

**CASE STUDY:  
City of Sunnyvale, California**

**USE AND THE EFFECTS OF USING  
PERFORMANCE MEASURES FOR  
BUDGETING, MANAGEMENT,  
AND REPORTING**

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**GASB SEA RESEARCH CASE STUDY**

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## EXECUTIVE SUMMARY

The city of Sunnyvale, California, has made consistent, systemic use of performance measures for over twenty years, for strategic resource management and continual performance improvement. Sunnyvale has a fully integrated performance management system, including twenty-year strategic and financial planning, a two-year performance-based budget, and managerial performance contracting with pay-for-performance. The system has long been used for making near-term resource allocation decisions consistent with long-term financial forecasts, setting service levels expected to be achieved for amounts budgeted, and achieving accountability for both service performance and use of funds. In the mid-1990s, Sunnyvale began a transition to “outcome management,” restructuring programs and measures to focus more on results for the public. A newer Sunnyvale initiative is its “Quality of Life Index” for future annual public reporting, based on Quality of Life measures approved by the City Council in April 2001 and again in March 2003; the first Quality of Life Index Report was issued in June 2003.

### People Interviewed and Their Organizations

<b>Interviewee/Official</b>	<b>Title</b>	<b>Organization</b>
Jim Roberts	Council Member	City Council
Amy Chan Dan Rich	Assistant City Manager Assistant to the City Manager	City Manager's Office
David Boesch	Director	Community Development Department
Dave Gott	Commander, Fire Services	Public Safety Department
Marvin Rose Gene Weddell	Director Fleet Manager	Public Works Department
Mary Bradley Cheryl Bunnell Symone Bowman	Director Financial Manager, Audit Management Analyst, Audit	Finance Department

On-site interviews with these officials were held in April and May 1999, while performance measurement was still undergoing a significant transition in Sunnyvale. Two follow-up phone interviews were held in April 2001 with Dan Rich, then assistant to the city manager, who had been the lead manager in Sunnyvale's shift to more outcome-focused measurement. Later, Sunnyvale budget staff commented in writing with more updates and corrections, and a March 2003 review of city of Sunnyvale web pages was used for final updating of this case study. In addition, city documents were reviewed, including performance budgets. (See “References” at the end of this report.)

## **OVERVIEW AND BACKGROUND**

### **Sunnyvale: A Government with a History and Culture of Performance Management**

The city of Sunnyvale has over twenty years of experience with performance management. It has not been a sporadic experience of different measurement and improvement attempts, but a continuous, disciplined approach to measuring performance, tying the measures to budget decisions, creating expectations for managers to improve performance, and holding them accountable and providing them incentives through performance-based pay. One of the most striking common themes of people interviewed—elected and appointed officials alike—was how much performance management had become a part of the culture of the city government organization. As one said, “The culture in Sunnyvale has always been this way for the last 20 years.” One manager, who started with the city twenty years ago, described how even then, performance measurement was already clearly in people’s consciousness: “When I came to Sunnyvale, what I saw was that they have a plan that communicates clearly what services they were going to provide [and] that they talk about how to measure services. Through those measures they clearly tell which areas they are going to focus on, what are your expectations and your service objectives.” Others mentioned that the city’s reputation for rigorous performance measurement has attracted management staff who want to work in a culture of performance and accountability, thus reinforcing Sunnyvale’s strong performance culture.

### **Overview of the Integrated Planning and Management System, Updated for Outcomes**

The city has used a highly integrated performance-based “Planning and Management System” (PAMS) since the early 1980s. The connections in PAMS are apparent to city managers. One remarked: “It is a very integrated system. Looking at it, you can see that the performance management piece ties very much into the budgeting piece, ties very much into the reporting and accountability pieces.” And PAMS goes further, by tying twenty-year strategic and financial planning to the shorter-term budgeting, performance planning, and accountability.

Since 1996, the city has been shifting to an “outcome management” approach, focusing its program structure and performance measures more on “outcomes” or “results” of services. As shown in Figure 1, PAMS is a cycle that involves long-range strategic planning, short-term action planning, service delivery, and service performance evaluation, with actual performance results evaluated and fed back to inform or improve the other three elements of the system.

**Figure 1. Conceptual Cycle of the Sunnyvale Planning and Management System (PAMS)**

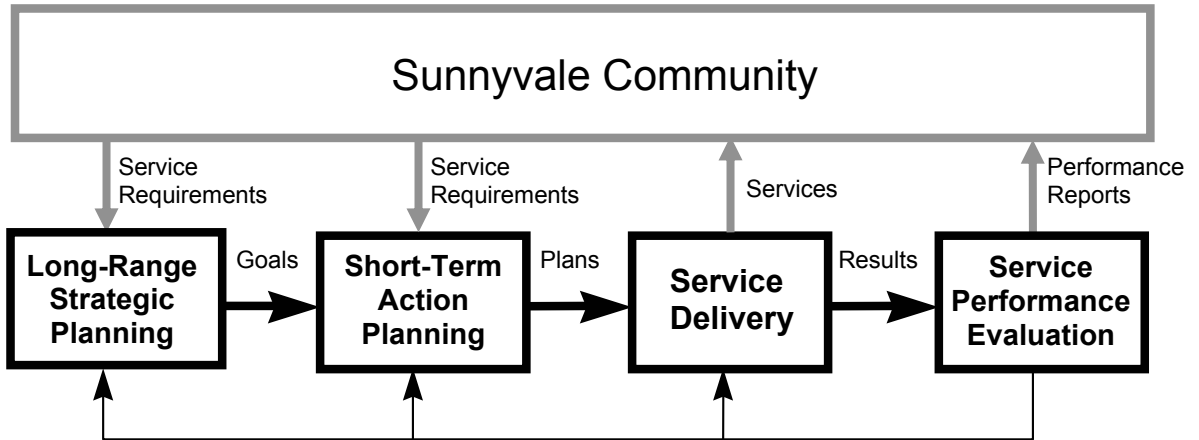
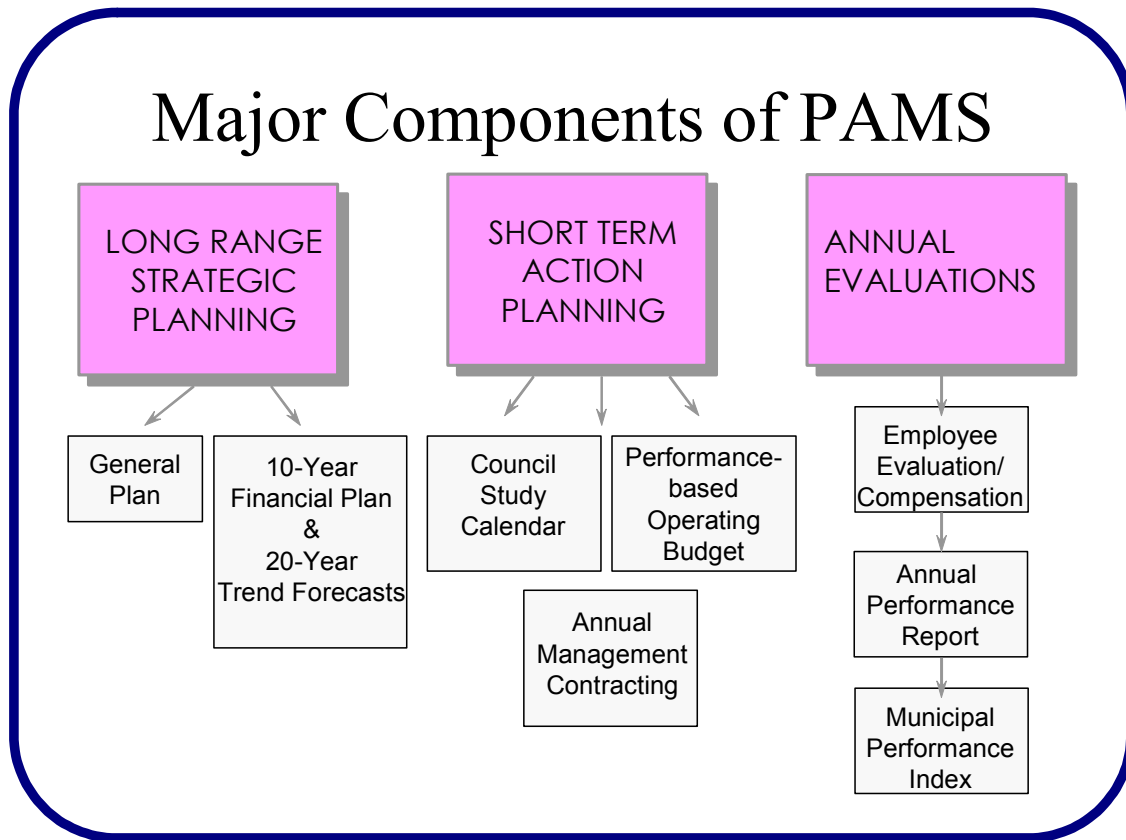


Figure 2 on the next page breaks down these basic elements in more detail, consistent with the following summary description of the components of PAMS, as updated for outcome management:

- **Long-Range Strategic Planning Including a “General Plan” and “Financial Plan”**
  - *Twenty-Year General Plan as a Strategic Plan:* By law, California mandates that municipalities have a long-range “General Plan” chiefly related to land use, housing, and transportation. Sunnyvale has developed a much more thorough General Plan than required by the state, with twenty-six “elements and sub-elements” intended to provide a comprehensive, strategic picture of the City Council’s vision for the city. The seven main “elements” of Sunnyvale’s general plan are Land Use and Transportation, Community Development, Environmental Management, Public Safety, Socioeconomic, Cultural, and Planning and Management. Sunnyvale updates components of its general plan every five to ten years, maintaining a twenty-year time horizon with each update.

