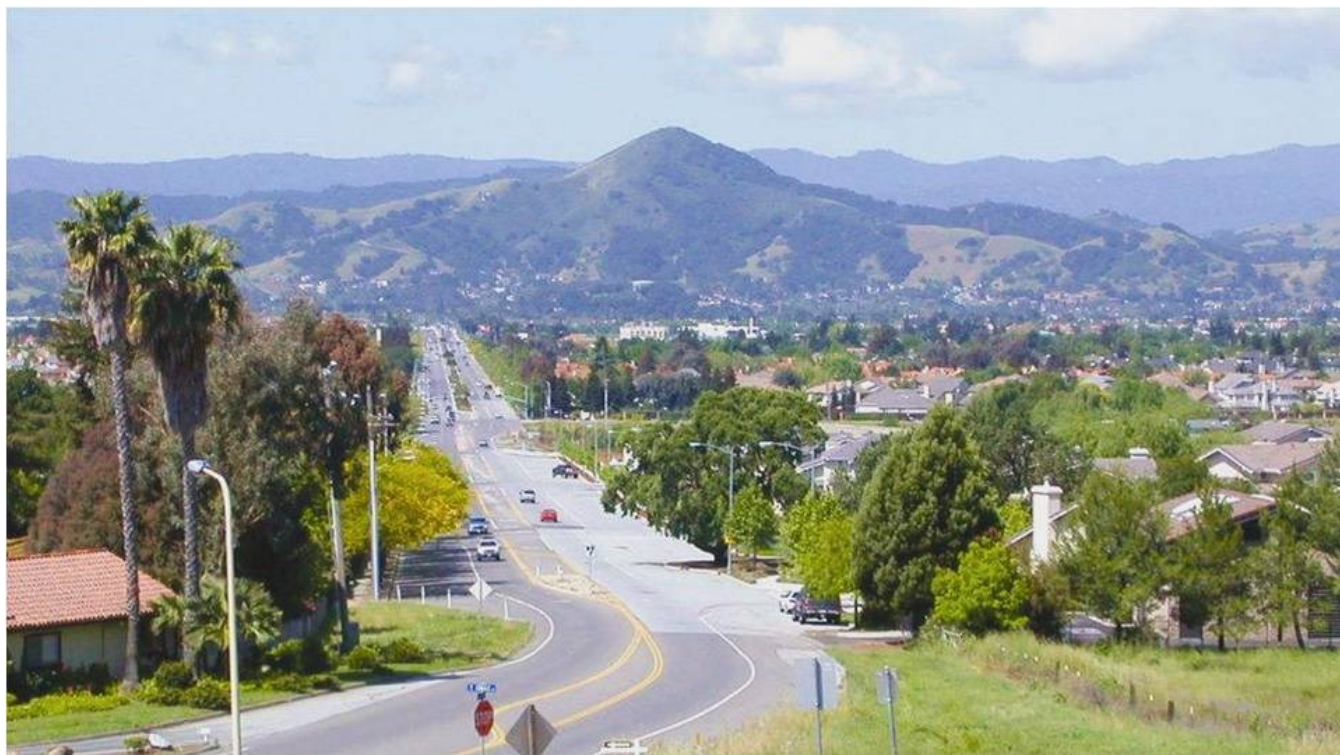


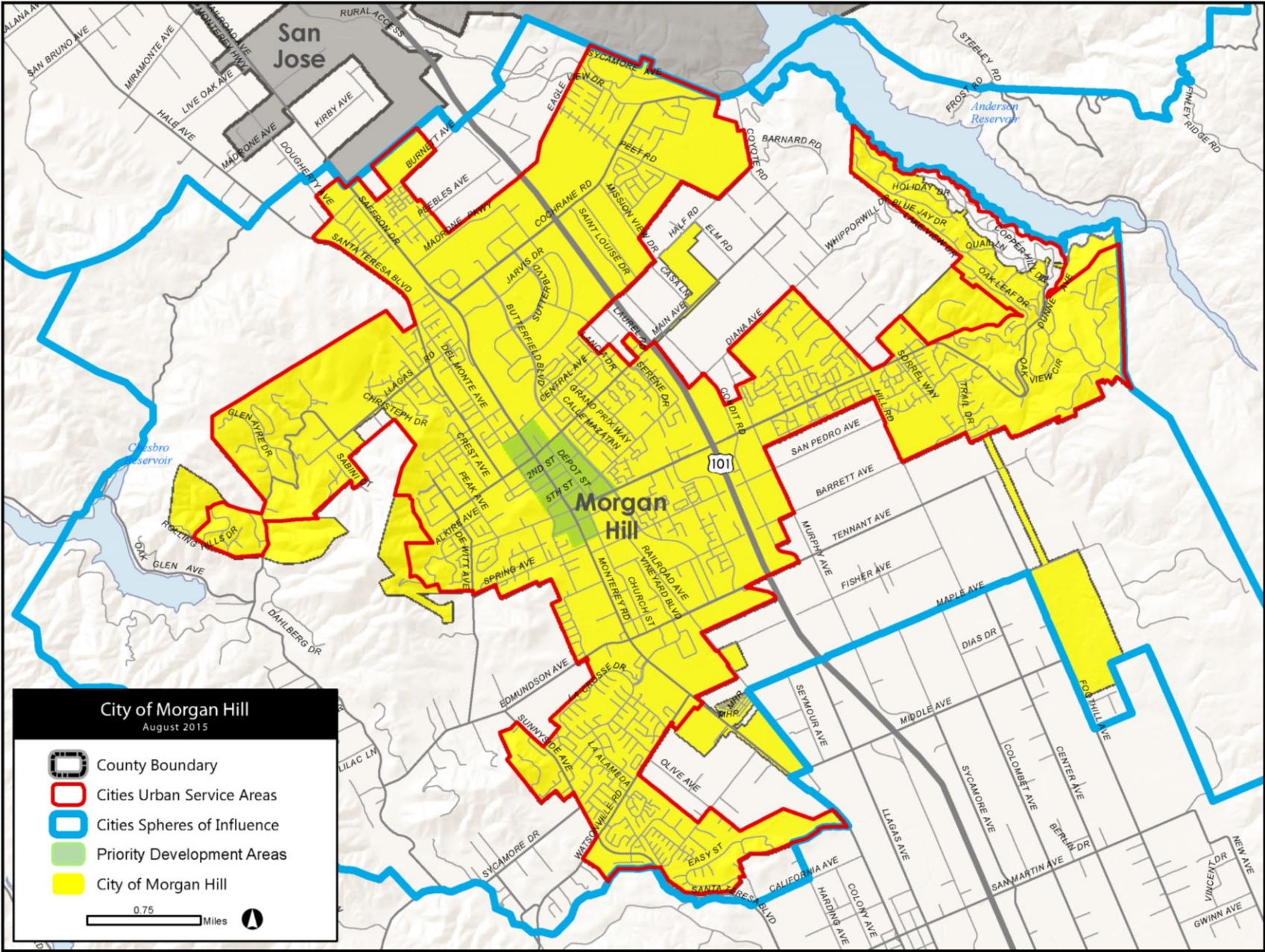
11 City of Morgan Hill



11.1 Agency Overview

The City of Morgan Hill was incorporated in November 1906. According to the California DOF 2015 estimates, the population of Morgan Hill is 41,779. As of 2015, the City's incorporated area spans 12.91 square miles. Located in the southern portion of the Santa Clara Valley, Morgan Hill is situated between the Santa Cruz Mountains to the west and Diablo Mountains to the east. The City has a mix of agricultural, residential, industrial and manufacturing land uses. As of 2015, Morgan Hill's USA spans 11.88 square miles, and its SOI encompasses 30.58 square miles. These boundaries can be seen in Figure 25.

Figure 25. City of Morgan Hill Existing Boundaries



11.1.1 City Staffing

In FY 2014, total City staffing included 174.0 FTE employees. As shown in Table 112, the greatest number of FTEs is assigned to the police function.

Table 112. City of Morgan Hill Staffing in Top Four Functions

City Staffing by Major Service Function	FY 2014 FTEs
Police	56.5
Public Works	31.8
Community Services	24.7
Community Development	20.1

Source: CAFR

11.1.2 Form of Government

Morgan Hill is a general law city that operates under a council-manager form of government. The City Council consists of five members who are elected at large. Council members serve four-year terms. The Mayor is elected to a two-year term, and the Council selects a Mayor Pro Tem annually.

11.1.3 Joint Powers Authorities

The City of Morgan Hill is a member of four JPAs, as shown in Table 113.

Table 113. City of Morgan Hill Joint Powers Authorities by Major Service Function

Name of JPA	Major Service Function
Santa Clara County Library District	Library services
Santa Clara Valley Habitat Agency	Implement requirements of Habitat Plan and permitting
Silicon Valley Regional Interoperability Authority	Identify, coordinate, and implement public safety communications interoperability
South County Regional Wastewater Authority	Wastewater treatment management

Source: City website and City staff interviews

11.1.4 Awards and Recognition

The City of Morgan Hill has been the recipient of several awards between 2010 and 2015, as shown in Table 114.

Table 114. City of Morgan Hill Recent Awards

Name of Award	Issuer	Year(s) Received
Public Communications Achievement Award	American Water Works Association	2013
Certificate of Achievement for Excellence in Financial Reporting	Government Finance Officers Association (GFOA)	2010-2014
Distinguished Budget Presentation Award	GFOA	2010-2015

