



ENGAGE MORGAN HILL

A conversation about services, funding, and priorities.

www.EngageMorganHill.org



Engage Morgan Hill Community Advisory Group (CAG)

Meeting Follow up/Notes

July 27, 2019

The following is information requested by the CAG at the meeting on July 27th.

Property Tax revenue comparison year to year

This can be found at the following link

<http://www.morganhill.ca.gov/DocumentCenter/View/35037/Property-Tax-Revenue-by-year-08072019>

Comparison of expense for administration as a percentage of total general fund expense in other cities in the County

This can be found at the following link

<http://www.morganhill.ca.gov/DocumentCenter/View/35034/Comparison-of-Administration-Cost-by-Cities-in-Santa-Clara-County-2019>

What are the types of taxes/alternative revenue sources?

This information can be found at the following links:

<https://www.morgan-hill.ca.gov/DocumentCenter/View/35055/California-Municipal-Revenue-Options>

<https://www.morgan-hill.ca.gov/DocumentCenter/View/35056/General-Information-on-Tax-Types>

What is the difference that the two hotels and dealership would have made in our 10-year projections?

Estimated loss of potential revenue of approximately \$1.0 million per year beginning fiscal year 2021-22. Staff had estimated General Fund (GF) Reserve to end at 21% of the GF revenues at the end of the 10-year forecast at the January 2019 Council Goal Setting Workshop. However, with the removal of the two hotels and auto dealership, GF Reserve is now forecasted to end at 10% at the end of the 10-year forecast, a difference of approximately \$6.3 million.

What is our Airbnb revenue?

The City recently entered into a volunteer transient occupancy tax (TOT) collection agreement with Airbnb. Revenue collected from October 2018 through June 2019 totaled \$19,500, or an average of \$2,200 a month.

What is Gilroy's UTT revenue per year?

City of Gilroy has a 5% Utility Users Tax and it is projected to collect \$4.6 million in fiscal year 2019-20.

Comparison of sales tax revenue for all cities in the county

"County Sales Tax Trends – Calendar year 2018" can be found at the following link:
<http://www.morganhill.ca.gov/DocumentCenter/View/35035/County-Sales-Tax-Trends--Comparison-by-City---Calendar-Year-2018>

Specific revenue and expense for programs and services

General Fund Discretionary Spending by Program can be viewed at the following link:
<http://www.morganhill.ca.gov/DocumentCenter/View/35036/General-Fund-discretionary-spending-by-program-2019>

References to regulations that are relative to our budget

Our budget document is a good reference, which includes the Planning documents, Fiscal Policies, Description of the Funds and a relevant Glossary. It can be viewed at the following link:
<https://user-ddhj25y.cld.bz/FY-2018-19-and-2019-20-Adopted-Operating-and-CIP-Budget/34/>

Prior to the July 27th meeting, and during the meeting, the CAG was asked to reflect upon four questions as they learned more about the budget. The following is what was provided back from CAG members in response to these questions.

1.) Are there any surprises?

Housing Programs

The Housing Division administers four Funds as described below:
Fund 234 - Mobile Home Rent Commission

The City Council convenes an ad hoc committee of the Planning Commission whenever a petition is received for a rent increase above the permitted CPI increase allowable in the Municipal Code.
Approximately \$30,500 remains in the fund.

When was the last ad hoc committee meeting? I do not remember hearing of one in the 8 years I have been following City government.

The last meeting of the Mobile Home Rent Commission was on March 12, 2009
<https://www.morgan-hill.ca.gov/DocumentCenter/View/35039/March-12--2009-Mobile-Home-Rent-Agenda>

The City recently received an inquiry from Hill Haven Mobile Home Park at 17975 Monterey Road. They are looking to petition the City of Morgan Hill to allow a rate increase for the cost of new roads and to replace the asphalt on the road. The City will be evaluating their request and mobilizing a Mobile Home Rent Commission soon.

Under LEGAL DEBT LIMIT:

The City is within its legal debt margin as reported in the FY 16-17 Comprehensive Annual Financial Report (CAFR).

At the CITY COUNCIL on SEPTEMBER 17, 2014, CITY COUNCIL POLICY ON GENERAL PURPOSE DEBT CAPACITY

"General Fund annual debt service payments should generally not exceed 5% of the General Fund currently budgeted revenue, excluding transfers in."
 Many communities across the country feel comfortable with a debt service share of up to twice that level (10%) of general fund revenues. Much higher than 10% and the rating agencies begin to express concern...

FISCAL AND RESOURCE IMPACT:
 [T]he City has an "arbitrage" opportunity to issue debt at 3.5-4.0%; spend the bond proceeds to fix its roads and streets; and thereby avoid a 9% annual cost escalation [of repairing Morgan Hill's road and street infrastructure]. In pure financial terms the "arbitrage" profit would be 5.0-5.5% annually.