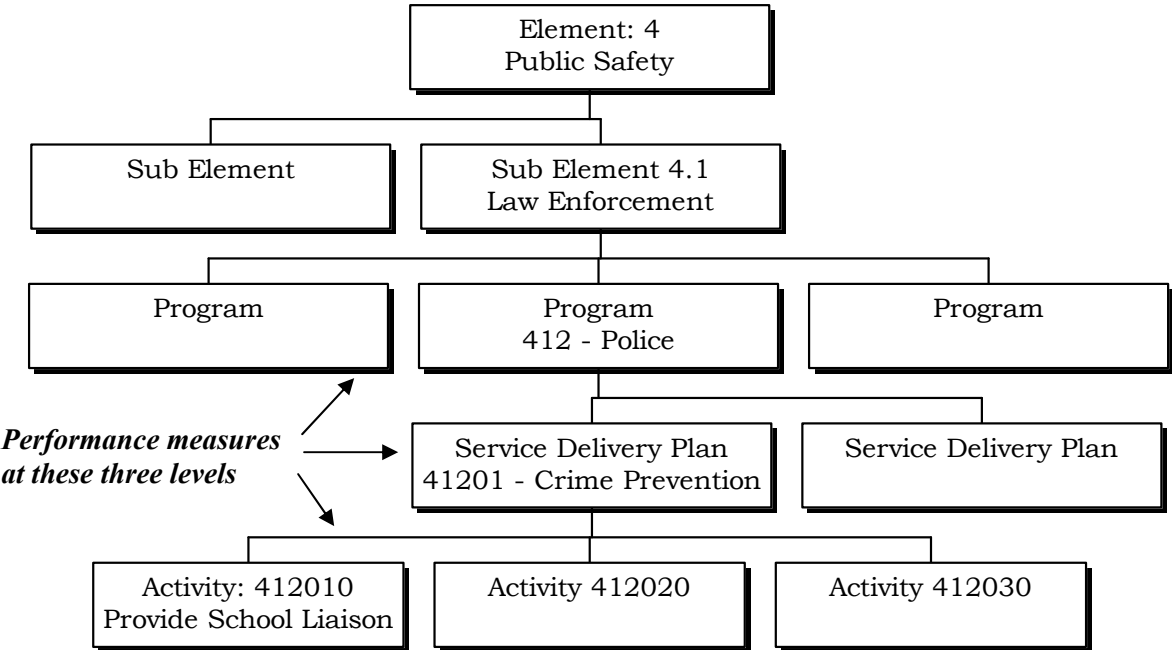
Figure 2. Major Components of Sunnyvale’s Planning and Management System



- ❑ *Twenty-Year Financial Planning:* As mandated by the Fiscal sub-element of the general plan, the city must include a ten-year financial plan, including revenue and expenditure forecasts, with every budget. In practice, the city goes further, by projecting costs of all current and proposed programs and revenue streams for twenty years. For most programs, the Finance Department projects costs twenty years out when departments submit their two-year budgets. For programs undergoing significant changes, and for the more volatile revenue sources, the twenty-year projections are updated annually. Before the city manager submits a budget to Council, and before final Council approval, adjustments are made in program budgets and performance expectations so future projections will balance for the next twenty years.
- **Short-Term Action Planning: Two-Year Performance-Based Budgets**
  - ❑ Departments submit budgets for all their programs, with performance measures and annual performance standards or targets, every two years. The budget is organized around the general plan’s hierarchy of “elements and sub-elements,” an example of which is portrayed in Figure 3. Although some department names may correspond to

elements (for example, “Public Safety”) or sub-elements, more than one department can be represented in an element or sub-element, and programs can be interdepartmental.

**Figure 3. Hierarchy of Sunnyvale Program Performance Budget**



- Department organizations cannot be seen in the budget document. As shown in Figure 3 and described next, budget-related performance measures are targeted and reported at the program level and at two lower levels: Service Delivery Plans and Activities. The two-year time frame gives a longer program planning horizon than one-year budgets and gives departments an opportunity, where needed, to target greater changes in performance than often can be realized in a one-year cycle. By law, the Council must approve a budget every year. So, annual updates are submitted in the second year of each cycle, with management and Council focusing mainly on exceptions (for example, programs undergoing significant changes), rather than reviewing every program budget and plan in detail. To balance the budgeting workload, Sunnyvale now alternates which year the two-year operating budget (with program performance plans) starts, and which year the ten-year (revised biennially) capital budget starts. Sunnyvale budgets are flexible, with Council approving total program amounts and planned performance levels, rather than line items or numbers of employees. Managers can then use funds within their total budget with flexibility to achieve performance targets in the best way they can.

Expected performance is described and targeted for each program at three levels:

- ❑ *Outcome Statements with Performance Targets:* Program performance is articulated at its highest level by the “Program Outcome Statement” (POS). The POS’s opening statement answers “Why?” by describing the core purpose of the program in the form of the broadest, overall outcome intended (for example, “provide a safe community and a feeling of security among the citizens”), called the “core outcome.” The POS next answers “How?” by listing, still at a broad level, services that collectively accomplish the core purpose (for example, “through deterrence and prevention of crime” or “by providing leisure services to dependent populations”). Finally, the POS answers “How well?” by adding statements of how success in achieving the core outcome is quantified and targeted (for example, “so that the average seven-year weighted FBI index crime rate is 54% below the national average” or “so that a response time to emergency calls for fire service of 6.2 minutes is achieved 90% of the time” or “so that 60,082 participant hours of leisure services are provided or brokered”). The “How well?” statements are the program outcome performance measures with targets or standards included. Some individual measures do not strictly reflect community, population, or customer conditions often thought of as “outcomes.” The idea, instead, is for the group of five to ten outcome statement measures for a program, taken as a whole, to give an adequate picture of whether the core outcome, as articulated in the opening statement (answering “Why?”) is being achieved. In addition to program-specific outcomes, every program must include the following two performance targets in its outcome statement: a targeted level of customer satisfaction, and a budget/cost ratio (planned cost divided by actual cost) of 1. (A third required measure, a cost efficiency index of weighted planned versus actual unit costs, was suspended after a few years because of technical difficulties.)
- ❑ *Service Delivery Plans with Performance Targets:* Each program has a number of “services” associated with it, defined and organized to achieve the core outcome. To maintain an outcome focus, departments are urged to organize services by customer or target group, by product, or by key process to achieve core outcomes, rather than by function or task. A “Service Delivery Plan” (SDP) is developed for each service, following the same “Why?” (core service outcome), “How?” (more specific services), and “How well?” (targeted measures of service results) logic and format.
- ❑ *Activities, Products, and Product (Unit) Costs:* Each service is broken down into “activities,” with an activity defined as all the effort and resources needed to produce

an “end product” in the delivery of a service. An activity is the lowest-level cost center. “Products,” considered the end result of an activity, are defined for each activity. Products can be, for example, “a domestic violence case investigated” by Police or “one play structure maintained” by Parks staff. Planned costs are allocated to all activities, and a targeted “Product Cost”—the unit cost for the product—is calculated for the product associated with the activity. During the year, staff work hours and other costs are allocated by activity, so actual product unit costs can be calculated and compared with targets. The city uses cost-allocation formulas to allocate overhead hours and general expenses to activities and product costs.

- ***Evaluation: Management Performance Contracting and Service Performance Reporting***

- *Management Performance Contracting, Review, and Pay:* Every year, each Sunnyvale management employee develops a “Performance Outcome Agreement” with his or her supervisor. The agreements are divided into three types of performance, with weights that vary by management level and specific responsibilities for a manager that year:

- “Program and SDP Outcomes” (weighted from 40 to 75 percent): Results of program outcome statement and service delivery plan (SDP) performance measures
- “One-Time Projects” (weighted from 0 to 35 percent) such as “Council Study Items,” service improvement projects, capital projects, other types of special initiatives
- “Commitment to Excellence” (“CTE,” always weighted at 25 percent) including eight categories of behaviors and skills expected of all managers (for example, customer focus, outcome management, teamwork, professional growth and development), and specific behaviors requiring special focus or improvement.

At the end of each fiscal year, managers prepare individual “Program Outcome Reports” (PORs) on their own performance (with measured results and explanatory narratives) keyed to each item in their Performance Outcome Agreement.

Supervisors review the reports and evaluate each manager. Managers may be eligible for one-time bonuses of up to 20 percent of their annual salary. A citywide Management Compensation Committee reviews performance evaluations and determines levels of bonuses, if any, for most management employees. The city manager does so for department directors, and the city attorney for managers reporting directly to her. After evaluations, managers and their supervisors revise

Outcome Performance Agreements for the new fiscal year. They also get a midyear revision opportunity. As measured results are linked to manager pay, audit staff (from the Finance Department) conduct sample audits to verify accuracy and guard against fraud. The city manager and the city attorney reach performance agreements with, and have their performance evaluated by, the City Council.

- ❑ *Service Performance Reporting:* Department Directors submit Departmental Performance Reports covering all programs and services to the city manager. By one quarter after the end of the fiscal year, the city manager submits a consolidated performance report to the City Council, reporting all program outcome results against performance targets approved by the Council. The citywide report is a key part of the Council's performance evaluation of the city manager. Although the budget and other "public record" documents have detailed performance information, few citizens request or review them. The city sends a number of public information pieces to citizens, including annual and quarterly reports sent to all households and posted on the World Wide Web ([www.ci.sunnyvale.ca.us/qtr-reports/index.htm](http://www.ci.sunnyvale.ca.us/qtr-reports/index.htm)), which have articles about services, projects, and local affairs, and occasional performance highlights, such as summaries of the city's Citizen Opinion Survey results in the 2000 and 2001/2002 annual reports.

### **Quality of Life: A New, Evolving Level of Performance Measurement and Reporting**

The City Council recently adopted (first in April 2001, with revisions in March 2003) a set of "Quality of Life Strategic Priorities, Goals, and Measures" based on the work of two Council-appointed citizen task forces, a citizen participation process, and reviews by most of the city's citizen boards and commissions. These include a set of eight "strategic priorities" relating to community safety, education, the environment, transportation, housing, community involvement, the economy, and diverse cultural opportunities. Each priority has associated performance measures, some of which are existing targeted measures in the program budget (for example, community perception of safety), and some are new measures (for example, percent of houses and apartments that are affordable for households with median income). By design, some goals and measures go beyond the direct focus of municipal services, reflecting citizen concerns that go beyond city services. The city intends to report annually to the public on results for these measures in a Quality of Life Index Report, starting in June 2003. The city envisions integrating the Quality of Life strategic priorities, goals, and measures into its integrated planning process, including strategic plans, budgets, and managerial performance outcome agreements and evaluations.

