THE CITY OF SAN DIEGO

# MANAGER'S REPORT

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ATTENTION: Government Efficiency and Openness Committee
Agenda of October 31, 2005

SUBJECT: Efficiency and Productivity of City Operations

## SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE GOVERNMENT EFFICIENCY AND OPENNESS COMMITTEE.

## BACKGROUND

The City of San Diego is in a period of unprecedented budget and resource pressure. It is imperative the citizens and leadership of the City are assured that City services are provided as efficiently as possible and that every opportunity to incur cost savings from operations is aggressively pursued. In this context, this report is issued to the Committee on Government Efficiency and Openness (GE&O) to provide an overview of the City's programs and initiatives designed to deliver operational efficiencies and productivity improvements.

## DISCUSSION

The City has a number of processes and programs in place designed to identify and achieve efficiencies and productivity improvements. Many of these programs have been in place for years and reflect the City's long standing commitment to efficient operations. The programs vary widely and range from competitive assessments to organizational team-building efforts to the City's annual budget and employee incentive programs. An overview of each major program is provided below.

### Zero Based Management Review

Established in 1995, the Zero Based Management Review (ZBMR) program utilizes citizen volunteer review teams to conduct independent operational assessments of City departments. Assessments are presented to the City Manager and are publicly reviewed by the Select Committee on Government Efficiency and Fiscal Reform (Select Committee). Over the program's ten year history, 31 ZBMRs have been conducted, resulting in efficiency gains and

productivity improvements estimated in excess of $150 million. ZBMR was also the genesis for the highly successful Bid to Goal program, described below and has been widely recognized for its innovative approach to achieving productivity gains.

Under the leadership of Select Committee Chairman Councilmember Brian Maienschein, the ZBMR program has been strengthened to improve the accountability of implementation and to track fiscal impacts associated with ZBMR recommendations. Departments going through ZBMR are now required to develop Action Plans and quarterly implementation updates for a two-year-period after assessment.

Bid to Goal

Developed in 1998 as an indirect result of the 1997 ZBMR of the Metropolitan Wastewater Department (MWWD), the Bid to Goal program is a nationally recognized strategy for optimizing public sector organizations. Pioneered in San Diego, the program has received awards from a number of organizations, including the San Diego County Taxpayer's Association, the International City/County Managers Association and the Ash Institute for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government. The program was developed in San Diego by MWWD in collaboration with the City Optimization Program, the Municipal Employees Association, and the American Federation of State, County, and Municipal Employees – Local 127.

The Bid to Goal program functions to optimize the public sector operation by combining the most beneficial features of the public and private sectors. For example, Bid to Goal is based on public-sector ownership over valuable infrastructure (sewer pipelines and treatment plants in the case of MWWD). Public ownership assures that budgetary savings are retained for public use rather than applied to profits retained by a corporate service provider. Similarly, Bid to Goal incorporates private sector advantages such as competitive multi-year budgets based on independently developed benchmarks ("the Goal") and service accountability through the development of a contract ("the Bid") that specifies service levels and cost expectations.

Bid to Goal agreements are endorsed through Memoranda of Understanding (MOUs) between the City and the respective labor organization(s). Bid to Goal results are independently verified by the City Auditor's Office.

The City currently has Bid to Goal contracts in place in MWWD Operations and Maintenance Division, MWWD Wastewater Collections Division and the Water Operations Division. A new Bid to Goal initiative is currently under development in the Water Customer Support Division and is expected to be in place by Fiscal Year 2007.

Since inception, the Bid to Goal program is estimated to have yielded in excess of $100 million in savings to San Diego utility ratepayers while simultaneously funding employee incentive programs and workplace enhancements such as training and workplace safety equipment. In terms of fiscal impact, the Bid to Goal program is the most successful initiative to date resulting from the ZBMR program.

Organization Effectiveness Program

Established in 1980, the Organization Effectiveness Program (OEP) is an organization development and analytic consulting unit; a resource to city departments seeking to increase their effectiveness. OEP staff work with city departments, divisions, agencies, and programs to increase their productivity, improve citizen and customer satisfaction, and improve employee morale. Departments use OEP's expertise in change management, administration and analysis of citizen and employee opinion surveys, culture change initiatives, strategic planning processes (vision, mission, goals and action plans), community outreach and input processes, team building and conflict resolution interventions, clarification of roles and responsibilities, and systems analysis and process improvement projects. The City Manager uses OEP's expertise for enterprise wide change initiatives. OEP's training programs develop leadership, managerial, and supervisory skills.

Pay for Performance

Complementary to Bid to Goal, the City has "Pay for Performance" programs in departments with Bid to Goal agreements. This program provides monetary incentives for achieving specific operational goals. Pay for Performance is distinguished from Bid to Goal in that pay for performance goals are typically at the unit or section level while Bid to Goal incentives have been historically based on improvements at the department or division level. While these programs are viewed as complementary, the City has taken steps to integrate pay for performance into the Bid to Goal program.

