\$136.3</b>                | <b>\$0.8</b>  |

# Citywide Recommended Adjustments

|                                  | Revenues | Expenditures | Change |
|----------------------------------|----------|--------------|--------|
| Change in All Funds from Adopted | \$ 1.6   | \$ (0.8)     | \$ 0.8 |

## Revenues

- Increase in Tax Revenues = \$1.3M
- Increase in Other Revenues = \$0.3M
  - Cal VIP Grant
  - TBID Reimbursement
  - Valley Water Pass-through Cost

# Citywide Recommended Adjustments (Cont'd)

|                                  | Revenues | Expenditures | Change |
|----------------------------------|----------|--------------|--------|
| Change in All Funds from Adopted | \$ 1.6   | \$ (0.8)     | \$ 0.8 |

## Expenditures

- Supplies & Services = \$0.1M
- Capital Purchase (Fleet) = \$0.5M
- Transfers = \$0.2M

# Citywide Recommended Adjustments (Cont'd)



## Personnel Changes

### Eliminate 5.5 FTEs:

- Administrative Analyst (Community Services)
- Assistant City Manager (Administrative Services)
- Custodian (.5 FTE)
- Engineering and Utilities Director
- Human Resources Assistant (Administrative Services)
- Management Analyst (Development Services)

# Citywide Recommended Adjustments (Cont'd)

## Personnel Changes

### Reclassifications:

- Accountant to Senior Accountant
- Accounting Manager to Assistant to the City Manager
- Communications and Engagement Manager to Communications and Engagement Director
- Engineering and Utilities Inspector to Engineering and Utilities Technician
- Senior Planner to Principal Planner

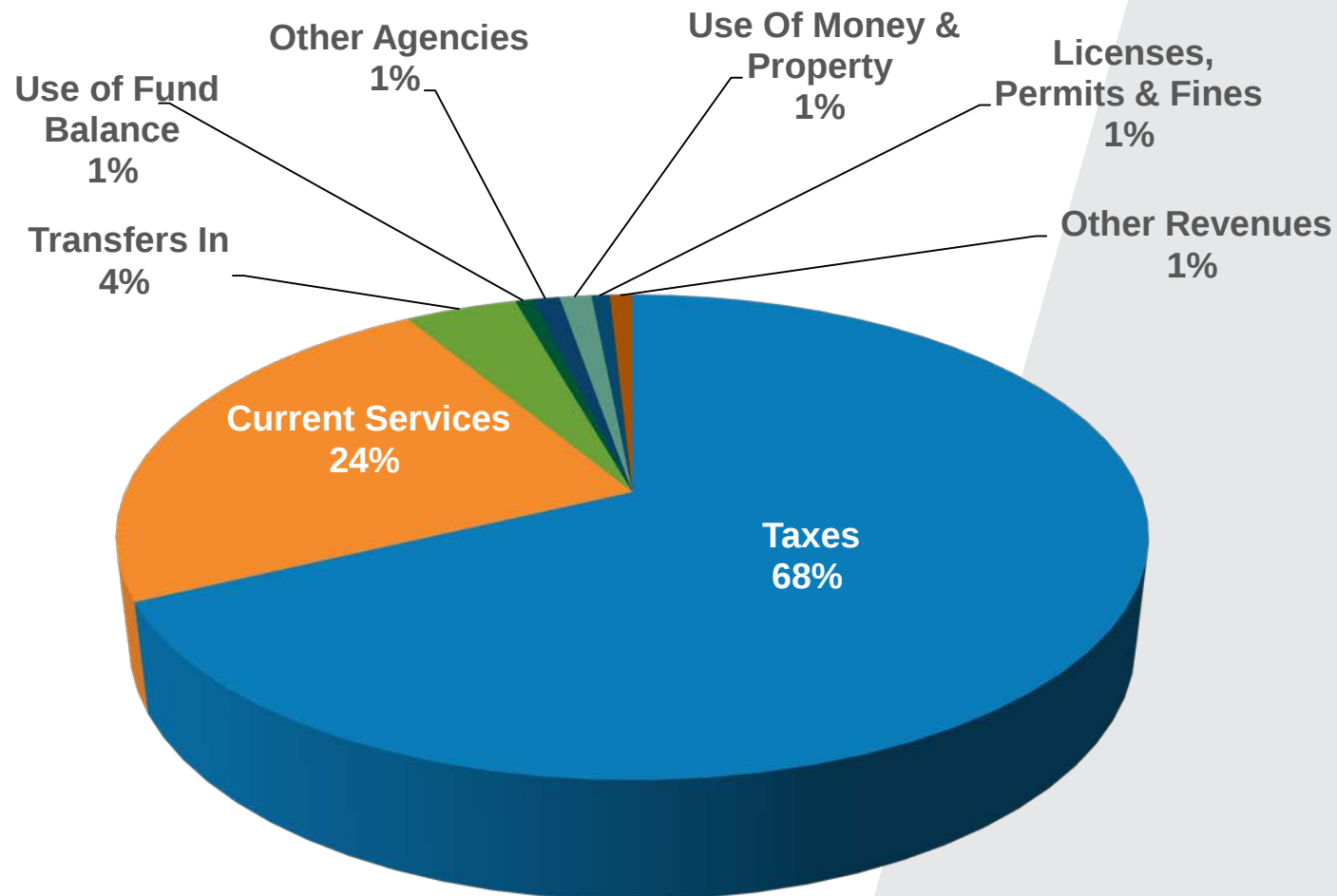
# Citywide Recommended Adjustments (Cont'd)

## Personnel Changes

- Add:
  - Part-Time Temp money to offset workload related to eliminated FTEs
- Other:
  - Assistant City Attorney – Class/Compensation study adjustment
  - IT Manager elimination / IT Director addition