## **Brief History of Performance Measurement and Management in Sunnyvale**

- *Late 1970s:* The city of Sunnyvale started experimenting with service performance measurement, emphasizing service outputs and efficiency (unit costs). About this time, Sunnyvale received a federal grant to assist in developing performance measurement for the Public Safety Department (police and fire), including key public safety measures such as response times and clearance rates. The Public Safety pilot was considered a success, so the City Council supported expanding performance measurement to all departments. City management started developing a complete performance management framework that ties performance measures to budgeting and longer-term planning.
- *About 1981:* Completion of the framework for Sunnyvale's integrated "Planning and Management System" (PAMS), including a ten-year financial plan and a performance budget with targeted service levels and unit costs, related to Sunnyvale's "General Plan."
- *1980s:* Addition of a performance-based pay system for managers, in which achievement of organizational performance targets represents a significant part of every manager's performance appraisal and potential bonus (up to 10 percent) or salary reduction.
- *1980s to the present:* Continual emphasis on refining measures and measurement systems in departments, on maintaining fiscal discipline each year by projecting revenues and expenditures out twenty years and adjusting current programs to ensure long-term balance, and on improving service efficiency (regular reduction of unit costs) and quality.
- *1994–1995:* The interdepartmental managerial "Committee on the Future of the Organization" developed a major update to PAMS, giving performance budgeting a new outcome focus, and making a consistent revision to the management performance appraisal system.
- *1996 to the present:* Phase-in of a shift in the city's program structure and performance measures to "outcomes," with an "outcome management" approach integrated into PAMS, particularly in performance budgeting and management appraisal. The new approach emphasizes fewer, more results-based measures, including a small number of high-level measures weighted by the City Council for each program, allowing a single performance index to be calculated for each program. By April 2001, all of Sunnyvale's typical external municipal public services had shifted to the outcome structure. [Finance, Human Resources, Information Technology, City Attorney, and a special seven-city employment development program administered by Sunnyvale made the change in July 2003, so 100 percent of the city government are now on the outcome framework.]
- *1997 to the present:* Quality of Life Initiative: A Council-requested policy study, two citizen task forces, a public participation process, and citizen board and commission

reviews led to Council adoption (in April 2001 and March 2003) of “Quality of Life Strategic Priorities, Goals, and Measures,” some of which go beyond city services, for future public reporting in annual “Quality of Life Index Reports.”

- 2001: Management Pay for Performance System altered with maximum allowable bonus raised to 20 percent of salary, with the 10 to 20 percent range reserved for managers who perform at a truly outstanding and exceptional level.

## **FINDINGS**

### **People and Their Roles**

#### ***Who has been involved in initiating, developing, improving, and using performance measurement and measurement systems, and how have they been involved?***

**City managers:** Sunnyvale’s previous city manager, Tom Lewcock, served the city for twenty years. He was an assistant city manager in the late 1970s when Sunnyvale was starting to use performance measurement, and he was city manager from 1980 to 1997. His longevity gave the city the benefit of consistent leadership through development and institutionalization of the Planning and Management System (PAMS), the building of a strong performance culture, and a record of consistent increases in service efficiency. Toward the end of his tenure, he convened a Committee on the Future of the Organization (see discussion later in this section) that developed a major outcome-focused update to PAMS, and he presided over the start of the shift to make performance measures and management systems more focused on results for the public. Current city manager Robert LaSala has provided continuing support to PAMS and the shift to outcome management. He is credited with bringing a management style that reinforces outcomes, by focusing his work with department directors more on results and less on the tasks of service delivery.

**City Council:** Sunnyvale’s City Council has a reputation for focusing on policy and avoiding “micro-managing” services, allowing city management to focus on getting the job done. Both elected and appointed officials interviewed reinforced that view, and they cited Sunnyvale’s performance-based budgeting as a strong tool that allows Council members to confidently play primarily a policy role. Sunnyvale Council members have traditionally been comfortable with the idea that they have set policy priorities, have approved management’s measurable performance targets and lump-sum program budgets, and then can let managers decide how to achieve those targets, knowing that managers will be held accountable for their performance. Elected and appointed officials have characterized performance goal setting as a collaborative process, with managers proposing specific

performance levels in their budgets and Council members reviewing and approving performance targets, with only occasional revisions related to Council priorities. Sunnyvale's seven Council members all serve at-large and part-time, and are limited to serving two successive four-year terms. In the mid-1990s, Council approved the management recommendation to shift performance budgeting and management to more of an outcome focus. Under the outcome format in the performance budget, the City Council has set performance targets for itself, one of the more interesting of which (related to citizen boards and commissions) is noted later in this section under "Citizens." After a Council-requested 1997–1998 policy study, in 1999 the Council convened the first Quality of Life Task Force—an appointed group of citizens—which considered how to measure and report on the quality of life in Sunnyvale, including some broader conditions in the community not fully covered by city services. The initial idea for Sunnyvale quality of life measures came from a Council member—who chaired the task force—who had served on the public–private Joint Venture: Silicon Valley Network and was influenced by that group's annual "Silicon Valley Index," which includes measures of the regional economy and quality of life. A second Council-convened task force continued the work of the first and conducted public participation processes (see "Citizens" later in this section) to widen citizen input. City staff used task force and citizen participation results to develop a recommended set of quality of life measures, adopted by Council in April 2001.

***Committee on the Future of the Organization:*** This interdepartmental committee consisted of a cross section of managers from different levels in the organization, including department directors. The committee, convened in the mid-1990s by the city manager, proposed and developed a major update to PAMS, changing the performance budgeting focus to be more outcome-oriented and increasing department and program management flexibility by allocating costs to larger, more results-based activities than the former task-based unit cost system. A separate group within this committee revised the managerial performance planning and appraisal system, focused on "Performance Outcome Agreements" between management employees and their supervisors, and consistent with the new outcome focus proposed for PAMS.

***Lead City Manager's Office staff: oversight, training, and support:*** The City Manager's Office has consistently provided strong staff oversight and support for performance management, through roles of deputy and assistant city managers as they work with departments, and other staff support. An assistant to the city manager had been the lead city staff person in implementing the shift to the new outcome management format, including training department managers and coaching them in shifting to the new outcome structure. He was accountable for successful implementation of outcome management in

PAMS, and other performance improvements, as part of an “Organizational Effectiveness Program” with its own set of performance targets in the performance budget (for example, “75 percent of participants in PAMS training and support activities have successfully used the tools provided” and “Compounded annual bottom-line savings of continuous improvement is at a baseline amount of \$150,000”).

***Operating Department directors, managers, and employees:*** Development and refinement of performance measures and targets was generally characterized as being a “bottom-up” process, starting with proposed measures and targets from program managers, reviewed by department directors. Because targeted performance is in the budget, managers must be cognizant of how they will achieve any proposed performance improvements within existing resources—driving efficiency gains—or how they can justify budget increases that can stand up to long-term expenditure projections. Until the recent shift to outcomes, performance measures had mostly stabilized, and managers’ planning focus was mostly on setting annual targets for their measures. Recently, managers have had to grapple with revising their measures or defining new ones suitable for the new outcome focus.

Department directors meet with program managers periodically through the year to monitor actual performance and plan needed changes. Department directors have flexibility to make many changes, including shifting resources across programs, and only request budget modifications from Council if circumstances will not allow them to meet their overall budget. They generally only bring performance issues to Council midyear on an exception basis, if partial-year trends show that key program targets will be impossible to meet. Sunnyvale’s performance contracting system ties each manager directly into the performance management system. Managers and their supervisors, including department directors, reach agreement on individual managers’ responsibilities for achieving specific performance targets, which then become a major factor in managerial performance reviews and performance-based pay. City employees below the managerial level do not participate in performance-based pay. A recent labor–management task force concluded that the current nonmanagerial employee appraisal system did not lend itself to performance-based pay, and it created a new employee evaluation tool. The tool was piloted for a year, but needs refinement. When that tool has been revised and tested further, and is considered workable, the city may entertain developing performance-based pay as part of future labor–city negotiations.

***Finance director and financial staff:*** A prior finance director, still with the city government, was credited with being the lead management official in developing performance budgeting and the financial systems, including accounting and review processes, to support PAMS. The current finance director and budget staff still play an

important role in the process. They review departments' performance budgets, analyze and question proposed service levels, maintain cost accounting systems and develop cost allocation formulas with departments, and develop twenty-year revenue and expenditure forecasts for Sunnyvale's long-term financial plans.

***Audit staff in the Finance Department:*** Sunnyvale's internal auditors are in the Finance Department, which reports, through the finance director, to the city manager. The city's internal auditors have had a role in maintaining the integrity of performance measurement through sample efforts to verify data, to help improve measurement systems and guard against fraud. They have also performed performance audits, which can lead to a program's improving management practices as well as improving measurement systems and controls. With the shift to outcome management, audit staff have taken on the added role of helping departments revise and improve their measures to better reflect intended outcomes.