Name of Award	Issuer	Year(s) Received
Operating Budget Excellence Award	California Society of Municipal Finance Officers (CSMFO)	2010-2015

Source: City of Morgan Hill staff

11.2 Growth and Population

11.2.1 Growth and Population Projections

State law requires the ABAG to prepare an SCS that considers how the region will accommodate projected growth over a long period while also reducing the region's generation of GHGs consistent with state goals for GHG reduction. "Plan Bay Area" is this region's SCS, adopted by ABAG and the MTC in July 2013.

The fundamental thrust of Plan Bay Area is to accommodate the majority of growth in PDAs. PDAs include infill areas within a city usually served by transit, such as historic downtowns and underutilized commercial strips. This approach is consistent with and supportive of LAFCO's goals to encourage orderly boundaries, discourage urban sprawl, and preserve agricultural and open space lands. Plan Bay Area includes projections for the region's population, housing, and job growth within existing urbanized areas. These projections demonstrate that the region has the capacity to accommodate expected growth over the next 30 years without sprawling further into undeveloped land on the urban fringe.

Many Bay Area cities use ABAG's projections as the basis for long-range planning. When ABAG prepared Plan Bay Area in 2013, it made projections for population and housing for 2015 for each city in the region. However, some cities believe that the state DOF estimates for population (based on information received on housing development and other current information) are more accurate. The City of Morgan Hill does not use the ABAG population projections. Instead, the City prepares its own projections, which it uses for long-term planning. ABAG's projections for population, households (occupied housing units) and jobs and Morgan Hill's population projections are shown in Table 115.

Table 115. City of Morgan Hill Population, Jobs and Housing Projections through 2040

	2010	2015	2020	2025	2030	2035	2040
ABAG							
Population	37,882	39,900	41,900	43,900	46,100	48,400	50,800
Total Jobs	17,570	18,820	20,170	20,540	20,920	21,520	22,140
Total Households	12,326	12,950	13,590	14,200	14,860	15,500	16,150
City of Morgan Hill							
Population		41,779 ¹	45,362 ²	48,357	50,736	53,721	56,707 55,115

Source: 2010 population from US Census. ABAG data used for 2015 to 2040 projections.

¹Staff-provided estimates were calculated using DOF 2014 population estimates (41,197) plus actual new units constructed (268 units multiplied by 3.08 persons per unit).

