



NATIONAL UNIVERSITY SYSTEM
INSTITUTE FOR POLICY RESEARCH

Fiscal Fixes: Ten Key Ideas to Reforming the City of San Diego's Budget Process

For the past two years, the National University System Institute for Policy Research (NUSIPR) has examined the City of San Diego's budget. NUSIPR has identified a number of reforms that could have a positive impact on the financial health of the City of San Diego, and has written commentaries that discuss them in detail. As elected officials now review the Fiscal Year 2010 proposed city budget, we present the following ten ideas for discussion and consideration:

- 1) Incorporate additional performance measures in the annual city budget that focus on the efficiency of city services; place performance measures in an online searchable database. *"Benchmarking Success in San Diego, Part I,"* March 26, 2009.
- 2) Reinstigate "Regulatory Relief Days" at City Hall and eliminate budget-related red tape on citizens and business owners. *"The Urgency of Local Regulatory Reform,"* January 29, 2009.
- 3) Adopt a temporary tax amnesty or "business tax holiday" for delinquent and small businesses; reduce or eliminate business license taxes for small businesses and sole contractors. *"It's Time for Tax Reform at City Hall,"* January 15, 2009.
- 4) Consolidate the county and city library departments; explore new private-public partnerships to keep city pools and recreation centers open. *"Stretching Tax Dollars Further: Rethinking How We Deliver Public Services,"* December 11, 2008.
- 5) Recruit volunteer management experts and retired CEOs and reinstitute "Zero Based Management Reviews" to increase efficiencies in city departments. *"Zeroing in on City Operating Effectiveness and Efficiency,"* October 9, 2008.
- 6) Concentrate future Community Development Block Grants and city arts grants on a smaller number of priority projects, and tie allocations based on demonstrated returns on investment. *"Focusing Resources to Achieve Breakthrough Results: A Reform Agenda for San Diego's Economic Development Efforts,"* August 14, 2008.
- 7) Require regular reviews of executive compensation packages of taxpayer-subsidized non-profits. *"Systematic Reform of San Diego's Governmental Nonprofits,"* July 31, 2008.
- 8) Adopt new technology and management review systems that increase government accountability and taxpayer savings. *"Data Driven Governing,"* April 17, 2008.
- 9) Explore new initiatives to advance competitive open bidding for the right to deliver public services. *"Making the Most of Managed Competition,"* September 13, 2007.
- 10) Commit San Diego to earning the best-in-class award for municipal budget documents. *"An Alternative to City Hall's Traditional Summer Vacation,"* May 31, 2007.

“Benchmarking Success in San Diego, Part I”
As published in the *San Diego Daily Transcript*
March 26, 2009

Next month, Mayor Sanders will present the San Diego City Council with a proposed balanced municipal budget for Fiscal Year (FY) 2010. The Mayor will be challenged to provide a pathway to financial solvency, as flattening tax revenues and increased obligations have added a projected \$60 million deficit. Keeping our eye on the ball amidst special interest pressures and citizen protests will be difficult for the City Council, but utilizing a key government tool can help keep elected officials on track for taxpayer accountability and public service level improvements.

At issue are “performance measures,” which evaluate the inputs, outcomes, and efficiencies of traditional government services. From the number of volunteer hours given to our parks and recreation centers each year, to the number of branch libraries within city limits, to even the average maintenance cost of city-owned cars, performance measures provide vital transparency into how taxpayer dollars are spent by municipal departments. Minor methodological changes in how performance measures are calculated may have some impact, but with enough data, year-to-year trends can be identified and analyzed for greater public use. The following is the first part of an analysis of core public services provided by the San Diego city government, using data compiled from the Mayor’s Office and historical budget documents.

In the realm of neighborhood public safety, the City of San Diego has made considerable efforts to provide a continuous rapid response to dangerous and deadly situations. According to city budget documents, in FY 2008 the police department averaged a 6.8 minute response time for “Priority E” calls –cases where there is an imminent threat to life, and 13 minutes for Priority 1 calls, where serious crimes are suspected to be in progress. These response times are marked improvements over the last few years, and are consistent with overall numbers from this decade. However, Fire-Rescue response times have been more challenged; in FY 08 the city failed to meet the tough national standard for initial unit response time (five minutes) nearly half the time (48%), and has seen a progressive decline in fire engines and trucks that can respond within five minutes or less since FY 2004, all while the annual number of department dispatches have steadily risen. With a growing population, one could argue that a broad public dialogue on financing new fire stations and additional apparatus is needed.

That is some of the good news. Other departments seem more challenged. For instance, it appears that public works departments have undergone significant performance measure fluctuations which warrant a deeper inquiry from elected officials. Municipal street sweeping, a core function of this department, has undergone major changes over the past decade. In FY 1999, city officials estimated that more than 117,000 miles of commercial and residential streets were swept, at an average cost of \$26.91 per mile swept; however, despite additional miles of street paved in the last decade, FY 2008 saw only about 82,800 miles swept at an average rate of about \$70 per mile. In FY 2008, more than 50,000 potholes were filled within city limits, at a cost of \$18 per pothole repaired – compared to more than 47,000 potholes filled in FY 1999 at a cost of \$12.81 per pothole repaired.

