CITY OF OAKLAND

AGENDA REPORT

TO: Office of the City Administrator
ATTN: Deanna J. Santana
FROM: Budget Office
DATE: November 29, 2011

RE: **Follow-Up Report From The Budget Office On Performance-Based Budgeting**

SUMMARY

The Finance and Management Committee requested that the Budget Office examine performance reforms to our budgeting process. Staff continues to perform the necessary research and analysis necessary in order to bring specific recommendations for action to the City Council; however, this report outlines one potential reform known as a Budgeting for Outcomes process as it, among possible reforms, most directly links performance improvement with appropriations. The Budgeting for Outcomes reforms could potentially transform the City of Oakland's budget from a two-year authorization of appropriation into a short-term operations guide, a 10-year strategic vision & plan of action, and a 10-year resource allocation and capital improvement plan. Staff will be bringing forward specific recommendations on how best to implement a plan, potentially such as the one outlined in this report, in early 2012.

FISCAL IMPACT

This report is informational only; no fiscal impacts are included.

BACKGROUND

Performance-oriented governance is the systematic use of knowledge gained from the regular tracking and analysis of performance measures to improve the functions of an organization. Performance-oriented governance can be applied to various governance functions including strategic planning, budgeting, administration, and personnel management. The application of performance-oriented governance to one of these functions is called a *performance initiative*. The performance measures tracked and analyzed, the decision makers who consume that analysis, and the frequency of that analysis will vary depending on the specifics of that performance initiative. Ideally an organization should pursue multiple performance initiatives that are complimentary and integrated.

A suggested performance-oriented governance system for Oakland should include multiple initiatives. Staff has been researching systems used in other cities, most notably those of Baltimore, Lincoln, San Jose, and Sunnyvale, and consulting academic and professional reports on the subject matter. The performance-oriented governance system outlined in this report

incorporates the best initiatives from other cities in a unique manner that should be tailored to Oakland's specific needs.

A performance initiative is applied directly to a function of governance. There are three key functions of governance where performance initiatives have been successfully applied in other jurisdictions: strategic & policy planning, appropriations & budgeting, and administration & management. There have been muhiple initiatives across the nation in each of these governance functions.

The table below summarizes some of the more notable initiatives. Best-practice initiatives in each governance function are indicated by an asterisk "*" following the reform.

Governance Function	Associated Performance Initiative	Notable Users
Appropriations & Budgeting	Budgeting for Outcomes*	Lincoln, Baltimore, Washington State
	Budget Tracked Performance	Many Jurisdictions
	Program Oriented Budgeting	Many Jurisdictions
Strategic & Policy Planning	Rolling Strategic Reviews	Many Jurisdictions
	The Sunnyvale Model*	Sunnyvale
Administration & Management	Performance Audits & Reports	Many Jurisdictions
	Performance Score Cards	San Francisco, Baltimore
	Performance Stat*	Baltimore

What to Avoid / Why Initiatives Fail

Oakland and other cities have failed to sustainably use performance measurement strategies for three core reasons. Any successful implementation must overcome these three pitfalls.

1. Failure to define the initiative and tailor performance measures to that initiative and function of governance. For example, the measurement system that was recommended by "Moving Oakland Forward!" resulted in a large volume of very detailed performance measures being presented to City Council. Council had neither the time to analyze these measures nor the capacity to use them to direct improvement in performance.

2. Absence of consistent, committed, and aggressive leadership.

3. Failure to incorporate performance governance into organizational culture. If agency directors are not motivated to improve performance, and front-line workers are unaware of performance goals and targets, performance measurement becomes purely a bureaucratic task. Similarly, if policy makers are not committed to using the system, it will quickly be undermined.

