

# INFRASTRUCTURE UPDATE REPORT

## City of Morgan Hill



April 18, 2018

## Table of Contents

Introduction and Summary.....	3
Buildings and Facilities .....	7
Downtown.....	11
Landscape Assessment District.....	12
Parks, Trails and Open Space .....	14
Storm Water Collection System .....	16
Streets and Sidewalks .....	17
Wastewater System.....	20
Water System.....	23

## Appendices/Weblinks

Bikeways, Trails, Parks & Recreation Master Plan – <http://www.morganhill.ca.gov/1429/Master-Plan-for-Parks-Trails-and-Bikeway>

2017 Engineers Report for the Landscape Assessment District - <http://www.morganhill.ca.gov/DocumentCenter/View/22853>

Storm Water Memo - <http://www.morganhill.ca.gov/DocumentCenter/View/22850>

2013 Sustainable Streets Study - <http://www.morganhill.ca.gov/DocumentCenter/View/22852>

2017 Pavement Condition Report - <http://www.morganhill.ca.gov/DocumentCenter/View/22851>

Water System Master Plan - <http://www.morganhill.ca.gov/1646/Utilities-Master-Plans>

Water & Wastewater Rate Study - <http://www.morganhill.ca.gov/DocumentCenter/View/17363>

Wastewater System Master Plan - <http://www.morganhill.ca.gov/1646/Utilities-Master-Plans>

Sanitary Sewer Management Plan - <http://www.morganhill.ca.gov/589/Sewer-Division>

## Acknowledgements

This report was developed “in-house” by teammates within the Community Services Department and the Engineering and Utilities Department.

# Introduction

## Purpose of the Report

The City of Morgan Hill's infrastructure is a very diverse system that supports a number of essential community needs and is utilized by both residents and visitors. Maintenance of this infrastructure is an expensive endeavor for the City, and one that is vital for public safety, economic development, and quality of life. Well-maintained infrastructure is a critical element for a "Sustainable Morgan Hill" that is safe, inclusive, socially responsible, environmentally conscious, and economically sound. This report is intended to provide an overview of the various issues the City is facing in relation to maintaining the various areas of infrastructure. In particular, the service levels and funding considerations are reviewed. The timing of the report is intended to provide the City Council an opportunity to receive information on these issues ahead of the development of the Fiscal Year 2018/19 and 2019/20 budget.

## Overview

The City of Morgan Hill has the responsibility of planning, constructing, and maintaining infrastructure to meet the needs of the community, which can be divided into two categories: 1) those needed to accommodate new growth; and 2) those needed to maintain the existing system. The City utilizes "development impact fees" charged to new development in order to mitigate the impacts of new growth on the existing community. This funding source can only be used to pay for projects to expand the City's infrastructure capacity and not for ongoing maintenance. To fund maintenance activities, the City primarily relies on General Fund revenues or customer charges. This report attempts to answer two foundational questions:

1. What are the City's existing infrastructure maintenance needs?
2. Are there existing funding gaps?

The City owns, operates and maintains a variety of infrastructure assets. For the purpose of this report the areas are broken down into the following areas:

- Buildings and Facilities
- Downtown
- Landscape Assessment District
- Parks, Trails and Open Spaces
- Storm Water Drainage System
- Streets and Sidewalks
- Wastewater System
- Water System

For each of these areas, a section of this report has been established to focus on both funding associated with the day to day operations and the capital projects. Each section discusses conditions, developments, and opportunities associated with that specific area of infrastructure. The sections also provide policy questions for the Council to consider for future decision making.

## Summary of Current Infrastructure Needs and Funding Sources

The following matrix on the next page outlines the primary funding and current status for each of the infrastructure areas: The current level of unfunded maintenance at approximately \$3.6 million dollars, which is down from \$5.8 million identified in 2014. This reduction is due primarily to the additional revenue for pavement maintenance that the City anticipates receiving. The \$3.4 million does not include the future anticipated funding needs related to park maintenance and storm water. Nor does it account for actions necessary to deliver the future capital project needs related to the Water and Wastewater Enterprises.

Areas of Infrastructure Summary Primary Funding Sources	Current Status
<b>Buildings and Facilities</b> <ul style="list-style-type: none"> <li>• General Fund Non-Discretionary Revenue (Rec Facilities)</li> <li>• General Fund Discretionary Revenue</li> <li>• Other funds based on percentage use of facilities</li> <li>• Recreation Center Impact Fees (expansion)</li> </ul>	<ul style="list-style-type: none"> <li>• Facilities are well maintained</li> <li>• Base Level Operations are fully funded</li> <li>• <b>\$459,000</b> annually in unfunded future capital replacement costs</li> </ul>
<b>Downtown</b> <ul style="list-style-type: none"> <li>• General Fund Discretionary revenue</li> <li>• Public Facilities Fund - Developer Contributions</li> </ul>	<ul style="list-style-type: none"> <li>• Facilities are well maintained</li> <li>• Base Level Operations are fully funded</li> <li>• <b>\$12,500</b> in annual costs for "twinkle" tree lights are unfunded</li> </ul>
<b>Landscape Assessment District (LAD)</b> <ul style="list-style-type: none"> <li>• Property Tax Assessments for those within District</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance levels vary by subarea: <ul style="list-style-type: none"> <li>- 8 areas are well maintained</li> <li>- 6 areas are average</li> <li>- 6 areas maintained below average or poorly</li> </ul> </li> <li>• <b>\$46,000</b> in unfunded maintenance needs</li> </ul>
<b>Parks, Trails and Open Spaces</b> <ul style="list-style-type: none"> <li>• Park Maintenance Fund - Developer Contributions</li> <li>• General Fund Discretionary Revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Facilities are maintained in average condition</li> <li>• Additional annual investment of an undetermined amount would be necessary to maintain the parks in above average condition</li> <li>• Base Level Operations Funding is in jeopardy due to declining RCDS revenues. Park Maintenance Fund balance will be depleted within 10 years utilizing current funding strategy (~<b>\$800,000/yr</b>)</li> <li>• <b>\$586,000</b> in annual future replacement needs are unfunded</li> </ul>
<b>Storm Water Drainage System</b> <ul style="list-style-type: none"> <li>• General Fund Discretionary Revenue</li> <li>• Storm Drain Fund - Prior Developer Contributions</li> <li>• Storm Drain Impact Fees (expansion)</li> </ul>	<ul style="list-style-type: none"> <li>• Facilities are well maintained</li> <li>• No identified funding for future capital needs</li> <li>• Funding available (Impact fees) to connect to Water District Flood Control Project</li> <li>• New State regulations may require millions in capital investment over the next decade</li> </ul>
<b>Streets and Sidewalks</b> <ul style="list-style-type: none"> <li>• Gas Tax (Including New SB1 Revenue)</li> <li>• VTA Passthrough of Vehicle Registration Fees</li> <li>• Grant Funds - Includes One Bay Area Grant</li> <li>• New VTA Measure B Sales Tax Revenue</li> <li>• General Fund Discretionary Revenue</li> <li>• School Pedestrian Safety Fund - Developer Contributions</li> <li>• Public Facilities Fund - Developer Contributions</li> </ul>	<ul style="list-style-type: none"> <li>• City Streets and Sidewalks are well maintained</li> <li>• Citywide weighted average pavement condition "very good"</li> <li>• <b>\$193,000</b> in annual revenue is needed to fully fund basic maintenance</li> <li>• <b>\$2.3</b> million annually in unfunded capital street repair</li> <li>• Ongoing sidewalk repair funding and other street related enhancements may be impacted in the future due to declining RDSCS revenues.</li> </ul>
<b>Wastewater System</b> <ul style="list-style-type: none"> <li>• Customer Charges</li> <li>• Sewer Impact Fees (expansion)</li> </ul>	<ul style="list-style-type: none"> <li>• System is well maintained</li> <li>• Base Level Operations are near fully funded with requests for new technology and equipment to improve efficiency</li> <li>• Increased funding for capital projects for rehabilitation and expansion is necessary</li> </ul>
<b>Water System</b> <ul style="list-style-type: none"> <li>• Customer Charges</li> <li>• Water Impact Fees (expansion)</li> </ul>	<ul style="list-style-type: none"> <li>• System is well maintained</li> <li>• Base Level Operations are near fully funded with requests for new technology and equipment to improve efficiency</li> <li>• Increased funding for capital projects for rehabilitation and expansion is necessary</li> </ul>