In addition to aiding internal benchmarking efforts for a city, performance measures provide public officials the valuable opportunity to compare service levels across municipalities. Despite

all of its financial woes, the neighboring City of Chula Vista delivered higher performing public services than San Diego. According to figures provided by the Chula Vista City Clerk's Office, in Fiscal Year 2008 Chula Vista estimated it repaired potholes at an average cost of \$5.42 per pothole filled, and swept commercial and residential streets at a rate of \$13.81 a mile. Moreover, its public safety departments all achieved superior primary response times than the City of San Diego last fiscal year.

To improve the power of performance measures in the upcoming FY 2010 budget review process, the City Council should consult the Independent Budget Analyst and outside experts to identify "best practices" and the most useful performance measures for each public department, as some measures, particularly efficiency measures, have changed or disappeared from budget documents over the last decade. Adopting a program similar to the City of Austin's online Performance Measures Database, for example, would provide a useful citizen resource that doesn't use industry jargon or require bureaucratic knowledge of government functions. As both Councilmembers DeMaio and Frye argued, putting performance measures on-line and making them searchable is a way of further increase transparency in our local government.

It's important to remember that without a comprehensive plan to maintain or improve service levels, draconian budget cuts and excessive layoffs of public employees deprive taxpayers of the healthy, functioning government they deserve and expect. Additionally, raising taxes and fees does nothing to address the need for implementing greater efficiencies in city departments that keep our government lean and effective. Demanding high-quality performance measures can keep the budgeting process from straying to extreme "solutions" to budget-balancing, and advance a fair compromise that protects the interests of taxpayers as well as city workers.

“The Urgency of Local Regulatory Reform”
As published in the *San Diego Daily Transcript*
January 29, 2009

One of the key lessons to learn in the business world is that serving clients in a user-friendly way can steadily improve consumer satisfaction. With enough political will, this principle can also be applied to the government sector. As our notoriously bureaucratic neighbor to the south now recognizes the hazards of red tape, it is high tide to improve customer relations at San Diego City Hall.

Earlier this month, the Mexican federal government announced the results of a nationwide contest to identify the most useless regulation. The grand prize went to a mother who had to stand in line at the Mexican Social Security office four days each month to receive approval from eight different public officials for an immunity injection for her seven year old son. Two other “winners” had similarly nightmarish encounters with bloated bureaucracy – one woman unsuccessfully spent more than seven months hurdling hang ups and mindless paperwork to correct a typo on her child’s birth certificate, and another was asked to provide more than three years worth of bank statements to prove her residency so she could apply for a job at the state attorney general’s office.

While these cases may be extreme, more than 20,000 entries were received from across the country, underscoring the crippling bureaucratic culture that impacts millions of everyday lives. The mother, Cecilia Deyanira Velazquez, took home a prize check of more than \$22,000 and a commitment from the President Calderon Administration to reduce the number of national regulations by nearly a 1/3 over the next three years. Though funds for cash prizes may be in short supply at San Diego City Hall, reinstating one tested program can foster new opportunities for cutting red tape in a common-sense way.

In the 1990’s, special public meetings known as “Regulatory Relief Days” gave everyday citizens and business owners an opportunity to share with the City Manager and City Council their horror stories with municipal rules. In turn, this spurred lawmakers to cut obsolete ordinances that caused costly delays and defied logic. Beginning May 1993, valuable reforms were produced from Regulatory Relief Days, such as a pilot program to automate and track development projects, and a one-year moratorium on new city laws which may have negatively impacted businesses. This program is also credited with modernizing the city’s fire code, and reducing the time to get a business permit by more than half. Ultimately the program led to the elimination of more than 40 unnecessary regulations and demonstrated the City’s commitment to listen to the concerns of citizens struggling with municipal red tape.

City Hall wasn’t the only place to set a precedent for citizen-directed regulatory reform. At the same time the San Diego County Board of Supervisors inaugurated the “Sunset Commission,” a 10-person board of volunteers that reviewed the county code for obsolete, harmful and redundant laws. After three years, the Commission had poured over 1,500 ordinances and rules, and made critical recommendations that changed or eliminated over 50 regulations, saving local businesses more than an estimated \$2 million in annual government fees.

At this time of an economic downturn, the Mayor and the City Council must take the responsibility to simplify and eliminate bureaucratic procedures that impede citizens and business owners from greater growth and prosperity. City Hall needs to foster a common-sense approach to setting policies that recognize the challenges of families and small businesses in our community; few people in our community have the time to wait hours in line at the city's permit office for approval of home repairs, and regulatory delays can cost thousands of dollars. It is without question that San Diegans, if given the opportunity to speak out, could identify obsolete municipal regulations that are harming our quality of life and our bottom line.

Red tape too often grows and bureaucracies expand when people in an organization are insulated from the concerns of customers or stop paying attention to what is happening on the front lines. At this time of economic decline, more citizen input and transparency can keep our local government on its toes, and on a track for an enduring fiscal recovery.

“It's Time for Tax Reform at City Hall”
As published in the *San Diego Daily Transcript*
January 16, 2009

When elected officials ask for suggestions to close multi-million dollar budget gaps, too often the following discussions revolve around which tax to raise. A more responsible and equitable method of generating greater government revenue would be to close the loopholes in our current city tax code.