Outcome Orientation

Performance-oriented governance reforms are designed to help improve organizational performance, thus it is important to define the character of that performance. Academic literature and case studies suggest that organizations should focus on the outcomes which impact residents and city operations. By focusing on outcomes rather the outputs of service, an agency ensures a consistent focus on its core objectives. Outputs of a municipal government are generally measures of the amount of a service produced; e.g. number of potholes filled, number of permits processed, or number of vehicle stops. Outcomes are generally equivalent to the various dimensions of the quality of life or residents. They may also include attitudes such as citizen trust in an organization and citizen satisfaction. Not all performance initiatives can be used to address outcomes in a direct way; this is especially true for performance initiatives which address day-to-day performance. This limitation can be overcome by nesting output focused performance initiatives within a larger integrated performance governance system that causally comnects outputs with outcomes.

KEY ISSUES AND IMPACTS

The Finance and Management Committee requested that the Budget Office examine performance reforms to our budgeting process. Staff continues to perform the necessary research and analysis necessary in order to bring specific recommendations for action to the City Council. Preliminary analysis points to a recommendation of a *budgeting for outcomes* process as it, among possible reforms, most directly links performance improvement with appropriations. The suggested reforms could transform the City of Oakland's budget from a two-year authorization of appropriation into a short term operations guide, a 10-year strategic vision & plan of action, and a 10-year resource allocation and capital improvements plan.

The alternative reform options of *budget-tracked performance* and using a *program-oriented budget* appear to be sub-optimal for the City of Oakland. The link between performance targets and appropriated funds using budget-tracked performance does not appear to be as strong as necessary to be effective; for instance, it is unclear whether under-performance suggests too much or too little funding, and whether over-performance is a product of strong management or over-budgeting. There is the possible creation of perverse incentives toward chronic under-performance in order to secure additional funding, or the possible erosion of efficient services because they are initially under-funded and thus under-performing. Program-oriented budgeting, while useful in ascertaining the central function of an organization can devolve into a complicated mapping process which overlaps the existent department structure. This was true of Oakland's prior attempt at performance budgeting. Program orientation of a budget can obfuscate which departments and mangers were actually responsible for levels of performance. To be most effective, a performance structure should follow the same lines as managerial authority. Instead of creating a wholly separate program structure, certain departments might consider structural reorganization to better meet their performance goals.

These alternative reforms also often have the effect of micro-targeting performance improvements through the tracking of numerous measures. This can often improve the outputs of

departments but not necessarily the outcomes experienced by citizens. Similarly, these reforms often improve an organization's ability to ensure it is doing certain things right, but they are not necessarily useful in helping it to determine whether it is doing and measuring the right things.

Budgeting for Outcomes

The Budgeting for Outcomes Process was developed by David Osborne and Peter Hutchinson of the Public Strategies Group consulting firm, and articulated in their 2004 book The Price of Government. The Budgeting for Outcomes process has been used most notably by Washington State Governor Gary Locke (2003) and by the Iowa department of Human Services under Governor Tom Vilsack (2004); it has been employed most recently in Baltimore, Maryland (2011) and Lincoln, Nebraska (2008).

Budgeting for Outcomes is a process, not just a final product. Osborne and Hutchinson's approach has been distilled into six steps, which we have tried to apply to the context of the City of Oakland. Specifically this distillation acknowledges Oakland's government structure, restrictions on contracting with outside parties, and that an all-or-nothing approach to prioritization will not work in the context of Oakland's diverse municipal needs. Further this distillation incorporates internal service provisions which ordinarily cannot be fully considered in the traditional Budgeting for Outcomes process.

> First: Understand and assess the circumstances. Find the price of government e.g. how much are citizens willing to pay and/or what are the available funding resources. These are primarily financial resources, but also include volunteers, intergovernmental agreements (OUSD & Alameda County), or circumstances around large special events (like the America's Cup). This step should include both public polling and a forecast of at least 10-years of available resources in each of the City's funds. The City should develop high- and low-resource scenarios for each fund, and identify specific pools of resources which can be tapped. Service fees and other funds which are directly tied to the provision of a service should be excluded in this analysis as the City has not chosen which services will be provided at this stage. At this stage the City should set and clarify its need to repay negative funds and resolve unfunded liabilities. The assessment of circumstances should include an analysis of risks to which the City is exposed. These include financial market exposure, real economy exposure, legal liability, exposure to possible legislative and policy changes, and the risk posed by emergencies, environmental issues & disasters including earthquakes, fires, climate change, and terrorism. The assessment of circumstances should also include a demographic and economic forecast, of at least 10 years, to aid in the determination of current and future city needs.
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> Second: Determine the priorities of government and tie performance measurements to those priorities – these performance measures have a specific name: *community indicators*. It is important that the community indicators are tied as closely to priorities as possible since target values of each community indicators are what are actually budgeted. Initial lists of priorities and community indicators can be developed by City leadership internally and augmented with input from public outreach. Oakland's