## Infrastructure Considerations

There are several considerations the City must continue to review as the City continues to develop its strategies to maintain its infrastructure at a high level. Some of the general considerations are outlined below:

**Decline in prior revenues** – The significance of the loss of Redevelopment Agency (RDA) continues to grow for the City. The RDA previously was able to expend dollars to offset impact fees and General Fund Revenues in support of economic development, fund the construction of major infrastructure projects, and support the maintenance of the facilities it owned. For many years, the Residential Development Control System (RDCS) competition resulted in significant funds to support maintenance and rehabilitation projects for City infrastructure. As the City has slowed growth and updated the competition it appears the voluntary contributions from developers will decline significantly. This may be a consideration to review prior to the next competition.

**New Requirements** – The City often has to fulfill requirements developed by the State and other regulating entities. The City has commitments relating to future Wastewater System projects that must be completed in the next five years. The City is also anticipating increased requirements resulting in new projects for the Storm Water system in the next decade.

**Economic Development and Impact Fees** – The City is currently conducting an updated impact fee study. When this item returns to Council for review, a policy question will undoubtedly be how the updated fees impact economic development and the attraction of new businesses. At the same time, the importance of collecting full fees cannot be understated, as these fees are necessary to fund the basic infrastructure necessary to attract these businesses.

**Impact of Visitors** – Visitors to Morgan Hill support economic development through increased sales tax and transient occupancy tax revenues. These same visitors impact City services and infrastructure. Maintaining the infrastructure of the City roadways and facilities is needed to support tourism through quality visitor experiences. Consideration of increased fees (facility fees at the OSC) or Transient Occupancy Tax (TOT) revenues for those visiting be may another consideration.

**Construction Costs of the Area** – A major factor magnifying the infrastructure funding issue is construction costs, which have increased nationwide, but have increased even more severely in the Bay Area.

**New Revenues and Opportunities** – Recent legislative actions have provided for new revenues, including approximately \$1.6 million in funding annually for pavement maintenance from the VTA Measure B sales tax increase and State Senate Bill 1 (SB1) increasing the gas tax. Until the recent passage of SB1, the real value of gas tax revenues dropped for decades, contributing to the backlog in pavement maintenance across the State of California. Additionally, the recent passage of State Senate Bill 231 in October 2017 may provide an opportunity to collect revenues to support storm water management.

**Funding Options** – The City has reviewed a number of options over the last two years to fund infrastructure. These options may continue to be opportunities the City Council considers going forward. Options include:

- **New Tax Revenue Source** – Some communities have successfully passed ballot measures to increase local taxes. The recent polling that was conducted did not show a desire from residents for an increase in taxes. The TOT is currently being polled with the community and this may be a desirable option for the Council to pursue.
- **New or Expanded Mello-Roos Community Facility Districts (CFD)** – A form of financing district could be created which would be responsible for the care and maintenance of a portion of the City's Street Infrastructure or the City's Parks. Financing districts typically require approval (typically 2/3 majority) by the property owners within the district's boundaries. Revenues are generated from property owners and are levied annually against property within the district. It may be possible to expand the City's current

Landscape Assessment District (LAD) to encompass all the City. There are a variety of opportunities for expanding the financing districts in addition to the current LAD. City staff have continued to review this option, but were previously deterred, as it was believed a new assessment would poll similarly to the tax measures previously tested with the community. However, more recently City staff have been considering an option where the format of a District may be flexible in applying assessments based on current residents versus future residents. Staff plan to continue to review this option and return to Council if it is found to be a viable opportunity.

- Increase Fees – The considerable capital projects outlined in the Water System and Sewer System Masterplans are currently being reviewed as a component of the development of the Capital Improvement Budget. Existing water and wastewater rates will need to be revisited at some time in the future and the timing of revisiting these rates may be accelerated by the need to move capital projects forward.
- Dedication of increased General Fund Revenues for Infrastructure - It is at the City Council's discretion to decide on utilization of any amount of General Fund dollars to support the maintenance of infrastructure. However, any use of General Fund resources would mean a reduction in service in another area and could have an adverse impact on the community.

### Next Steps

This report has been developed to provide the City Council and community background information in preparation for the upcoming budget process. The City Manager will present several recommendations relating to infrastructure funding within the proposed budget for City Council consideration. The proposed Capital Improvement budget will also outline much of the infrastructure funding planning.

## Buildings and Facilities

The City owns 12 facilities that are operated for a variety of public purposes including facilities operated and maintained by the City and others operated and maintained by partner organizations. These facilities include the two City Fire Stations, City Hall/Development Services Center, Council Chambers Building, Police Station, Corp Yard, Library, Aquatics Center, Centennial Recreation Center, Community and Cultural Center, Friendly Inn Non-Profit Center, El Toro Youth Center, and Outdoor Sports Center.

### Revenue Support

Maintenance of City facilities is funded via the fund that uses the facility. The City Recreation Centers, although part of the General Fund, recover costs through user fees for operations including facility maintenance. Other City facility maintenance funding is provided through the funds that fund the departments that use each of the facilities. For example, the maintenance of the Corporation Yard is funded through the Water Fund, Sewer Fund, Park Maintenance Fund, and General Fund.

### Base Service Operations

Facility maintenance is managed by the Community Services Department. In some cases, facilities are maintained through agreements with partner organizations (CALFIRE, County Library, Boys & Girls Club and the Morgan Hill Youth Sports Alliance). The current base level maintenance services are fully funded and being provided at an adequate to high level throughout all the City facilities.

### Capital Replacement

In most cases, as each facility was constructed and opened for use, the City developed a replacement schedule that addressed the major components of each facility. This schedule has been funded by annual operating budget allocations. Replacement schedules were not developed for the Outdoor Sports Center and Friendly Inn while other replacement schedules for some City buildings were not as comprehensive as others. Staff has updated schedules as a component of this report. Upon conclusion of this update, it is estimated that the facility replacement fund is underfunded by approximately \$459,000 annually. Table 7 outlines each facility, current replacement funding, and recommended funding.

