



CITY OF MORGAN HILL

CITY COUNCIL STAFF REPORT

MEETING DATE: May 20, 2020

PREPARED BY: Christina Turner, City Manager
APPROVED BY: City Manager

CITY MANAGER'S RECOMMENDED FISCAL YEAR 2020-21 AND 2021-22 OPERATING BUDGET AND FISCAL YEAR 2020-21 THROUGH 2025-26 CAPITAL IMPROVEMENT PROGRAM BUDGET

RECOMMENDATION(S)

Continue the review and discussion from the May 15, 2020 Budget Workshop on the Recommended Budget and additional proposed adjustments to the budget based upon continued monitoring and analysis of the effects of the COVID-19 pandemic on the City finances.

COUNCIL PRIORITIES, GOALS & STRATEGIES

2020-2021 Strategic Priorities
Financial Sustainability

REPORT NARRATIVE:

The City's finances have been severely impacted by the global COVID- 19 pandemic and economic crisis. The latest projection shows the estimated revenue loss from the City's major revenue sources of approximately \$17 million over the three fiscal years from the current year FY2019-20 to FY2021-22. These estimates are based on the current information that is available and there remains uncertainty with the economic forecast. Further, we still do not know the long-lasting impacts of COVID-19 or whether full economic recovery will happen when the State of California and Santa Clara County begin to re-open based on the Governor's framework. This situation is not unique to Morgan Hill. Local governments across California and throughout the U.S. are facing similar deficits resulting from the impacts of COVID-19.

The City has already taken actions to reduce costs while trying to minimize the effects on the level of public services. To date, the City has implemented:

- Hiring freeze, except public safety
- Stricter expenditure controls
- Furlough of temporary and permanent staff members
- Limited travel and training
- Continued evaluation of current contracts and other non-personnel expenditures

During the Virtual City Council Budget Workshop on Friday, May 15, 2020, the Leadership Team presented the proposed budget reductions to align City's expenses with reduced revenue. The Capital Improvement Program component of the Budget Workshop was deferred to the May 20th City Council meeting.

Hale Avenue Extension

During the Council Workshop considerable discussion was had regarding the Hale Avenue Extension. The following background information is being included in this report to help the Council prepare for the continued discussion. City staff continue to recommend the project continue to move forward for several reasons that will be outlined below. Additionally, should the project be delayed or eliminated there will be significant ramifications for the City. Unfortunately, projects of this magnitude take a long time to develop and several decisions must be made along the way to continue to move them forward. The Council does have the option to not move forward with the project, but there will be costs associated with that decision.

The project continues to support congestion improvement by providing an additional north/south arterial roadway on the West side of the City. This was most recently outlined in the 2019 Cut-Through Traffic Study, which reaffirmed the roadway would reduce congestion on Monterey, and not just result in increased cut through traffic. Additionally, the project provides many other benefits and is consistent with the City's Vision Zero policy. It will take cars off the West side residential and collector streets improving safe routes to school for PA Walsh and St. Catherine's schools and will provide a separated Class 1 bike and pedestrian path for the length of the extension.

It is well known that the project has been planned for several decades, but it should be noted that the approval of the project's environmental impact report occurred in 2017 and re-evaluation of the project occurred at that time. Since that time significant investment by the City has been made to acquire all the property necessary for the project. Some of the impacts related to cancelling the project at this point, include:

- Delay could result in the grant funding from Measure B for construction of the project (estimated at \$16.5 million) being lost to the City. There are many projects in line for the Countywide funding, including large expressway projects that could take 5 years of funding individually. Delay on the project could result in the City being unable to get the funding back for years if ever. The City staff and elected officials have worked very hard to get this project to the top of the list for funding in a very competitive program area.
- The land acquisition for the project was funded through traffic impact fees collected for this purpose for many years. If the project does not go forward those funds would likely need to be refunded to developers with a total cost of approximately \$8 million or at minimum paid back to the fund from another funding source (likely the General Fund).

- The County of Santa Clara transferred land to the City of Morgan Hill for the specific purpose of constructing the roadway. The County purchased the property with County Road Funds and if the City does not use the property for the roadway, the City will need to pay the County back for the properties worth hundreds of thousands of dollars.
- The City has utilized eminent domain on the purchase of one section of property for the roadway. This was intentional to have the project shovel ready to be first in line for the very competitive Countywide funding. Additionally, the Water District's flood control project has significant need for much of the property taken by eminent domain. Not constructing the roadway could potentially jeopardize this acquisition and jeopardize that project as well.
- There has been discussion that the land be reserved for open space or park space. This property is not included in the City's current Parks Master Plan for this purpose, nor would the City staff recommend this property be taken on for this purpose as there would not be adequate funds to pay for the purchase or the ongoing maintenance.

LINKS/ATTACHMENTS:

1. Budget Workshop Presentation
2. Fee Waiver and Funding Organizations Outline
3. Principles to guide sustainable budget strategy
4. Budget Adjustments Schedule
5. 05 Supplement 1
6. 05 Supplement 2