The City of San Diego's average business license tax today is one of the lowest among the ten largest cities of California, an accomplishment can be attributed to the leadership of former Mayor Susan Golding. Shortly after taking office in December 1992, Golding stumped for cutting red tape and taxes for small businesses, the driver of San Diego's economy, as part of a broader overhaul of business regulations. The base tax rate for businesses with twelve employees or less was reduced by 73% across two years of cuts, missing Golding's ultimate objective of completely eliminating the tax for small business, but an impressive feat nonetheless. Golding was also successful in centralizing permit processing, and reducing the time for business permit approval in half. Golding's streamlining efforts, combined with the economic diversity strategy of the business community in the 1990's, have led to significant economic growth. When the first proposal to cut the business tax for small businesses was reviewed in fall 1993, the City was home to 50,698 business license tax certificate holders. Today, approximately 75,000 certificate holders are small businesses alone, comprising 92% of all certificate holders in San Diego.

Permanently eliminating the license tax on small businesses is still a goal worthy of the merit of San Diego elected officials. However, at this time of a historic economic downturn and revenue shortfalls it isn't likely to receive much more than a polite acknowledgment at City Hall. What would be possible are reforms that would encourage greater compliance with the current rules. By reducing the regulatory burdens to enroll for business licenses and encouraging greater participation, more businesses will pay the fees and taxes that the city depends on to operate public libraries, parks, and recreation centers. A temporary tax reprieve for new businesses and an amnesty for delinquent ones are two methods employed by other Southern California cities that have proven profitable.

As an effort to foster a friendly economic climate for urban business growth, Anaheim Mayor Curt Pringle established a 100 day "business tax holiday," waiving the business license tax from new businesses that registered with the city in the summer of 2005. The effort proved fruitful; more than 2,000 new businesses were formed within the three and a half month holiday, a 33% increase from the same time length the prior year. Mayor Pringle also included a tax amnesty provision in his holiday initiative, which 550 enterprises ultimately participated in, receiving a waiver from costly late fee and additional interest rate penalties while still paying owed back taxes. Los Angeles has also successfully implemented such programs, hosting at least three license amnesty initiatives in the last fifteen years, including a 2001 program that yielded more than \$14 million in tax revenue and a six month tax amnesty that netted \$5 million in 2002. Now facing a \$440 million budget deficit, Los Angeles Mayor Villaraigosa is pressing for a new business tax amnesty that is projected to haul in approximately \$5 million beginning this fiscal year. A vote by the L.A. Council is expected in mid-January, which should be interest to the San

Diego's elected city leaders, which are on the clock to come up with ways to close a multi-million dollar budget gap in time for the passage of Fiscal Year 2010's budget this summer.

One member of the San Diego Council is ready to take the lead for tax reform at City hall. Earlier this week, Councilmember Carl DeMaio held a press conference at City Hall, announcing his plans for a new four-point small business tax and regulatory relief proposal. In addition to beneficial public-private partnerships and education initiatives, DeMaio's plan would include some form of tax amnesty and holiday program, whereby the city would reduce or waive back penalties, taxes and fees for businesses obtaining the required permits to legally operate. DeMaio should be commended for his efforts; expanding San Diego's economic integration is a healthy long-term approach to our multi-year budget crisis. More businesses paying city fees and taxes in the long-term will broaden the municipal revenue base of registered taxpayers, creating jobs in the private sector, and saving jobs in the public sphere.

Critics of business license tax reform may suggest that most corporations have a comparatively small tax burden to be exempted from in San Diego, or that it would be perceived as unfair by corporations who play by the rules, or that the overall loss in municipal tax revenue from a tax holiday could be too great for city services to bear. It's important to remember that in our city budget crisis, lawmakers must concentrate on maintaining quality public services without raising taxes. Reasonable solutions that can keep the budget progress focused and moving in that direction will earn the trust and approval of fiscally-conservative San Diego. Taking our eye off the budget ball can lead to decisions that neither fix our structural spending problems nor protect our fragile business environment.

“Stretching Tax Dollars Further: Rethinking How We Deliver Public Services”
As published in the *San Diego Daily Transcript*
December 11, 2008

Believe it or not there is a small silver lining in the recent mid-year budget dispute in the City of San Diego between the Mayor and the City Council.

Whatever the reasons for the dispute, the decision to enact only some of the proposed mid-year reductions will make next year’s budget process even grimmer. By dipping into various reserve accounts to avoid closures of seven branch public libraries and a dozen recreation centers, the Council created an additional \$10 million gap in next year’s budget. This is on top of the already projected \$43 million dollar deficit in the City’s Fiscal Year (FY) 2010 budget. Moreover, as the San Diego Institute for Policy Research previously pointed out, there is a significant risk that the City’s FY 2010 revenues could come in below projections. Home values are continuing to fall and consumer confidence is at record lows. In the Spring of 2009 the City’s retirement system will calculate the impact of the stock market’s decline and it is very likely that the City will have to significantly increase its contribution, putting even more strains on the already out-of-balance budget.

To find any upside to the decision to delay cuts to the library system and park and recreation will strike some readers as odd. However, what the delay does do is provide a very short window of time to step back and ask fundamental questions about restructuring how the City provides certain valued public services

When it comes to parks and libraries at least three ideas should be considered and discussed in a public forum.