neighborhood councils could be useful vehicles for communicating key outcomes and ensuring geographic representation. Town-hall meetings held in each City Council district could serve a similar function. Another sound practice is to use a scientific citizen survey which lists key community indicators and asks citizens to purchase them using a hypothetical $100. The broader and deeper the citizen discussion and survey processes, the more robust the community indicators will be. Superficial or ineffective attempts to engage citizens will result in a set of priorities vulnerable to special interest pressures. Many of these outreach efforts can take place concurrently with the development of the assessment of circumstances. Examples of possible community indicators include: the number of violent crimes per capita committed, the number of new jobs created in Oakland, percentage of Oakland public school students who graduate from High School, and the Rate of Childhood Obesity among Oakland's youth.

Internal-management indicators should be used for administrative and managerial functions, and should be developed internally through consultation with Agency directors, administrative services managers, and City administration. Administrative and managerial functions should regard the City organization in the same way that community indicators regard the citizenry of Oakland. Examples of possibly internal-management indicators include: the net amount of money the City is required to pay as a result of litigation, the number of audit findings on the City's financial reports, the City's bond rating, and the time required to hire personnel.

The process of selecting, prioritizing, ranking, and adopting community indicators and internal-management indicators must happen early in the budget process and prior to the development and presentation of the Mayor's budget. City policymakers must set Oakland's priorities prior to the internal creation of budget strategies and the completion of the subsequent steps.

To aid in the completion of these tasks, one idea includes engaging an outside advisory body, such a reconstituted Budget Advisory Committee. The Committee could be composed of persons with expertise in: polling, public outreach, accounting, auditing, economic & demographic forecasting, and financial analysis. Local business and labor leaders could also be included to provide knowledge on specific local economic circumstances. This new committee would help City administration develop the City's assessment of circumstances and future needs, and aid City Administration in developing potential community and internal management indicators. It would also assist in conducting polls and public outreach processes and analyzing the results of such outcomes. Specifically, this Committee could help organize biennial summits of experts on the following topics: revenue & economic conditions; expenses, benefits, and unfunded liabilities; demographic trends & future service needs, and advancements in performance management, budgeting, and citizen engagement techniques. The summits could be conducted in collaboration with other governmental agencies in the Bay Area.

Third: Determine how to best improve each community indicator or internal-management indicator by "purchasing" services and programs from the City agencies using a cause and effect service-to-indicator mapping process. These cause and effect maps would show specifically how each service addresses the City's priorities as expressed by the indicators. They should be complemented by documents detailing the strategy the relevant division will use to address the community indicator. Evaluation would be performed of the alternative offers to improve indicators based on the cost of purchasing different bundles of services. Costs should be displayed as a $ per unit of indicator improvement. The full cost including overhead, legal costs, and personnel of purchasing each service must be used to determine true relative effectiveness. Targeted improvements in indicators should be shown for the budget years, but forecasts should also show projected future improvements (assuming constant funding) for each of the next 10-years (or longer period equivalent to resource forecast). Using a 10-year horizon would illustrate those strategies that are increasingly effective over-time and those are not, while strategically guiding the allocation of city resources and avoiding underinvestment in long-term solutions. The strategies and long-term approach will also show the impacts of investing or not investing in capital improvements, helping to frame capital decision making in the larger process.

