THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 4b

Status of City's Performance Measurement Program

OVERVIEW

At the Budget and Finance Committee meeting of June 23, 2010, the IBA recommended the discontinuation of the annual Statement of Budgetary Principles and suggested possible changes to the City's Budget Policy in its place.

The IBA proposed to develop possible amendments to the City's Budget Policy to address any issues that were intended to be covered by the Principles which may have not yet been incorporated in the City's Budget Policy, including Council notification of Mayoral budgetary reductions, and a more robust implementation of performance measures.

At that time, the Committee requested the IBA work with the Administration and return to the Committee with an update on performance measures in September 2010. Councilmember DeMaio requested the IBA come back with four to five key measures from departments to determine their current status. Chair Young requested a draft proposal to augment the Budget Policy. Councilmember Emerald requested the IBA create a time table to track progress.

This report provides an update regarding the status of the City's Performance Measurement Program, and discusses future changes under development related to performance measures and reporting. Discussions with the Mayor's Office, including the Chief Operating Officer, the Chief Financial Officer and the Assistant Chief Operating Officer have been productive. However, at this time we are not recommending language changes to the Budget Policy regarding performance measures. Alternatively, this report outlines a proposal agreed to by the Mayor to incorporate Interim Budget Measures into the upcoming Fiscal Year 2012 budget process.

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FISCAL/POLICY DISCUSSION

Since the creation of the office, the IBA has worked consistently and diligently to assist with the development of and recommending continual improvements to the City's performance measurement program. Performance measures and service levels are a key component of the budgeting process, and are a valuable tool in communicating expectations and results of City services, effectively showing how City resources are utilized, to City management, employees, and citizens.

City Management Program

According to its goals and mission, the City Management Program (CMP), within the Business Office, integrates strategic planning and performance monitoring efforts with the budget decision-making process, in order to create a more strategically oriented organization that optimizes its operations to serve the City's residents in the most effective and efficient way possible. The CMP is designed to infuse accountability for performance into City services at every level of the organization. In addition, the CMP is intended to improve communication throughout the City, instill accountability, and support data-based decision making.

Under the direction of the CMP, performance measures were incorporated into the annual budget process for the Fiscal Year 2009 budget. Prior to that time, very little service level information was provided in recent years to the Council in the annual budget documents. During the budget hearings for Fiscal Year 2009 and Fiscal Year 2010, City Council Members effectively utilized the data provided in the budget documents to discuss service levels with City management and department staff during public meetings, and were able to gain a more thorough understanding of potential impacts to departmental performance due to pending budgetary decisions.

Linking Performance Measures to the Annual Budget Process

In October 2009, the City Council adopted the Budget Policy (Council Policy 000-02). The IBA's review of the Budget Policy (IBA Report No. 09-83) included discussion describing that the connection among Mayoral/Council priorities, performance measures and the annual budget process needed to be strengthened. It was discussed that this connection needed to be more fully developed. Relevant sections of the Budget Policy currently lack specificity as to the respective roles of the Mayor and City Council in determining budgetary priorities, and evaluating and monitoring performance measures.

Suspension of Performance Measurement Program

Recently, the reporting of performance measures has been discontinued. As noted in the Proposed Fiscal Year 2011 Budget Document issued in April 2010, "budget narratives include only the following sections: department description, Fiscal Year 2010 goals and objectives, and service efforts and accomplishments for every Mayoral department. **New goals and objectives for Fiscal Year 2011, performance measures, and sizing/workload data have <u>not</u> been included because of changes resulting from mid-year budget reductions and updates being made to the City's Strategic Plan.** Implementation of changes resulting from mid-year budget reductions will occur in phases during the remainder of Fiscal Year 2010, making it difficult to provide reliable projections of service levels and performance targets. In addition, current efforts

to update the City Strategic Plan will likely result in new City goals, objectives, strategies, and performance measures."

Proposed Interim Budget Measures for FY 2012

As a result of significant FY 2010 mid-year budget reductions and related operational changes, an effort is underway by management to update the City's Strategic Plan which will likely alter the City's objectives, strategies and performance expectations for FY 2011 and beyond. During this transition, as reported at the Budget and Finance Committee meeting in June, the Mayor had planned to suspend the inclusion of performance measures as part of the budget process and not include them in budget documents for the current year as well as FY 2012. Performance measures were expected to become available for the FY 2013 budget process, following completion of the Strategic Plan update.

The IBA recently had discussions with the Mayor's office about providing "Interim Budget Measures" during this suspension, for the FY 2012 budget process and budget. These Interim Measures would consist of two to six key measures per service area (depending on the size of the department) to be identified by the Mayor and reviewed with the Budget and Finance Committee for input. The data requested of the department measures would include FY 2010 actuals and FY 2011 estimated results.

We have asked that the Mayor's FY 2012 Proposed Budget document, which will be available in April 2011, include these interim measures and the related data to help inform the Council and the public about key community services throughout the budget process. And, it is also proposed that this information be included in the Final FY 2012 budget documents.

The Mayor has agreed to provide Interim Budget Measures as requested for the FY 2012 budget process and to include them in the FY 2012 Proposed and Final Budget Documents. He has also agreed to review, in advance, the list of selected measures with the Budget and Finance Committee to solicit their input.

This interim process will allow for meaningful information to be provided to the Council and community without overburdening departmental staff, while management reassesses the City's Strategic Plan and develops more comprehensive performance measures for the future.

Once the Mayor's office has completed their comprehensive review of the Strategic Plan process and has identified more permanent measures and the related processes, we will focus on updating the Budget Policy as appropriate.

Continuation of Statement of Budgetary Principles

On July 26, 2010, the City Council approved the FY 2011 Statement of Budgetary Principles concurrently with the adoption of the FY 2011 Appropriation Ordinance, in order to guide budget communication and related actions in the absence of alternative proposals. The IBA supports the continued utilization of the Statement of Budgetary Principles, until performance measures are fully developed and can be relied upon to effectively quantify and monitor City services, on a regular basis.

The IBA believes that a robust performance measurement program can provide meaningful data to the City Council and the public to assure that City services are being provided in the most efficient and effective manner. Once fully implemented, it is our expectation that performance measures will serve as a communication tool that will provide a transparent and accurate record of City operations that will instill confidence in the Council and public, and will eventually eliminate the need for a Statement of Budgetary Principles in the future.

CONCLUSION

In June 2010, the IBA proposed to develop possible amendments to the City's Budget Policy to address the issues of Council notification of Mayoral budgetary reductions, and performance measure implementation. The IBA had previously noted that the Budget Policy lacks specificity as to the respective roles of the Mayor and City Council in determining budgetary priorities, and evaluating and monitoring performance measures.

Recently, the City's performance measurement program had been suspended as the City has grappled with budgetary reductions, and works to structurally balance its budget. The Mayor had planned to not include or report performance measures for FY 2011 and 2012, and performance measures would become available again for the FY 2013 budget process, following completion of the Strategic Plan update.

We have asked that the Mayor's FY 2012 Proposed Budget document, which will be available in April 2011, include Interim Budget Measures to help inform the Council and the public about key community services throughout the budget process, and the Mayor has agreed to provide them as requested for the FY 2012 budget process and to include them in the FY 2012 Proposed and Final Budget Documents.

This interim process will allow for meaningful information to be provided to the Council and community, without overburdening departmental staff, while management reassesses the City's Strategic Plan and develops more comprehensive performance measures for the future.

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