***Citizens:*** *Provide performance feedback (through surveys), contribute to performance (as volunteers), and provide input on targets and measures (on standing boards and commissions, and one-time Quality of Life Task Forces and related meetings and comment processes):* To date, citizens have not been regular users of reported performance measures. Although citizens receive extensive communications from the city (for example, quarterly and annual reports, often with performance highlights), there have been few citizen requests for the performance budget, and no citizen efforts at broad performance review. However, citizens have played a variety of other roles in Sunnyvale's performance. In 1996 and 2000, Sunnyvale surveyed citizens on their satisfaction with services, their perception of key conditions (for example, public safety), and their opinions on the importance of major local issues. In that period, some departments were surveying their own customers more frequently. Since then, the city initiated an annual citizen survey. Citizen or customer satisfaction ratings are required measures for all programs in the performance budget. Sunnyvale citizens also contribute to service performance as service volunteers. Sunnyvale makes significant effort to use citizens as volunteers to extend the reach of public services, and has an Office of Volunteer Services ([www.ci.sunnyvale.ca.us/city-manager/volunteer-services/index.htm](http://www.ci.sunnyvale.ca.us/city-manager/volunteer-services/index.htm)) under the city manager that helps recruit volunteers for all departments, and communicates with current and potential volunteers through a newsletter and the web. In still another role, citizens recently served on two successive Quality of Life Task Forces, chaired by a City Council member, with Council-appointed representatives from the business community, neighborhood associations, the teen council, and other civic groups. The task forces met over a two-year period to give the City Council ideas about quality of life issues that should be measured and reported. Within a framework developed by the second task force, over 400 Sunnyvale citizens voiced their quality of life concerns, "voted" for their top

three quality of life issues, and provided comments through three “open house” meetings, a mail-in survey, and a “virtual open house” on the Internet. Task force and citizen ideas were instrumental in determining the components of the new Quality of Life Priorities, Goals, and Measures, first approved by the City Council in April 2001. Finally, like most municipal governments, Sunnyvale has its share of standing citizen boards and commissions to advise the City Council and some departments. One manager characterized the boards and commissions as contributing to performance budget development by being “very much involved in developing . . . policy and service level and quality of service [targets, and they] give feedback to the City Council.” The City Council wants citizen boards to be actively engaged and to produce sound recommendations from the community that the Council can use. The City Council’s own Program Outcome Statement in the 1999–2000 Fiscal Year Performance Budget included the performance target: “The interests of the community are adequately and appropriately reflected in recommendations from boards and commissions on policies and actions as demonstrated through acceptance of recommendations by Council 75 percent of the time.”

## **Uses and Effects of Performance Measurement**

***What intended and expected uses and effects of performance measurement were articulated?***

***What actual uses and effects of performance measurement were identified?***

## **Introduction to Sunnyvale’s Uses of Performance Measurement**

Sunnyvale makes extensive use of performance measures for strategic management of the city’s resources and service performance. The highly integrated nature of Sunnyvale’s performance management system fosters consideration of long-term consequences of decisions as well as short-term results. The system has helped Sunnyvale maintain long-term fiscal discipline while using measurement to improve efficiency and quality, and achieve high levels of citizen satisfaction. Resource allocation decisions are tied to desired service levels and outcomes. Periodic management reports of actual versus planned measured performance and cost help managers communicate with each other about performance and make adjustments needed to keep performance on track. The same performance measures are used in a strong management accountability system, including pay-for-performance. Public performance-related communication takes place on several levels but is not yet thorough or systematic, as is internal communication. The City Council trusts the system enough to stay focused on the policy level, approving targets for program outcomes and

service levels in the budget, allowing managers great flexibility in how they manage their resources, and then holding them accountable for results.

## **Use of Performance Measurement for Resource Allocation and Policy Decisions**

### ***Intent and Expectations***

One of the main intentions of Sunnyvale's use of performance measurement for resource allocation and policy, according to elected and appointed officials, is to allow the City Council to focus on policy and allow managers the flexibility to manage. As a Council member put it: "The whole idea was to allow policy makers like me to focus on the big picture at the strategic level and not get mired down in the day-to-day operations of the city. We are a part-time Council. We all have day jobs. We don't have the time or expertise to get into budget line items and make those kinds of decisions." A department manager noted that the Council "clearly wanted to remove themselves from the day to day operations. They wanted to let staff do what they needed to do, by just giving them some basic policy direction." A more basic intent of Sunnyvale's system, according to several managers, is to tie performance measurement to the budget.

The shift to outcome management was intended to increase the strategic policy picture of the budget. One manager cited how the outcome structure "allows . . . the city manager and the council an easier view of the budget. It is less layers and layers of detail. So they can get more of a big picture view. This is the thing we approved and this is what we think is important."

The shift to outcome management is also intended to increase management flexibility in resource management. As one manager said, "You are given a pot of money and you have a job to do so go do it. Actually, one of the things that we have tried to do as part of the outcome restructure is to take that even further. To have fewer pots of money and bigger pots, fewer measures but higher level measures, so there is even more flexibility. More high-level focus." Another manager, however, reported "major problems encountered" in this shift in approach.

One department manager cited an intention of *using cost and performance information in long-term financial plans to keep budget and service changes manageable and in balance over time* ". . . to take some of the valleys out of municipal budgets. Our neighbors are constantly in the mode of, if there is a lot of money they start new programs, and if there's not a lot of money then they constantly have cutbacks. Our idea was to plan it out for the longer term and have a real sense as to what it costs to deliver a particular service and the level of service so that if you want to expand that service you knew what the long-term

consequence of it was. If you were in a time when you needed to look at cutbacks, it would give you a way to selectively begin to reduce services in certain areas rather than saying everybody has to cut 5 percent across the board, with no rhyme or reason as to why it occurred. We have been working on that system 20-some years.”

### ***Actual Uses and Effects of Performance Measurement for Resource Allocation and Policy Decisions***

Sunnyvale’s uses of performance measurement appear to have met officials’ stated intentions and expectations for resource allocation and policy decisions. Appointed and elected officials described the uses for long-term financial planning:

- A manager: “We do a ten-year budget and we balance our budget every year. We articulate a service and one of the things that we will commit to our community is the level of service we want. . . . The ten-year financial plan lays out exactly what we are going to do. With that kind of discipline, you would not produce a one-year windfall. Do something and not deliver it in future years. Say the projection is that we can only provide service for two years and then we would have to cut services. So we ask council, years ahead, ‘What services would you want to cut?’ Those are the kinds of tools we use.”
- A Council member: “The long-term focus is important. We don’t have a budget. We have a ten-year resource allocation plan. . . . We look at this for ten years; actually, for twenty years. Make certain assumptions and plug them into the spreadsheet and you can identify a problem really quick. Revenue and expense lines go upside down. It allows you to do something today rather than wait until year nine or fifteen and say, ‘Oops! We have a major problem on our hands right now!’ Not only measuring things well, but also taking a long-term view.”

Another manager felt the long-range planning “has helped us weather a lot of crises,” referring to financial crises that have hit California over the years, and forced major budget cuts in other cities, while Sunnyvale had “not cut any employees or programs.”

That fiscal discipline has been extended to shorter-term performance budgeting decisions, with the Council’s policy emphasis as the driving force. One manager described how performance measures are “used in budgeting and management decisions every year. The budget is set by how well you do on your measures . . . and the resources you need to get that job done. People tend to think that the better you can do on a measure, the better. That is not always the case. If the City Council says our standard for a service . . . is 85 percent satisfaction or a 4.2-minute response—if you can do it better, but at a cost, that may

not be the best use of the city's resources. So philosophically, historically this organization has taken away the resources that are not needed to meet the Council-adopted service levels. In our biannual budget review, there is . . . intense scrutiny at your product cost. Saying if you can do what Council asked you to do and you can achieve a service level . . . for less money, then let's use that money for another priority or for another measure that the Council is asking for that isn't meeting its service levels."

People interviewed confirmed that the performance budgeting system has worked to focus Council on results and has given management more flexible use of their resources to manage their programs and services. As a Council member said: "All of our budgets are program based, or outcome based. . . . I don't go in and argue about how many paper clips we are going to have. I go in and say, this is what the outcome should be. Either that is going to change, or it is going to be the same. . . . It allows policy makers to set policy and to focus on the strategic level. It keeps us out of the micro-management decisions. It allows the professional staff to do their jobs."

Managers confirmed that they have a lot of flexibility in managing budgeted resources. As a manager of a major service said, "It allowed me within my budget to be able to move resources around to be able to work on the efficiency in the things that we did. . . . I think for me the biggest thing was the flexibility that I have had in managing the resources that the Council had given us for providing a certain level of service." Another manager described an example of how that flexibility can work: "For example, say we have \$22,000 allocated for digital direct sign maintenance. Well, if we spend \$25,000 on that the City Council doesn't get involved. They are only going to get involved in it if the entire department is going to go over budget. . . . The director can say, 'Okay, we need more money for this particular activity of direct signal repair, but we seem to be under budget in graffiti removal.' So overall we are going to come out fine and that is all that really matters. It is very bottom line budgeting."

Sunnyvale's system also helps managers do the analyses and make the judgments needed to use their resource flexibility wisely. As one department director said, "You can do forecasting for the fiscal year, which is one of the real uses of this information. Take a look at what is trending. . . . Are we running more expensive this month than last month and the proceeding ten months? At this rate are we going to blow the budget? Or are we going to come in under budget? What is the unit cost?" Another manager noted, "Very few of these things get to Council. One reason is we have such a strong tie to performance reporting requirements it is pretty hard to get far off track." The kinds of exceptions cited by managers, in which they brought midyear budget or service level changes to Council, included extreme weather (a tornado ballooned service costs one year), highly fluctuating demand (for example, it's difficult to predict the level of sidewalk damage due to tree roots), and a new

service in which demand exceeded expectations. In the last case, the performance system's data told the manager that unit costs were on target, but "we had 15 to 20 percent more new accounts than we had projected. We simply couldn't keep up with the volume. . . . So I went into the budget hearing and I said I need more resources. I explained very carefully that the problem was that we couldn't keep up with the workload and . . . our unit cost was going down but our number of activities was going up. I needed more resources. . . . I got them."

There are still other ways that performance information is used for resource allocation in Sunnyvale, as illustrated by the following three examples:

A Council member described using a type of outcome measure—crime rates—in budget deliberations: "The Public Safety Officers Association is a bargaining unit. We need more cops is a pretty typical thing for them to come and say to City Council members. So I would take the data, look at our crime rates, compare where we were and show the trend. In fact, we have the lowest crime rate . . . in 20 years. The population has tripled. But the actual number of crimes is down. I would be able to use that and say, 'Where is the need?' 'Yes, but we have more citizens now.' But we don't necessarily have a need for more officers. We need to keep focused on the strategic level and say, 'Why do you think we need more officers?' 'Well, we feel there are more cars out on the street.' But there is no real reason from an outcome perspective to add cops."