# General Fund (GF) Revenues

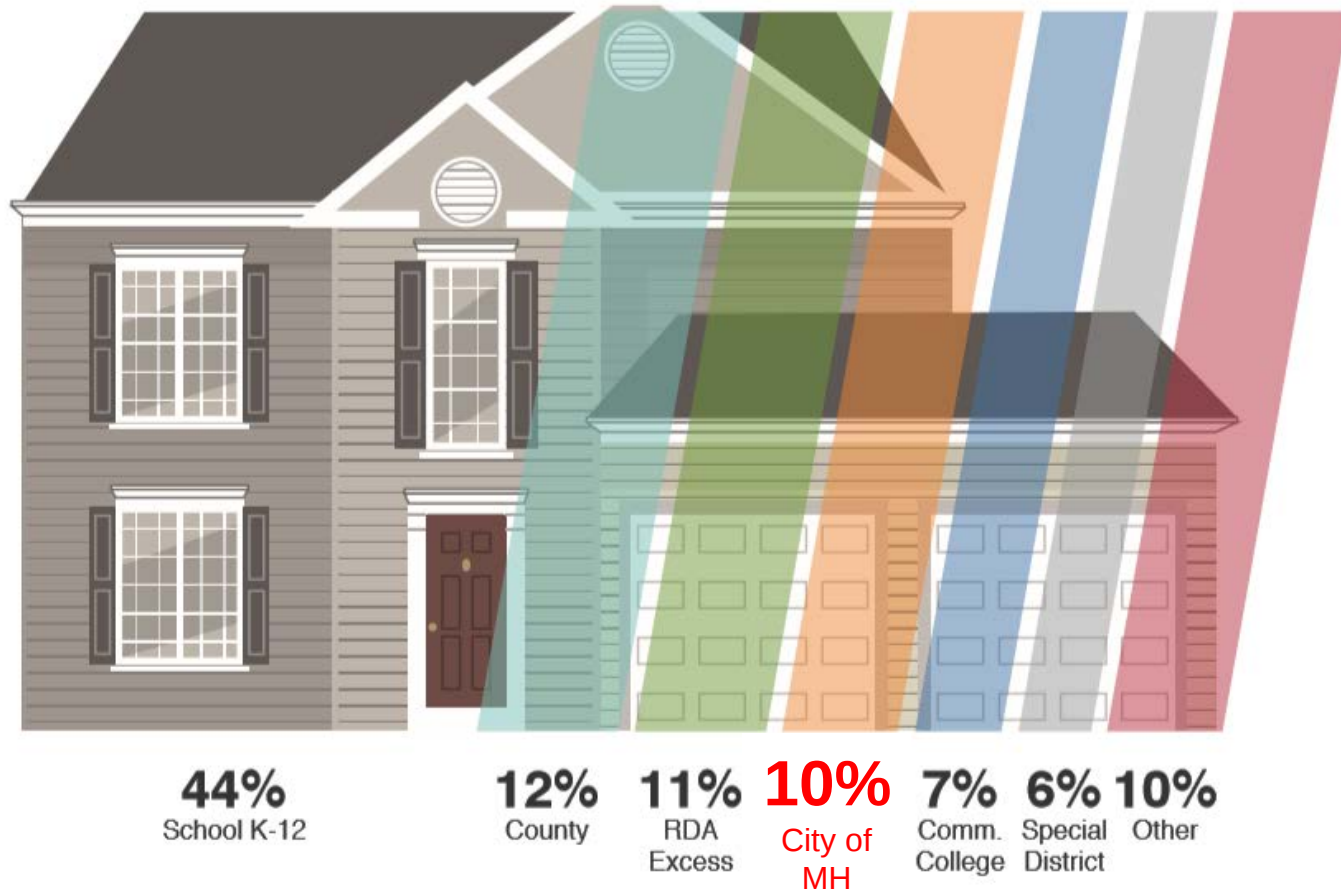
FY 2019-20 = \$43.1M



# General Fund – Property Tax

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

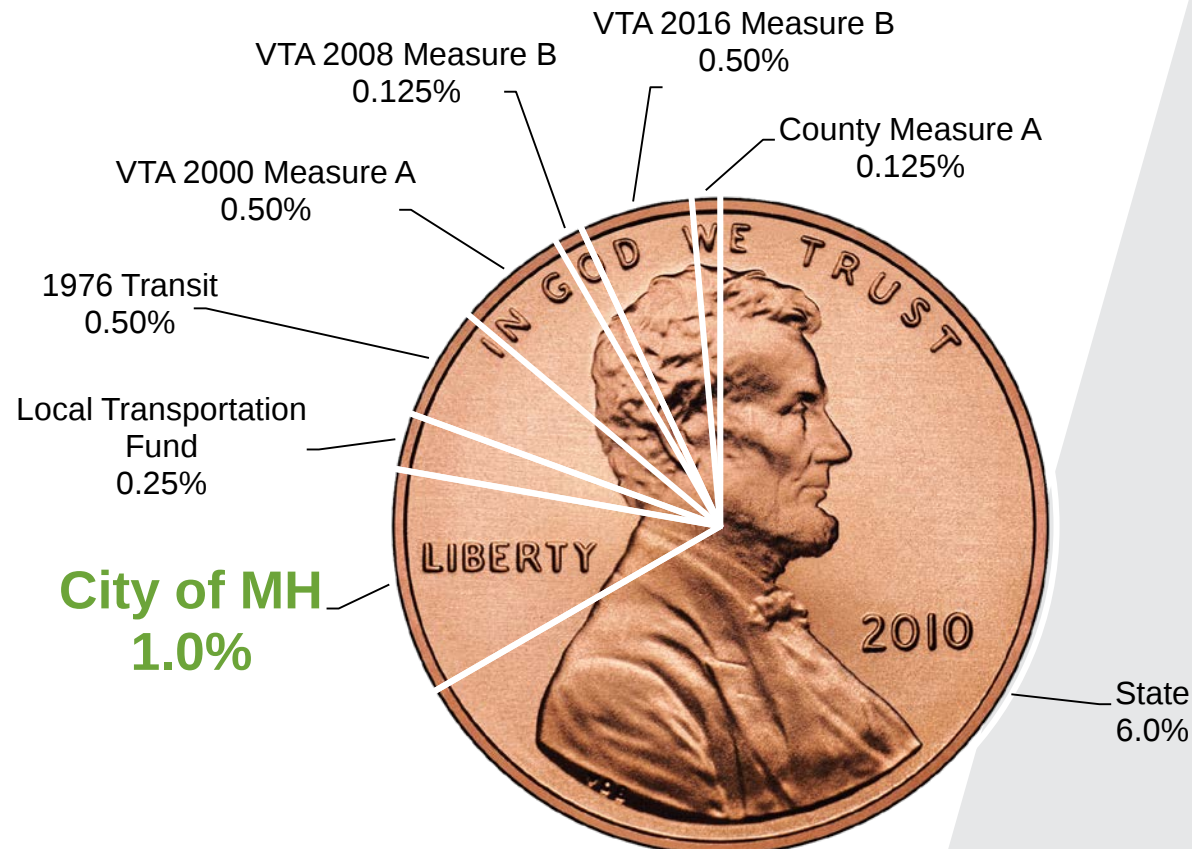
## Morgan Hill Property Tax 1% Distribution