First, the new council should go back and reexamine the decision to exclude the library from the managed competition process. Just a few miles up Interstate 15, the County of Riverside’s 33 branch libraries have been operated since 1997 by Library Systems and Services, Inc. (LSSI). While not the only measure of efficiency, it is telling that in FY 2006 that system provided 62,000 total hours of operation at a cost of \$21.4 million– or a per hourly cost of operation of \$343. In contrast, San Diego’s system operated 74,897 hours at a cost of \$40.6 million or a per-hour-of-operation cost of \$542. Even though San Diego’s system is more heavily used and has significantly higher circulation, whether LSSI could save taxpayers money is worth fully exploring as the City seeks to try to stretch resources further.

The City should also engage the County in a dialogue about combining the two library systems. Already the County system operates branches in 11 cities in the region. In the 2008-09 budget the City of San Diego allocates more than \$1 million for the salaries and benefits of its Library Director, Deputy Directors, and six Supervising Librarians. Faced with the kind of cuts that were proposed in the mid-year adjustment and the looming need to make even deeper reductions in next year’s budget, it is time for the City to consider ways that the County and City systems could work more closely together and eliminate duplicative overhead.

There are also opportunities for creative thinking when it comes to the Park and Recreation Department. Presently most of the recreation centers support both unstructured recreation as well

as fee-support structured programming. At least one option worth exploring is whether private contractors or non-profits would be willing to operate the facilities in exchange for the opportunity to generate revenue from programming.

That would not be entirely new thinking as the City of San Diego already uses this model at least one facility. For almost a decade, the Carmel Mountain Ranch/Sabre Springs Community Pool has been operated by a private company and provides more hours and more programming than what City staff had originally proposed when the pool was opened in the late 1990s. A public-non profit partnership is also working well for the 4S Ranch Community Park where the County maintains the playground and playing fields and the Boys and Girls Club operates the recreation center and pool.

Are those solutions ideal? Perhaps not. As evidenced at the hearings, thousands of San Diegans support their library and park systems and do not want to see change. Contracting with a private entity will require additional expenditures on oversight and it is likely that some “free” programs will be cut back or eliminated.

However, in a time of scarce and diminished resources it is critical for the Mayor and the new Council to explore creative options. If they do not, the fiscal realities that face the City will require cuts much deeper than those proposed last month.

“Zeroing in on City Operating Effectiveness and Efficiency”

As published in the *San Diego Daily Transcript*

October 9, 2008

It’s often been said that government bureaucracy can be retooled and improved with business world know-how, but successfully bridging the gap between private sector experience and major public problems has been difficult in practice. As local policymakers now search for new ways to reduce costs and improve municipal management under severe financial stress, it’s worth noting that the City of San Diego has historically been a national showcase for how corporate leadership can create positive change in a taxpayer-friendly way. Reviving a key public-private partnership from our city’s recent past can assist with fiscal recovery efforts and bring citizen power back to our local government.

A look back into City Hall gives us clues into understanding how our Mayor and City Council can emerge from the challenges of today. After taking office in 1992, former San Diego Mayor Susan Golding reached out to members of the public for help in streamlining operations and fixing thorny management problems in city departments. In August 1993, Golding appointed a blue ribbon task force, known as CHANGE², which was charged with evaluating and recommending policy reforms that would set San Diego on track to become the “most effective, efficiently-run city in the United States.” As a former member of CHANGE², I can attest to the fact that we worked tirelessly to identify operational problems and suggest real solutions; after a year of studying the options, we made more than 100 key findings and recommendations to reinvent local government and improve its inner-workings in a cost-effective way.

Of all the ideas we put forth, one of the most enduring was a new program I created, which empowered citizen review teams to conduct regular reviews of all city operations every five years. The purpose of these “Zero-Based Management Reviews” (ZBMR) was to determine if current city operations were within the scope of the stated goals and missions of departments, and if improvements could be made to improve efficiencies and reduce costs. Volunteer ZBMR teams were given an annual work program by the city manager of 20% of the city’s operational budget, from which they would partner with department directors or senior city staff to conduct studies, draft subsequent public reports, and make final recommendations for further action to be taken by the City Council.

The Mayor, City Manager and City Council all agreed to give ZBMR a try, and the Executive Service Corps of San Diego was chosen as the coordinating vehicle to help me recruit, coordinate and assist the private sector executives, finalize and publish results. The rest is history. The program, which I launched in 1995 and led until it was unbudgeted after 2005, saved San Diego taxpayers over \$182 million. Where other private-sector initiatives have floundered, ZBMR succeeded, largely due to three key factors: strong recruiting, core principles, and cooperation.

Every organization, no matter how lofty its stated mission, is only as good as the people it employs. Early on, San Diego’s ZBMR effort sought out to harness the talents and insights of several hundred top notch local private sector executives. These individuals were individually recruited to fit the background of the operation being studied and literally were the “Who’s Who” of skilled and successful San Diegan retirees – with a smattering of still-employed

volunteers to boot. They included retired CEOs from firms like Convair and Hughes, finance and insurance specialists, process engineers, auto service managers, physicists and even retired judges when studies addressed the high costs of the legal processes. To make ZBMR effective, I also incorporated several founding principles in its early development that cultivated a culture of strong results and high-performance. These were: that review participants recognize that there are good people working in every organization, public or private, and it's usually the "system" that resists change; that our review process becomes a vehicle for positive change; and that all parties benefit from ZBMR if the City management will "open the doors" for community assistance. Finally, ZBMR teams were precluded from addressing the issue of outsourcing, so we aimed to "induce" better management systems and more competitive practices into major departmental projects, working hand-in-hand with department directors to foster win-win situations.