Facility Replacement	Current Annual	Recommended Annual	Funding Gap
Aquatics Center	\$ 55,441	\$ 215,610	\$ 160,169
Centennial Recreation Center	\$ 90,499	\$ 190,141	\$ 99,642
Community and Cultural Center	\$ 65,846	\$ 76,615	\$ 10,769
Civic Center Facilities	\$ 38,387	\$ 67,804	\$ 29,417
Corporation Yard	\$ 5,290	\$ 23,052	\$ 17,762
Friendly Inn	\$ -	\$ 12,517	\$ 12,517
El Toro Youth Center	\$ -	\$ 6,620	\$ 6,620
Police Department	\$ 112,803	\$ 121,396	\$ 8,593
Outdoor Sports Center	\$ -	\$ 113,160	\$ 113,160
Fire Stations	\$ 26,928	\$ 26,928	\$ -
Bus Yard	\$ 10,000	\$ 10,000	\$ -
<b>Total</b>	<b>\$ 395,194</b>	<b>\$ 853,842</b>	<b>\$ 458,648</b>

## Infrastructure

6 Recreation Facilities

Police Station

2 Fire Stations

Library

City Hall/Development Services Center

Council Chambers Building

Corporation Yard

There were some key factors that created a change in the recommended annual funding of facility replacement for a few facilities. These factors are outlined below for the facilities that are impacted.

Aquatics Center (AC) – The AC was constructed by the former RDA in 2004 and ownership was transferred to the City of Morgan Hill. The Community Services Department budget includes an annual contribution to the Building Replacement Fund for the annual depreciation of the major building and facility systems. This plan however is underfunded as the replacement schedule originally did not include some very significant pool related components. Two of the largest factors are replacement of the pool deck and pool heating components.

Centennial Recreation Center (CRC) – The CRC was constructed by the former RDA and opened in the City's centennial year, 2006. Ownership was transferred to the City which, through the annual Community Services budget contributes to the Building Replacement Fund. The expansion of the CRC in 2010 was paid for by the former RDA since the facility is located in the former Project Area and specifically included in the Redevelopment Plan. Similar to the Aquatics Center, after updating the replacement schedule it is believed the CRC's future replacement is underfunded. The largest factors in this area include adding the solar panels at the CRC to the future replacement funding.

Community and Cultural Center (CCC) – The CCC was constructed by the former RDA in 2001 and ownership was transferred to the City of Morgan Hill. The Community Services Department budget includes an annual contribution to the Building Replacement Fund in an amount equivalent to the annual depreciation of the major building and facility systems. The funding is adequate as only a small adjustment would be needed.

El Toro Youth Center – The El Toro Youth Center is leased to Community Christian who now serves as a master tenant at the site coordinating use by Alcoholics Anonymous and Narcotics Anonymous. Community Christian is currently responsible for all maintenance of the facility, but this may not be the case indefinitely and it would be prudent for the City to fund contributions for future maintenance replacement. Currently, there is no contribution to the replacement fund for the facility. It is recommended that contributions begin to be made from the General Fund.

Friendly Inn – The Friendly Inn has served the community in a variety of roles for over half of a century. It was renovated by the former RDA in 2010 as a non-profit center. It is now leased to the Boys and Girls Club of Silicon Valley for their El Toro Clubhouse. The Boys and Girls Club subleases a small portion of the building to Advent Ministries. The Boys and Girls Club is responsible for all day to day maintenance and operations, but the City still has the responsibility for capital replacement costs. Funding for future replacement would need to be allocated from the General Fund.

Outdoor Sports Center (OSC) – The former RDA purchased the land for the Center and initially leased it to the California Youth Soccer Association to operate as a regional tournament facility. In 2007 the former RDA improved the area with artificial turf fields, parking, lighting, and restrooms. The former RDA conveyed the property to the City which, in turn, has leased it to the Morgan Hill Youth Sports Alliance (MHYSA) for a community serving sports center as well as host for regional tournaments. As previously noted, a replacement schedule and annual operating funding were not initiated when the OSC came online. At the time of opening, the fees for the facility were directly related to recovering costs for operations. Including replacement funding would have more than quadrupled the user fee for use of the facility. Shortly after the initial opening, the City entered into a concessionaire agreement to operate the OSC and it was envisioned that a capital fund would be created. This did not materialize and neither the City nor the operator has contributed significantly to such a fund. In 2017, the City replaced the artificial turf fields at the OSC, without replacement funding established for the OSC, the City was forced to utilize Park Maintenance Funds to keep the facility open. The City will be transitioning to a new operator in June 2019 and City staff will be working to coordinate replacement funding within that agreement. It is still recommended the City's General Fund begin making contribution on behalf of the OSC if there is adequate funding.

City Council Chamber Building – The Council Chamber Building recently went through a \$2 million dollar renovation to become a state-of-the-art Chamber with new meeting room space, upgraded restrooms, and a new lobby area. It is utilized for City Council, commission, or other public meetings. The building is also housing a number of City staff offices. With the newly installed equipment, including state-of-the-art audio-visual systems, funding the replacement of this equipment would be prudent.

City Hall/Development Services Center (CH/DSC) - The current CH/DSC is home to the City's Administrative Services Department, Development Services Department, Engineering Division, City Manager's Office, and City Attorney's Office. The building was remodeled in 2009 using the proceeds from debt issuance. The occupants of the building pay their proportionate share of the annual debt service. The occupants also contribute annually to the Building Replacement Fund.

The Morgan Hill Library - The Library was constructed by the City of Morgan Hill and is leased to the County Library Joint Powers Authority for operations and maintenance. The capital costs were financed by a capital contribution by the former RDA and a bond issue for a portion of the costs attributable to "new growth". The library was "sized" to accommodate the planned population of the City in 2020. The annual debt service is paid from available Library Impact Fees and the General Fund. The City receives income from the library lease to the JPA which helps offset debt service.

Police Headquarters – In 2004, the City acquired an industrial building and upgraded the building to serve as an "essential public safety" building and Police headquarters. The costs were financed debt issuance. Because the facility was sized to accommodate future growth, a portion of the annual debt service is paid by Police Impact Fees. The balance of debt service is paid as an annual operating cost of the Police Department and charged to the General Fund. The General Fund receives a small amount of revenue from a lease of current excess space to a private party. The annual budget also includes contributions to the Building Replacement Fund.

Corporation Yard – The City's field crews and equipment are housed at the "Corporation Yard" at Edes Court. The land including the adjacent Community Park was acquired by the City decades ago and initially developed as the City's first wastewater treatment facility. In the 1970's, the Corporation Yard was developed with the proceeds of bonds issued by a Joint Powers Agency which included improvements for the school "bus yard" north of Edes Court. The City leases the Bus Yard site to the Morgan Hill Unified School District but is responsible for capital repairs. The City's operating funds of the utilities (sewer and water) and the annual budgets of the streets and parks operations make annual contribution to the Building Replacement Fund.

Fire Stations – As part of the transition of CALFIRE in 2013, the City financed the purchase of its two fire stations. The debt service payments are included in the Fire Department's annual operating budget and paid by the General Fund. The base level maintenance of these fire stations is coordinated by CALFIRE as part of the agreement with the City and funded through the General Fund within the Fire Department's operating budget. The City established a Building Maintenance Fund contribution of \$60,000 annually for replacement of Building Components. After the recent inventories conducted by staff, it is believed that this replacement funding can be reduced to about \$25,000 annually.

## Policy Discussion

Three of the City's recreation center's make up the largest portion of the funding gap. The Aquatics Center and Centennial Recreation Center have continually strong financial performance and replacement funding will be important to their continued success. Including the additional replacement fund costs in the annual operating budget for Recreation and Community Services would be consistent with the City's effort of "Balancing Cost Recovery and Community Access" at the City recreation facilities. In addition, the OSC has been a driver of economic development bringing hundreds of thousands of visitors to Morgan Hill annually. The City is currently negotiating an agreement with a new operator for the OSC and the need to identify future replacement funding will be incorporated into those discussions. Overall policy questions for Building and Facility Maintenance include, but not limited to:

1. Should replacement funding at facilities be expanded to fully plan for all future capital replacement and repair costs?
2. Should fees be reviewed to assist in covering additional future replacement costs at our Recreation Facilities or should the General Fund invest more annually?
3. Who should be responsible for Outdoor Sports Center Future Replacement funding? The City? The operator? Or Both?