Service charges and fees should be proposed (if appropriate) to mitigate the costs of providing the service. These service charges would be incorporated into a master fee schedule presented alongside the proposed budget document. By directly linking services provided to fees charged the City should be in compliance with California law regarding fee imposition. Policy and organizational changes which would render more effective or efficient the ability of an agency or division to improve an indicator should be included in these proposals. Policy changes which have yet to be fully researched should be submitted as one- to two-page issue summaries which will be placed on the Council study calendar, as discussed later in this report.

This "purchasing" exercise would be an internal process completed under the leadership of the Mayor and City Administrator. For example, divisions within the Police Services agency, the Office of Parks and Recreation, and the Department of Human Services might all bid to reduce Oakland's violent crime rate. Each division would show the projected outcomes of their strategies and the costs of achieving them. In the case of the Parks and Recreation division the costs might be partially offset by a service fee; in the case of Police divisions, fines might serve the same function.

This internal purchasing process takes the place of baseline budget development. In the normal baseline process there is an incentive for managers and directors to overstate the cost of current service provision to buffer against budget cuts. In the Budgeting for Outcomes process there are instead incentives to accurately state costs and aggressively state performance improvements as both are used competitively against other departments and units. There is also disincentive to exaggerate either cost savings or performance because achievement of both is directly stated in each director's performance agreement, and in an agency's section of the policy budget as noted in the

fifth step. The zero-based approach of the budgeting for outcomes process also eliminates any perceived entitlement to funding by City organizational units.

Fourth: Decide, based on priority level and the cost of service provision, which services will be funded and at what level to achieve improvement in community indicators or internal-management indicators and note the level of improvement in each indictor purchased. Purchases should be from specific funds and should meet the appropriation restrictions of those funds. The amounts (both present and future) of these funds and their restrictions should be outlined earlier during the assessment of City circumstances. Agency divisions should purchase services from the most restricted funds before using less restricted or unrestricted funds. Divisions should not restrict submitted proposals to funds that they have traditionally drawn from, nor should they be given greater preference for funds that have historically funded their operations. Agencies should eliminate functions which were not competitive with other means of improving community indicators or which did not address priority concerns of citizens. For instance, a proposal from Human Services to reduce violent crime, that is projected to be more effective and less costly than a competing proposal from Parks and Recreation, would be prioritized. The Human Services program should first be funded from appropriate restricted grant monies, before receiving any general funds.

According to the process noted in the City Charter, the first document which reflects these decisions is the Mayor's Proposed Budget. That document should also include an explanation of why certain services were purchased in the manner and quantity indicated, and the cause and effect service-to-indicator maps and strategy documents developed in the prior steps. Matrices, showing how alternative means of achieving improvement in indicators and the criteria upon which those alternatives were evaluated, are a useful way of explaining the often complicated decisions involved in the third step. In addition a "waterline" style chart should be used to indicate the services which would be purchased in the proposal if revenues increased, and which services would be eliminated if revenues decreased. This type of chart helps communicate the Mayor's future priorities. For example, the chart could show that the first priority if the City received additional revenue would be to extend the hours at recreation centers, or alternatively to hire additional police officers in the investigations unit.

The City Council would then use the Mayor's Proposed Budget and associated documents as the guide for hearings regarding alternate proposals, and the impact of differing resource allocations. These alternate proposals would take the form of specific proposed amendments to the Mayor's Proposed Budget. These specific amendments should each be internally fiscally balanced and should note the outcomes goals to which they are tied. These amendments would be submitted to City staff a few weeks prior to final budget deliberations so that staff can assess both the fiscal impact of the amendment, and the outcome impact. The amendments would then be published, discussed, and ultimately voted on during Council budget deliberations. If the Mayor and Council concretely decide City priorities in the second step, and such decisions are based on broad community outreach and participation, the later budget deliberations will focus

on how to achieve the City's goals rather than weighing the competing priorities of City government. Ultimately the City Council must decide how to modify the budget alternatives selected by the Mayor in a way that best improves indicators. The matrices, "waterline" chart, and cause and effects should be included in the Council's Adopted Budget.

