

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item: City Council Strategic Budget Prioritization Process

OVERVIEW:

In the Independent Budget Analyst's April 28, 2006 report on the "Mayor's Proposed Fiscal Year 2007 Budget," it was suggested that the City Council undergo a visioning process to discuss future City budget priorities and provide guidance to the Mayor and the City organization in advance of the Fiscal Year 2008 Budget Development Process. The concept of City Councilmembers participating in a strategic budget prioritization process was further discussed by the Budget and Finance Committee on August 2, 2006.

On January 29, 2007, as the first step in the FY 2008 budget process, the City Council is scheduled to discuss and vote on a Budget Priorities Resolution to be provided to the Mayor by February 1, 2007. The strategic budget prioritization process, along with Councilmembers' priority memos, will serve as a basis for that resolution.

A strategic budget prioritization process can be a useful planning tool to enhance communication and create more effective dialogue on issues. It can help participants to define their perspectives and quickly identify where there may be agreement or disagreement on budgetary priorities. Given the daunting fiscal circumstances facing the City and the challenging FY 2008 budget process ahead, it is particularly important to have facilitated discussion at this time to create understanding and alignment toward a common goal.

The Five-Year Financial Outlook has illuminated the City's significant structural budget deficit that must be reconciled. Attached exhibits 1-1 and 1-2 illustrate the magnitude of the estimated annual budget shortfalls in FY 2008 and FY 2009-2012. The shaded area of these exhibits equates the estimated annual budget shortfalls to an equivalent number of General Fund department budgets.

Exhibits 1-3 and 1-4 exclude the Police and Fire-Rescue budgets to demonstrate the magnitude of potential across-the-board percentage reductions on all other General Fund departments in order to balance the estimated annual budget shortfalls in FY 2008 and FY 2009-2012. It should also be noted that the Five-Year Financial Outlook does not address all of the critical issues facing the City (e.g., public safety compensation and equipment). These issues will be further explored through a series of IBA reports on the Five-Year Financial Outlook.

CITY COUNCIL STRATEGIC BUDGET PRIORITIZATION PROCESS

The Office of the Independent Budget Analyst has hired the consulting firm Strategic Initiatives to facilitate the City Council strategic budget prioritization process. Several Councilmembers were familiar with the group interaction technology effectively used by this firm for recent meetings of the San Diego Association of Governments (SANDAG). Strategic Initiatives is a consulting organization that specializes in developing group processes that result in a common understanding of challenging issues and an effective dialogue of potential solution strategies. Strategic Initiatives has worked with several other cities and governmental entities in California and Arizona in the areas of strategic planning and value analysis.

Although strategic budget prioritization process processes are not new to governmental agencies in San Diego or elsewhere in the nation, the San Diego City Council acting as one sitting body has not been provided this type of opportunity in recent years. Under the City Manager form of government, the City Manager would outline a vision for the City in his proposed budget. More recently, as the City has transitioned to the Mayor/Council form of government, the Mayor has been given the opportunity to outline a vision for the City with the proposed Fiscal Year 2007 Budget and the recently released General Fund Five-Year Financial Outlook. On January 17, 2007, the City Council will be given the opportunity to participate in a visioning process that will focus on discussing and prioritizing core City services, critical issues facing the City and possible solutions to the structural budget deficit.

The information provided below briefly describes the strategic budget prioritization process that has been scheduled for the City Council on January 17, 2007. After discussing the format of the strategic budget prioritization process with Strategic Initiatives, the IBA has prepared graphs and information to support the planned visioning exercises. This information is attached to this report for City Council review and utilization during the process.

FRAMEWORK FOR THE PLANNED STRATEGIC BUDGET PRIORITIZATION PROCESS

Facilitator and Process

Chuck Anders from Strategic Initiatives will be facilitating the strategic budget prioritization process for the City Council. Mr. Anders has over twenty-five years of experience working on complex issues in government and the private sector. Before becoming president of Strategic Initiatives, Mr. Anders served as Director of the Arizona Division of Environmental Health Services and was Assistant Director of the Arizona Department of Transportation where he was responsible for policy and planning.

In 1996, Mr. Anders founded Strategic Initiatives where he has worked extensively with public and private agencies, citizen advisory groups, and project teams to resolve a wide range of issues. Mr. Anders has conducted numerous strategic planning sessions and management retreats. As referenced earlier, he has recently utilized an interactive polling technology to enhance SANDAG Board retreats and served as the facilitator for several other SANDAG meetings. Mr. Anders specializes in using interactive polling technology to enhance communications and understanding among groups and participants.