# General Fund – Sales Tax

FY 2019-20 = \$10.1M, 24% of GF

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

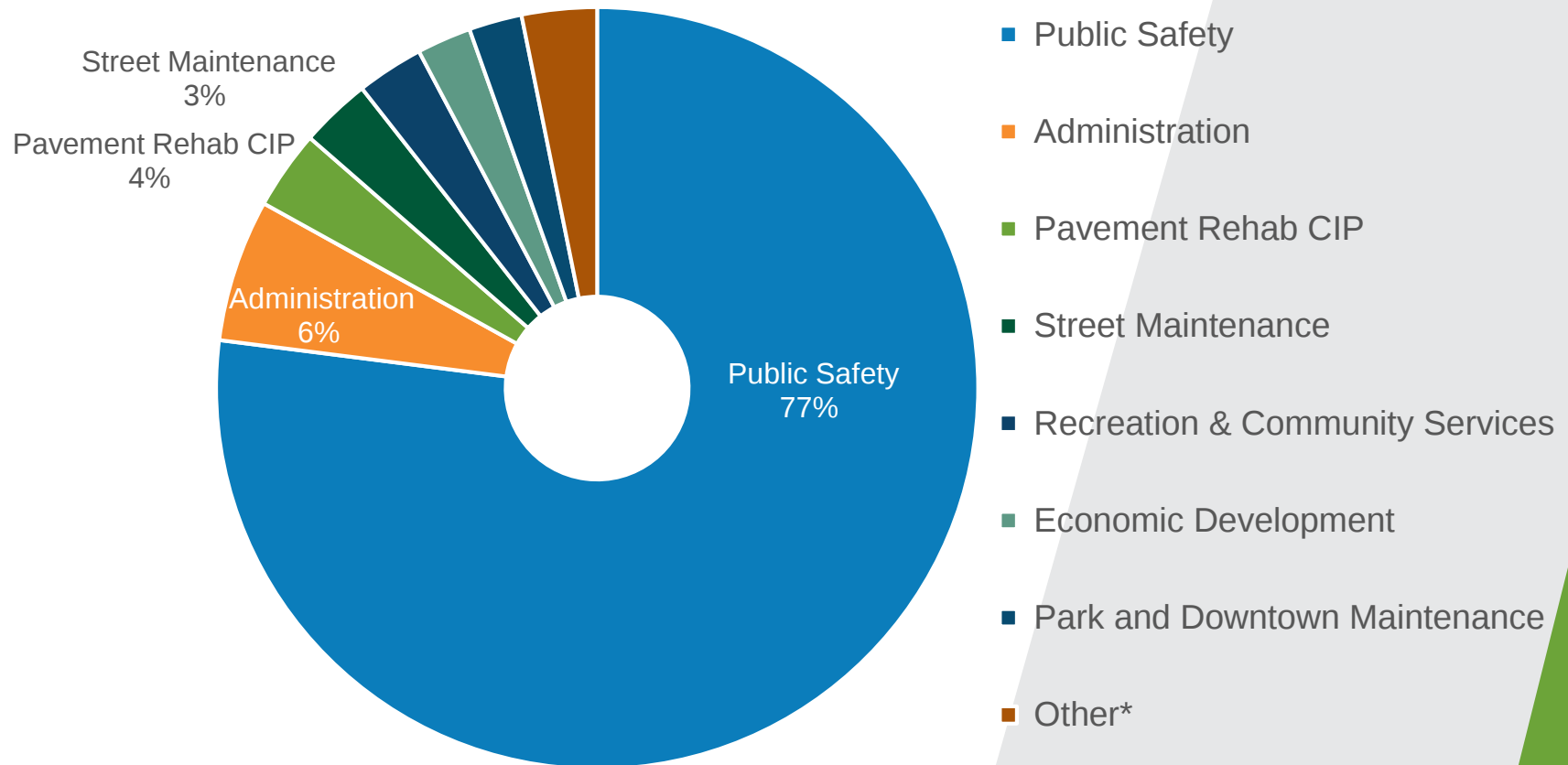


# General Fund – Transient Occupancy Tax

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

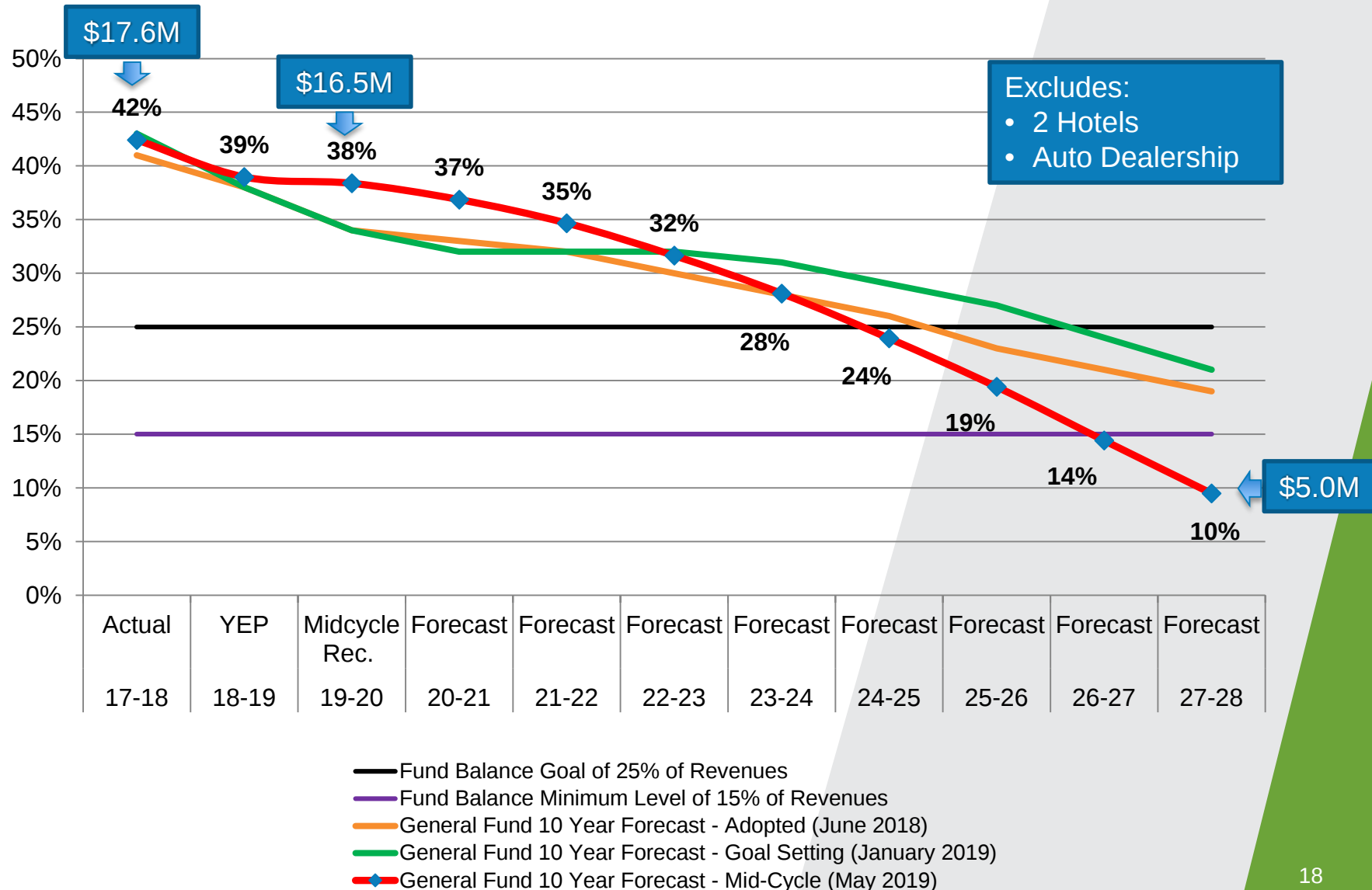


# General Fund – Discretionary Expenditures



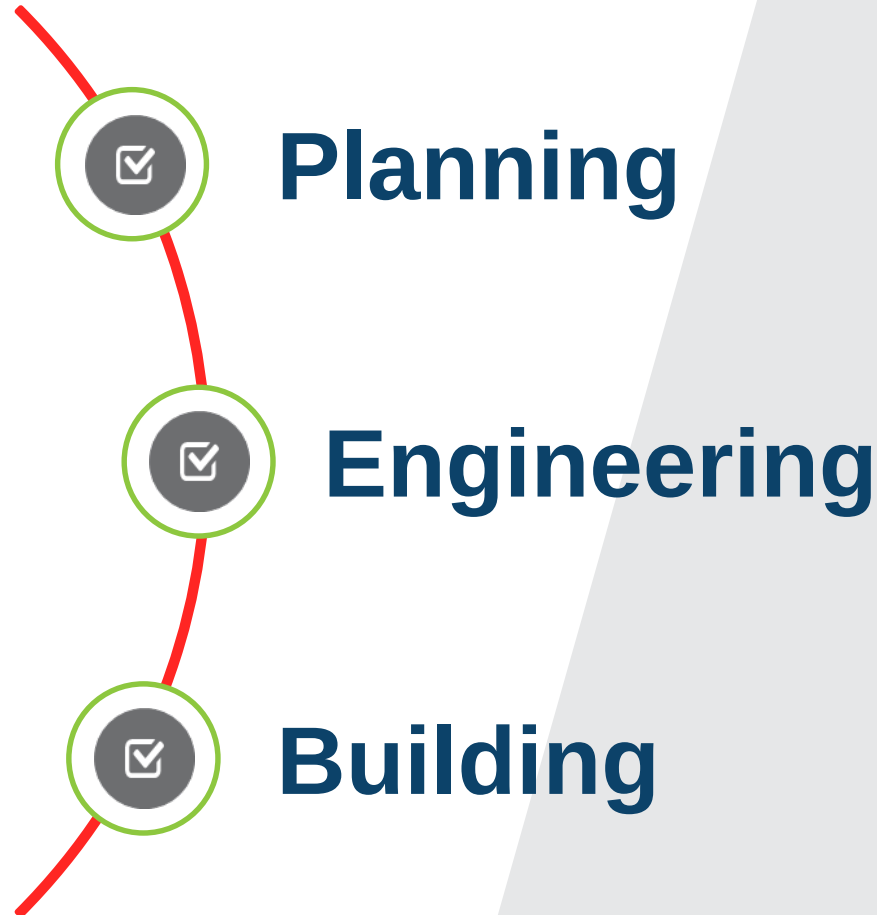
\*Other: Environmental Programs & Services, OPEB, Code Compliance, Infrastructure and Traffic Planning, and GF support for Long Range Planning and Pedestrian Safety