After just a few years, acclaim for ZBMR was widespread. In 2000, the Maxwell School of Syracuse University, a major public performance analyst, ranked San Diego #2 of the 35 largest cities in "Managing for Results." Newspaper headlines highlighted the positive changes in city operations. Cost savings were found most everywhere, from a 20% cost reduction for water meter reading to \$21 million saved in two years from changes in the vehicle use of the city's automobile fleet. By sharing ideas and experiences between private volunteer and public workers, and securing a nominal \$100,000-\$125,000 in annual financial support from the City, Zero Based Management Reviews served the public in a unique and innovative way.

Today's challenges at City Hall should prompt the Mayor and incoming San Diego Council to weigh the merits of reviving the ZBMR program. A September 4th editorial in the San Diego Union-Tribune identified a local budget shortfall of approximately \$25 million – which comes after local lawmakers had supposedly closed a previous \$32 million budget gap just two months before. And after nearly two years of inaction, San Diego's voter-approved managed competition initiative has regretfully not saved taxpayers the millions of dollars they were promised, and has been unable to foster goodwill among city workers. Retirements and departures of key public employees and department managers also continue to be a problem for retaining good leadership in city operations.

At this time of economic distress and public skepticism of all levels of government, adding citizen power assistance to the City's operations should be a priority for every elected official in San Diego.

This Commentary was authored by guest commentator Linc Ward who was instrumental in the City's initial CHANGE² process.

“Focusing Resources to Achieve Breakthrough Results: A Reform Agenda for San Diego's Economic Development Efforts”

As published in the *San Diego Daily Transcript*
August 14, 2008

When one deals with crises one can try to fix the immediate problems or one can seize upon the opportunity to make widespread and systemic changes. When it comes to dealing with the current turmoil within several of the City of San Diego's economic development and redevelopment programs, the time is uniquely right for the City to boldly and decisively act to set a different long-term strategic direction.

Clearly the news of the past month qualifies as a crisis. On July 30th The Voice of San Diego reported that the federal government continues to uncover serious problems with the way the City has administered the Community Development Block Grant Program (CDBG), the federal government's main tool to fight poverty and improve struggling neighborhoods. Leadership changes are underway at the City's Housing Commission, the Centre City Development Corporation (CCDC) and the Southeastern Economic Development Corporation (SEDC). Multiple investigations are underway at both CCDC and SEDC over possible conflicts of interest.

Such turmoil could not come at a worse time. According to the San Diego Association of Governments, 24 out of 55 of the city's neighborhoods have median household incomes that are below the regional average of \$51,808. 10 neighborhoods, with a total population of more than 262,000, have median household incomes less than \$35,000. Meanwhile the region's and nation's economy are moving into recession. In many respects, it is more important than ever that the city's programs work to catalyze scarce private investment dollars.

Rethinking of the City's current strategy of spreading redevelopment and economic dollars thinly throughout the City should be at the top of any systemic reform agenda. Even though the FY 2008 budgets for CDBG, CCDC, SEDC, the City's redevelopment agency, the City's Special Promotions Program, and Housing Commission totaled nearly \$650 million, all too often these agencies and programs have not sufficiently focused and coordinated their efforts. More than 50 different non-profits received CDBG funds last year. 158 economic development and arts organizations received funding from the special promotions program. The City has 17 separate redevelopment project areas that all too often compete with one another for attention and private investment.

This practice of spreading resources thinly is at odds with the consensus among successful urban economic developers. Decades of experience have shown that the best way to fundamentally change neighborhoods is to concentrate efforts on a small number of priority projects and attack poverty holistically. Only after achieving success in the initial areas should resources be shifted to taking on new challenges.

Such a reform program would mean less CDBG money spread throughout each of the council districts and more awarded in a meritorious process focused on a smaller set of neighborhoods. Taking a cue from the “Entrepreneurial Philanthropy” movement, the City's Economic Development Department and Arts Commission should tie the city's investments to

demonstrated returns on investment. Such a strategy would make fewer open-ended allocations that support ongoing operations and more closed-ended grants that create new capacity and catalyze non-governmental funding. The Economic Development Department also needs to play a role in helping determine where infrastructure and deferred maintenance dollars are going to be invested so that these efforts are synergistic with the City's revitalization efforts.

This is not a call for cutting back CCDC or the level of investment made in southeastern San Diego. Indeed, a prudent economic development analysis could well find that those communities are precisely where efforts should be focused.

There are long term changes underway in the U.S. and San Diego economies. Consumer spending and confidence are depressed. The region's hospitality industry is seeing declines in occupancy rates. It is unclear whether our nation's next President will be able to sustain the level of defense expenditures seen over the past eight years. This has implications for a significant segment of San Diego's defense and high-tech industries. In such an environment it is critical that economic development be elevated in importance at City Hall. The events of the past month give Mayor Sanders that opportunity.