## Downtown

Maintenance of the Downtown includes a variety of public spaces, landscaping, medians, parks and parking areas. With the recent investments in the Downtown Area, the City has increased its investment in maintaining the area at a high level. The day to day lighting, janitorial and landscaping components are coordinated through ongoing maintenance contracts. City staff from the Community Services Maintenance team regularly repair damage, remove graffiti and coordinate more complicated maintenance tasks.

### Base Service Operations

Base level maintenance services are adequately funded through the General Fund at approximately \$320,000 per year. The one area that is in need of funding is replacement of the “twinkle” tree lights on both sides of Monterey Road through the downtown. The investment to install these lights was done with one-time funding during the Downtown Placemaking Investment Strategy. The lights have been repaired multiple times, but now must be completely replaced. This funding was not budgeted and would increase maintenance costs by \$25,000 every two years.

### Capital Improvements

The major capital components that would require future capital replacement costs are the Downtown Parking Structure and the park play equipment components. Ongoing funding into a capital replacement fund for the parking garage has been included in the Downtown operating budget. As is the case for all parks, future replacement of the equipment is not funded.

Many improvements in the Downtown are still planned, including additional in-ground crosswalk lights. These enhancements will be included in the proposed Capital Improvement Plan with identified funding sources.

### Policy Discussion

To maintain the “twinkle” tree lighting on an ongoing basis, there will be an average annual cost of approximately \$12,500. The City staff had hoped that private businesses or a re-established PBID could take on the responsibility of managing the lights, but this does not appear to be likely in the near term.

- Should the City look to invest additional General Fund dollars in the Downtown to maintain the “twinkle” tree lights or continue to look for private partners to take on this task?

## Infrastructure

3 Downtown Parks

Public Restrooms

Parking Structure

Parking Lots

Public Art

Sidewalks

Medians

Landscaped Areas

Lighting

City owned retail space



# Landscape Assessment District

The LAD is made up of 20 separate sub areas that collect assessments from 757 properties that are located in the District boundaries. While the District is a single entity each of the 20 subareas must be managed independently. Proper maintenance of the properties benefits the owners. Assessment charges are collected by the County on property tax rolls and remitted to the City. The District revenues and expenses total approximately \$185,000 annually. Of these 20 subareas, 7 contain parks. Each lot within a specific subarea is assessed the same amount to obtain the level of service desired by the subarea residents.

Infrastructure Elements

20 Subareas

757 Assessed Properties

7 Parks

2 Tennis Courts

The requirement for independent financial management of each sub area requires extensive staff monitoring and management from both a contract management perspective and an accounting perspective. This work allows for each subarea to be evaluated financially. City staff has been able to further evaluate in detail the infrastructure needs and financial stability at each site.

Landscape Assessment Areas			
# of Areas	Category	Unfunded Annual Capital Replacement	Unfunded Basic Service
8	Healthy with reserve funds for infrastructure.	\$ -	\$ -
6	Stable with limited reserve funds	\$ 27,590	\$ -
6	Unhealthy with no reserve funds or declining reserves	\$ 4,800	\$ 13,450
<b>20</b>	<b>Total for all subareas</b>	<b>\$ 32,390</b>	<b>\$ 13,450</b>

## Base Service Operations

Base level maintenance services are provided based on each subarea's available funding. Many of these areas are funded and maintained well, while others are limited to weed abatement only, due to lack of funding and property owners' unwillingness to increase assessments.

## Capital Improvements

All capital funding for the facility replacement is allocated from each subarea's fund balance. Each subarea has an established fund balance reserve target based on the size, maintenance requirements, and amenities of the subarea. However, in the case of the LAD subareas which contain parks, the fund balances maintained would not be sufficient to replace or repair major park components.

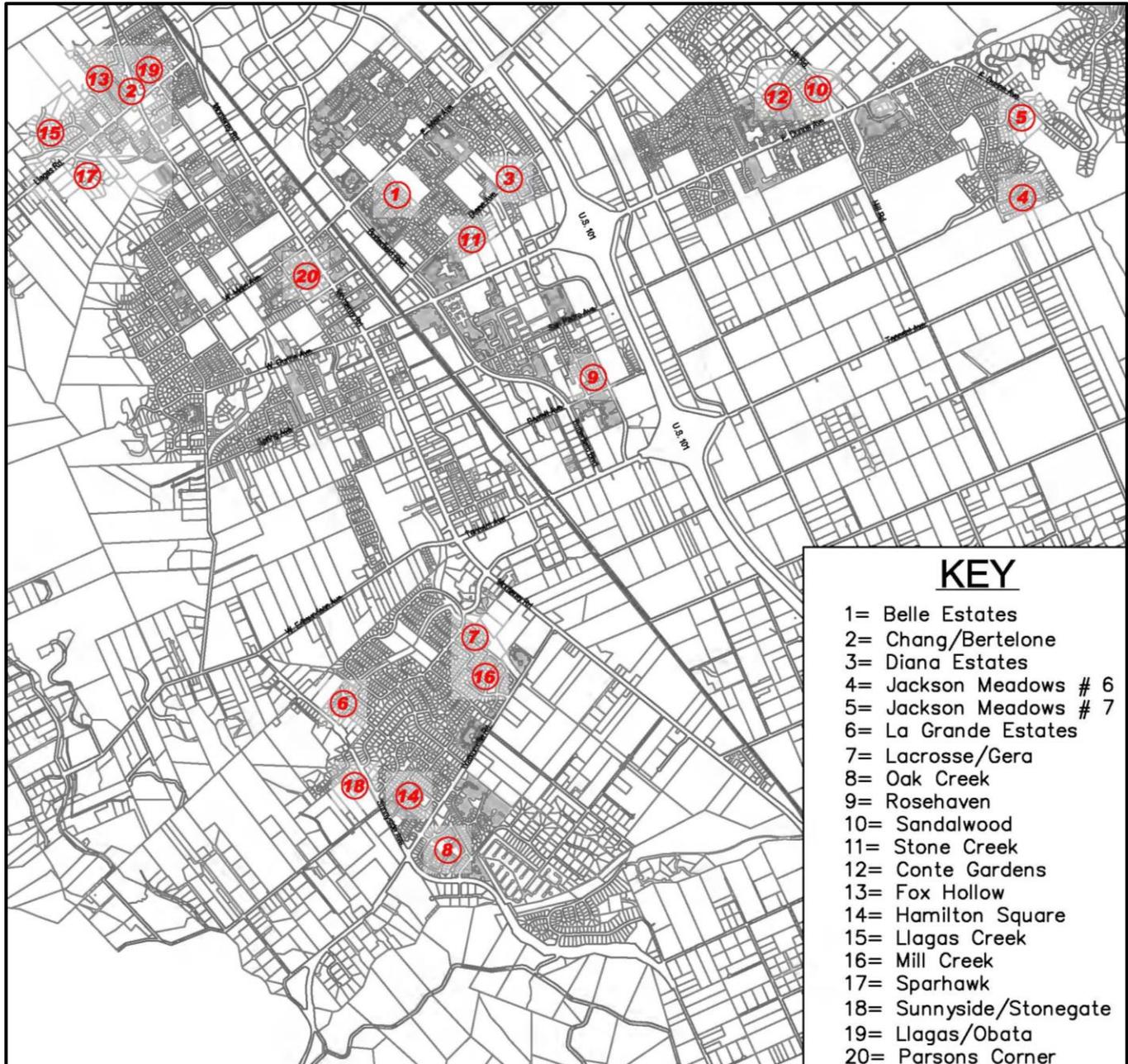
## Policy Discussion

While funding issues at any subarea are difficult, LAD subareas with parks provide a unique challenge. The parks are open and available to use for the entire community, but are paid for by a specific set of residents located in the LAD subarea. In essence, a small percent pay for amenities used by many. One example of this challenge is occurring at Diana Estates, which has a tennis court that needs significant funding to resurface and has insufficient replacement dollars. This scenario will eventually play out in other subareas. Many subareas are at the max assessment cap, which means an increase for funding would need to be approved by voters in that subarea. In the past, LAD residents have shown reluctance to increase their own assessments for increased maintenance, resulting in some subareas receiving the bare minimum maintenance services. Over the last four years City staff has worked to develop relationships with residents of many subareas and discussed increases to assessments. The residents of the Sandalwood subarea recently worked with staff to conduct a vote on raising their assessments to fund maintenance in their area. Staff will continue this outreach, but this will be a long