# General Fund Balance: Mid-Cycle



# 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 Recommended Adjustments:

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

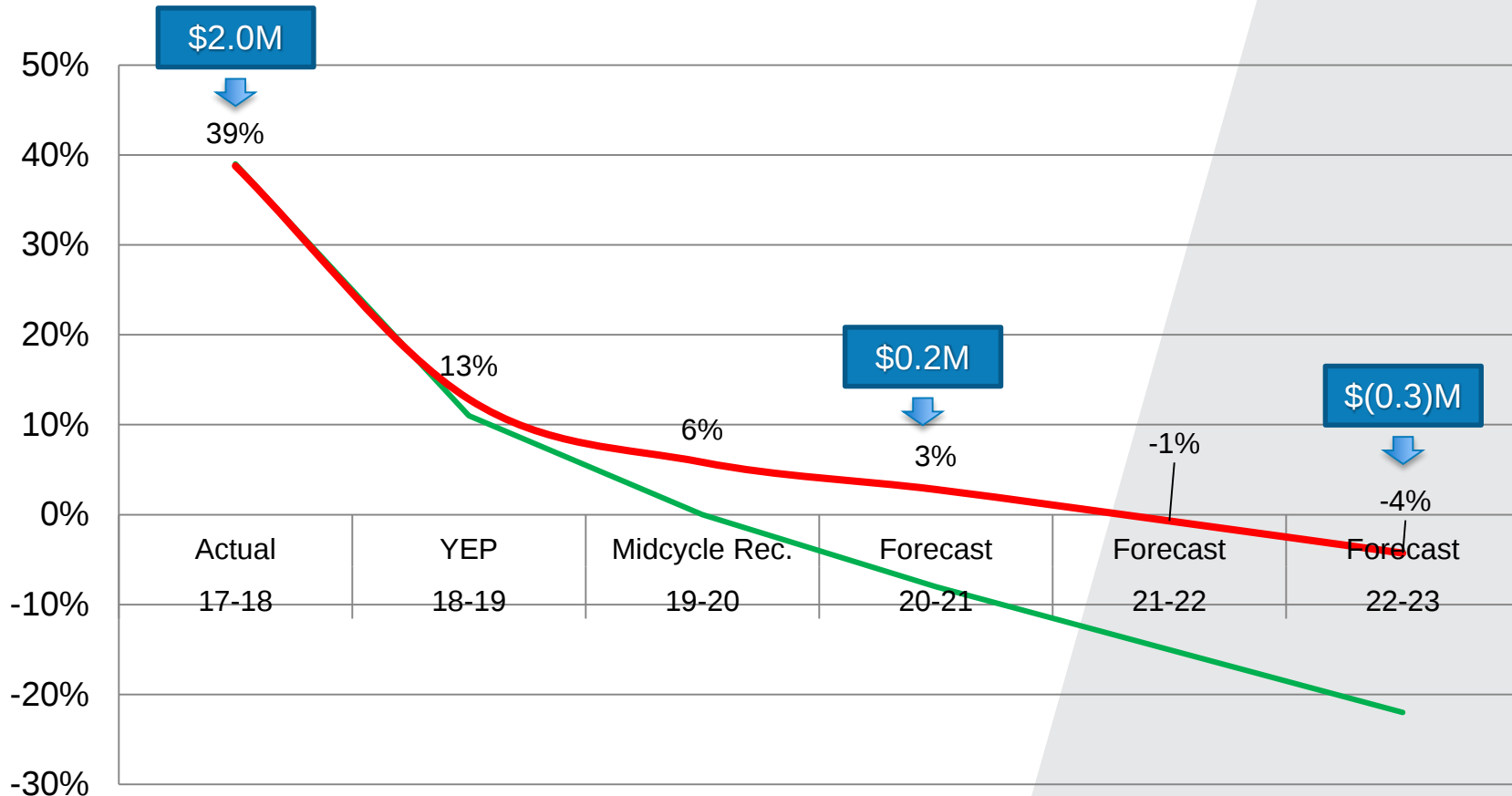
# Development Services Fund (cont'd)



## 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



- Water – FY2019-20 Pass-through cost from Valley Water
  - Additional \$0.14 per Hundred Cubic Foot
  - Average increase per single family residence = \$1.96/month
- Wastewater – Updated with 2019 Rate Study model