²Staff-provided estimates were calculated based on an historic average of 192 units constructed per year between 2004 and 2014 multiplied by an average of 3.11 persons per unit.

Since 1977 the City of Morgan Hill has had a voter-approved growth management system (RDCS - Residential Development Control System) that establishes a population cap and a process for allotting a maximum number of residential units on an annual or biannual basis. The last voter-approved update of the RDCS in 2004 established a population cap of 48,000 for the year 2020. The ability to meter and anticipate the amount of residential growth within a given timeframe helps staff more effectively plan for the City's service delivery needs.

At the time of this report, the City was preparing a comprehensive update of its general plan (Morgan Hill 2035) and reassessing its current population cap. A ballot measure is anticipated for the November 2016 election to update the RDCS, which would include increasing the population cap for the year 2035.

As shown in Table 115, based on recent historic growth trends, the City estimates a population of approximately 56,707 by the year 2040, roughly 5,900 more people than ABAG projections.

The "Preferred Land Use Plan" under consideration by the City (used as the basis for the Morgan Hill 2035 General Plan Update Environmental Impact Report) has an estimated residential build-out of approximately 68,000 residents. To achieve this level of growth, according to the Preferred Land Use Plan, it would require some expansion of the Urban Growth Boundary into adjacent lands, some of which could qualify as "prime farmland".

11.2.2 Jobs and Housing

In 2015, according to ABAG estimates, the City has 18,820 jobs within the community and 18,510 employed residents. Within Morgan Hill, there are 1.02 jobs for every employed resident. The U.S. Census American Community Survey 2013 estimates that Morgan Hill has 13,129 housing units; when combined with ABAG's estimate of 18,820 jobs within the City, jobs and housing balance is 1.43.

State law requires that ABAG quantify and allocate housing needs to each jurisdiction within the Bay Area. In periodic updates to the general plan's Housing Element, each Bay Area jurisdiction must then demonstrate how it will meet that need over the next planning period. The current Housing Element update cycle is from 2015 to 2023.

As Table 116 shows, the majority of housing units in Morgan Hill are owner-occupied single-family housing units. According to ABAG, between January 1, 2014 and October 31, 2022, the City of Morgan Hill's assigned housing need is 928 units. In February 2015, Morgan Hill adopted its 2015-2023 Housing Element and

demonstrated that it has sites and housing opportunities available to accommodate 1,378 units, which is 450 units more than its assigned regional share of 928 units. The City of Morgan Hill's housing element was certified by the State of California's Housing and Community Development Department in April 2015.

Table 116. City of Morgan Hill Housing Profile

Housing Statistic	Number
Number of total existing housing units	13,129
Owner-occupied (SFR) housing units	9,094
Renter-occupied housing units	3,565
RHNA by income category	2014 to 2022
Above moderate	316
Moderate	185
Low	154
Very Low	273
Total	928

Sources: U.S. Census American Community Survey 2013 (number of total housing units); ABAG (housing needs)

11.2.3 Planning and Building

In calendar year (CY) 2014, Morgan Hill issued a total of 1,966 residential and commercial building permits. Total building permit valuation is estimated at \$117,763,364.

The City's total assessed valuation for FY 2014 is approximately \$6.6 billion. This represents a 3% increase from FY 2009.

11.2.4 Priority Development Areas

Morgan Hill has one planned PDA in its downtown that will be a future transit town center. In total, the PDA includes 150 net acres and is accessible by CalTrain and VTA's bus and community shuttle services. The City has adopted a Downtown Specific Plan that includes detailed plans and information about this area. The City is considering an expansion of the PDA along the Monterey Road corridor.

Staff noted that due to the presence of the FEMA designated 100-year flood plain throughout much of the PDA, development could be impeded. The Santa Clara Valley Water District is sponsoring the design of a large flood control project that, when completed, will likely remove the flood plain from the PDA. The flood control project is projected to be completed by the year 2020 pending full funding for construction. Until that project is completed and the flood plain map is subsequently amended, development in the PDA must adhere to the requirements of building in a designated flood plain which can be costly to comply with.

11.2.5 Planning for an Aging Population

The City is working to incorporate the needs of its aging population as part of its general plan update process. According to staff, the City is mindful of opportunities to create walkable environments and options for higher densities close to the downtown core. The City has recently revised its service delivery model for providing senior services based on recommendations from a committee of stakeholders composed of community members, representatives from local senior organizations, and professionals in the field of aging services. The City plans to use this new delivery model to increase services provided at

the City's Senior Center and in the community, via increased partnerships with community based organizations and other government service providers.

11.3 Boundaries, Islands, and Disadvantaged Unincorporated Communities

11.3.1 Planning Boundaries

The City's USA is smaller than its municipal boundaries, as shown in Figure 25. In addition, two unincorporated areas exist within the City's USA and are discussed in section 11.3.2.

The City is currently preparing a new general plan as noted in section 11.2.1. All scenarios being considered for the new general plan include some modifications to the City's USA. The draft Preferred Land Use Plan, being analyzed as part of the General Plan Update, anticipates some modifications to the City's USA and identifies approximately 660 acres of land that could be annexed in order to implement the Plan.

While the City is considering plans to amend its USA, it is not proposing modification to its SOI within the next five years. As discussed in section 11.3.2, the City provides water service to one area outside of its boundaries but within its USA.

11.3.2 Unincorporated Islands

Two unincorporated islands exist within the City of Morgan Hill's USA. The larger island, referred to as MH01 or Holiday Lake Estates, is approximately 121 acres of private residential development on smaller lots along the City's eastern border. As of 2015, the City provides water to this island. According to staff, the City studied annexing this area in 2009 and concluded that an assessment district or other mechanism would be needed to develop the necessary municipal infrastructure. Most residences in Holiday Lake Estates are on septic systems, and annexation would require residents to assume the costs to obtain wastewater service provision. Because it did not appear that there was sufficient support for an assessment, the City has no plans to annex MH01. However, if the residents of that area decided it was in their best interest to annex into the City and pay the associated costs for connecting to the City's sewer system, the City would be open to annexation and studying its full impact.