Fifth: Codify community indicator and internal-management indicator targets by each purchasing agency in the Adopted Policy Budget, and create performance agreements with each Agency Director. It is important that directors understand that meeting the community indicator and internal-management indicator targets as noted in the budget is a central aspect of their jobs. The performance agreements would also specify a series of sub-indicators of service provision that can be tracked and analyzed on a regular basis by City Administration. These sub-indicators would be derived from the cause-effect maps produced by each Agency, and could be used in a formal Performance-Stat system like Baltimore's Citi-Stat. There would be a semi-annual review of key outcomes in the Council Committees over the two-year budget cycle. Indicator status could be included with quarterly revenue and expenditure reports; however, some indicators may be difficult or impossible to measure on a quarterly basis.

Sixth: Gain Sharing. The system could be set-up to allow agencies that meet their community indicator and internal-management indicator targets while spending less than their budget to retain some percentage of those savings, provided the savings are not derived from funds that are severely negative. These savings must be reprogrammed to meet indicator targets selected in the next round of budgeting. For instance, savings in the Police Services Agency could be used to purchase new analytics and communications technology; savings by Parks and Recreation could be used to purchase new equipment for recreation centers. Carry-forwards outside of the gain sharing process should be strictly limited. The gains to the city from the percentage not retained by agencies could be used to improve city reserves, resolve negative funds, or to address unfunded liabilities.

Implementation

The cost of implementing a Budgeting for Outcomes process consists mostly of the time of staff and policymakers. Small costs may also exist for holding community meetings and other such activities. The most expensive component is conducting a community survey or poll, but this cost is infrequent and could be combined with other polling and surveys conducted by the City or civic organizations. The true difficulty in implementing a Budgeting for Outcomes systems is attaining the assent of policymakers. The Mayor cannot direct the City Council to follow the process, though she has the ability to use certain components of it in development of the Mayor's Proposed Budget, and the City Council and community at large must assent to the process in order for it to be effective. Attachment A presents an example of what a potential budget and policy process timeline may look like.

STRATEGIC POLICY PROCESS REFORM

The outlined Budgeting for Outcomes process reform should be accompanied by complimentary strategic and policy process reforms. The strategic reforms presented here are derived from the processes used in Sunnyvale for three decades and are designed to be synergized with Budgeting for Outcomes.

Policy changes are often made without the ability to fully consider the larger policy environment in which such policies operate. This reform could help to rationalize the often ad-hoc process of staff reporting. It also allows Council to clearly set priorities for government reform rather than simply responding to staff proposals. Council would be afforded more time to consider policy decisions that affect the major issues facing the City, rather than managing a constant torrent of small crises. These reforms are also superior to the alternative of rolling strategic reviews. Rolling strategic reviews do allow for comprehensiveness in policy consideration, but such reviews are often not prioritized according to the governing body's desires. Further they often disassociate policy decisions from budgetary decisions rather than synergizing the two to enhance outcomes.

In the proposed reform, a Mayor-Council Policy Vision & Budget Priorities document would codify the community and internal-management indicators, their priority rankings, and also set a Policy Calendar for the intervening years until the fall of the second year in the budget cycle. Indicators would be apportioned to the various Council committees. Additional policy reforms that are linked to priorities and indicators but not were not proposed inside the budget process would be considered by the creation of one- to two-page Issue Summaries for each proposed topic of study. These Issue Summaries could be submitted by City agencies, Council Members, or the public. Each would be tied to a specific priority and indicator and Committees would then prioritize and schedule their consideration. Additional concerns can be added by the Committees but at the end of the budgeted priorities, thereby ensuring that the most important issues are given priority. Unforeseen and urgent issues would be considered as they arise. These schedules would be collected into a common work plan called the "Council Study Calendar" which would be disseminated to the public to encourage citizen input.

