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M E M O R A N D U M

DATE: January 27, 2015

TO: Mayor Kevin L. Faulconer

FROM: Councilmember Scott Sherman

Councilmember Chris Cate

SUBJECT: Zero-Base Budgeting: A Smart and Transparent Approach

The City of San Diego's annual operating budget includes departmental goals and performance metrics that are meant to determine if departmental spending is translating into results on behalf of taxpayers. In Fiscal Year (FY) 2015, the Mayor proposed and the City Council adopted the creation of the Performance and Analytics Department. Some of the responsibilities of this department include implementing long-term strategic initiatives, including strategic planning. In addition, the department will be tasked with improving the efficiency and effectiveness of City services through data-driven solutions.

In the past, it has been well documented that the departmental performance metrics listed within the City's annual budget are outdated and do not align with the strategic plan of the City. In light of efforts by the Performance and Analytics Department to update the City's strategic plan and corresponding goals, objectives, and performance measures, the City should follow up with updating its budgetary practices to ensure the City is held accountable for the taxpayer dollars used to deliver services.

Zero-Base Budgeting Approach

As opposed to traditional budgeting practices, zero-base budgeting requires the department to begin with a zero-dollar baseline, and justify all of the expected expenses for the upcoming fiscal year. Under this common-sense budgeting method, the department would evaluate all of the programs planned for the upcoming year and determine the costs necessary to support them.

The application of zero-base budgeting varies amongst municipalities throughout the country. Government agencies utilize various aspects of zero-base budgeting with the overall goal of ensuring each dollar is accounted for and necessary for achieving appropriate levels of service. O'Fallon, Missouri focuses on the line-item portion of zero-base budgeting in order to account for each individual piece of equipment that is purchased and replaced within their police department. Meanwhile, Hillsborough County, Florida creates service level packages to determine the appropriate needs within the department to deliver varying levels of service for library hours. Each form of zero-base budgeting enables a transparent budget process that ensures the efficient use of taxpayer dollars.

Effects of Zero-Base Budgeting

Zero-base budgeting can have a variety of effects on a department. The overall goal of zero-base budgeting is to justify in a transparent and accountable manner how taxpayer dollars will be spent. The process may result in identifying positions or line-items that are no longer needed and can be better utilized elsewhere in the department or within the City. The process of zero-base budgeting may also result in a request for additional positions in order to fulfill concrete service level standards. Either result validates the department's budget needs in a more transparent manner allowing the City Council and Mayor's office to prioritize those needs accordingly.

Policy Proposal

The City of San Diego is developing its transparency, performance, and accountability goals as it pertains to the budget. In an effort to further promote transparency in the City's budget and explore budget accountability, we request the Office of the Mayor identify a minimum of one (1) General Fund department with a current budget of more than \$1 million to begin implementing a zero-base budgeting process for the FY 2017 budget as a pilot program. We request the Office of the Mayor present the department that will be utilizing this budget process in an informational report to the Budget Committee no later than the August 5, 2015 meeting. We believe this will provide ample time for department analysts to begin working with Financial Management to develop their FY 2017 budget using this approach. As part of this process, we expect the service level standards to be revised and updated for the department.

Following approval of the FY 2017 budget, we request Financial Management report back to the Budget Committee regarding the process undertaken and feasibility of implementing this approach on a rolling cycle in which every five (5) years, General Fund departments undergo a budget review.