CITY OF SAN JOSE - MEMORANDUM

TO: **Honorable Mayor and City Council** **FROM:** **Debra J. Figone**

SUBJECT: **Performance-Based Budgeting And Results-Driven Service Delivery** **DATE:** **April 7, 1999**

APPROVED: DATE:

RECOMMENDATION

Approve proceeding with the integrated approach to performance-based budgeting and other results-driven practices subject to adoption of the related FY 1999-2000 budget proposal.

BACKGROUND

The City of San Jose is recognized as a leader in many areas, receiving national recognition for many individual programs. On an ongoing basis, the City is committed to excellent customer service in providing a multitude of diverse services for the third largest City in California.

At the same time, expectations of the City's stakeholders and customers continue to rise. The public increasingly expects high quality, cost effective services, and wants to see the linkage between their tax dollars and the services they receive. In short, the public wants the City to be accountable for providing the right services in a high quality, cost-effective manner.

Reflecting this public sentiment, Mayor Gonzales, in his FY 1998-99 mid-year and FY 1999-00 budget messages, directed the Administration to incorporate performance measures in augmentation requests. The direction recognized that performance measures enable the City Council to make decisions based on the link between expenditures and results.

This staff report presents background information that will be discussed in more detail at the Committee of the Whole (COW) on April 15, 1999. The staff report and the COW are intended to present to the City Council an

approach to analyzing service needs and delivering services that will provide policymakers and the public with the information necessary to make sound decisions about investments and improvements in City services. The approach integrates the best practices from the City's improvement and effectiveness efforts into an ongoing means of delivering services that links customer needs with results.

ANALYSIS

Common Direction

In an era of rising expectations and limited resources, policymakers must be able to make wise decisions about the services the City provides. Just as importantly, to maintain public trust we must be able to communicate meaningful information about the quality and cost-effectiveness of City services. We must be able to change service delivery when customers' needs change or when improvements in quality and cost are possible.

Fortunately, the City is in a position to build on previous successful efforts to address these fundamental needs. Over the years, the City has engaged in many efforts to improve services, through both ongoing programs such as Continuous Improvement (CI) and through targeted New Realities initiatives, such as public-private competition; program and performance-based budgeting; program sunsets; civil service reform; and group-based pay. These efforts have achieved meritorious individual results; however, they are somewhat separate and dispersed throughout the organization.

Under this integrated approach, we will build on the best practices from previous efforts and incorporate them on a citywide scale. The City organization, including all Council Appointees, will move to performance-based budgeting and use the information developed through that process to manage and improve service delivery at all levels of the organization.

Guiding Principles

Drawing upon the successes and lessons learned in previous efforts, we will embrace the following key principles as we incorporate these practices:

- **Employee involvement and partnership** – Employees at all levels of the organization will be involved in determining what services to provide and how best to provide them. This effort must be a partnership between management, employees and the City's bargaining groups.
- **Meaningful, useful, and sustainable information** – The information collected and reported must be meaningful and useful to stakeholders and customers and must be sustainable to collect and use over the long-term.
- **Commitment, capacity and communication** – The success of this effort requires the commitment of elected and appointed leaders and of employees at all levels of the organization. It also requires ensuring the capacity to transform the organization while providing ongoing services and timely, consistent communication with stakeholders.
- **Learning before scorekeeping** – Expectations need to be challenging, but realistic and reasonable. It will take time to learn what needs to be improved and how to communicate results. A primary purpose of performance measures will always be to learn and improve, as well as to ensure accountability.

The Approach to Results-Driven Service Delivery

Attachment I presents the general components of this approach to results-driven service delivery. Initially, departments and offices will undertake the components in a sequential manner. Ultimately, the components will become integrated in the City's way of doing business in a more dynamic way, allowing the organization to anticipate and respond to changes in customers' needs and available resources. The components of the approach include:

- Prepare the Organization
  Identify what it will take to better serve the community.

- Align to Mission
  Determine if we are delivering the services the community wants.
- Developing Measures
  Assess if our results are meeting the community's needs.
- Identifying Opportunities
  Determine if there are better ways to deliver the highest quality, most cost-effective services to the community.
- Manage for Results
  Use results to make decisions about service delivery, resources, and rewards.