tedious process for each subarea. Alternate approaches to funding LAD maintenance may be necessary to prevent some sub areas from turning into empty dirt lots.

1. Should a Citywide LAD or CFD for all City owned Parks be explored?
2. Should supplemental funding be used to ensure that LAD Park resources are maintained when assessment funds do not cover the cost of maintenance and residents are unwilling to increase their assessments?

### LAD Subarea Locations



## Parks, Trails and Open Space

The City of Morgan Hill has parks, trails and open space totaling over 300 acres of which 60 are maintained. Parks in Morgan Hill are funded in one of three ways, that include:

1. City Parks and Trails – Owned by the City and funded through the Park Maintenance Fund and General Fund.
2. Home Owners Association (HOA) Parks – Privately owned and funded by residents of the HOA.
3. Landscape Assessment District Parks – Owned by the City and funded by a limited number of residents within the assessment district for a specific park.

This section refers specifically to the maintenance of the first category, which includes parks, bicycle and walking trails, and open spaces. These areas include a wide variety of amenities including: playgrounds, basketball courts, fields, tennis courts, picnic areas, lighting and many more.

### Base Service Operations

Park Maintenance activities are managed by the Community Services Maintenance Team. Maintenance functions are performed by both in-house staff and via contract. It is estimated that base level City park and trail maintenance services are funded at an adequate level to be safely used and to protect the City's assets in these areas. However, the level of service for these areas is not "top notch" and City parks would be considered at a level 3 or "Adequate" when applying the City's previously developed Park Maintenance Numeric Rating System. Increased funding of base level services could improve aesthetics and user experience, but would not considerably increase sustainability of park and trail infrastructure. It should be noted that the recently constructed Downtown Parks are being maintained in coordination with the other Downtown areas and are maintained at a higher level.

The Park Maintenance Fund relies on voluntary contributions through the City's RDCS to sustain the fund. Currently, base level park maintenance service is funded via the Park Maintenance Fund and supplemented by \$200,000 annually from the General Fund. It was previously anticipated that this strategy could be sustainable for 20 or more years. However, the recently adopted General Plan updated the City's population cap thus reducing the annual allotments for new housing. Along with reduced allocations, the RDCS competition scoring criteria was updated. The recent competition has resulted in almost no contributions committed to the Park Maintenance Fund. These developments lead staff to believe the current Park Maintenance funding strategy will deplete the Fund in less than 10 years.

### Infrastructure

22 Parks

60+ acres of  
Developed Park Land

250+ Acres of Open  
Space

3 Maintained Trails

15+ Parks with Play  
structures

10 Tennis Courts

5 Ball Fields

1 Duck Pond

## Capital Improvements

The City staff have identified over \$6 million in future replacement needs stretching over the next 50 years, with a total unfunded annual replacement cost of approximately \$586,000. No funds have been set aside for this replacement, although a past practice has been to use the Park Maintenance Fund for annually identified replacement projects. However, with the Park Maintenance Fund funding the base level maintenance and drawing down the Fund at an increasingly rapid rate, use of the Fund for capital replacement and repair projects is not sustainable.

## Policy Discussion

When unfunded replacement needs to occur in parks, it is currently viewed on an annual project-specific basis and weighted against other projects of a citywide nature. In some cases, the life cycle of equipment is extended through repairing versus replacing equipment. In other cases, a choice may be to remove an asset. For example, turf could degrade to a point where it is in poor condition, but this would really only result in a decrease in user experience. Conversely, while a playground could degrade to a point where it must be removed for safety standards and, if not funded, would not be replaced. This funding shortfall for future replacement and repair of City Parks is a new discussion. Some policy questions that should be explored in this area include, but are not limited to:

1. Should a replacement/repair fund be established and funded for future park maintenance needs?
2. Should it be a goal for the existing Park Maintenance Fund to be utilized for this purpose?
3. Should a new revenue source for parks be explored? These may include tax revenue or assessments through a LAD or CFD.

The updated Bikeways, Trails, Parks and Recreation Master Plan sets ambitious goals for park development, most notably the plan to construct the new Magical Bridge Playground, which may cost \$30,000-\$50,000 annually to maintain. While improved park maintenance and new park facilities support many of the Council's priorities, including economic development, alternate strategies for park development may need to be considered.

4. Should future park development be slowed until sustainable funding for existing parks can be established?
5. Should the new Magical Bridge Inclusive Playground be planned for funding within the City's General Fund to account for the unsustainability in the Park Maintenance Fund?
6. Should the new Magical Bridge Inclusive Playground be funded at a level to support enhanced maintenance?

City Parks and Trails	Annual Unfunded Replacement
Community	\$224,557
Galvan	\$109,352
Paradise	\$38,106
Diana	\$31,052
Nordstrom	\$47,407
Jackson	\$17,201
Howard Weichert	\$7,235
Sanchez	\$3,188
Skate Park	\$23,219
Civic Center	\$47,026
Trails	\$37,429
<b>Total</b>	<b>\$585,771</b>

## Storm Water Collection System

The City is responsible for maintenance of the Storm Water Collection System that transfers rain water from the developed areas of the City into our local creeks. Day to day maintenance is managed by the Community Services Maintenance Team in coordination with general street maintenance, the Engineering Division is responsible for improvement projects that expand or rehabilitate the System, and the Environmental Programs Division is responsible for managing the City's storm water pollution prevention programs.

### Base Service Operations

Funding for the day to day operations management of our storm drain systems is primarily supported by the General Fund and has been adequate with the exception of future replacement funding for storm drain pumps and funding for inspections. These funding issues are outlined in the Streets and Sidewalks Section of this report.

### Capital Improvements

Capital projects that expand the City's system are funded through impact fees. The City has reserved several million dollars in the Storm Drain Impact Fund to support connection to the upcoming Upper Llagas Creek Flood Control Project. The Flood Control Project is managed and funded by the Santa Clara Valley Water District, but once completed, the City plans to connect to the new system. This project will eliminate the majority of the flooding issues for the City.

Funding for capital improvements relating to rehabilitation to the storm drain system cannot be funded through impact fees. The City previously received fees from developers for storm drain rehabilitation. There are no dedicated capital funding sources for rehabilitation and major rehab projects would need to identify funding on a project by project basis.