“Systematic Reform of San Diego's Governmental Nonprofits”
As published in the *Voice of San Diego*
July 31, 2008

The events of the past few weeks at Southeastern Economic Development Corp. and the problems first uncovered by *voiceofsandiego* serve notice that oversight and board governance are critical to the successful operation of nonprofit entities. This is especially so when the nonprofit entity works in support of the government, as do SEDC, Centre City Development Corp., the San Diego Convention Center, and the San Diego Data Processing Corporation.

Each of these organizations has served the City well, but proper nonprofit governance requires that City Hall regularly review the organizational rules and processes and take steps to assure that systems are in place for adequate oversight and accountability.

This means that the city has to go further than the announced plans. Rather than just terminate an executive officer, replace board members, or carry out performance audits, the city should use the events of the last week as an opportunity to implement systemic reforms that can help avoid future problems. Rather than be reactive, local leaders have the opportunity to proactively strengthen City Hall's watchdog role and better ensure that small problems do not fester and spiral out of control.

First and foremost the city needs to require that the mayor and City Council yearly "receive and review" the IRS Form 990 that these four nonprofits are required to submit to the federal government if they want to maintain their tax-exempt status. On this form, nonprofits are required to list the total compensation provided to all their employees, whether or not board members have a financial relationship with the nonprofit, and the amount of money being spent on administration, fundraising and actual programs. Indeed, the SEDC's 990 was a major basis for the story that *voice* broke when it compared the City's approved SEDC budget with IRS documents. Even though nonprofits must have a copy of the organization's Form 990 available for public review, the extra step of having the document reviewed by the City Council would help increase visibility and the transparency of the organization's financial arrangements.

The City Council should also be reviewing the executive compensation policies of the nonprofits that it uses to carry out public functions. To maintain their tax-exempt status, nonprofits must not "pay more than reasonable compensation" to their employees. The IRS requires on the aforementioned Form 990 that the nonprofit discuss "whether the process used to determine the compensation of an organization's top management official and other officers and key employees included a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision."

An answer of "no" to this question should raise the largest red flag. Thus on at least a biannual basis, the city should be reviewing in detail the processes that various redevelopment agencies, the Convention Center Authority, and the San Diego Data Processing Corporation are using to set compensation levels and reach a determination that they are reasonable and based upon substantive data.

Also it is clear that the city of San Diego has a continuing problem when it comes to filling boards that carry out vital oversight functions. The terms of several members of the SEDC board had lapsed and, to be blunt, too few were from outside the community and with sufficient knowledge of nonprofit governance to ask the hard questions that needed to be asked. One reason for this problem is that the city casts a relatively small net, largely relying upon an informal and undefined process. A simple step that the city could take would be to solicit on its website applications from those citizens interested in serving San Diego.

That link should be more prominently highlighted on the front page and be regularly publicized. Such a system could create a larger critical mass of prospective volunteers to select from, allowing the city to fill slots with qualified San Diegans in a much more expeditious fashion.

Finally, the city needs to do more to avoid even the hint of a conflict of interest. It seriously erodes the public's confidence when a board chair of a nonprofit also has a financial interest, albeit disclosed, in an enterprise that is actively involved in major business dealings with the nonprofit. To avoid this in the future, the deputy chief operating Officer for ethics and integrity should be regularly reviewing the Statement of Economic Interests that board members of these nonprofit are required to file and the nonprofit's agenda and minutes.

We suggest that the Office of Ethics and Integrity make yearly reports to the City Council's audit committee certifying that they have found no discernible conflicts of interest. That extra level of oversight will identify problems much earlier and will help increase the level of confidence in the nonprofit's mission.

San Diegans have benefited in tremendous ways from the activities of various nonprofits that work in tandem with City Hall. The nimbleness, creativity and dedication of these organizations have vastly improved the region's economy and the quality of life San Diegans enjoy. Ensuring that they keep providing value requires that the events at SEDC are not dismissed as aberrations but as a sign that more can be done to strengthen the city's oversight responsibility and to improve the public's trust in these important institutions.

“Data Driven Governing”

As published in the *San Diego Daily Transcript*

April 17, 2008

When CitiStat, an innovative data-driven management tool was first introduced in New York, Baltimore, and Chicago, some department heads in those cities were not happy. Confronted with hard data and metrics about their department’s performance, managers were grilled as to why complaints about missed trash pick-ups were on the rise or what plans a precinct commander had to deal with a statistically significant increase in street crime. A few said it felt like the “Spanish Inquisition”. While we would never support thumb screws or the rack, sometimes being called to account is the only way to shake up entrenched interests and force fundamental changes in the way a city does business.

CitiStat, at its core, relies upon a three-pronged approach to achieve breakthrough results: data, geographic mapping, and regular meetings between managers and top executives. Data is collected from city-wide call centers which handle nearly every interaction between citizen and their government. That enables municipalities to collect information about services citizens are requesting and where those requests are coming from. The city can quickly identify, for example, when trash pick-ups are being missed or when there is a rapid increase in graffiti complaints coming from a particular location.