The smaller island, MH02, is approximately 20 acres. The parcels comprising MH02 are split such that some parcels extend into the hills. According to staff, the properties are not developed. At least one property owner has expressed interest in annexation by the City. The City has not indicated interest in annexing portions of this island. Maps of each city's unincorporated islands are included in Attachment B.

11.3.3 Disadvantaged Unincorporated Communities (DUCs)

State law defines a disadvantaged unincorporated community (DUC) as a community with an annual median household income that is less than 80% of the statewide annual median household income (less than \$48,875) and where 12 or more registered voters reside. Based on this definition, one DUC was identified within or contiguous to the City of Morgan Hill's SOI. Figure 26 shows a map of the identified DUC, and Table 117 shows additional detail about Morgan Hill's DUC.

Table 117. Morgan Hill DUC

Identified DUC	Location	Land Uses	SERVICE PROVIDERS		
			Wastewater	Water	Fire Protection

MH DUC #1	West of Highway 101, south of Tennant Road and Butterfield Blvd., east of Monterey Road, including Crowner Ave.	Farmlands, rural residential, industrial, Crowner Subdivision	On-site septic	On-site wells or Mecchi Mutual Water Company by wells	South County Fire Protection District
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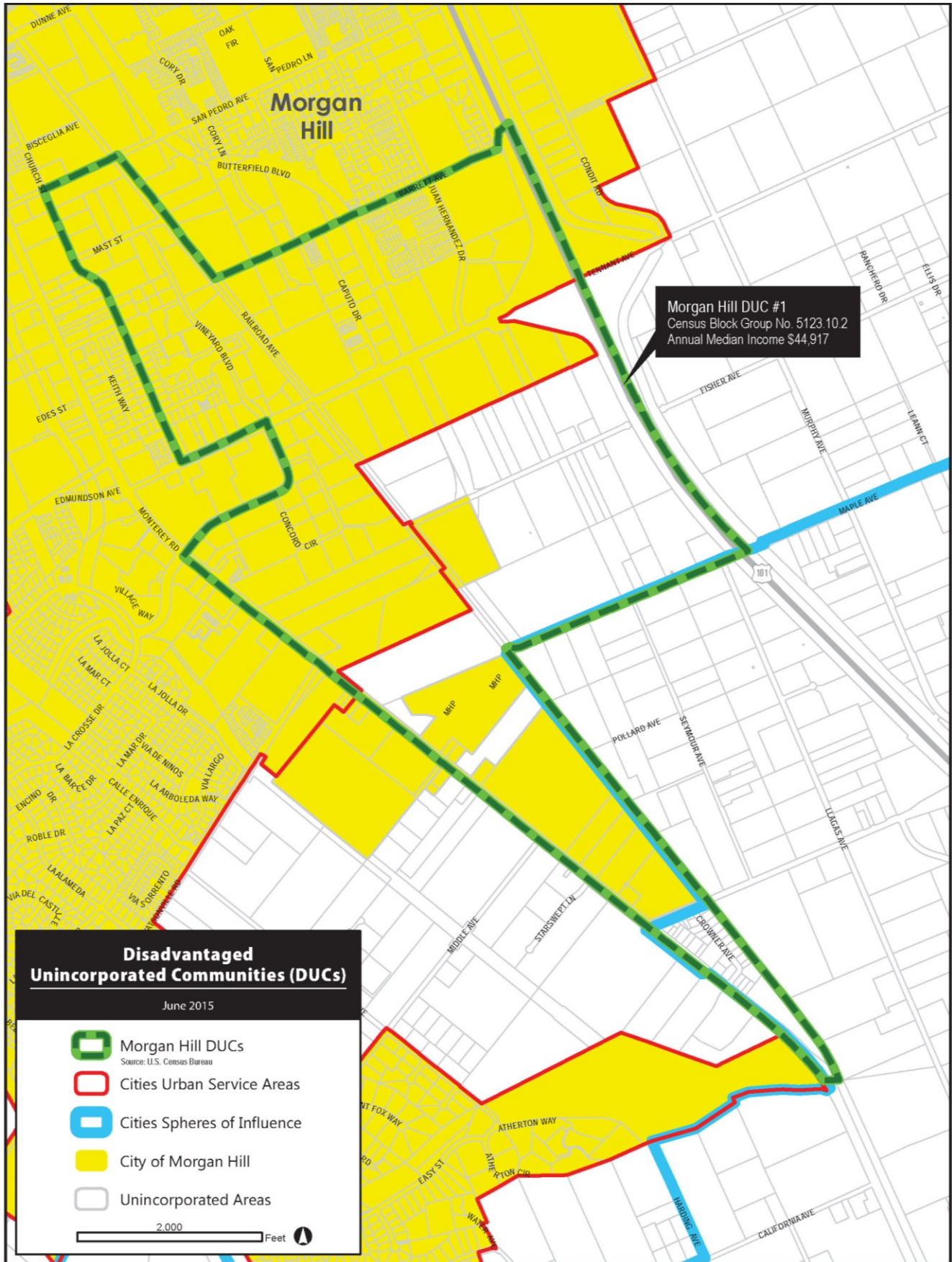
Source: LAFCO Staff

The DUC (i.e. MH DUC #1) is located at the southern edge of the city, approximately west of Highway 101, south of Tennant Road and Butterfield Boulevard, east of Monterey Road and includes Crowner Avenue. The DUC includes primarily farmland, scattered rural residences, a commercial use (i.e., landscaping and construction materials), and a small cluster of homes located on Crowner Avenue (i.e., Crowner Subdivision).

The DUC receives fire protection service from the South Santa Clara County Fire Protection District. The County of Santa Clara does not provide urban services. In rural unincorporated areas, such as this DUC, wastewater and water services are primarily provided onsite through individual septic systems and wells. The Crowner Subdivision consists of approximately 30 homes and 5 vacant parcels. Parcels within the Subdivision are 8,712 to 30,492 sq. ft. in size. Each home is served by an individual onsite septic system and receives water from Mecchi Mutual Water Company (MMWC) from a single shared well that is located in the subdivision.