The City is regulated by the State Water Resources Control Board in regard to storm water pollution prevention. In 2015, the Board adopted the Statewide Trash Provisions which will eventually require the City to install, operate, and maintain State-certified devices that capture all trash down to 5 millimeters in size from Priority Land Use areas including industrial, commercial, mixed-use, high-density residential and public transportation stations. It is anticipated these provisions will be adopted in 2019, with a ten-year period to complete improvements relating to compliance by 2029. Although this is far into the future, planning on this issue is important as the improvements related to the provision could be extend into the range of millions of dollars.

### Policy Discussion

The State of California recently passed State Senate Bill 231, which redefines "sewer" to include storm water, which in turn allows the charge of a fee for the management of the storm water systems. The intent of the legislation is to allow cities and counties to establish fees for storm water systems, versus having to pass ballot measures to establish a tax for this purpose. No Cities have utilized the provision of the new law, but a group of large Cities is working together to implement, as law suits relating to the validity of the new law are anticipated. If SB 231 stands up to legal scrutiny, it could be an excellent option to fund the future needed capital improvements and potentially even operations.

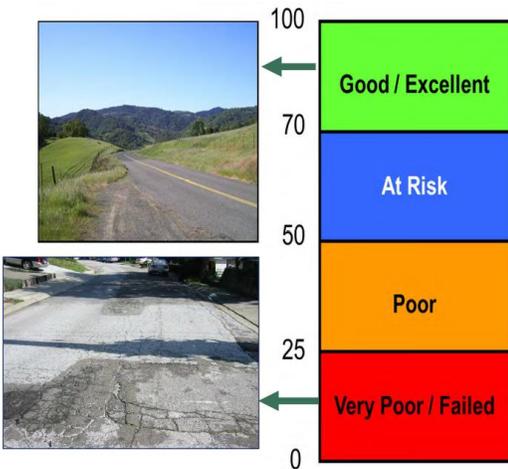
# Streets and Sidewalks

The City Council has identified the “Streets Infrastructure” as a vital community element and over the last several years has devoted significant amounts of General Fund reserves to pavement maintenance. The City has approximately 128 miles of local streets with a variety of attached ancillary elements including: street trees, traffic signals, signs, curb & gutter, streetlights, bridges, medians and planters, furnishings, guard rails, parking lots, and sidewalks. It should be noted that maintenance of the City’s Storm Drain System is not included in this section of the report and is discussed independently in the previous section. Management of the streets and sidewalk infrastructure is broken into two areas;

- Base Level Operations – Day to day routine operations
- Capital Repairs and Improvements – Large projects, including the pavement rehabilitation program

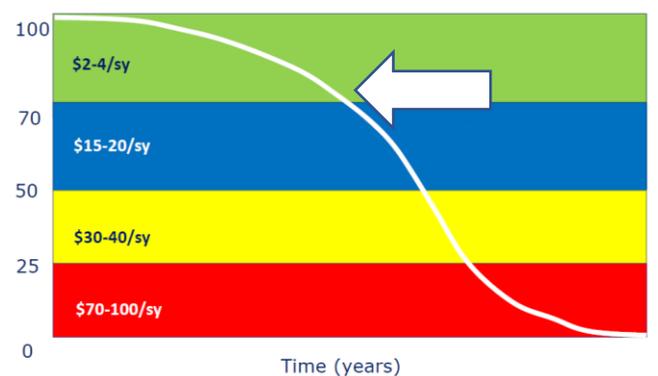
## Infrastructure

- 128 Miles of Streets
- 3,700 Street Lights
- 45 Traffic Signals
- 60 Acres of Maintained Parks
- 13 Public Facilities
- 18 Sports Fields
- 4 Swimming Pools



The greatest concern in the area of street maintenance continues to be the degradation of the streets themselves. Evaluating the condition of the City’s Streets is accomplished using the Pavement Condition Index (PCI). The City via grants from the Metropolitan Transportation Commission (MTC) has regularly received consultant generated Pavement Condition Reports. The last report received was conducted in early 2017. The City had anticipated conducting the report in 2019, but was recently informed by the MTC that the grant issuance would move to a three-year cycle due to limited funding. This means the City will next receive a report in early 2020. In the 2017 report, the weighted PCI for the City’s roadway network was 72, down from 76 in 2012. The current backlog of street maintenance is \$23.2 Million.

At the current level of funding, the City’s weighted PCI will continue to fall. Since it costs less to maintain roads in good condition than bad, investing early to keep the weighted PCI higher is critical. As demonstrated in the chart to the right, the maintenance cost grows much faster as the PCI drops. Once a roadway deteriorates to the point of failure the only option is complete roadway replacement.



## Funding

The City funds ongoing base service street maintenance activities through the General Fund and Gas Tax Revenue, while the capital pavement rehabilitation program is funded primarily through the streets fund which receives revenues from gas taxes, vehicle registration fees (via VTA) and the One Bay Area Grant. Over the last six years, the City has supplemented capital funds with significant dollars from the General Fund. Two new significant funding sources have been established through the passage of VTA Measure B to increase the sales tax in Santa Clara County and SB 1 which increases the gas tax. New funding from these sources should increase funding for pavement rehabilitation projects by approximately \$1.6 million annually. Both funding sources are not guaranteed to date, with Measure B being challenged in court and an initiative to repeal SB1 likely to head to voters in November of 2018.

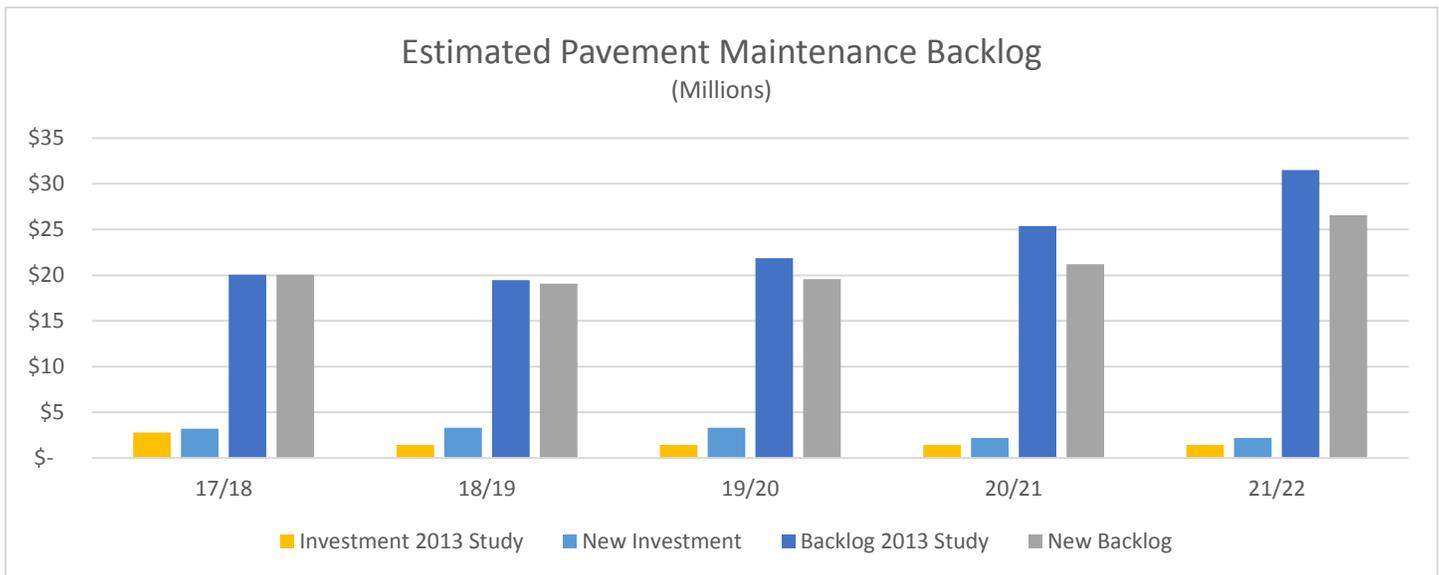
## Base Service Operations

The Community Services Maintenance Team is responsible for the day-to-day maintenance of streets and associated infrastructure for the City. A combination of City employees and contract services are used to perform regular street maintenance. In 2013 Sustainable Streets Study was conducted that looked holistically at base level operations for streets and associated infrastructure elements. The report identified several service areas that were unfunded, this total included annual funding of \$368,000 and one-time funding of \$107,000. However, through increased investment authorized by the City Council and innovative improvements in maintenance operations these unfunded programs have been significantly reduced over the last several years as detailed in the following table (amounts in thousands).