This information, as well as additional data collected such as emergency calls and crime reports, is then compiled by a dedicated team of analysts – the CitiStat team – and reported out in easy-to-digest reports that pinpoint areas that need attention. Some of these reports can be critically important – such when there is a spike in street crime or gang activity in a neighborhood – as it provides the information management needs to know so as to quickly shift resources and better manage priorities. In other instances, the reports can uncover hidden problems such as a correlation between graffiti tagging and a cut back in afternoon library hours.

After collecting and compiling the data, CitiStat’s most powerful contribution to improving municipal services comes through regular meetings in which the CitiStat team, the Mayor, and management meet together to review that week’s information. That kind of accountability and transparency can be hard on employees and difficult to implement. In 2001 *Governing Magazine* wrote that because of CitiStat “Baltimore’s bureaucracy is being systematically turned on its head” and that it was meeting fierce resistance in a city in which “if you ask why things are done a certain way, the likely answer is because they’ve always been done that way.”

Now, seven years after first being rolled out and surviving changing administrations, in Baltimore CitiStat has become embedded deep within that city’s municipal culture and has a proven track record of success. According to a report by the think-tank Center for American Progress, in its first year CitiStat helped the City of Baltimore save \$13.2 million – \$6 million in overtime pay alone. In departments other than the Police Department, by 2002 overtime fell by 40% and absenteeism dropped by as much as 50%.

Importantly for cash-strapped municipalities in San Diego County, CitiStat is not that costly to implement. In the case of Baltimore, they found an off-the-shelf software solution and initially used data that city departments were already collecting. According to the Center for American

Progress, the CitiStat department has never had more than 8 analysts working on it. By way of comparison, the City of San Diego is budgeting to spend \$2.3 million dollars on its Customer Service Department and staffs that department with 23 employees.

Data-driven decision making in the public sphere is not a wonder cure. Dangers exist. Recalcitrant bureaucracies can respond by providing decision makers with “data dumps”, overwhelming them with facts and figures that do not tell any sort of coherent story or provide an opportunity for management to pinpoint problems. They can also provide simply the “good news”, indicating for example, the percentage of people who visited a library had a great time rather than surveying the entire population to see how they feel about services and service levels. Both those dangers are the reason to create a CitiStat team – staffed by experts in how to analyze, interpret, and present quantitative data.

In addition, upper management has to be strongly committed to the system – willing to highlight deficiencies as a way to get improvements to the system as opposed to painting only rosy pictures that might lead to short-term electoral advantage. CitiStat, if used correctly, will consistently point out ways for a city to improve, suggesting that the status quo can and should be improved upon. Sometimes, for short-sighted politicians who want to tell voters that everything is OK and nothing more needs to be done, that can be uncomfortable.

The City of Baltimore’s CitiStat web site indicates that over the past year hundreds of officials for cities in the United States and Europe have visited to see what is going on and how data-driven government can create a more efficient and effective government in their city. Unfortunately no delegation from a city in San Diego County has made that trip. It is past time that they did.

“Making the Most of Managed Competition”
As published in the *San Diego Daily Transcript*
September 13, 2007

Last fall, San Diego voters handed City Hall a highly effective policy tool to cut government costs and improve public services. Now, 300 days since that election, the time for municipal reviews and how-to guides is over. Policy makers must not delay reform but move to implement “managed competition.”

Managed competition is the policy process that allows private parties and government agencies to bid against each other for the right to deliver public services. For more than thirty years, the managed competition process has been adopted by local, state and federal lawmakers from all points on the ideological spectrum to promote cost savings, efficiency, quality improvements and innovation. Since the late 1990’s, managed competition has even been used in San Diego County government, saving local taxpayers tens of millions of dollars. Despite the crystal ball predictions of political pundits, the majority of these bids in the last decade have been won by the incumbent county government agencies, after undergoing significant internal cost-cutting and management reforms – a strong and healthy sign which proves that competition works and helps public workers as much as it does taxpayers.

With such a compelling case for managed competition, San Diego City voters last November overwhelmingly approved “Proposition C,” an effort to untie the hands of municipal leaders and amend the City Charter to allow managed competition to proceed on the local level. Today, Prop. C still has not been implemented, tied up in draft policy timelines and municipal machinery. This is an unfortunate situation, given recent figures that show it can be an extremely valuable policy tool.

A policy study released this week by the San Diego Institute for Policy Research and Reason Foundation shows that aggressive use of managed competition with respect to eleven major public services could save San Diego taxpayers up to \$200 million. The report details 31 different case studies where managed competition was used to streamline these operations in other jurisdictions. The authors highlighted not only the “usual suspects” like the print shop or fleet maintenance, but also showed how managed competition and the use of private vendors has made a real difference in operations like golf course and park maintenance. Even library services have been improved under managed competition, with the report detailing Riverside County’s successful experience in using a private vendor to operate that county’s 30+ branch library system.

Decisive government leadership is key to the success of managed competition initiative. Voter approval at the ballot box can only begin the process, not complete it. The recent experiences of two big-city mayors help demonstrate what strong leadership can accomplish for taxpayers and government reform advocates.

Faced with a major municipal fiscal crisis, Indianapolis Mayor Stephen Goldsmith waged an aggressive campaign to reduce government costs through managed competition. Throughout his administration Goldsmith opened eighty-six public services to competitive bidding, reducing the cost of government by more than twenty percent, and ultimately saving taxpayers \$450 million. In an impressive display of balancing public needs with the concerns of the public labor force, no

union members lost their jobs, as they either won the managed competition bids, were hired by contractors, took new jobs inside the City or retired.