The MMWC is experiencing operational issues due to the deferred maintenance of its aging infrastructure. The proximity of septic systems to MMWC's onsite well, small parcel sizes, and aging and limited maintenance of the infrastructure has resulted in water quality issues. State Water Resources Control Board (SWRCB) staff has been monitoring the MMWC and has indicated that MMWC needs to upgrade and replace its infrastructure. The MMWC does not have the financial resources or expertise to make the necessary improvements. SWRCB staff has considered placing the MMWC into receivership, but has not been able to find a suitable receiver.

Figure 26. Disadvantaged Unincorporated Community in Morgan Hill



A representative of MMWC also contacted LAFCO in order to explore how MMWC, as a DUC, may become eligible for obtaining funding for infrastructure upgrades. LAFCO staff discussed this issue with SWRCB staff who indicated that the current financial assistance programs available at the state level, such as grants, are primarily for public agencies; and not private water companies, such as MMWC.

11.4 City Services

In Morgan Hill, core municipal services are primarily delivered by City staff. The primary service provider for the major municipal services discussed in this report is summarized in Table 118.

Unless specifically noted, the City of Morgan Hill did not anticipate difficulty in continuing to provide services or maintain infrastructure or facilities related to service delivery in the following areas for a population of up to 70,000.

Table 118. City of Morgan Hill Service Delivery Model by Major Service Function

Major Service Function	Primary Service Provider	Non-City Service Provider, if applicable
Animal Control	City	
Law Enforcement	City	
Library	JPA	Santa Clara County Library District
Parks and Recreation	City and Non-profit partners	YMCA of Silicon Valley Centennial Recreation Center Partnership Agreement Morgan Hill Youth Sports Alliance (Outdoor Sports Center)
Planning/Building	City	
Solid Waste	Franchise Agreement	Recology South Valley
Streets	City	
Stormwater	City	
Utilities		
Electricity	Franchise Agreement	Pacific Gas and Electric
Gas	Franchise Agreement	Pacific Gas and Electric
Telephone, High-speed Internet	Franchise Agreement	AT&T, Charter Communications (State-Issued Franchise), Verizon
Wastewater Collection	City	
Wastewater Treatment	JPA	South County Regional Wastewater Authority (SCRWA)

Source: City website and City Staff interviews

In the past five years, the City has not stopped providing any municipal services. Given the expected population growth for the City of Morgan Hill, City staff does not anticipate any difficulty providing municipal services to its community.

A summary of key service level statistics is compiled as part of Attachment A to this report.

11.4.1 Animal Control

The City provides animal control within Morgan Hill. In FY 2014 total City expenditures for this function were \$138,464. Service level statistics are included in Attachment A.

11.4.2 Law Enforcement

The City of Morgan Hill provides law enforcement and dispatch services within City limits. In total, there are 39 sworn officers. During FY 2014, there were 34,354 calls for service. The City reports that response time for Priority One calls averaged 4 minutes and 30 seconds. The City's goal for response time for Priority One calls is 5 minutes.

In FY 2014, total City expenditures on this function were \$12,933,159. Approximately 43% of the City's General Fund is dedicated to law enforcement.

Through an agreement, both Gilroy and Morgan Hill have access to SWAT and negotiation team services.

11.4.3 Library

The Santa Clara County Library District provides library services within the City of Morgan Hill. There is one facility located within the City, which the City owns. Annual print circulation exceeds 785,665, and 283,579 digital books are available for download to library patrons countywide.

11.4.4 Lighting

Lighting within the City is provided and maintained by the City. A summary of lighting infrastructure is provided in Attachment A.

11.4.5 Parks and Recreation

The City is the primary service provider for parks and recreation. FY 2014 total expenditures for parks and recreation were \$6,538,406. The City has 22 parks and a total of 470 acres of park and open space land that is publicly accessible. In November 2014, City staff issued the "Infrastructure Report," highlighting the funding needs for each of the City's infrastructure categories. Although all parks and trails are currently maintained at satisfactory levels, park maintenance is one of the key areas where staff expressed the need to identify revenue sources to fund extensive future replacement needs. The City reports 11.8 park acres per 1,000 population,

The City operates two community centers, one teen center, one senior center, and four swimming pools. The City's Centennial Recreation Center and senior center is jointly operated with the YMCA of Silicon Valley through a partnership agreement.

11.4.6 Solid Waste

The City of Morgan Hill receives solid waste services through a franchise agreement with Recology South Valley. In FY 2014, City expenditures for public solid waste services were \$209,855.

In FY 2013, Morgan Hill disposed of 39,000 tons of solid waste. Morgan Hill offers green waste and yard trimming disposal and recycling of mixed paper, bottles, cans and other recyclable materials. In 2013, the City's amount of pounds of solid waste disposed per person per day was 5.3 for its general population, meeting the state's goal for the community of 6.1 pounds. The pounds of solid waste per person per day for employees in the community was 15.1, meeting the state's goal for the community of 16.3 pounds. No solid waste disposal facility is located within Morgan Hill.

11.4.7 Streets

The City of Morgan Hill maintains 258 lane miles and expends approximately \$1,829,648 annually on street-related expenditures. The number of sidewalk miles maintained by the City was not available at the time of the Cities Service Review. Recology South Valley is the contract service provider for street sweeping. The number of street trees maintained by the City was not available at the time of the Cities Service Review. The City's pavement condition index (PCI) is 70.

11.4.8 Stormwater

The stormwater system is planned and designed by the Public Works Department. Flood plain management is also managed by the Public Works Department. The City's Community Services Department is responsible for the maintenance of the storm drain facilities. A very large flood control project managed by the Corps of Engineers and the Santa Clara Valley Water District is nearing the final stages of design that, when built, will significantly reduce flooding in the City and remove many public and private properties from the 100-year flood plain. The cities of Morgan Hill and Gilroy jointly fund a staff position dedicated to monitoring federal and state compliance requirements for stormwater management. The City reports that it is compliant with NPDES standards.