Prepare the Organization

At present, we are in the stage of preparing the organization as a whole. The groundwork for this stage was laid through considerable research, the implementation of pilot projects, and an assessment of similar efforts in other jurisdictions. The approach builds upon the City's success and incorporates best practices from other jurisdictions.

This is the stage to establish the commitment of the City's elected and appointed leaders to both leading the effort and to using the information to drive service delivery. It is also the time to recognize the investment it will take to transform the organization and to create the capacity to make that investment. Because the success of this effort depends on the involvement of all City staff, it is important to communicate early and often with employees.

As this effort is launched in each department, they must also prepare their own organizations by focusing on commitment, capacity and communications.

Align to Mission

This step sets the context for developing performance measures and is key to obtaining meaningful results. In aligning to mission, we answer the questions: Are we doing the *right work*? Are we delivering the services that our customers want and need? Only after this question is answered is it

possible to know if we're doing the *work right* – which is the purpose of performance measures. Departments will undertake a process to reexamine their core services with respect to customer needs and to their departmental mission. They will identify any gaps between the provided services and customers' needs. In doing so, their core services will emerge as a tangible indication of the services they provide – the *right work*. Because this assessment occurs eventually at all levels of the organization, all employees are better able to understand how their responsibilities contribute to the department's mission.

Develop Measures

Once departments know they are doing the right work, they will determine if they're doing the work right. Performance measures enable employees to track results, to improve service delivery, and to communicate their results with others. Thus, employees at all levels will be involved in developing performance measures that are meaningful, useful and sustainable.

Performance measures will focus on results rather than efforts and will present a balanced picture of performance. While allowing for different needs in departments, a consistent set of measures will be developed to communicate to the City Council and the public. These measures will address quality, cycle time, customer satisfaction, and cost.

Identify Opportunities

As we assess the services we provide, we will identify opportunities for improvement. Although for this discussion, this step appears after "Develop Measures," we may identify opportunities at any point in the process. Equipped with reliable, useful information about services and performance, departments will conduct ongoing self-assessments to identify opportunities for improvement. The opportunities may involve re-designing processes, evaluating alternatives for providing the services, assessing the competitiveness of the service relative to other providers, and/or undertaking managed competition to determine the highest quality, most cost-effective service delivery method.

Manage for Results

This step represents the manner in which the City of San Jose uses results to make decisions, to allocate resources, to ensure accountability, and to continually improve. In addition to aligning vertically within departments, a parallel effort will focus on aligning internal support systems across departments and aligning cross-departmental functions (i.e., programs and responsibilities shared by multiple departments).

Implementation Plan: Milestones

The proposed implementation schedule covers a three-year period during which the departments and offices of all Council Appointees will move forward collectively toward performance-based budgeting and toward using results to manage service delivery. It is important to note that while all departments will move forward toward the citywide milestones, the pace of implementation may vary ultimately among departments depending on unique challenges and unanticipated events.

Attachment II sets forth the three-year implementation schedule and five citywide milestones, along with examples of the level and type of information that will be provided to the City Council at each milestone. The examples are based on the Department of Streets and Traffic performance-based budget. The following milestones represent opportunities for the Council to provide feedback and input at critical points throughout implementation:

Milestone 1 – Core Services

At Milestone 1 targeted for November, 1999, each department will have completed the alignment process and defined their core services. We will bring the aligned core services forward to the City Council for confirmation.

Milestone 2 – Performance Measures

At Milestone 2 targeted for March, 2000, each department will have developed a balanced set of measures for the core services. The Council will provide feedback as to whether the performance measures provide the information they need to make decisions.

Milestone 3 – Baseline Measures

At Milestone 3 targeted for October, 2000, the departments will bring forward baseline performance measures based on at least seven months of data. This baseline data will provide an early indication of the levels of service being provided with existing resources, although trend information will not be available at this time. In the future, it is expected that the October timeframe will provide an annual opportunity for the Council to discuss desired service levels based on performance trends and data. This discussion will inform the development of the next year's budget.

Milestone 4 – Goal Setting

At Milestone 4 targeted for October, 2001, the departments will present a year of performance data and a baseline. The Council can then discuss desired performance levels to inform the development of the FY 2002-2003 budget and performance goals.