Optimization Program

Established in 1994, the City Optimization Program performed competitive assessments and supported productivity improvement initiatives associated with ZBMR and Bid to Goal. The program also administered the City's annual Resident Satisfaction Survey and coordinated an employee/citizen advisory panel on productivity improvement issues for the City Manager. Due to downsizing efforts in the Fiscal Year 2006 budget, staffing resources for the program were eliminated. The Resident Satisfaction Survey and advisory panel have been suspended due to these downsizing efforts; however, support to the Select Committee, ZBMR and Bid to Goal programs are still maintained, although on a reduced basis, by the Financial Management Department.

ISO 14001

An internationally recognized standard for environmental management, the ISO 14001 certification as designated by the International Organization for Standardization has been pursued and obtained by a number of City departments, including MWWD, Environmental Services, and Water. MWWD was the very first public agency in the nation to achieve this accredidation, This voluntary standard has created environmental management infrastructures in the certified City departments that include the following components:

- A Policy on Environmental Management that integrates environmental stewardship into the core of the department's operations

- A formalized Preventive and Corrective Action Program specifically designed around environmental protection

- A formalized voluntary internal and external audit process designed to achieve continuous improvement of operations with respect to environmental stewardship.

While this certification has the obvious positive impact on environmental stewardship, the necessary creation of preventive and corrective action programs have created a new tool for the achievement of productivity improvements. This linkage to productivity is so great the Water Operations Division has directly linked its Bid to Goal program to ISO certification. ISO is well recognized as a tool to drive organizational productivity and quality.

The Annual Budget

The annual budget, produced by the Financial Management Department, is an important tool for productivity assessment and improvement designed for use by the public and the City Council. In addition to summaries of staffing and financial resources allocated to City departments and programs, the budget also contains performance data in a variety of formats, described in more detail below.

- Service Efforts and Accomplishments (SEA)

The SEA report issued annually since 1998, provides information on twelve City departments, most of which provide direct services to the public. The SEA information is intended to provide San Diego residents with meaningful information on the performance of key City services and to assist the Mayor and City Council, as well as City management, in making more informed budgetary policy decisions. San Diego has been a leader in developing the SEA model that other cities such as Portland, OR and Palo Alto, CA have followed. SEA reporting is a recommended practice by many nationwide oversight organizations such as Government Finance Officers Association (GFOA) and National Advisory Council on State and Local Budgeting (NACSLB). In 2004, the City of San Diego received the Associate of Government Accountants (AGA) Certificate of Excellence for our Fiscal Year 2003 SEA report.

- Operational Performance

City departments annually report key performance measures in the proposed budget. Proposed (budget) performance is shown and compared to the present and previous year to facilitate an understanding of the impact of the proposed budget on operational performance. The measures are typically reported as cost per unit of service and like the SEA data, are intended to provide the public with information on the cost of City services, as well as provide information to the City Council for budgetary and policy decision making.

- Benchmarking

City departments also routinely benchmark and compare operations to those of other municipalities and other government agencies, as well as the private sector in some cases. While this information is used by departments throughout the year to identify best practices and improve operations, it is also included in the annual budget to communicate performance results

to the public and the Mayor and City Council. The City's primary benchmarking partners include Austin, Dallas, Denver, Houston, Los Angeles, Phoenix, Portland, San Antonio, San Jose, and Seattle. Additional partners are also frequently used, dependent on the process and activity under study.

Streamlining and Efficiency Initiative

In 2004, the City Manager chartered an executive level committee to solicit recommendations from across all levels and functions in the City regarding areas that could and should be streamlined or made more efficient. All employees were invited to submit ideas. All recommendations were reviewed by financial, managerial, legal and personnel experts for implementation in the Fiscal Year 2006 Budget. The recommendations were incorporated into the budget or identified for follow-up study due to their complexity. As a part of this process, City staff also analyzed recommendations submitted by the Performance Institute (P.I.). Many P.I. recommendations were already in use in various departments while others were determined to need further vetting through the City's meet and confer process.

Suggestion Awards Program

Established in 1962, the Suggestion Awards Program is designed to encourage employees to develop ideas for improving workplace efficiency and productivity. A small monetary award is paid to the employee if the suggestion is implemented and documented to save the City money. The program has recieved varying levels of participation over the years and is currently being reconstituted by OEP in partnership with the Financial Management Department.

CONCLUSION

As illustrated by the aforementioned programs, the City has a wide-range of tools in place and is aggressively assessing and achieving operational efficiencies on a continuous basis. The City's approach to performance management has been widely recognized across the nation. Our staff can attest to this as they are long accustomed to responding to inquiries from other municipalities about our programs. The City remains committed to the pursuit of operational efficiencies and welcomes new ideas to strengthen and improve our operations.

Respectfully submitted,

Ronald H. Villa
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Approved: Lisa Irvine
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VILLA/SM