# 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

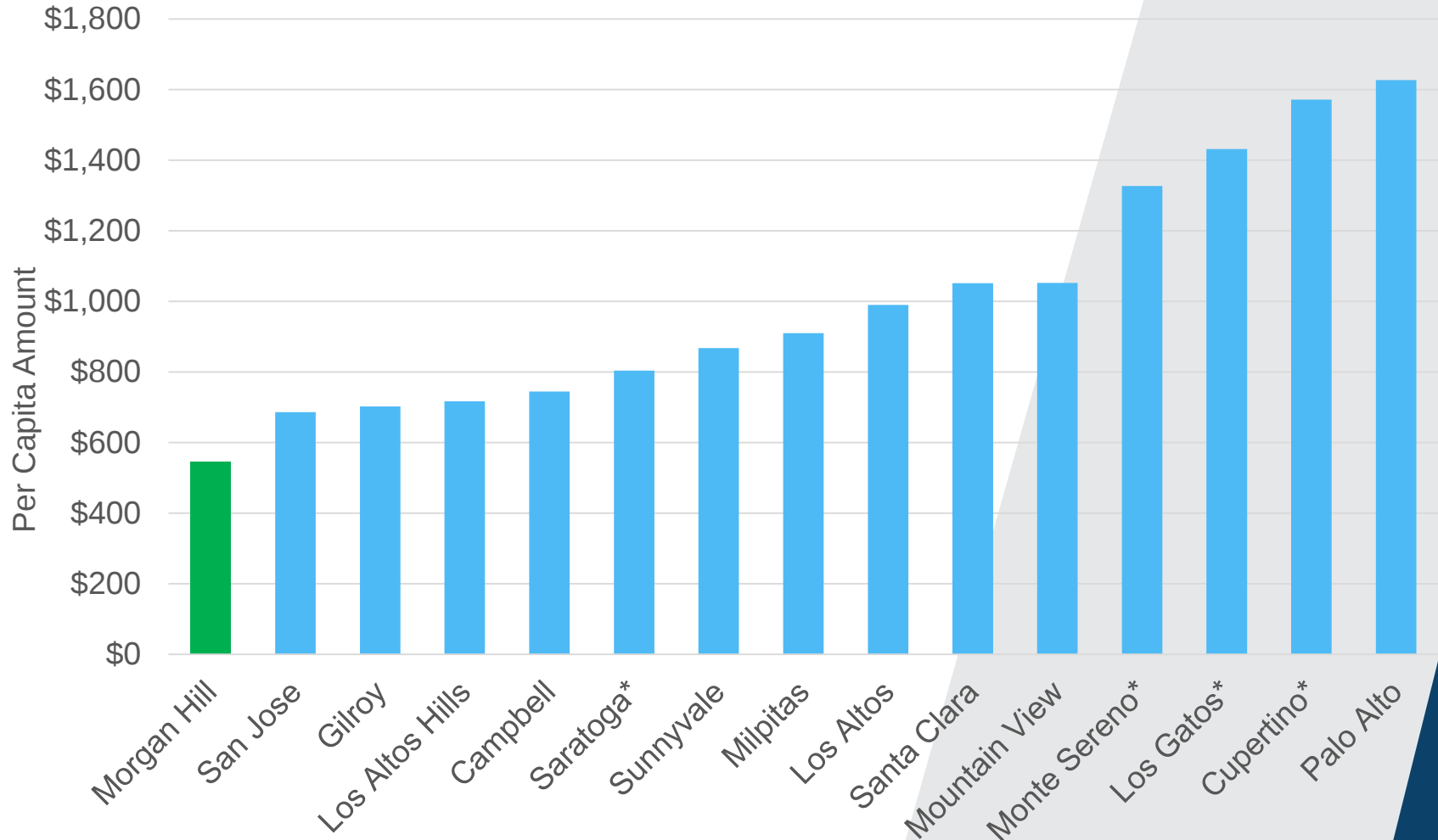


# **Fiscal Sustainability = Sustainable Morgan Hill**

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



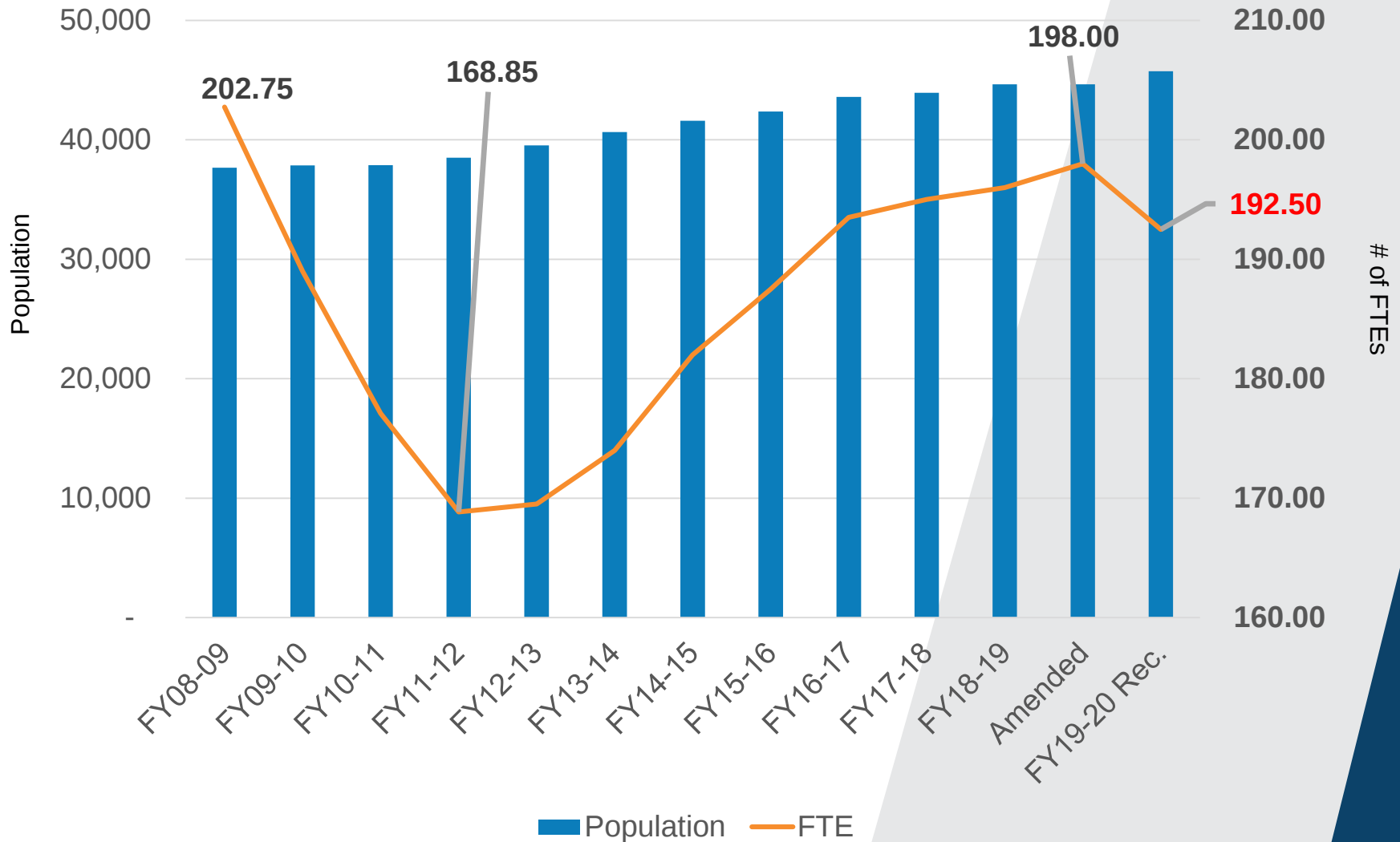
1 Costco



4.5 Police  