Similarly, after inheriting a \$2.3 billion budget deficit, New York City Mayor Rudy Giuliani used managed competition and an array of other innovative policy tools to cut public costs and improve service delivery, including awarding new franchises, executing divestments, public-private partnerships and vouchers. Undaunted by a hostile City Council and unafraid to shake up the status quo, Giuliani wasted no time in savings tax dollars and reforming bloated city government. Within the first six months of taking office, he had proposed privatization plans for twenty-six municipal activities. By the end of his two terms, sixty-six of the Mayor's privatization measures were realized, saving New York City taxpayers \$2.29 billion in one-time revenues, and \$979 million annually.

Delaying tough decisions and shelving sorely-needed policy reforms like managed competition only exacerbates our fiscal crisis, making it more likely that taxes and fees will have to be raised in the months ahead. This plays into the hands of special interest groups, who for years have lamented San Diego as an "under-taxed" metropolis, championing greater government power and tax revenue sources as a cure-all to balance the budgets of City Hall.

Rather than allow San Diego to deteriorate into a high-tax, high-spending Los Angeles-style of government, concerned residents and free-market supporters should unite behind a renewed effort to innovate our way out of our financial problems by aggressively implementing managed competition. Now more than ever, we must regain the lost momentum for reform at City Hall, and beseech local lawmakers to muster the courage today to take decision action in the public interest.

San Diegans have already waited a year for reform, and they should not have to wait another day longer. When managed competition can be used at its optimum potential, local governments can be restored without the perilous prescription of higher taxes.

“An Alternative to City Hall's Traditional Summer Vacation”
As published in the *San Diego Daily Transcript*
May 31, 2007

The San Diego City Council is expected to pass their Fiscal Year 2008 budget sometime in late-June but there are still critical challenges that need to be addressed. Rather than skip out for a long summer recess, local lawmakers should stay indoors and finish some long-neglected homework.

If the Council is fiscally disciplined, the FY 2008 budget's core feature will be a significant reduction in the public workforce and a multi-million dollar commitment to set aside money to pay down the city's wide array of long-term debts and obligations. Such belt tightening is long overdue; assuming no last minute special-interest shenanigans, the Council and Mayor Sanders have taken important steps toward improving the fiscal condition of the City. But rather than coast through July and take the month of August off, local elected officials would be wise to keep the momentum for fiscal reform moving.

At the top of the summer work program should be overhauling the City's retirement system. To date the Council has largely tinkered at the margins, ending the eligibility of new hires to participate in the broken Deferred Retirement Option Plan (DROP) program, and scaling back opportunities they have to purchase costly service credits. Though these are two small steps in the right direction, taxpayers are still saddled with 20 years of debt payments to restore the City's pension plans to solvency.

As lawmakers pay down yesterday's mess, they must avert future fiscal meltdowns. The most important proactive reform that could be adopted would be the transition of new employees to a more dynamic 401(k)-style plan. Under such a plan the City's costs are clearly known, more transparent and the City is far better able to avoid costly errors due to actuarial miscalculations or sweet-heart deals like the 1996 and 2002 underfunding schemes. Moreover, provided a reasonable employer match, such a plan would work to the benefit of younger employees and those that may not wish to work for the public sector for twenty-five or more years. A priority project for the Council this summer would be to debate and pass a resolution strongly encouraging the Mayor to incorporate a 401(k) plan into the new labor contracts his office is currently negotiating.

Secondly, it is important that both Mayor Sanders and the Council move aggressively to implement managed competition, allowing outside groups to compete with local government departments for the opportunity to provide non-essential public services. Despite 60% of voters supporting Proposition C eight months have passed by with little action. To get the ball rolling, this summer the Mayor should prepare and release a set of initial request for proposals. That way by the time next year's budget is released, potential savings can be incorporated which could meet critical needs such as police and firefighter salaries.

Finally, the summer work plan must include reforms that would improve the dysfunctional budget process in the City of San Diego. Compared to other municipalities, San Diego's budget is incomplete, confusing, and difficult for the ordinary citizen to translate. For years watchdogs have complained that the pages of “happy-speak” and inconsistent methodologies result in a

document that only a handful of bureaucratic insiders can make sense of and which fails to clearly illuminate policy choices and tradeoffs.

A sensible initial reform would be for the City Council and the Mayor to hold hearings this summer to examine how San Diego can earn the Government Financial Officer Association's (GFOA) "Distinguished Budget Presentation Award." Achieving this nationwide best-in-class standard isn't impossible. Los Angeles, Oakland, and San Jose are all recipients of the award. To qualify, local governments must take simple steps, such as "clearly stating goals and objectives of organizational units" and openly providing the information necessary to determine whether or not resources adhere to government objectives. Moving towards award eligibility as soon as possible would result in a FY09 budget process that is more transparent, understandable, and accountable to residents.

With these important tasks left to accomplish, it is critical that our elected officials don't treat themselves to a season-long European-style vacation. San Diego taxpayers should never again have to pay the price for City Hall's lack of vision. Working diligently through the traditional break this year will assure that the momentum for fiscal reform is maintained and the City's recovery will be fast-tracked.