Milestone 5 – Performance-Based Budget

At Milestone 5 targeted for May, 2002, all departments will present the FY 2002-2003 budget in a performance-based format. In developing the budget, departments will draw upon performance data from the previous two years and upon the Council discussion the previous October.

The 3-year implementation schedule should be viewed as a ramp-up period, rather than as a period to achieve perfect performance-based budgets citywide. Other jurisdictions have taken much longer to implement performance-based budgeting on a comprehensive scale.

Implementation Plan: Resources

This effort will require considerable centralized and departmental staff resources to implement. Where possible, existing capacity will support the effort. However, a budget augmentation will be included with the City Manager's proposed FY 1999-2000 operating budget to supplement the needed resources. The QUEST Partnership will provide centralized support, complemented by staff from the Budget Office, Human Resources Department, and other departments, as needed. A Steering Team will guide the implementation, removing roadblocks and facilitating collaboration across departments and offices.

Each department will assign a Facilitator (or Facilitators) to coordinate implementation at the department level, guided by a multi-level, multi-functional team within the department. At some point, the effort will involve all employees within the department. The centralized staff will provide initial and just-in-time training to department Facilitators and ongoing technical assistance throughout implementation.

The implementation of results-based decision-making, in general, and a citywide performance-based budget, in particular, requires significant changes to the way the City tracks and reports performance and cost data. Concurrent with the development of a citywide performance-based budget, we will assess the City's current financial and information management systems to determine if they have the capacity to accommodate these data needs in a sustainable and cost-effective manner.

To implement this comprehensive transformation of the City's budgeting and managing practice, we will request a budget augmentation for FY 1999-2000. The augmentation request will include a one-time pool of funds to backfill positions as capacity is diverted for this effort and one-time funds to conduct an initial assessment of the City of San Jose's financial management systems. The augmentation request will also include ongoing funds to provide central staff and training support for this effort and related ongoing organizational effectiveness efforts.

Benefits of Results-Driven Service Delivery

The City's successful pilot projects provide initial indications of the results and benefits of results-driven service delivery. Many of the results are evident in the Department of Streets and Traffic (DST), which undertook both performance-based budgeting and public-private competition and is incorporating the best principles of both throughout the department.

DST's results include:

- Measures to communicate the levels of services the public is receiving.
- Measures to identify where improvements are needed.
- Measurable improvements in services (quality, cost, cycle time and customer satisfaction), driven by employees who provide the services.
- Employees at all levels focusing on customers and results and understanding how their work contributes to the mission of the department.

For an example of a performance-based budget and how it differs from other departments, please refer to the DST budget in the FY 1998-99 Adopted Operating Budget, page 321 and the Budget Guide, pages I-3 through I-6 for an explanation of the format.

The Department of Parks, Recreation and Neighborhood Services (PRNS) will be the next department to present a performance-based budget. At present, they are developing performance measures based on their core services and on customer needs. As a result of the alignment process, PRNS has defined core services that are consistent with the mission of the department. With this common context, employees are focusing on results that contribute to the core services and to the mission.

By incorporating the best practices from DST, PRNS and other efforts into the way we do business throughout the City, we can anticipate citywide results similar to DST's and PRNS'. Ultimately, the City organization will focus on customers and results to deliver services. The City Council, Council Appointees, senior and executive level managers, and employees at

all levels of the organization will have the information they need to provide the services that customers want and need.

PUBLIC OUTREACH

Throughout implementation of this effort, we will communicate to internal and external stakeholders using the general methods outlined in Attachment III. This includes providing information on the City's Web site and communicating with the media.

The general public and stakeholders will have significant opportunity for input at both department and citywide levels. As is being done in DST and PRNS, departments will obtain input from customers and stakeholders in developing and tracking performance measures. Citywide, the general public and stakeholders will have opportunities for input at the Milestones and at ongoing budget hearings.

COORDINATION

The preparation of this report has been coordinated with the Budget Office and the departments of Human Resources, Streets and Traffic, and Parks, Recreation and Neighborhood Services.

COST IMPLICATIONS

A request for a citywide budget augmentation to provide resources to implement this effort will be included in the FY 1999-2000 Proposed Operating Budget.

Debra J. Figone
Acting City Manager

attachments