Mr. Anders will be utilizing a group interaction technology used by Strategic Initiatives to quickly and anonymously evaluate Councilmember perspectives, in the aggregate, on key City services, critical issues and possible budget solutions. During the strategic budget prioritization process on January 17, 2007, each council member will be provided with a remote input device that allows each group member to simultaneously express their opinions and preferences regarding the questions or issues being discussed. Through the use of computer analysis, the results are immediately presented back to the group on a video screen for evaluation and discussion without attribution.

The above referenced process involves polling for current opinion and perspective. The process is not designed or intended to be a voting process. Rather, it is a process designed to take a snapshot of group opinion in order to enhance Council communication and create more effective dialogue on important budget issues in advance of the FY 2008 budget process. Mr. Anders emphasizes that the value of the interactive polling technology is not the polling results, but in the discussion that follows. This discussion often creates understanding and alignment toward a common goal or course of action.

Strategic Budget Prioritization Process – Part I: Strategic Assessment of City Services

The purpose of this portion of the strategic budget prioritization process is to identify key General Fund services, evaluate current performance and discuss performance as it relates to the perceived importance of key services in a budgetary context. The first step

involves reviewing the following twelve General Fund services, which have been summarized for review in Attachment A (pink):

Police	Library
Fire-Rescue	Trash Collection
Park & Recreation	Community & Economic Development
General Services – Facilities	Planning
General Services – Streets	Neighborhood Code Compliance
Customer Services	Arts & Culture

These services will be prioritized using a paired-comparison technique utilizing the group interaction technology. The next step will be to evaluate the perceived current performance of each of these services (i.e., how are we doing?). The final step combines the responses from the first two steps to produce a graph comparing perceived importance to perceived performance for each of the identified services. This portion of the strategic budget prioritization process will conclude with a discussion of the graphical results as it relates to planning for future budget priorities.

Strategic Budget Prioritization Process – Part II: Critical Fiscal Issues Facing the City

The purpose of this portion of the strategic budget prioritization process is to discuss and gain insight into the Council's priorities for addressing critical fiscal issues facing the City. The first step involves reviewing the following ten critical issues facing the City, which have been summarized for review in Attachment B (yellow):

- Funding the Pension Obligation
- Increasing the City's Reserves
- Addressing Deferred Maintenance & Capital Improvements
- Funding Retiree Health Care Obligation
- Unfunded Federal Mandates – ADA, Stormwater, etc.
- Police Officer Recruitment and Retention
- Replacing Police Equipment & Facilities
- Funding Fire-Rescue Stations, Equipment and Staffing
- Addressing Public Safety Communications System Needs
- Funding Kroll Remediation Costs

The next step will ask the council members to allocate \$100 among the critical fiscal issues listed above. The results of this exercise will be graphically presented for Council review. The final step involves discussing the results to gain insight into the Council's current opinions on how available City funds should be allocated to address these critical issues.

Strategic Budget Prioritization Process – Part III: Review Revenue Enhancement Options That Could be Utilized to Address Critical Fiscal Issues

The purpose of this portion of the strategic budget prioritization process is to gain insight into the Council's opinions regarding possible strategies for developing discretionary funding to begin to address the critical fiscal issues facing the City. The first step involves reviewing possible revenue enhancement options, seven of which have been briefly summarized for review in Attachment C (green):

- Across-the-Board Percentage Reductions
- Elimination or Reduction of Non-Core Programs/Services
- Program Cost-Recovery
- New or Increased Fees
- New or Increased Taxes
- Land Sales
- New or Renegotiated Lease Revenues

These revenue enhancement options will be prioritized using a paired-comparison technique utilizing the group interaction technology. The next step will be to discuss the graphical opinion results for these options as it relates to the City's critical issues and planning for future budget priorities.

Strategic Budget Prioritization Process – Part IV: Wrap-Up

Mr. Anders will wrap-up the strategic budget prioritization process by soliciting the Council's thoughts on the usefulness of the meeting. He will also ask for feedback regarding the effectiveness of the interactive polling technology used to illuminate Council perspective/priorities and create an opportunity for dialogue related to the City's budget challenges. The strategic budget prioritization process will conclude with a review of the budget priorities discussion and identification of next steps to be taken in the communication of the Council's future budget priorities. Mr. Anders will follow-up a week later with a written summary of the results of the group interactive polling exercises and significant discussion points.

CONCLUSION

The strategic budget prioritization process planned for the City Council on January 17, 2007, is intended to create understanding and alignment toward common organizational goals. It is important that the City Council, City employees and the public understand

that this is a budget planning exercise and not a vote. This process has been developed to assist the City Council in developing and communicating budget priorities to the Mayor in advance of the FY 2008 budget process.

[SIGNED]

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Exhibits
Attachments