<b>Unfunded Base Maintenance Services</b>	<b>Annual</b>	<b>1-time</b>	<b>Notes</b>
<i>Downtown Park Lot Slurry &amp; Striping</i>			Funded ongoing through Parking Lot CIP Program.
<i>Concrete/Brick Paver Repairs</i>			Some locations repaired in DT Streetscape Project. Ongoing spot repairs funded in Downtown Maintenance budget.
<i>Sidewalk Repairs</i>			Funded through sidewalk CIP Project annually.
<i>Curb &amp; Gutter Repairs</i>			Funded through sidewalk CIP Project annually.
<i>Repaint Colored Curbs</i>	40		Not funded, annual funding needed.
<i>Replace Aging Wood Streetlight Poles</i>	15		Not funded, annual funding needed.
<i>Renovate Medians</i>	30		Not funded, annual funding needed.
<i>Repair &amp; Renovate Brick Planters</i>			Some locations repaired in DT Streetscape Project. Ongoing spot repairs funded in Downtown Maintenance budget.
<i>Prepare &amp; Maintain Street Tree Inventory</i>	10		Partially funded. Inventory has been prepared by consultant, resources for coordination and management are not present.
<i>Remove/Replace Street Trees</i>	38		Tree removal and replacement are done retroactively versus proactively.
<i>Regular Street Tree Trimming 5 Year Cycle</i>			Funded.
<i>Storm Drain Pipe &amp; Culvert Inspection &amp; Repair</i>	10	25	Not funded. Repairs performed as time and funding permits.
<i>Storm Drain Pump Station Future Replacement Funding</i>	50		Not funded.
<b>Total Unfunded Base Level Services</b>	<b>193</b>	<b>25</b>	

## Capital Improvements

Capital improvements for street maintenance are managed by the Engineering Division through the City's Capital Improvement Program. Over the last four years, the City has invested one-time grant dollars augmented by General Fund dollars to increase the amount of funds used on pavement rehab projects. The City is anticipating both Measure B funding and SB1 funding in the coming years. City staff have utilized the information from the 2017 Pavement Condition Report along with proposed increased funding to anticipate the future backlog for the next six years. The next chart outlines these estimates.



As is demonstrated in the chart the increased funding related to the new measures slows the growth of the pavement maintenance backlog. Instead of reaching \$31.5 million in Fiscal Year 21/22, the backlog is estimated to only grow to about \$27 million. To maintain the current PCI (72) and try to stabilize the backlog of work approximately \$4.5 million in funding would be necessary. To increase the PCI by five points (to 77) and reduce the backlog approximately \$6.1 million in funding would be required.

Investing at a level that increases PCI from its current condition is important, because investing enough to just maintain the current PCI will not reduce the backlog of maintenance and will end up costing the City more in the long run. It is also important to note that investing in the capital pavement rehabilitation component directly impacts base level operations. As the streets deteriorate, increasing amounts of maintenance resources will be necessary to make interim repairs (filling pot holes, etc.). As more resources are needed to support interim street repairs, other service areas will need to be reduced.

#### Policy Discussion

To eliminate the backlog of street maintenance and fulfill base operational needs relating to street maintenance over \$2.4 million annually will be needed to be dedicated to this purpose. Although the recent increased funding from Measure B and SB 1 will provide for much needed maintenance, the City's streets will continue experience declines in condition, which will in turn begin to impact and increase the resources needed for base level operations and the deferred maintenance for streets will continue to grow. This degradation and funding backlog will only continue to mount unless a new sustainable revenue source can be identified, current General Fund services are significantly reduced and funding is reallocated to streets, or new revenue can be generated.

1. Should General Fund discretionary revenues be prioritized to support street maintenance, which would require reduction in other services?
2. Should the City explore the development of a new tax revenue source?

# Wastewater System

The City's Water and Wastewater systems are the critical components in ensuring health and safety of the Morgan Hill Community. The System also is critical to achieving the City's economic development priority, serving commercial and industrial users. The City provides sewer collection services to approximately 12,400 residential, commercial, industrial, and institutional accounts. The City's collection system consists of approximately 158 miles of up to 30-inch gravity sewer pipes, which includes part of the Morgan Hill-Gilroy Joint Sewer Trunk, that convey flows to the South County Regional Wastewater Authority (SCRWA) Wastewater Treatment Plant (WWTP), located southeast of the City of Gilroy.

The City's Utilities Division manages the day to day operations utilizing experienced and knowledgeable staff to manage the system. The day to day operations are guided by the Sanitary Sewer Management Plan, recently adopted in February 2018.

The Utilities Division coordinates with the Engineering Division and consultants to plan for major capital projects associated with repair, replacement and expansion of the system. In follow-up to the City's recent General Plan Update, the City Council adopted the 2017 Sewer System Master Plan. This plan identifies significant projects in the coming years. During adoption it was anticipated the funding options for these improvements would be reviewed during the 2018/19 Capital Improvement Budget process.

## Infrastructure

- 12,400 Connections
- 158 Miles of Sewer Lines
- 14 lift stations
- 3,284 manholes
- 2.9 miles of force mains
- 23 siphons

Project Type	Relief Trunk	Suggested Expenditure Budget <sup>1</sup>			
		General Plan Horizon			
		Near-Term	Intermediate Term	Long-Term	
		2018-2020	2021-2025	2026-2030	2031-2035
Pipeline Capacity	\$27,823,301	\$3,030,098	\$2,133,295	\$1,807,775	\$0
Infiltration and Inflow		\$782,921	\$0	\$0	\$0
Rehabilitation		\$8,848,893	\$5,731,826	\$0	\$0
Joint Trunk Condition Assessment		\$200,000	\$0	\$0	\$0
Comprehensive Plan Updates		\$400,000	\$400,000	\$400,000	\$400,000
CCTV-Sewer System		\$380,160	\$633,600	\$633,600	\$633,600
Currently Planned Projects		\$28,420,000	\$26,150,000	\$0	\$0
<b>Total</b>	<b>\$27,823,301</b>	<b>\$42,062,072</b>	<b>\$35,048,721</b>	<b>\$2,841,375</b>	<b>\$1,033,600</b>
<b>Cumulative Cost</b>	<b>\$27,823,301</b>	<b>\$69,885,373</b>	<b>\$104,934,093</b>	<b>\$107,775,469</b>	<b>\$108,809,069</b>



8/15/2017

## Funding

Wastewater System Operations are funded through fees for service to users of the system. Capital projects associated with the expansion of the system are funded through Impact Fees to developers as new construction is connected to the system. A Comprehensive Rate Study was completed and approved by the City Council in January 2016. The 2016 rate study did not include projects from the 2017 Sewer Master Plan. In addition, it is important to note that since the rate study was conducted several new developments have occurred that may require the fee study to be revisited. These developments include:

- Infiltration and Inflow (I&I) Projects – Due to recent sewer overflows the City has begun a systemwide assessment to fully identify I&I issues within the system. This assessment will result in several rehabilitation projects that were not identified in the previous rate study.
- Relief Trunk Line to Treatment Plant – Also in relation to the overflows, the design of a second relief trunk line to the treatment plant in Gilroy was accelerated. This project, estimated at \$30 Million, would be funded 25% by rate payers.