The stormwater quality regulatory requirements have evolved significantly over the past several years affecting development design, capital project implementation, and maintenance activities.

11.4.9 Utilities

PG&E is the electricity and gas provider within Morgan Hill. PG&E did not respond to requests to identify the total number of PG&E gas and electric meters in the City of Morgan Hill. The City did not indicate concerns about PG&E's ability to serve Morgan Hill's existing population or its future demand for energy and natural gas.

Telecommunications providers (telephone, high speed internet and land-based video/cable services) serving Morgan Hill are AT&T, Charter Communications, and Verizon. Morgan Hill staff reported that there are minor gaps in telecommunication and high-speed internet services, but the City does not track these service gaps because these are not services they provide.

11.4.10 Wastewater

The City of Morgan Hill receives wastewater treatment services through the SCRWA. There are 160 miles of sewer within the City.

The City's wastewater is treated at the SCRWA wastewater treatment plant in Gilroy. CH2MHill is the contract operator for the plant. The plant was rebuilt in 1995 and has capacity for 8.5 MGD. Currently, the plant treats about 6 to 6.2 MGD to the tertiary standard. Replacement needs are anticipated and a replacement program is being developed. Sludge is turned into compost and subsequently sold. Recycled water is available within the City.

11.5 Financial Information

The following section provides key financial data points related to Morgan Hill's municipal operations based on the most recent audited financial statements available from FY 2014. Select information is provided from FY 2009 for trend and comparative information.

In FY 2014, Morgan Hill's total citywide expenditures exceeded \$63.6 million. Approximately 45% (\$28.8 million) of these expenditures constituted General Fund expenditures.

11.5.1 Revenues and Expenditures

The City's primary source of revenue is property tax. Since FY 2009 property tax revenue has increased by about \$0.9 million (12%), which now includes the excess property tax increment previously collected by the City's former redevelopment agency that was dissolved by the state in 2012. Sales tax revenue in Morgan Hill in FY 2014 is significantly above pre-Great Recession levels. Since FY 2009, sales tax revenue has increased by \$3 million, or about 52% (see Table 119).

Table 119. City of Morgan Hill Tax Revenues

Tax Revenue Type	FY 2009	FY 2014
Property Tax	\$6,926,194	\$7,782,990
Sales Tax	\$5,680,409	\$8,640,396
Utility Users Tax	N/A	N/A

Source: CAFR

A summary of the City's General Fund revenues and expenditures is shown in Table 120.

Table 120. City of Morgan Hill Major Sources of General Fund Revenue and Expenditures

	FY 2009	FY 2014
Total General Fund Revenues	\$23,679,103	\$30,249,585
Total General Fund Expenditures	\$25,975,603	\$28,796,185
Top Four Sources of General Fund Revenues		
Sales Tax	\$5,680,409	\$8,640,396
Property Tax and Special Assessments	\$6,926,194	\$7,782,990
Charges for Current Services	\$6,300,566	\$7,344,568
Franchise, Hotel and Other Taxes	\$2,429,152	\$3,786,751
Top Four Sources of General Fund Expenditures		
Public Safety	\$15,612,022	\$17,224,791
Parks and Recreation	\$6,333,076	\$6,538,406
General Government	\$3,737,421	\$2,923,290
Streets & Highways	\$0	\$1,829,648

Source: CAFR

11.5.2 Debt

A summary of the City's obligations, debt, and liabilities is provided in Table 121.

Table 121. City of Morgan Hill Obligations, Debt and Liabilities

Obligations, Debt and Liabilities	FY 2009	FY 2014
General Bonded Debt	\$12,265,000	\$10,843,867
Ratio of Direct Debt (General Bonded Debt) to Net Assessed Valuation	0.7%	0.2%
Ratio of Combined Debt (Direct and Overlapping Debt) to Net Assessed Valuation	1.6%	3.8%
Unfunded pension liability	See Note	\$31,822,238

Source: CAFR

Note: City's pension plans participated in CalPERS Risk Pool for FY 2009. Thus, funding status is not available.

11.5.3 Reserves

Morgan Hill's unassigned General Fund reserve levels have increased since FY 2009. Such increases are a positive indicator of economic recovery from the Great Recession and proactive fiscal management practices employed by the City (see Table 122).

Table 122. City of Morgan Hill Reserves

Line Item	FY 2009	FY 2014
Unassigned General Fund Reserve Levels	\$8,343,680	\$12,025,157
Economic Uncertainty Reserve Fund (separate from General Fund Reserve)	\$0	\$0

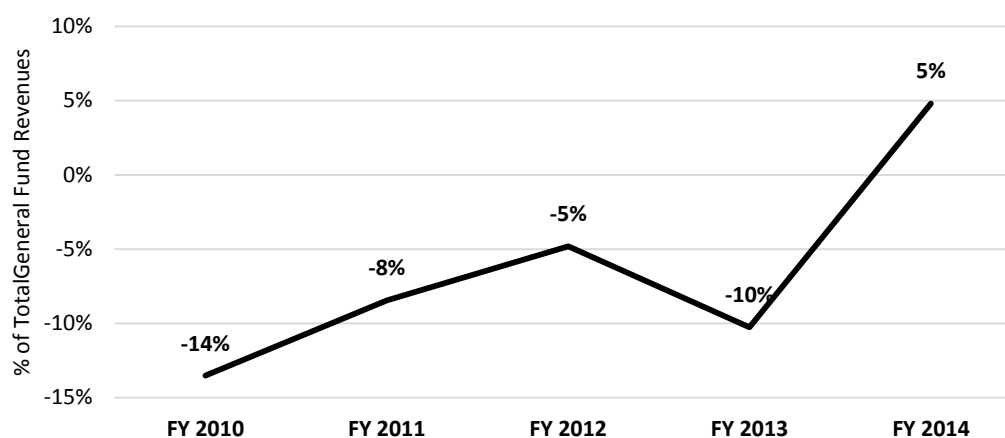
Source: CAFR

11.5.4 Financial Health Indicators

Using select indicators from the League of California Cities' Financial Health Diagnostic Tool, the City of Morgan Hill is in positive fiscal health.