Officers

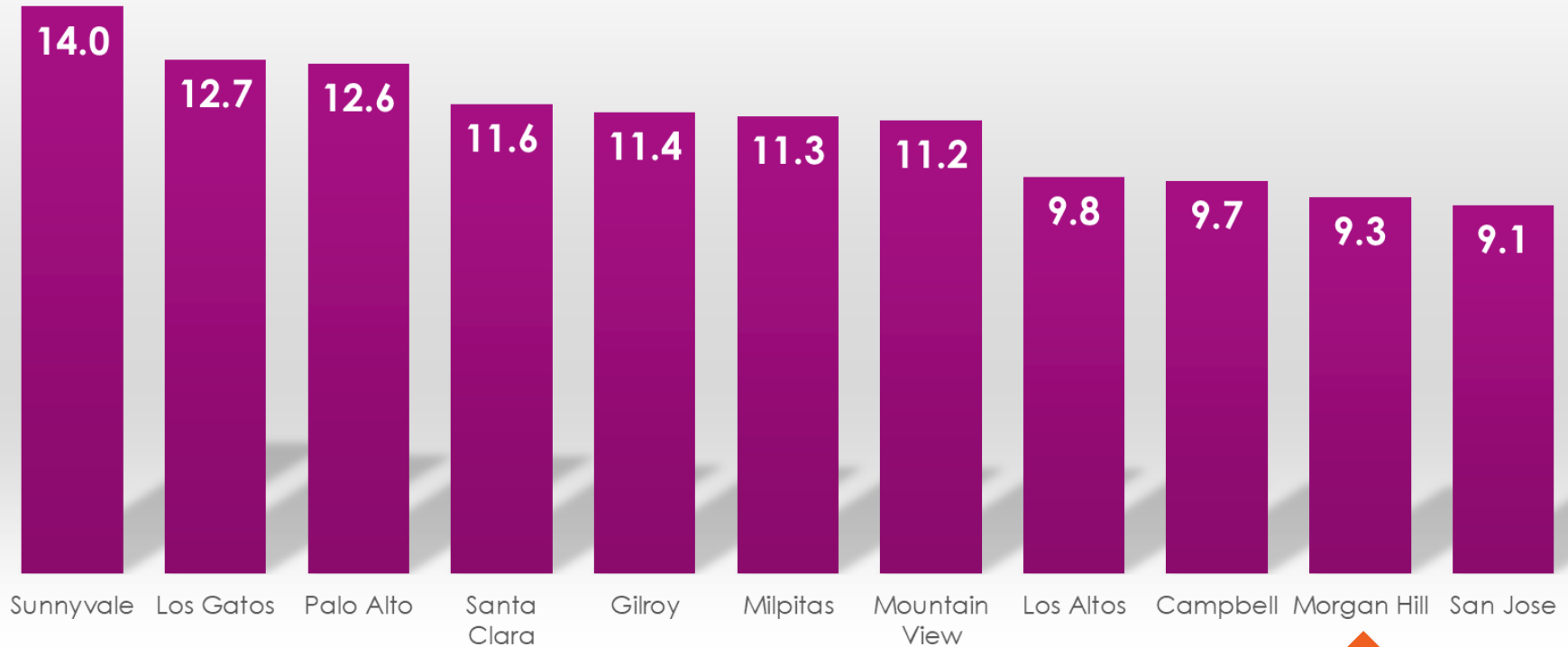


# Personnel vs. Population

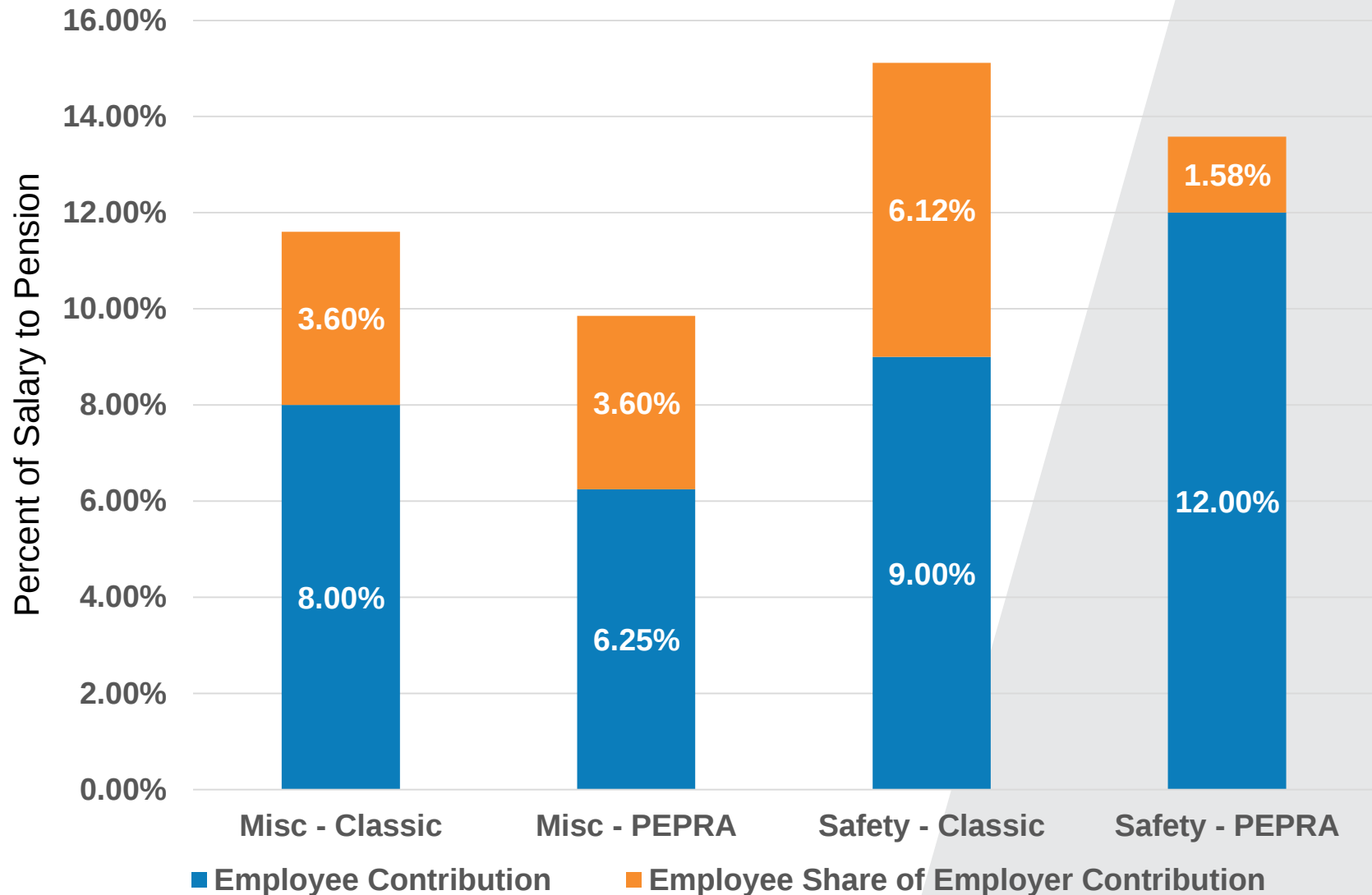


# Police Officers Per Capita

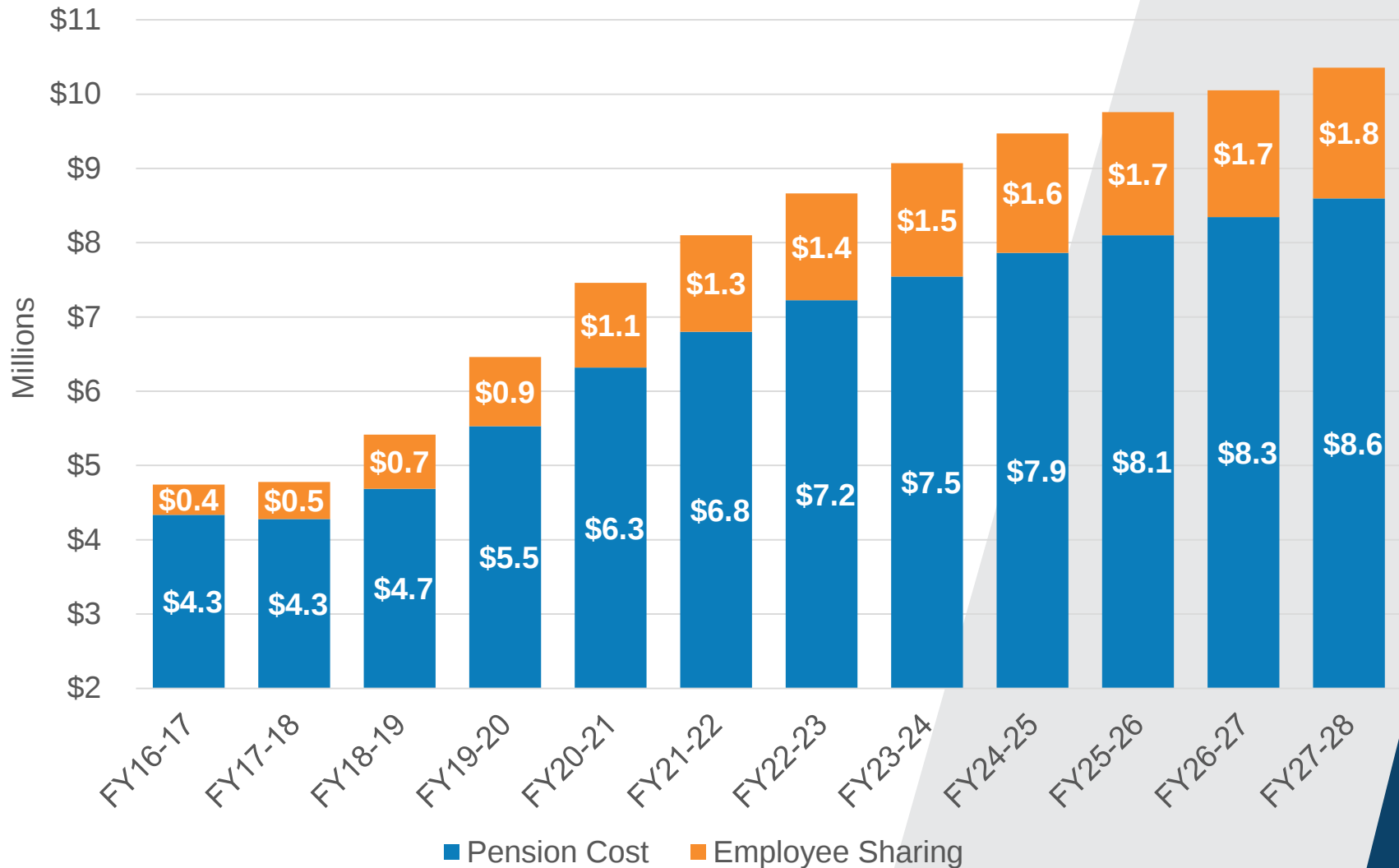
Santa Clara County Agencies:  
Officers per 10,000 Residents (2017)