A manager described using a performance based approach for operational decisions on when to replace vehicles and for flexibly managing the fleet budget at the same time: "Through the outcome-based budget we were able to come up with a tool that is actually a performance measure to determine . . . the best time to replace a vehicle. Using just this one instrument, for three years we have been able to get everything that we need, replaced things that needed to be replaced, and yet come out with a little bit of a surplus. . . . Each vehicle and each piece of motorized equipment throughout the year . . . we service it but we give it a separate report card. We look at a long list, and we also check the downtime of that vehicle; we check its age, we check the amount of miles on it. We have a formula, and if it is under 70 I consider it for replacement. When I say 'consider,' I will look especially at downtime—if it is a car that has come in for chronic problems, it is a pain. Then even if it has five years to go, I have the latitude to replace it. I also have the latitude to stretch cars if things are going well. It gives me a perfect tool either way. . . . Some vehicles may last for three or four more years [than expected] so you defer that payment. But if you have one that is due in five years and it is a maintenance nightmare, it is no good to the department that is using it because it is not available all of the time. Maybe it is a misapplied vehicle, maybe it is just a lemon; who knows? We won't spend our time and money on it. We will get rid of it and get another one. The ratio I would say between stretching them and replacing them early is

probably about 5 or 6 to 1. It does give me that latitude to decide. . . . The other thing that we do, even if we have a new car—and we just put a police car on the street this morning. This afternoon if it gets into a major wreck with \$12,000 worth of body damage, maybe it is not worth fixing, if the estimated repair cost exceeds 50 percent of the remaining market value. That has helped out, too. So many cities and other organizations will pour thousands of dollars to fix something because they don't have any replacement money. By doing it the way that we do it, our operating costs have a better chance of surviving.”

Another manager described changing expectations—actually lowering performance standards that were higher than necessary, to save money for reallocation. This example involved when to repair or replace concrete when its surface rises: “You change the expectations. So what I do every year, one by one by one, is identify service levels. Are they reasonable? One that I recently looked at was for concrete when it rises. . . . At a certain point you grind it or you replace it. . . . Our [replacement standard] was very generous. Like one inch. It was much more generous than most other cities. They were two inches or an inch and a half. By taking a look at those things you can really go about reallocating resources.”

Finally, for one manager an important effect of performance budgeting was on department staff. “The biggest thing that it has done is that it has tied our staff into the budget process. They have a much better understanding of the budget process, since they helped me develop the measures.”

## **Use of Performance Measurement for Strategic Planning, Strategic Management, and Performance Improvement**

### ***Intent and Expectations***

One intention of Sunnyvale's system, including the twenty-year strategic and financial planning, is to ensure consideration of long-term consequences of current service and budget decisions. One manager expressed this intent: “I think that it really was to ensure that there is a context for short-term decision making in the City. So that policy makers and staff recognize that the decision made today has consequences in terms of service delivery, not just in this year but next year, and here in Sunnyvale 10 and 20 years out to the future. Because any decision that has a long-term effect on service delivery in terms of either an expansion of service or a contraction of service has budget implications to it. A lot of communities operate on a year-by-year budget cycle failing to really look beyond in terms of the longer-term consequences to the decision.” Another manager said the intent was, simply,

“to provide an excellent tool for long-term planning and financial stability. The latest outcome initiative is a refinement of that.”

As noted previously under “Resource Allocation and Policy,” performance budgeting, especially with the new outcome focus, had the intention of making budgeting more strategic. Also, the outcome structure is intended to get managers, as well as Council, to consider more strategic policy questions and think in larger terms when planning services. As three managers described it:

- “We began to ask broader questions. What we had done in the old system was focus on each work unit. . . . We are taking it one step higher up, asking: ‘Is that what we are here for? What happens if our vision changes? Would some of these things change along with it? What is truly important to us? Does this get to where we want to go, as a city, as a community?’”
- “We are looking more at the consequences of services. Not just making sure that they are measured accurately, and we can quantify what we do, but looking beyond that and asking questions about ‘what difference does it make? Is that really what we ought to be doing? Is that where the community wants the resources invested?’ That is a change in mindset.”
- “To get less task-oriented. Less widget-oriented. Think more ‘big picture.’ It is a refinement at least for the operating departments.”

One manager described a strategic management intention of outcome management, by providing managers more flexibility to change their service strategy: “We have tried very consciously to increase the flexibility of staff. You are accountable to these productivity measures—your per-product costs. If there are a lot of small pots of money counted toward your efficiency, you have limited flexibility. So we are trying to have fewer, larger pots and greater flexibility so you can adjust midcourse. If halfway through the year you are not making your goal or something pops up and you need to take a look at your strategy, you are not tied to a certain product or money target for certain purposes. A lot of our activities, as we call them now, are broader. All of preventive maintenance in the fleet, or something like that, as opposed to something as specific as ‘change tires.’ Not every discrete task [is defined, as] in the old days. Now everything there is related to one activity. So it doesn’t matter how many tires you change or the cost per tire. What matters is the cost of maintaining the fleet.”

Performance improvement, particularly continual efficiency and quality gains, was seen as an original—and still current—intent of Sunnyvale’s system, as related by these three managers:

- “I think that there were a number of driving forces at the time. Certainly part of it was to see if a system like this could be used to ratchet up overall organizational performance. To provide some yardstick against which that could be assessed.”
- “I think that they clearly expected to see improved performance and efficiency.”
- “Improving the quality of service to our citizens and our external customers.”

Two managers also talked about the intention to clarify expectations, and increase focus on the “destination,” or on “results” the community wants:

- “The new version is really only a new generation of earlier versions. The intent was the same all along: manage for results and not line items. Make it clear to staff what the expectations are so there is a clear focus. Align that focus with the community desire.”
- “I thought that it would give people a clearer focus. It would provide some consistency. . . . How the information would be understood and then used to make incremental corrections over time, so it acts as a compass that we clearly focus on the destination, and see whether we were tacking off in a different direction or needed to make some course correction.”

Another manager emphasized an intent to control costs and service levels: “I am sure that for the former city manager the issue was really to make sure that the resources were being managed as effectively as possible. Control costs as much as possible, insure that service levels are uniform and very clearly identified.”

Finally, one manager expressed an intention—not yet realized—of giving long-time managers the freedom and motivation to make the kinds of sweeping changes more typically made by new managers: “[When] a new manager comes into the organization, within a year wanting to revise or revamp everything. One of the things that we have tried to do for the last five years is to provide opportunities for existing managers to do the same thing. Because we recognize the improvements in the programs that we saw with the new managers, and questioned why existing people couldn’t do that. It doesn’t take a new person coming into the organization to see that kind of change. We don’t know what the answer is. A lot of it has to do with workload and things. . . . But we wanted to give existing employees the opportunity to do the same kind of things with their programs as someone from the outside would do. We haven’t fully figured out how to do that yet. We are trying to strip away some constraints for existing people. . . . We haven’t been completely successful in solving that issue yet.”

## ***Actual Uses of Performance Measurement for Strategic Planning, Strategic Management, and Performance Improvement***

Elected and appointed officials alike said that Sunnyvale actually does use its performance management system for long-term planning, as in the following comments:

- “The thing that is successful about Sunnyvale isn’t the fact that we measure everything in a performance-based budget and we have pay for performance, but we do it for the long term as well. The long-term budget allows us as policy makers to view the measures and see how they change over time and to identify a problem in year 15 in our budget. Make a small change right now, so in year 15 the problem goes away because we changed something by one quarter of a percent in year 1. That is the powerful part of it.”
- “The system uses the long-range planning of the community as expressed in the General Plan and the long-range financial forecast. It really translates that back into one- and two-year budget cycles. It provides not only a longer-term perspective to decision-making, but it then connects in the policy priority setting process. So that rather than constantly adapting to changing political priorities, it provides some continuity. With term limits and other factors that can impact local government, this provides some constant direction.”

The new outcome management structure is credited with giving managers a better opportunity to adjust their strategy for better performance. As one manager said: “I think that there is even greater flexibility now that we have gone to outcome management. Because then it is not just moving resources from one activity to another, but you are able to change the activities entirely if necessary. In other words, come up with a different strategy.”

The manager provided two examples of taking a larger, more outcome-focused view to adjust strategy—one example for fire prevention, another for improving survivability in cardiac cases:

- “I can tell you how much it costs to do an inspection for fire prevention. I can tell you the things that I have done to bring the costs down, to make it more efficient and effective. We went to outcome management and what we were saying was, ‘Why are we doing fire prevention inspections?’ We came to the conclusion that what we were looking at is essentially being in compliance with the codes and having a safe work environment. Inspections are one way to do that. But there is a variety of other ways to do that. By going to the outcome measure, it gave us the opportunity to come up with a different strategy and options rather than focusing on a particular strategy that is immortalized in the budget.”

- “A lot of studies are done around patient survivability in cardiac care cases. It is kind of the hallmark that if you do it well, then you usually do everything else well. Even though it is a very small portion of your cost. What we look at is how fast we can get some sort of medical intervention. . . . We have gone as far as we can go in public safety with the medical expertise of our people, emergency medical technicians and their ability to do early defibrillation. . . . [We are] talking about how do we get the patient ready even before the 911 call. Because there is some time lost there. We are working on a project now, which involves getting the automatic defibrillators in businesses in the community. Our goal is very ambitious, but it is that they will become as commonplace as fire extinguishers. In some places in this country it has already happened. If you want to have a heart attack, the best place is probably in a casino. We are trying to get something ahead of the 911 call. So all of these measures lead in some different directions. Okay, we need to condense that timeframe from the time somebody collapses to the time the intervention takes place. Whether it is us that makes the intervention or someone else in the workplace or community. That will be one way that we will use this because we have some very concrete data to work with.”