Over the past year the City has had an annual surplus in the General Fund. The City's General Fund surplus has increased by 19 percentage points since FY 2010, an indicator of improving fiscal health. The trend of the City's General Fund deficit/surplus is shown in Figure 27.

Figure 27. City of Morgan Hill Gross Annual General Fund Deficit/Surplus by year from FY 2010 to FY 2014



Source: CAFR

The City's adopted FY 2016 General Fund budget includes a five-year financial plan that anticipates drawing down its reserves to the minimum 25% reserve threshold by FY 2020 to invest in its street infrastructure by setting aside \$1.1 million per year. The City prepared a Public Infrastructure Financing Report, adopted by the City Council in April 2015, indicating an annual \$5.8 million gap in its capital improvement funding based on an overall Capital Improvement Program budget of \$94 million. The City has generally been conservative in its budget estimations and actual performance typically exceeds budgeted forecasts.

The City is currently conducting a revenue enhancement study, including a Community Needs survey to determine community perspective and to develop recommendations including a potential ballot measure to finance the public infrastructure funding gap indicated earlier.

Table 123 shows the City's General Fund Fiscal Indicators. The City's long-term fiscal health is positive as the City continues to address its long-term financial needs as mentioned above. The City's liquidity ratio indicates the necessary cash to fund its liabilities. General Fund reserves of 41.8% greatly exceed the GFOA-recommended minimum reserve of 17% (or two months) of annual operating expenditures.

Table 123. City of Morgan Hill General Fund Fiscal Indicators

Fiscal Year	Indicator	Value
FY 2015	Net Operating Deficit/Surplus ¹	-5.2%
FY 2014	Liquidity Ratio ²	7.4
FY 2014	Fund Balance as percent of Expenditures ³	41.8%

Source: CAFR, City Finance Staff

¹ Amount reported by City based on FY 2015 year-end projections

² Calculated by combining cash and short-term investments and then dividing by current liabilities

³ Unreserved (unassigned and assigned) General Fund Reserves as a percent of annual operating expenditures

11.5.5 Financial Reporting

The City's CAFR is prepared in a timely manner and audited by an independent CPA. See Table 124.

Table 124. City of Morgan Hill Financial Reporting

Financial Reporting Indicator	Status
Unqualified opinion from independent CPA	Yes
Publication of CAFR within six months of fiscal year	Yes

11.6 Service Review Determinations

LAFCO is required to prepare a written statement of determination with respect to six key areas as specified by Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. Using criteria described in section 2.4, the following determinations are provided for the City of Morgan Hill.

1. GROWTH AND POPULATION PROJECTIONS

As of 2015, the City of Morgan Hill serves 41,779 residents within its 12.91 square mile incorporated area. ABAG projects that the City's population will grow steadily by approximately 1% per year, leading to a population of 50,800 in 2040.

The City has two unincorporated islands that comprise approximately 141 acres. The City does not have plans to annex the larger of these two (120 acres), but the City might be willing to do so if it can establish an assessment district or other mechanism to develop the necessary municipal infrastructure. The City has not indicated that it will annex the smaller, 20-acre unincorporated area, which consists of mostly undeveloped property.

The City has identified sufficient housing opportunities to meet its RHNA of 928 housing units between 2014 and 2022. Morgan Hill has one planned PDA in its downtown that will be a future transit town center. Staff noted there may be a flood plain issue that could impede development within the PDA. Addressing this will be expensive, but staff believe it is an impediment that can be overcome.

The City's most recent general plan was adopted in July 25, 2001, but has updated various components including its most recent revisions in February, 2010. The City is in the process of preparing a new general plan, which is expected to be adopted in 2016.

The City's existing boundaries accommodate the level of growth projected by ABAG in Plan Bay Area.

2. LOCATION AND CHARACTERISTICS OF ANY DISADVANTAGED UNINCORPORATED COMMUNITIES WITHIN OR CONTIGUOUS TO THE SPHERE OF INFLUENCE

One DUC was identified outside and contiguous to Morgan Hill's SOI. The DUC consists mostly of farmlands, rural residential sites, industrial uses, and the Crowner Subdivision. The City does not currently provide services to this DUC, and there have been concerns raised relative to the reliable provision of water services for the area as provided by a single shared well operated by the Mecchi Mutual Water Company.

3. PRESENT AND PLANNED CAPACITY OF PUBLIC FACILITIES, ADEQUACY OF PUBLIC SERVICES, AND INFRASTRUCTURE NEEDS OR DEFICIENCIES, INCLUDING THOSE RELATED TO SEWERS, WATER AND FIRE IN ANY DUCS WITHIN OR CONTIGUOUS TO THE SOI

City staff noted that, given new regulations coming into effect, the City is concerned about unfunded state mandates related to stormwater infrastructure maintenance. As a result of these regulations, the City anticipates future costs to address its aging stormwater system and related deferred maintenance. In addition, the Army Corps of Engineers has not issued its final report on flood prevention requirements for an area near Monterey Road that could have a significant impact on the City's stormwater system and providing ongoing maintenance in that area.

The City of Morgan Hill does not anticipate obstacles to maintaining existing service levels or meeting infrastructure needs in the next five years, given the growth and population increases projected.

The Mecchi Mutual Water Company (MMWC) is experiencing operational issues due to the deferred maintenance of its aging infrastructure. The MMWC does not have the financial resources or expertise to make the necessary improvements. The State Water Resources Control Board (SWRCB) has considered placing the MMWC into receivership, but has not been able to find a suitable receiver. LAFCO staff will need to work with the MMWC, the state and neighboring water service providers to explore options for addressing the identified financial and infrastructure issues.