MANAGEMENT & ADMINISTRATION REFORMS

The Budgeting for Outcomes process reform should be accompanied by complementary management and administration reforms. These reforms are largely adaptations of Baltimore's 311-augmented CitiStat process that are synergized with the Budgeting for Outcomes and policy process reforms. The performance measures tracked via the CitiStat process would be derived in large part from the sub-indicators in managerial performance agreements, key elements of the cause-effect maps, and suggestions from staff Each CitiStat performance measure would be directly tied to a community or internal-management indicator, so that the focus remains on achieving the City's key outcome goals.

CitiStat

CitiStat is a database system that allows municipalities to track, review, and assess every element of city government. CitiStat was developed in the city of Baltimore and is based on the CompStat system pioneered by the New York City Police Department to reduce crime through better-managed personnel and resources. The goal of CitiStat is to use information technology to improve service delivery in every city department. CitiStat has four requirements:

1. Accurate and timely intelligence
2. Effective tactics and strategy
3. Rapid deployment of resources
4. Relentless follow-up and assessment

CitiStat is the original municipal performance-statistical management system and is widely considered to be the best implemented. Every two weeks in Baltimore, the Mayor, the First Deputy Mayor, the Director of CitiStat, and key cabinet members meet with the department heads of city agencies to review the most recent departmental data. Tables and graphs detailing the most recent service outputs are displayed and any important trends in departmental performance are discussed. Department heads respond to questions about the data, problems illustrated by the data, what is being done to fix these problems.

Key recommendations for implementing CitiStat include separating the CitiStat function from technical budgeting and performance auditing. The effects of organizational difference can be seen by contrasting the performance managements systems of Baltimore and San Francisco. The former system provides a timely flow of policy and performance data which can be used by management to immediately address performance. In the later system, performance information is reported infrequently via large reports which are not useful in immediately improving operations.

The role of the City Administrator's and Mayor's staff is to ask questions, offer suggestions, and provide support. Although in Baltimore the First Deputy Mayor (or the Director of CitiStat) runs the meeting and controls the movement of the agenda from topic to topic, other members of the mayor's staff contribute their own questions, comments, and suggestions to improve performance of the relevant agency. Academic literature also suggests that partnering agencies to help analyze each other's CitiStat reporting can yield valuable insights and build interdepartmental collaboration.

A well organized CitiStat session will consist primarily of follow-up questions and analysis. The participants may raise one or two new issues, but most of the data that they introduce, most of the questions that they ask, and most of the discussion with the managers of the subunit (division) will reflect what transpired in the previous meetings, in addition to what happened since the last one. Important questions include: What problems have you fixed? What actions have you taken? What approaches do you think are working? Why? How can what is working be adapted by other units? What approaches are not working? Should we drop these approaches, or modify them in some fundamental way? Persistence in optimizing performance will eventually yield changes in how managers and the organization's culture view performance.

The experience of the failed OakStat process in Oakland has led to a number of other recommendations for proper implementation. This includes not beginning the CitiStat process by launching a large interdepartmental advisory group to shape the process. Instead, it is recommended that the City use the City Administrator's and Mayor's Office staff to help structure the system. Key staff with valuable knowledge should of course be consulted but none should be charged with developing the CitiStat process itself

In addition, best practices show that the Mayor and/or City-Administrator must attend meetings in order to ensure department directors and their deputies attend and are engaged in improving performance. Los Angeles' effort to implement a CitiStat system failed when the absence of the Mayor and his key deputies at CitiStat meetings communicated the low priority of such efforts to department directors.

The costs of establishing a CitiStat system are not minor, and primarily consist of paying for personnel, and potentially associated technology.

SUSTAINABLE OPPORTUNITIES

There are no direct sustainable opportunities associated with this report.

DISABILITY AND SENIOR ACCESS

There are no direct disability and senior access opportunities associated with this report.

ACTION REQUESTED OF THE CITY COUNCIL

Staff recommends that the City Council accept this informational report.

Respectfully submitted,

SABRINA LANDRETH
Budget Director

APPROVED FOR FORWARDING TO THE
FINANCE & MANAGEMENT COMMITTEE

Office of the City Administrator

Item:_____
Finance & Management Committee
November 29, 2011