Sunnyvale uses its integrated performance management system, driven by the long-term General Plan, to strategically organize by program purpose, leading to some programs that cross department lines for better focus on the desired outcome. As managers explained:

- “Our system is very integrated. The planning and management system includes our General Plan and strategic vision, set by the City Council. . . . The General Plan has goals, actions, and policy statements and that is why we organize our budget by General Plan and our city by program and not by department. . . . [The Community Development director] has one program with staff from four departments involved. But in our opinion, it is all one purpose. . . . The outcome is development; therefore, it is one outcome statement and one budget.”
- “In Fire Services we have a real relationship with Community Development because as developments are planned and are built, they have the responsibility of moving them through the process. Yet we in Fire inherit the buildings later. We take responsibility for the fire and life safety issues that determine how that building is built. There is some integration there.”
- “Police Services do a lot of things to get to the root causes of crime, dealing with crime rates in ways entirely outside the traditional police department. They become focused in Parks and Recreation and other departments [for prevention]. . . . There is really an

opportunity for looking at areas where other people's work impacts ours and ours impacts theirs.”

In addition to organizing programs across departments, Sunnyvale has experience organizing programs across jurisdictions and across sectors to achieve important common outcomes. A dramatic example of that is Sunnyvale's Columbia Neighborhood Center, designed to address a youth crime problem that had arisen in an area of the city, built with a \$1 million contribution from a private business and housing services provided by several city departments (for example, Parks and Recreation, Police, Neighborhood Services), nonprofit organizations (for example, YMCA, health services), and the Sunnyvale School District. A case management approach to selected youth helps integrate the services. The overall program coordinator, under the city manager, has a Program Outcome Statement with ambitious outcome performance targets that go beyond the direct services of a typical neighborhood center, including reducing the rate of youth-related crimes in that area and improving student performance on standardized achievement tests in the Columbia Middle School. A Sunnyvale manager related the positive reaction to that program: “We are beginning to pull all of those services together and beginning to measure improvements. . . . The youth crime in that area has been reduced. It is a success story that we are very, very proud of. . . . The Council has asked us to do a study to see how we can implement this kind of model in other areas of the city. . . . That is another way that we use this system even though we measure different things. We are able to lift the information and ask, ‘What does this tell us? How can we create something that is important to the community?’”

In addition to the more strategic and cross-organizational uses of performance measurement, Sunnyvale managers described a variety of ways performance measurement is used to improve the performance of specific services and operations. As one manager put it: “I use performance information extensively to manage my department. I am sure that everybody else does the same thing. It is incredibly useful.” Several more specific examples follow.

One long-time manager described how, when Sunnyvale first started performance management, city management worked hard with staff to provide good data and analyze it in detail to improve operations: “In the beginning people would say that on average it takes me 20 minutes per call. We would respond, Why does it take that long? How big is Sunnyvale? How long does it take to get from one side of town to the other? Where do you spend your time? So you begin to look at the data and you begin to ask operational questions. . . . What you do is get into people—how they work, and what their work life is like. It can be very, very intimidating. What we encouraged people to do in those earlier days, is that it doesn't matter

what the budget says; we want you to put in how you are actually spending your time. How you are using the material, the time. What we were interested in was collecting the actual information. Once you have the data, then you can begin using it. Data is only valuable if you can use it and when you use it.”

Today still, managers dig into detailed data and use it to improve, as in using customer survey data: “On the measures side, we certainly in most services take the data on customer satisfaction. Not just to report the number that we got, 87 percent, is great; we get a bonus this year! But take the data from the surveys, and the comments, for continuous improvement, so we will tweak or adjust to improve our service. If we are at 80 and we want to get to an 85. What do we have to do differently to get to an 85? They don’t like our turnaround time? Okay, let’s shift some of our resources into improving that. A good manager will dig into what is behind the measure to say what is this telling us about the operations.”

One department director described monitoring program performance trends periodically throughout the year with program managers, and deciding whether midcourse corrections are needed or, in some cases, whether issues should be raised to the city manager or Council: “The trends are what I key on. What have they been able to do in the past? What are we doing now? They can be up and down, but for what reason? For example, . . . during heavy winter years our storm drainage program experiences pretty heavy hits. . . . We will look at that and if it makes sense to me and it coincides with what I know is going on out there, then we just go on. If I find that something doesn’t coincide with what I am aware of, then we will spend some time with a program manager, who explains right down to a task level why we have a problem trend. That allows me to red flag things that are not like I think they should be, and spend some time specifically on those issues and not spend a lot of time on the thousands of other issues that are simply functioning. I can do that very easily by looking at our period-by-period trend reports. . . . So it gives me that opportunity to . . . make midcourse corrections. Secondly, . . . if I think that something is going significantly awry that will cause budget problems or it is going to make it impossible for us to meet our objectives, then I am going to start letting the city manager and City Council know that is going to happen, and why, and what we are going to do about trying to fix it. So it gives me an opportunity to deal with those things proactively. That is one of the major differences between Sunnyvale and where I came from previously. There, all we did was explain, at the end of the year, why we did or didn’t do what we said that we were going to do. This system allows us to be on top of it more and make some mid-course corrections.”

People interviewed also cited motivational uses of performance measurement, both in general, as in the first comment, and related to managerial performance-based pay, in the other quotes here:

- “People in general want to do a good job. If you put performance measures out there and they know what they are doing, by the nature of what people want to do, things improve. . . . I think the success of our system from day one has been the ability to do that.”
- “Managers know that their performance is tied to how well they manage. How well they manage the budget, how well they use their service level. If they have done well, extremely well, then at the end of the year they are compensated with up to a 10 percent bonus.” (The upper limit on bonuses has since been raised to 20 percent.) “On the other hand if you don’t perform well, then you [may] have a sanction of up to 5 percent. Over the past 20 years there are probably a dozen people that have received pay cuts. Right now we have roughly 100 management employees.” (Since reduced to about 90.) “A percentage of them will get no bonus at all.”
- “[The City Council evaluates] the city manager and attorney. . . . Everywhere else it is mid-management review process. They have their action plan that sets forth the things that they have do for a year and if they meet those or exceed those they get a bonus and if they don’t they get sanctioned. . . . It is pretty powerful.”

Sunnyvale also makes comparisons with the private sector and other jurisdictions to keep costs competitive while meeting performance standards. The first example below involves public–private competition, and the second involves benchmarking fleet costs and internal rental rates:

- “[We] look at the data for some services that we have contracted out. . . . As we look at the data and the type of quality that we have and the amount of work that we want to do, we begin to [ask]: ‘Is this service more economical [since it has been] contracted out?’ We send out RFPs to people . . . that build in our standards. [Contractors] have to meet our performance standards. If they cannot meet our performance standards for the cost, then clearly they cannot meet our requirements. Our teams began to put their programs together saying, ‘How can we beat the outsiders with these kinds of measures?’ They found a way to do it. So there is a very empowering effect. People look for ways to do better.”
- “A suggestion from the previous city manager is to maintain cost for vehicles and motorized equipment at 2 percent below the cost of contracted fleet services. With all of the talk about privatization, this helps keep us lean and mean, or at least on track. We

didn't want to compare ourselves against a retail market. We did want to compare ourselves to a few local cities around here that utilize a private contractor for maintenance. We basically get their fleet and put it into our rental rate system and actually bid internally how much it would cost us to provide our service to that fleet. One fleet organization we beat by a pretty big amount. And another . . . we beat by [a small percentage,] so it was close. That means we are competitive. . . . When you buy a hundred or so vehicles per year, the rental rates that we charge the different departments really make them know that we are much less than our competitors. Rental cost is maintained at a level [well] below the commercial rate. What we do is to compare our total cost of ownership—buying the car, operations, maintenance, gas, everything including wrecks get into that rental rate—and compare it against Hertz, Avis, construction rental. . . . This is a good thing. It keeps me in tune with rates and helps me answer some tough questions.” The manager also described how fleet services must meet measurable standards of quality, timeliness, and customer satisfaction, so cost competitiveness does not come at the expense of customer service.

### ***Effects of Performance Measurement for Strategic Planning, Strategic Management, and Performance Improvement***

People interviewed felt that Sunnyvale's system has had the effect of giving Council and management a long-term perspective, and of avoiding Council micromanagement:

- “The whole philosophy is long term. We are not going to worry about a 92 [performance index] for just one year if the general trend is toward 105. I think that the Council's view is radically different here than it is in other governments. In not sweating the details, in not micromanaging, not worrying about every little blip but looking at long-term trends.”
- “Probably the thing that has changed the most for us is that we would look at services in terms of levels. . . . If you have to do cuts or increases, you have an understanding of what a cut would look like and how to go about it. . . . If you are going to expand your services you have some sense of how much it is going to cost and what will be the benefits of it over the longer term. It makes a complete difference in how you plan for the long term. Instead of the roller coaster that a lot of places still have.”

Several managers described several effects relating to staff perceptions of the job to be done, including clearer focus and expectations, a bigger picture, and a shift in mindset, some of which were driven by rethinking programs as part of the new outcome structure:

- “I think that there is a clearer focus on how the different parts fit together in terms of those activities that roll up to programs and programs that roll up to achieving the organization wide objective or outcome. . . . At least there is a base level of understanding throughout the organization of how they feed into that, which as a result connects individuals more closely to the programs and to the organization, as opposed to knowing only their job duties and not thinking about how they contribute to broader organization-wide goals.”
- “It has provided the staff with a bigger picture perspective to understand how they fit. Going through the process of rethinking our business and redefining what is important in terms of the end result or what we call the outcome, it contributed to a mindset shift.”
- “They have an excellent sense of what is expected of them. They have an excellent sense of the quality expected of them, the timeliness, what people are worried about. People are worried about cost. We are worried about privatization or managed competition.”