An update of the City’s Impact Fees is currently underway based on the updated Sewer System Master Plan, this update is taking recent needs into consideration. In addition to the Relief Trunk Line costs, the City anticipates Morgan Hill’s share of the expansion of the Wastewater Treatment Plant to cost \$30 million.

Base Service Operations

In operation of the Wastewater System, the Utilities must follow requirements outlined by the State Water Resources Control Board. The recently adopted Sanitary Sewer Management Plan (SSMP) is required for operations. Wastewater operations have been traditionally funded at adequate levels and rates have been adjusted to meet the needs of operating the System. Driven by both the SSMP and increases I&I staff is proposing some operational enhancements such as improving business systems and upgrading field equipment. These include a work order system, CCTV Truck, and specialized off-road sewer flushing equipment. Additionally, the Division intends to conduct most of the I&I assessment utilizing “in-house” staff. Upgraded equipment and technology provides for increases in efficiency and will allow existing staff within the Division to conduct this increased work.

**"Infiltration and Inflow"**  
 Inflow and infiltration or I & I are terms used to describe the ways that groundwater and stormwater enter into dedicated wastewater or sanitary sewer systems. Inflow is stormwater that enters into sanitary sewer systems at points of direct connection to the systems. Various sources contribute to the inflow, including footing/foundation drains, roof drains or leaders, downspouts, drains from window wells, outdoor basement stairwells, drains from driveways, groundwater/basement sump pumps, and even streams. These sources are typically improperly or illegally connected to sanitary sewer systems. Infiltration is groundwater that enters sanitary sewer systems through cracks and/or leaks in the sanitary sewer pipes. Cracks or leaks in sanitary sewer pipes or manholes may be caused by age related deterioration, loose joints, poor design, installation or maintenance errors, damage or root infiltration.

Capital Improvements

Aging infrastructure is an issue the City is facing in multiple areas; however, the City’s wastewater system must be prioritized. With much of the infrastructure out of sight, the ongoing planning and evaluation is critical. The current Master Plan calls for \$109 million in projects to be funded through 2035, including approximately \$52 million funded through ratepayers and \$57 million funded through impact fees.

The urgent projects relating to I&I, the Relief Trunk Line, and the Treatment Plant Expansion are all priorities that must continue to move forward. At the same time, City staff will be recommending that alternate options for expanding capacity be analyzed. This would include how future recycled water developments could impact the timing of the need for the Treatment Plant Expansion and Relief Trunk Line construction. In coordination with this analysis, staff will also be recommending a full assessment of the existing trunk line in relation to capacity enhancements and rehabilitation needs.



## Water System

The City's municipal water system provides service to approximately 14,072 residential, commercial and industrial customers. The City's Water and Wastewater systems are the critical components in ensuring health and safety of the Morgan Hill community. The System also serves as the key component for fire response through the network of fire hydrants located throughout the City. The City's water system consists of approximately 165 miles of pipeline throughout the City.

The City's Utilities Division manages the day to day operations managing both water and wastewater system operations. The City's Finance Division manages the billing of both water and wastewater. The Utilities Division partners with the Engineering Division and consultants in planning for major Capital Improvement Projects. In follow-up to the City's recent General Plan Update, the City Council adopted the 2017 Water System Master Plan. This plan identifies significant expansion and some rehabilitation projects in the coming years. During adoption of the plan, it was noted the funding options for these improvements would be reviewed during development the 2018/19 Capital Improvement Budget process.

### Funding

Operation of the Water System is funded through an enterprise fund, receiving fees for service from users of the system. Capital projects that expand the system to accommodate growth are funded through Impact Fees charged to developers as new construction is connected to the system. A comprehensive rate study was completed and approved by the City Council in January 2016. An update of the City's impact fees is currently underway based on the updated Water System Master Plan, this update is taking recent needs into consideration.

### Base Service Operations

Similar to the City's wastewater system, funding for the water system operations have been adequate to address the day to day system management needs. Rates were adjusted to meet the needs of operating the System. The greatest needs for enhancements relate to technology and equipment upgrades to support ongoing system management. The Utilities Division recently completed upgrades to its metering system bringing online fully deployed Advanced Metering Infrastructure. This deployment was completed with existing "in-house" staff over a four-year time period. Upgraded equipment and technology provides for increases in efficiency and will allow existing staff within the Division to conduct work related to major projects such as this.

### Capital Improvements

In 2014, the City issued bonds to fund several water rehabilitation and expansion projects. The bond proceeds were utilized in the rehabilitation of two wells, the construction of one new well, along with the other rehabilitation and transmission line projects. However, due to very large increases in construction costs over the last several years, the bond funds did not fund as many projects as were anticipated. The most notable project that adequate funding was not available for was the new East Dunne Water Reservoir and associated pump station. This project is needed to increase the capacity for future growth within the City and to improve service and safety to those in the east hills. The increased construction costs are not an issue exclusive to Morgan Hill and have been seen across the country but are even more severe here in Silicon Valley.

## Infrastructure

17 Groundwater Wells

10.5 Million Gallons in Storage

20 Pressure Zones

12 Storage Tanks

9 Pumping Stations

165 Miles of Pipeline

The table to the right outlines the proposed water system future capital projects. In total \$48.4 million in water system capital improvements have been identified, \$16.8 million allocated for existing ratepayers and \$31.6 million to be funded through impact fees.

Policy Discussion

The funding considerations associated with the Water System are similar in nature to those for the Wastewater System, in that the recently adopted Water Master Plan identifies significant projects for the system. The Water Utility is underfunded for both expansion and rehabilitation projects. However, the projects tend to be weighted more heavily towards expansion. Consequently, City Council will need to consider increasing water impact fees. Like Sewer, staff is also recommending that a rate study be conducted for the Water Utility to determine the rate changes needed to support the rehabilitation component of the capital program.

Project Type	Suggested Expenditure Budget <sup>1</sup>			
	General Plan Horizon			
	Near-Term	Intermediate Term	Long-Term	
	2018-2020	2021-2025	2026-2030	2031-2035
Pipe	\$4,427,213	\$4,450,858	\$3,825,186	\$5,749,896
Tank	\$3,087,596	\$1,816,233	\$6,756,385	
Well				\$7,909,200
Pump Station	\$2,197,900	\$1,881,759		
Valve	\$79,937			
Comprehensive Plan Updates	\$400,000	\$400,000	\$400,000	\$400,000
Currently Planned Projects	\$4,190,000	\$450,000		
<b>Total</b>	<b>\$14,382,645</b>	<b>\$8,998,850</b>	<b>\$10,981,572</b>	<b>\$14,059,096</b>
<b>Cumulative Cost</b>	<b>\$14,382,645</b>	<b>\$23,381,495</b>	<b>\$34,363,067</b>	<b>\$48,422,162</b>



7/2/2017

Additionally, the Water Utility has not programmed dollars into its capital improvement program to specifically support the development of recycled water in the City. The policy question for City Council is should recycled water be added to the capital program or should the City continue to rely on Santa Clara Valley Water District or grants to move the needle in this area.

Future East Dunne Reservoir