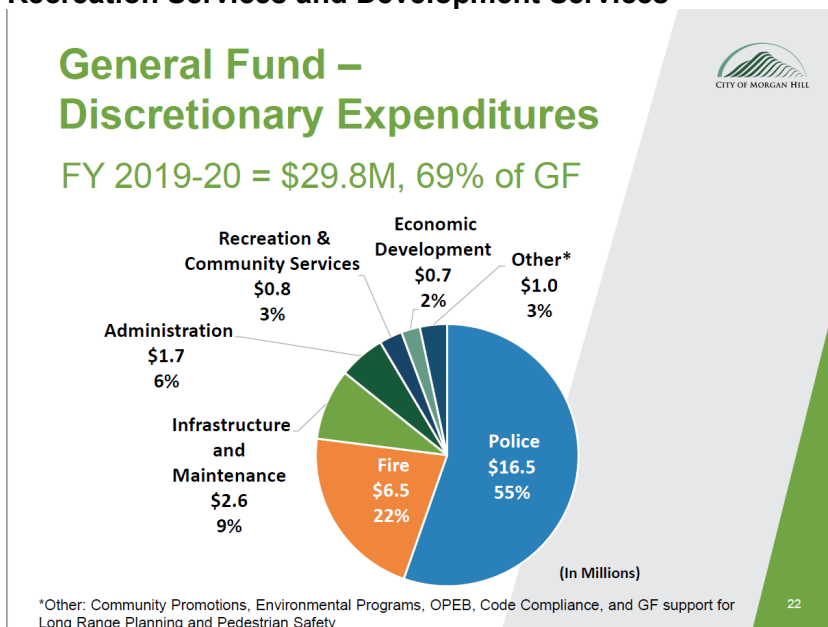
Another way to put it: The opportunity cost of not borrowing money to fix the roads and streets is 5.0-5.5% per year. Other City infrastructure needs could be subjected to a parallel analysis.

Debt Financing is one of the options that the City continues to explore. Debt financing does have the benefits as mentioned above. In contrast, it also limits our future budget flexibility and forces future generations to service debt payments. Even though our debt ratio for the general fund is quite low, rating agencies do take all debts into consideration when assessing the City's credit worthiness. In addition to the approximately \$13 million in lease revenue bonds and capital leases that our General Fund partially service, the City also has over \$33 million outstanding bonds in enterprise funds and over \$80 million in tax increment bonds from the former redevelopment agency.

2.) Is there information missing?

Should explain how the City operates, priorities and programs before talking about fund buckets or what is in revenue pie slice for current services (somewhat addressed by General Fund Discretionary

Slide 22 – How would the “pie” look if we didn’t have cost recovery polices (fees) for Recreation Services and Development Services



If the City did not operate Recreation Services and Development Services on a primarily cost recovery basis things would look quite different. The City Council would be faced with making choices to either decrease services in those areas or decrease services in other areas, primarily public safety services since it represents over 75% of the pie.

Slide 37 & 38 – When- How do you (we) decide to bond in anticipation of future revenue?

Enterprise Funds - Water

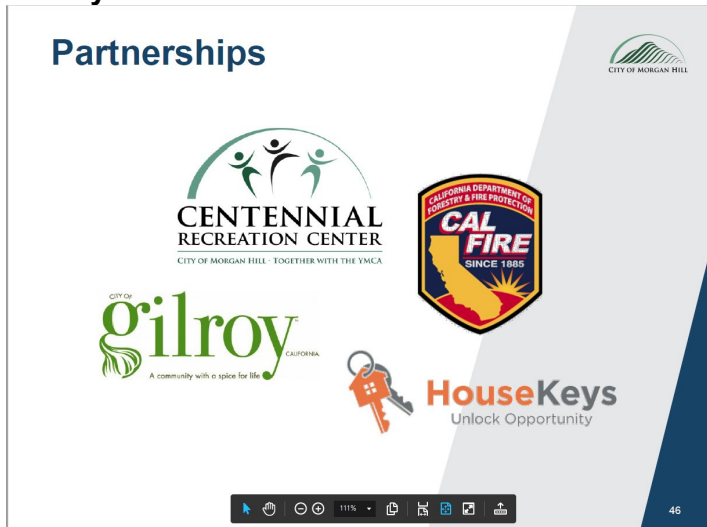
- **Water Operations**
 - Revenues: Water rates, account setup fees, new meter installs, etc.
 - Expenditures: Water Operations, Utility Billing and Water Conservation
- **Water Infrastructure**
 - Revenues
 - Water Rates– rate payer funded capital improvements for existing infrastructure
 - Impact Fees – 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

These slides are about Enterprise Funds. Timing of bonds issuance is dependent on the projects. For Wastewater, we anticipate to issue wastewater bonds in FY2020-21 for the anticipated treatment plant expansion. No bonds issuance is anticipated for Water Enterprise.