# 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%

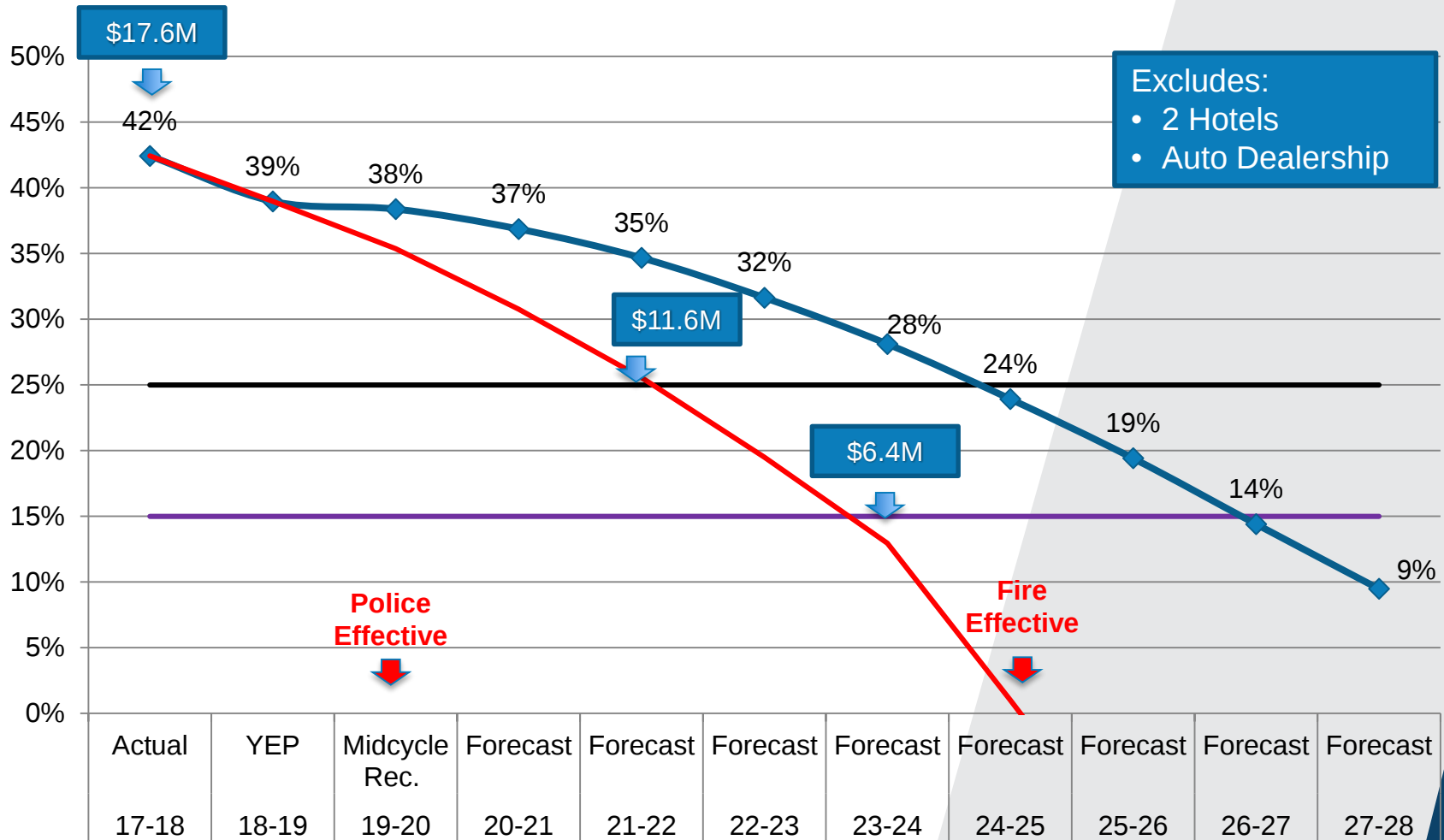
Healthy Status = 80.00%

Gap to Healthy Status = \$20M

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

| AGENCY NAME                                                          | SAFETY PLAN   | MISC. PLAN    |
|----------------------------------------------------------------------|---------------|---------------|
| <b>Morgan Hill</b>                                                   | <b>69.90%</b> | <b>73.10%</b> |
| 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. |               |               |