4. FINANCIAL ABILITY OF AGENCY TO PROVIDE SERVICES

Morgan Hill's General Fund operated at a deficit for each year from FY 2010 to FY 2013, but operated at a surplus in FY 2014 in light of economic recovery from the Great Recession and expenditure reductions implemented. The City expects to draw down its General Fund reserves to the minimum 25% reserve threshold established by City Council policy by FY 2020 unless an alternative funding source is identified to meet its public infrastructure funding needs. Morgan Hill's General Fund reserves of 41.8% exceed the minimum reserve threshold of two months of operating expenditures (17%) as recommended by the GFOA, indicative of the City's ability to meet future service needs in the event of an economic downturn. In addition, the City's liquidity ratio of 7:1 indicates the necessary cash to fund its short-term obligations with sufficient cash flow.

The City of Morgan Hill has sufficient financial resources to accommodate its basic infrastructure needs in the next five years as it addresses sustainable funding strategies for

its long-term public infrastructure needs. One area of additional potential concern is stormwater, as discussed under Determination Three.

The City prepared its CAFR in a timely manner, which was audited by an independent CPA with an unqualified opinion.

5. STATUS AND OPPORTUNITIES FOR SHARED FACILITIES

The City of Morgan Hill is engaged in service sharing agreements as identified in Table 125 below.

Table 125. Summary of Shared Services in the City of Morgan Hill

Service Area	Type of Sharing Arrangement	Partnering Entity
Environmental Services	JPA	Santa Clara Valley Habitat Agency
Law Enforcement – Special Operations (SWAT, Negotiation Team)	Joint Task Force	Shared between Morgan Hill and Gilroy
Law Enforcement – Radio Communications	JPA	SVRIA
Library Services	JPA	SCCLD
Public Works – Environmental Services Manager	MOU	Morgan Hill (shared with Gilroy)
Stormwater	MOU	SCVURPPP
Wastewater Treatment	JPA	SCRWA

The City would like to explore other opportunities for collaboration of shared services to address issues such as housing and transportation.

6. ACCOUNTABILITY FOR COMMUNITY SERVICE NEEDS, INCLUDING GOVERNMENTAL STRUCTURE AND OPERATIONAL EFFICIENCIES

Morgan Hill provides comprehensive information about core municipal operations on its website, including public hearing notices, agendas, and minutes for the City Council and its various advisory commissions and committees; annual budget; CAFR; general plan; and various master plans.

Through the publication of these documents, the City of Morgan Hill promotes accountability for its community service needs.

11.7 Sphere of Influence Recommendations and Determinations

SOI BOUNDARY RECOMMENDATION

The City's SOI Boundary, established in 1984 and reaffirmed in 2006, was delineated to be considerably larger than the City's boundary. The City's SOI Boundary was not a commitment to staging urban expansion but rather a planning tool for LAFCO to use as a framework in considering

expansion actions. The City's SOI Boundary also delineated areas in which the City and the County have shared interests in preserving non-urban land uses.

It is recommended that LAFCO reaffirm the City of Morgan Hill's existing SOI boundary because the City's SOI boundary serves multiple purposes including serving as:

- A long range planning tool to help LAFCO evaluate USA boundary changes and annexation requests.
- Areas that will not necessarily be annexed to the City or will not necessarily receive services from Morgan Hill, but are areas in which the County and Morgan Hill may have shared interests in preserving non-urban levels of land use. Specific examples include the foothills and ridgelines surrounding the City. Furthermore, both the City and the County share a mutual interest in protecting view sheds, farmlands, and natural resources.
- Areas where the City and the County have significant interaction.
- Areas that contain social and economic communities of interest to the City, such as areas within the City's jurisdictional boundaries.

In making this recommendation, it should be made clear that inclusion of an area within the City's SOI boundary should not necessarily be seen as an indication that the City will or should either annex or allow urban development and services in the area. The City's USA boundary is the more critical factor considered by LAFCO and serves as the primary means of indicating whether the areas will be annexed and provided urban services.

SOI DETERMINATIONS FOR THE CITY OF MORGAN HILL

Government Code §56425(e) requires written determinations with respect to the following four factors to update an agency's SOI. Based upon the information contained within Morgan Hill's service review profile in this chapter, the following determinations are provided to update the City's existing SOI

1. The Present and Planned Land Uses in the Area, Including Agricultural and Open-Space Lands

A variety of urban uses are planned within Morgan Hill's USA boundary. The County's and City's general plans call for the continuation of non-urban uses beyond the City's USA boundary.

2. The Present and Probable Need for Public Facilities and Services in the Area

The need for a full range of public facilities and services is expected to grow modestly in the future.

3. The Present Capacity of Public Facilities and Adequacy of Public Services that the Agency Provides or is Authorized to Provide

The present capacity of public facilities appears to be adequate. However, Morgan Hill is still in the process of addressing the impacts that state mandates will have related to stormwater infrastructure maintenance on budgetary and operational resources, as indicated in the City's service review determination #3 above. In addition, the City awaits a final report on flood prevention requirements from the Army Corps of Engineers for an area near Monterey Road that could have a significant impact on the City's stormwater system and providing ongoing maintenance in that area.

4. The Existence of Any Social or Economic Communities of Interest in the Area if the Commission Determines That They are Relevant to the Agency

There exist social and economic conditions that cause interaction and interdependence between the City and the areas within its SOI boundary.

5. For Those Cities that Provide Public Facilities or Services Related to Sewers, Water or Fire Protection, the Present and Probable Need For Those Public Facilities and Services in Any DUCs within the Existing SOI

The Crowner subdivision, for which concerns exist relative to the reliable provision of water services for the area, is located outside of the City's sphere. The City, LAFCO, MMWC and other neighboring water service providers will need to work together to evaluate what options might exist to ensure that this area can be adequately served with a reliable water source.