Slide 46 Strategic Partnerships – What are the donation from the Friends of the Library? Friends of the Senior Center? and CLEF?



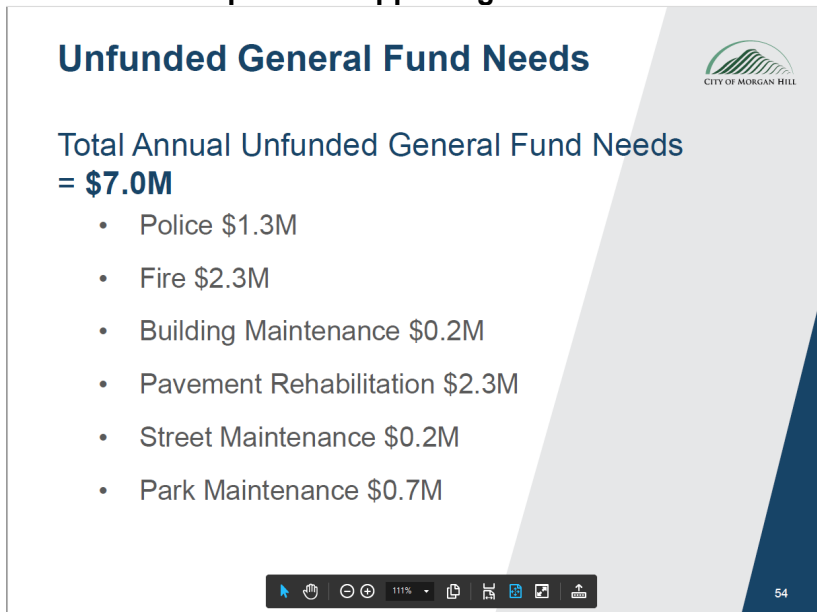
Information on donations from the Friends of the Senior Center and the Community Law Enforcement Foundation (CLEF) can be found at the following links:

CLEF Donations: <https://www.morgan-hill.ca.gov/DocumentCenter/View/35038/Community-Law-Enforcement-Foundation-Donations-2014-2019>

Friends of the Senior Center Donations: (will be available soon)

The County manages the donations made to our County Library from the Friends of the Library.

Slide 54 Please provide supporting data for each line item



Detail of Police and Fire unfunded GF needs can be found in the Public Safety Master Plan (link: <https://cld.bz/bookdata/cc1zFC/basic-html/page-1.html>).

Detail of unfunded GF needs for Infrastructure including Building Maintenance, Pavement Rehabilitation, Street Maintenance, and Park Maintenance can be found in the Infrastructure Update Report. <http://www.morganhill.ca.gov/DocumentCenter/View/35033/2018-Infrastructure-Update-Report-42718>

Slide 60 “Discretionary” difference between short-term (i.e.: Park Maintenance) vs long-term (3 year labor MOUs)

There are multi-year contracts and MOUs which lock in costs over more than one year or one budget cycle. Again, how much “discretion” is in “discretionary”?

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

It is correct that there are multi year contracts and MOUs within what is referred to as the “general fund discretionary”. This is appropriate because it is at the Council’s discretion that we enter into these contracts and agreements. Additionally, it is at the Council’s discretion that we contract for a certain level of service, as in our contract with CalFIRE. At the Council’s discretion, if warranted multi-year contracts could be cancelled and negotiations could be re-opened in relation to MOUs.

Under Planning Documents

The Annual Work Plan is described as “a compilation of the short-term (fiscal year) objectives established for each City department.” There is no such document on the City web site. And while the Departments list FY 2018-19 and 2019-20 Activity Goals, these are not treated as projects with priority, milestones, deliverables, and timeline.

For example, the City Manager

· Completed Vision Zero Morgan Hill traffic safety strategies but the only mention under any Activity Goals is the MHPD hiring one Police Officer to enhance commitment to Vision Zero.

The current annual work plan with activity goals and projected timelines can be viewed on the City website at the following link <https://www.morgan-hill.ca.gov/DocumentCenter/View/34984/Master-Work-Plan-2019-2020-as-of-7242019>
This was added to the City website after the most recent mid-cycle budget update.