Several managers described that Sunnyvale’s performance management has had beneficial effects of making staff more sensitive to citizens as customers, improving service quality and achieving high levels of citizen satisfaction:

- “One of the most significant things that has changed over the last ten years is the counterconnection with our citizens. . . . We are being much more driven by what people are looking for versus what we think they are looking for. . . . Providing people with one-day building permits, over-the-counter permits. They can come in and get a routine building permit within an hour. Fifteen years ago it was submit your plans and in two weeks we will get back to you. And on the thirteenth day we started looking at the plans. That has been turned around tremendously. Always in response to what the citizen—our customer—really needs.”
- “One thing that has been really good is that it has improved the quality of service. Parks is an example. We have award-winning parks. I think that the system has really driven us to that quality level. . . . The lower-level people may not have the understanding. Nevertheless, it did drive the supervisor to insist on a certain quality of their grass.”
- “Sunnyvale has a very high level of citizen satisfaction. Three years ago we did a citywide citizen satisfaction survey by a professional surveying firm. . . . Ninety-five percent of our citizens think that we are providing good to excellent services. Which is quite remarkable. It doesn’t mean that we have the luxury to sit on our laurels. We need to continue to focus on what the citizens need and . . . what we are able to do to meet

their needs, and what we can do to find out what is important to the majority of our citizens.” (Sunnyvale now conducts annual citizen surveys.)

One manager cited a study indicating that the city of Sunnyvale, as a whole, has increased productivity and is more efficient than other city governments: “We have experience for 15-plus years, measuring lots of details, and those have really helped us to increase our productivity. Sunnyvale did a survey about five or six years ago, measuring similar-sized cities and similar services depending on the type of service you had. What we found is that we are a lot more efficient in comparable size of government by one-third. Our city has improved significantly over the past decade. . . . So we knew that there was a level of quality and efficiency that we are able to measure how well we have done, and we have done very, very well.”

Finally, one manager cited the organizational effect of attracting performance-focused people: “New people came into the organization, and as we get new people we tend to get people who are interested in performance.”

## **Use of Performance Measurement for Accountability and Communication**

### ***Intent and Expectations***

“Accountability” emerged in the interviews as an important intention of Sunnyvale’s performance measurement systems, from the city’s initial measurement efforts over twenty years ago to the present. As one person put it, “I have the original study about performance. Increased accountability was a real important aspect.” Speaking of the present, another said, “For sure the main impetus is to hold staff accountable all the way up to the city manager.”

As noted in the previous paragraph, accountability is intended at different levels—at least from program managers to department directors, from departments to the city manager, from management to Council, and from the city to citizens. One person talked about accountability to citizens as “the ultimate reason to do all of this. Not just to get the information but to be able to report it back and say this is how we are accountable to you, the taxpayers.” Another person talked about “our contracts to our citizens on what we are willing to provide; how they would know whether we have done it.” At the program level, one manager focused on how performance measurement “fixed some individual responsibility with individual managers in charge of programs.”

Several managers emphasized expectations for accountability of management to the City Council:

- “Our commitment to [Council] is if you can tell us what we should do, we will come back to you each year and tell you how well we meet it. In what area we are able to exceed. Once we exceed that, we will maintain that and try to improve it.”
- “[Council] wanted to really see what the results-oriented kind of performance could really do for the city, and to get their hands on what city staff were actually doing.”
- “[Show] how well we were managing the objectives that council had put together.”

People interviewed also referred to communication—internal and external—as an intention of the city’s performance measurement efforts. Communication expectations within the city government involve establishing a better context for staff throughout the organization, to improve their understanding of how things work and how they contribute to results:

- “I expected the lower-level staff in the organization to know about the performance indicators and what they mean, how they are established, and how they relate to the budget.”
- “One of our efforts is to take it down to our line employees so that they understand how their role contributes to the overall picture. Not only in their area but citywide. What is their role as a city employee, what is their contribution? How do the things that they do affect the department, our city, and our community?”

Several expectations for communicating with citizens were expressed. For example, as one person reflected: “I thought it would allow us to understand and quantify objectively what we do with citizens’ tax dollars, report back to them and say here is what your government does for you, and benchmark with other cities and say are we doing it well, or somebody is doing it better.” Another person commented that the new focus on outcomes was for “creating a little bit better connection between what we do and our customers.”

The Quality of Life Index is expected to increase public communication on performance and boost public interest in community performance in improving the quality of life. According to the April 2001 staff report to the mayor and Council on the Quality of Life Initiative, the Quality of Life Task Forces and public participation processes were intended to “broaden the scope of the proposed index to include community concerns,” including concerns “that are not the direct focus of municipal services.” The quality of life measures developed are intended to form the basis for “an annual Quality of Life Index that will serve as a ‘report card’ on the city’s and community’s efforts to improve the quality of life of our residents and

businesses” (City of Sunnyvale, 2001). After additional iterations and reviews by Sunnyvale citizen boards and commissions, in March 2003 city management proposed, and the City Council approved, a “final” set of “Quality of Life Strategic Priorities, Objectives and Measures” ([www.ci.sunnyvale.ca.us/200303/rfcs/03-105B.htm](http://www.ci.sunnyvale.ca.us/200303/rfcs/03-105B.htm)) with fiscal year 2000–2001 set as the “base year” for most measures for comparison of current and future year progress.

### ***Actual Uses and Effects of Performance Measurement for Accountability and Communication***

Most Sunnyvale officials interviewed felt that performance measurement has been used well for *accountability*, to the effect that high levels of accountability had been achieved. Most generally, managers saw performance measurement and reporting as a way to be accountable for doing what they are supposed to be doing:

- “Looking at fire loss, are we doing what we said we would do? Is the rate of hazardous materials releases in compliance? It is a good set of indicators as to how we are doing.”
- “When dealing with the outcome stuff, it is interesting because you can tie back in to see whether or not you are doing what you are supposed to be doing.”

Several people stressed using measurement for accountability of management to the City Council:

- As a Council member put it: “It is great because it allows me to hold the city manager absolutely accountable. . . . I have all of his performance measures at the end of the year in his performance report, and I can simply see if we are doing it or we are not. If not, why? It allows us to discuss it and focus on the future and how we can improve.” He also noted that the Council does a midyear performance update with the city manager, and “we can ask questions at any time—any time we want to get specific data.”
- As a manager put it: “One of the advantages of the performance-based system that we have been through for the last 20 years is that it very explicitly defines to the political people what we are doing and how well we are doing it . . . because they see at the end of the year the total number of objectives that the city has and how many were met and how many were not met. So they would have the opportunity to see if there is an area where a lot of measures were just not being met, and to question why.”

The Council member and several managers stressed managerial pay for performance, including managerial contracting, reporting, and evaluation as a strong component of accountability.

- As one manager explained: “Every manager is part of our manager contracting system, which ties into pay for performance. Whatever measures are part of your program responsibility, at the end of the year you are accountable for. . . . If there is a reason why some measures did poorly you explain it, and that explanation is either accepted or it is not. And if not, you are dinged for it. You are judged based on your decisions.”
- The manager then used himself as an example, as he opened a budget document: “Here is one of my programs. Not very good. It is going the wrong way. These are the measures I am accountable for. . . . If you meet everything exactly on target you have an index of 100. It looks like in 1997–98 I was at an index of 92. So I didn’t meet it. You can then break the index down into this measure exceeded the goal, this one exceeded the goal, this one did poorly. Ultimately it is my responsibility because I am the program manager. I took my ding for it. That is part of the system. It is laid out in plain black and white.”

According to one manager, the effect of using performance measurement for accountability for so long is to achieve an organization “culture that is used to performance measures, is used to results, and is used to accountability, unlike most government cultures.” Several managers noted that Sunnyvale tends to attract staff drawn to performance measurement. One manager who agreed also noted the other side of that coin: “It is a highly accountable system. The other side of no ambiguity is there is no hiding either. A lot of people don’t function well in this environment. . . . We will generally attract people who are comfortable with this system. Some people cannot survive here; they either don’t come or they don’t last.”

Sunnyvale makes extensive use of performance measurement for *communication*. Internal performance-related communication (among staff, management, and Council), described below, is extensive and systematic. External performance-related communication (with citizens) is also extensive, but with less thorough or systematic reporting than found in Sunnyvale’s internal performance communications. Nevertheless, people interviewed felt residents have gotten the message that the city of Sunnyvale performs well. The Quality of Life Index Report offers an opportunity for a form of systematic performance reporting that captures the public interest, as citizens have already been involved in developing the index.

The main internal communication mechanisms about performance cited by managers involve the budget, which lays out all performance targets, frequent (every four weeks) periodic reports on cost and service performance versus budgeted targets, regular internal management reviews within departments and between department heads and the city manager, and the managerial performance contracting and evaluation process. Communication with internal customers, through surveys and focus groups, is also important for internal service programs.

Several managers talked about the thirteen periodic performance reports each year and how they are used. (Formally known as “accounting period reports” or “program performance reports,” these reports are referred to in the following quotes as “budget reports” or “MBO reports.”):

- “Internally we get budget reports for 13 periods a year. Each period it reminds you what your measures are, and it shows you where you are, what last year’s performance was, what your goal for this year is. So you are constantly reminded and you use the periodic data to track how well you are doing. Each individual manager’s performance report rolls up to a department director who gives the city manager a report on his or her department. Which includes the statistical summaries of performance.”
- “Each of our 13 accounting periods . . . you get your MBO report on program performance. You look and see exactly how you are doing. You watch it continually.”

The periodic reports give department directors and program managers the basic information for internal performance reviews several times a year, and for department performance reviews with the city manager. Two department directors described these performance review processes:

- “One of the biggest successes for me was meeting routinely with my program managers. . . . I have trimester reviews where I sit down with my program managers. We go through at the task level things that are happening in the field. It can be anything from a very routine half an hour meeting if things appear to be operating very smoothly to a meeting that goes on for several hours and some follow-up if I see something going on with the trends.”
- “Quarterly, we sit down and talk to people and say you are on track or not on track. Semiannually we report to the city manager. In a formal report that says everything that I am doing is okay, or I have a problem in this area, I am really doing well in this area, and there is an unexpected issue in this area. He goes in and takes that into the City Council and tells them how we are doing at mid-year.”

The second director quoted previously went on to discuss the internal communication involved in Sunnyvale's annual performance reporting and evaluation: "At the end of the year we have the [management evaluation] process. . . . You have done your original plan and you go in and say here is my report. I had 27 measures. These are the ones that I exceeded. These were the ones that I met. These are the ones that I did not meet. You also talk about whether you stayed within your budget. For all of the ones that you exceeded, you talk about if you care to, and usually you care to. The ones you did not meet you explain why you didn't and what you are going to do about it. So everyone in my department does that and gives it to me. I roll it all up. Send it up the line. The city manager does one huge one for his report to the City Council."