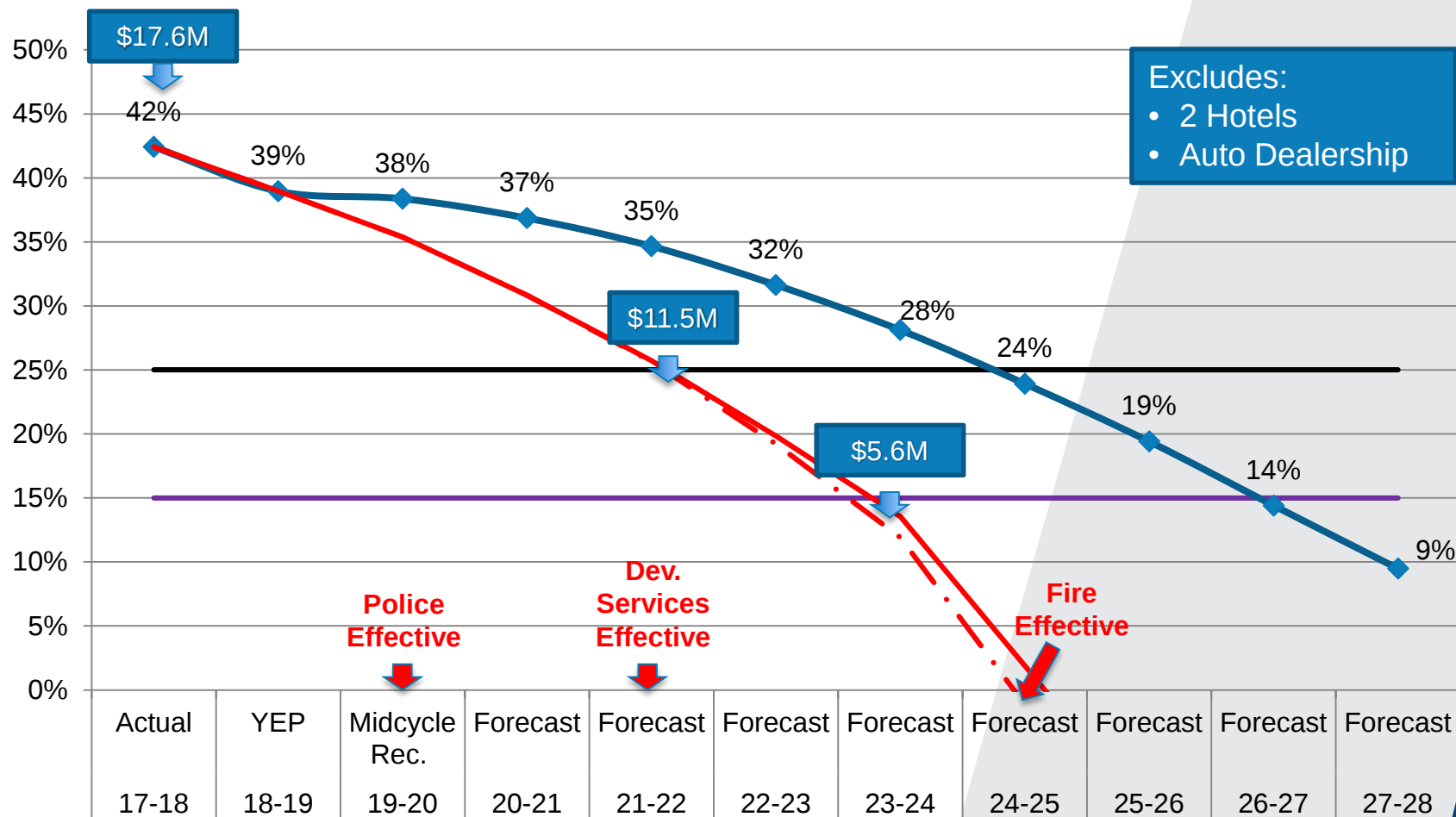
# General Fund Balance (With Public Safety Master Plan)



- 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)



- 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 10 year Forecast - With PD, Fire, and Development Services Support

# Addressing Challenges Ahead...



- We need your help
- Be a part of the conversation
- Every decision through the fiscal sustainability lens

# Engage Morgan Hill



# What is *Engage Morgan Hill*?



Community conversation about  
services, funding and priorities

# June – December 2019 Focus



- Educate/engage with community regarding City services and associated cost
- Educate/engage regarding the City budget/finances
- Listen to the community
- Build trust within the community

# Engagement Topics



- Budget Basics
- Public Safety
- Infrastructure Replacement/Maintenance
- Economic Development
- State Housing Legislation
- Traffic/Congestion
- Pensions

# January 2020 – June 2020 Focus



- Deep dive into City finances/budget
- Community recommendations on service priorities
- Community recommendations for future fiscal sustainability
- Budget development and adoption

# Opportunities to Engage?

- Community Advisory Group
  - Forming now
- Participate in community presentations, meetings, coffees
- New Online Engagement Tool (Polco)
- Social media, Nextdoor, City email

# Join the Conversation



- EngageMorganHill.org
- [EngageMorganHill@morganhill.ca.gov](mailto:EngageMorganHill@morganhill.ca.gov)
- Subscribe – <http://bit.ly/MorganHillEngage>

# Questions?





## **Engage Morgan Hill Workshop Agenda**

### **City Council**

*Rich Constantine* - Mayor  
*Rene Spring* - Mayor Pro Tem  
*Yvonne Martinez Beltran* - Council Member  
*Larry Carr* - Council Member  
*John McKay* - Council Member

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**Wednesday, May 22, 2019 6:00 pm**

**Council Chamber**  
**17555 Peak Avenue, Morgan Hill, CA 95037**

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## **ENGAGE MORGAN HILL WORKSHOP**

A special meeting of the City Council is called Wednesday, May 22, 2019 from 6:00 p.m.- 9:00 p.m. for the purpose of conducting a workshop for a community conversation about services, funding, priorities, and other strategic planning issues.

### **CALL TO ORDER**

*(Mayor Constantine)*

### **ROLL CALL ATTENDANCE**

*(Deputy City Clerk Bigelow)*

## **DECLARATION OF POSTING OF AGENDA**

### **PUBLIC COMMENT**

Members of the public are entitled to address the City Council concerning any item within the Morgan Hill City Council's subject matter jurisdiction. Public comments are limited to no more than three minutes. Except for certain specific exceptions, the City Council is prohibited from discussing or taking action on any item not appearing on the posted agenda. (See additional noticing at the end of this agenda)

### **ADOPTION OF AGENDA**

## **ENGAGE MORGAN HILL WORKSHOP**

- Review budget development
- Review changes to the revenue and expenditure assumptions

- Consider budget adjustments
- Conversation about services, funding, priorities, and other strategic planning issues

## **ADJOURNMENT**

## NOTICE

Any documents produced by the City and distributed to the majority of the City Council less than 72 hours prior to an open meeting, will be made available for public inspection at the City Clerk's Counter at City Hall located at 17575 Peak Avenue, Morgan Hill, CA, 95037 and at the Morgan Hill Public Library located at 660 West Main Avenue, Morgan Hill, California, 95037 during normal business hours. (Pursuant to Government Code 54957.5)

## PUBLIC COMMENT

Members of the Public are entitled to directly address the City Council concerning any item that is described in the notice of this meeting, before or during consideration of that item. If you wish to address the Council on any issue that is on this agenda, please complete a speaker request card located in the foyer of the Council Chambers and deliver it to the Minutes Clerk prior to discussion of the item. You are not required to give your name on the speaker card in order to speak to the Council, but it is very helpful. When you are called, proceed to the podium and the Mayor will recognize you. If you wish to address the City Council on any other item of interest to the public, you may do so during the public comment portion of the meeting following the same procedure described above. Please limit your comments to three (3) minutes or less.

Please submit written correspondence to the Minutes Clerk, who will distribute correspondence to the City Council.

Persons interested in proposing an item for the City Council agenda should contact a member of the City Council who may plan an item on the agenda for a future City Council meeting. Should your comments require Council action, your request may be placed on the next appropriate agenda. Council discussion or action may not be taken until your item appears on an agenda. This procedure is in compliance with the California Public Meeting Law (Brown Act) Government Code §54950.

City Council Policies and Procedures (CP 03-01) outlines the procedure for the conduct of public hearings. Notice is given, pursuant to Government Code Section 65009, that any challenge of Public Hearing Agenda items in court, may be limited to raising only those issues raised by you or on your behalf at the Public Hearing described in this notice, or in written correspondence delivered to the City Council at, or prior to the Public Hearing on these matters.

The time within which judicial review must be sought of the action by the City Council, which acted upon any matter appearing on this agenda is governed by the provisions of Section 1094.6 of the California Code of Civil Procedure.

For a copy of City Council Policies and Procedures CP 97-01, please contact the City Clerk's office (408) 779-7259, (408) 779-3117 (fax) or by email [michelle.wilson@morganhill.ca.gov](mailto:michelle.wilson@morganhill.ca.gov).

## AMERICANS WITH DISABILITIES ACT (ADA)

*In compliance with the Americans with Disabilities Act, if you are a disabled person and you need a disability-related modification or accommodation to participate in this meeting, please contact the City Clerk's Office at (408)779-7259, (408)779-3117 (fax) or by email [michelle.wilson@morganhill.ca.gov](mailto:michelle.wilson@morganhill.ca.gov). Requests must be made as early as possible and at least two-full business days before the start of the meeting.*

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- Homelessness
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