Employee compensation and development

I think the philosophy and implementation should be a separate section. See the extensive discussion in Personnel Related Actions in the attached June 6, 2018 PUBLIC HEARING STAFF REPORT. [/mh.budget.fy2018_20.changes.pdf]

It also seems that some of the Long-term Labor Relations Policy, Principles, and Strategies (2011) are folded into the budget Fiscal Policies

5. PRINCIPLES TO GUIDE THE SUSTAINABLE BUDGET STRATEGY
D. "Across the Board" approaches shall be avoided because they are not aligned with the Council's and community's priorities.

3.) Is there anything that troubles you?

Are reserves sufficient to carry staff payroll for four to six weeks?

Currently, yes. Our City Council adopted General Fund reserve level is 25% or 3 months of activities. The preliminary fiscal year ended June 30, 2019 GF reserve level is about 40% but it is anticipated to dip below the City Council adopted level to about 10% in our 10-year forecast based on the current level of service, (no addition of police or fire services and no additional infrastructure maintenance) with no economic recession built in.

Employee Compensation Guiding Principles (2017) says

Transparency and Accountability

The City of Morgan Hill is accountable to the public. All compensation commitments must be expressly delineated and are subject to formal approval by the City Council. Collective bargaining agreements should be posted as an open business agenda item to encourage public comment and engagement. The structure and components of compensation of City employees will be easy to understand, and compensation information, such as salary schedules/ranges will be posted on the City's website. Some local governments have adopted rules to promote transparency. Dubbed COIN ordinances, for "Civic Openness in Negotiations," the rules require public release of offers and counter-offers in a timely manner on the city's website, along with analysis by an independent financial expert. [Daniel Borenstein 07/17/2015 Opinion piece in Contra Costa Times] MH does this negotiation in Closed Session. Then the final agreements were put on Consent Calendar with no justification of the 3.25%-4% 3-year raises and the only consideration of reducing work force due to economic downturn is layoff by seniority under control of the labor unions.

The purpose of the Employee Compensation Guiding Principles document is to guide the City Council in employee compensation matters in conjunction with other relative documents, such as the Sustainable Budget Strategy. Together, the seven guiding principles ensure the City provides its employees competitive, equitable, and financially sustainable compensation. The document can be viewed at the following link: <https://www.morgan-hill.ca.gov/DocumentCenter/View/35001/Employee-Compensation-Guiding-Principles-May-2017> .

The City Council does not negotiate directly with bargaining groups, so no negotiations take place in closed session. Closed sessions with the City Council are held under Government Code section 54957.6, which allows the Council to meet in closed session to give direction to the City's negotiators. Any final action on a collective bargaining agreement must occur in open session.

The most recently approved MOUs and updated salary schedules can be found on the City website at the following link: <https://www.morgan-hill.ca.gov/959/Employee-Compensation> .

The recommendation to approve the most recent MOUs was taken to the City Council on December 5, 2018. The associated staff report can be found the City website at the following link: http://morganhillca.igm2.com/Citizens/Detail_LegiFile.aspx?Frame=None&MeetingID=1747&MediaPosition=787.090&ID=2077&CssClass=

SCRWA

We have a 40% minority interest in the SCRWA Joint Powers Authority and thus two votes on the five-member Board. While we have SCRWA plant expansion in the CIP, we do not (to my knowledge) have a clear statement that the design is consistent with the State's "conservation as a way of life", the reduced input to the plant from conservation, and MH desire to produce our own recycled and on-site reuse water.

SCRWA: In addition to proposed increasing plant capacity, the expansion will also address organic loading (organic matter in water) which is exceeding original design criteria, and to provide more recycled water. Morgan Hill has been proactive in promoting water conservation. Increased water conservation and better sewer system management programs to reduce flow infiltration have led to lower flow to the plant which resulted in City share in operating and maintenance costs to drop to 35% last fiscal year instead of City share in the plant of 42%.

Fire FY 2018-19 and 2019-20 Activity Goals

Finalize five (5) year Cooperative Agreement between the City and CAL FIRE
You approved a new five-year agreement effective July 1, 2018 through June 30, 2023 with a Recommended Budget of \$29.8 million over five years, and a total "not to exceed" contract amount is \$37.4 million, over the five-year period.
You have no control over CalFire salaries which are negotiated at the State level, so I do not understand your claim of an "not to exceed" contract amount.

CalFire Contract: As stipulated in the contract, the City can terminate the agreement if funding is not sufficient or available with proper notification

4.) Do you have any thoughts on how to best share with the community in an interesting and engaging way?

I have suggested more than once that the Department descriptions and accomplishments be presented to our residents as "infomercials" at Council and on the various facility TV screens. I also mentioned to Chris, who said you already thought of it, to have a series of "<service> in Brief" flyers, signs, etc. posted at facilities, parks, and other service locations showing what we offer, the cost to each resident, and the future need costs.