For most programs, customer surveys and focus groups are an external performance feedback mechanism. However, Sunnyvale requires even internal service programs to report customer service ratings. So surveys and focus groups have also become internal communication tools, as one internal service manager described: "We give spot exit surveys to people when they leave our shop just so I can keep up to date about what is going on. We send out an annual survey, which gives people a chance to think about it. Last year we got an 87 percent. . . . We survey the entire city—send out a couple hundred surveys. We have a focus group. . . . We talk about timeliness. We talk about courtesy. We talk about quality. . . . We are doing okay."

Since the GASB interviews, the city became concerned about staff becoming oversurveyed by internal services, which not only takes up staff time, but results in falling response rates and thus lower reliability of survey results. So the city has since created a single annual internal customer survey that attempts to obtain customer ratings and feedback on all significant internal services. Programs can still seek their own immediate customer response (for example, exit surveys, comment cards) and conduct focus groups, but cannot do broad internal satisfaction surveys.

Other internal communication mechanisms cited by managers included a monthly employee newsletter. About this, one manager noted, "At the appropriate time of the year there will be a message from the city manager talking about the performance for the year." Several managers also mentioned that the previous city manager used to hold "an annual off-site day for all managers. Part of the program was always a 'State of the City Report' with major successes for the year." At the time of the interviews, this had not been done by the current city manager.

Several managers felt that the use of performance measurement has had positive effects on communication with employees and City Council, as this manager summarized it: "It has been very easy for us to communicate with employees and politicians what we are doing and

what we are trying to do to meet our objectives. . . . We were very explicit about defining . . . how you measure whether or not you were meeting each objective.”

Another manager cited a “learning effect” of communicating with employees about performance: “It gives us an opportunity to look at objectives, and procedures that are not effective. . . . From the employees’ standpoint to learn through communication that this is what we were trying to do, and have them come back and tell us, ‘but we can’t get there doing it this way.’ Ownership of the objectives is how you get there.”

The City of Sunnyvale has extensive *external communications* with its citizens, including, for example, surveys, occasional focus groups, quarterly and annual reports to all households, additional newsletters or reports by some programs (for example, for city volunteers), and special notices circulated to customers by some departments. Some departments also do their own annual reports, distributed on a more limited basis than the citywide quarterly and annual reports.

A citizen’s best opportunity for a thorough, systematic look at the city’s performance comes in the annual budget document. But it is a very large, multivolume document which few citizens request. And public hearings on the budget are not well attended by citizens, beyond specific interest groups for some programs.

The City performance information that probably most often gets into citizens’ hands is the performance highlights in some of the city’s newspaper-format quarterly and annual reports mailed to each household and posted on the city website. For example, highlights of the city’s Citizen Opinion Survey were included in the 2000 and 2001–2002 annual reports, and an annual Water Quality Report was inserted in the May 1999 quarterly report. In addition, many quarterly reports include a story or two highlighting a specific performance achievement by a city program, such as the story in the winter 2001 report on the Public Safety Department’s success in using public education and a decoy “sting” operation to reduce sales of tobacco and alcohol to minors. The city’s quarterly and annual reports are also available on the city’s website at [www.ci.sunnyvale.ca.us/qtr-reports/index.htm](http://www.ci.sunnyvale.ca.us/qtr-reports/index.htm). Some types of performance information are provided on the city website in more detail than the summaries in mailed reports. One example is the June 2002 Resident Satisfaction Survey, available at [www.ci.sunnyvale.ca.us/surveys/2002/index.htm](http://www.ci.sunnyvale.ca.us/surveys/2002/index.htm).

Among departments’ public notices are “bill stuffers” sent by Public Works to its customers with, for example, information on garbage collection or recycling, or on a new program they are starting, such as collecting used oil filters. The department director noted how they sometimes use that opportunity to report on performance: “We talked about . . . how we were doing to meet our mandated recycling goal, and reaching 50 percent recycling by 2000. . . . It was an opportunity to report to them how we were doing and at the same time

explain why we were rolling out some of these new programs because we still had a ways to go to meet our performance target.”

The director also described how Public Works has communicated performance information in its rate-setting process: “[We] go to the public and show them what we do objectively and do a comparison of what we do with other agencies. We do it routinely, for example, when we set utility rates. We talk about what the rates are around us, and they are based on purchased water costs, our ability to provide sewer services. So we have been real successful in being able to turn that into information for our public about what we provide to them in terms of services.”

A Council member mentioned using performance ideas to frame discussions with citizens: “We talk to our citizens. Often [service issues] will come up and I will always put it back to them and say, ‘What do you want to achieve? What outcome do you expect to get? Why do you really think that we need to have ten more fire stations or need to have whatever? Why?’ Once we talk about it, often times they are okay. . . . We have a very high level of outcomes already. That is kind of how I use it. It frames how we discuss how we are going to provide our services.”

As in most municipalities, when citizens complain to Council members, departments hear about it. One manager described the use of complaint information to improve program processes: “We take the complaint process and customer input process very seriously. It occasionally results in some changes in process—more than just the routine. Often the complaints are a result of a breakdown of process and we can go in and fix that. But occasionally they result in us understanding that the process is not a good one or we don’t have a process. And we actually develop a process. There are a lot of ways that we get customer input and not the least of which are our City Council members. Citizens and residents come to Council members and will ask questions, and the Council will direct it to staff and we get a lot of good input there.”

Another manager described the effect of feedback from the business community, resulting in a change in city operations: “Our business community told us that when we were making inspections it was disruptive. . . . They complained that you came and inspected us, somebody else came and inspected us, we had inspections from three different city agencies. It caused us to look at the frequency of which we did the inspections. It caused us, in several cases, to cross-train inspectors so one inspector could do all of the inspections.”

In addition to typical citizen complaints and service requests, the city gets feedback from the public through surveys, program or issue focus groups, and other participation processes. The city conducted citywide citizen opinion surveys in 1996 and 2000 asking about satisfaction with services, perceptions of key community conditions (for example,

safety), and the importance of selected issues to citizens. The city has since started conducting citywide citizen surveys annually. Some city programs conduct their own periodic surveys of their specific customers.

One manager described the use of focus groups in setting program direction: “Solid waste is one where we do focus groups with the public. In some cases it is because we are not sure where we want to go. It is not just to go and deliver a program. It is really to find out what other options are out there, or what people think about where we are going before we do all of the program.”

Except for recent Quality of Life Initiative coverage, the commercial media have provided little coverage of Sunnyvale performance issues or results. Two managers gave their perspective on how the media usually covers (or does not cover) Sunnyvale performance:

- “There is no real media participation or even scrutiny. The media [notices] when we report out at the end of the year, say, public safety numbers are up 10 percent, or the crime rate is down 10 percent, or city satisfaction has increased, but that would probably be the extent of it.”
- “It is hard to sell in the newspapers. A headline ‘Community Development Converts to Outcomes’ isn’t going to appear.”

Sunnyvale’s Quality of Life Initiative is worth special mention here because of its participation processes and media coverage. Sunnyvale’s second Quality of Life Task Force, made up of citizens appointed by the Council, narrowed down the thirteen strategic issues of the first task force to eight and presented those issues to the public, along with sample potential measures. To get public input, the city hosted three Quality of Life Open Houses in January 2001, in which the priority issues were presented with the help of display boards. Residents voted for their top three quality of life priorities by affixing dot-stickers to the boards. They could also add comments and additional issues. Residents who could not attend the open houses could provide input via a mail-in survey or by voting on-line through a “virtual open house” on the city’s website. Information about the open houses and Quality of Life Initiative was mailed to all households in a city quarterly report, was posted on the city’s website, and was distributed through paid ads in two newspapers: the *Sunnyvale Sun* and the *San Jose Mercury News* (the nearest major daily). Also, papers ran news stories on the initiative.

Through the open houses, mail-in surveys, and website, more than 400 residents provided input on their priorities. Then, at the City Council’s request, staff from most departments drafted performance measures for the eight strategic priorities. After further

review by the Quality of Life Task Force, staff revised the proposed measures, which Council approved in April 2001 as the basis for a Quality of Life Index and “report card” for future annual public reporting. The task forces and citizen input led the city to look beyond its own direct municipal services and beyond the performance measures it regularly targets and reports. More than half of the forty-one Quality of Life measures approved in 2001 were new for the city. Staff considered data-collection techniques and sources (including external sources) in developing the measures. Staff obtained base year data for most measures using fiscal year 2000–2001 and came back to the City Council in November 2002 proposing a few final revisions to objectives and measures (City of Sunnyvale, 2002a) based on initial data collection and analysis experience. City Council requested staff to have the proposed revisions reviewed by most of the city’s Council-appointed citizen boards and commissions. This was done in early 2003, with a few board reviews leading to further refinements as part of a final set of objectives and measures approved by Council in March 2003, with the first report issued in June 2003 (City of Sunnyvale, 2003).

Although Sunnyvale’s widest level of public reporting focuses mainly on performance highlights, and not on systematic performance reporting, most managers interviewed still feel the public gets a message that the city of Sunnyvale provides good services, with the effect of building high levels of public satisfaction and public trust in the city government. One manager implied that even if citizens don’t get performance reports, they know the information is there: “I have never seen anything like it. I have been around a long time. . . . The citizens absolutely believe they can come in any time and find out how much it costs to do a seniors lunch. . . . It builds an incredible amount of trust. Then people don’t micromanage you.”

Another manager was also outspoken on the sense of public trust in Sunnyvale: “No place else that I have worked has the reputation and respect from citizens that this place does. I have to attribute at least some of that to the system. Because the survey results that we get [that] rate city services, the quality, the cost effectiveness, every aspect of the city [are] as high on the scale as you could ever imagine—90 percent-plus positive performance ratings across the board. . . . At a minimum, a lot of information is being communicated. It gives the citizens a sense that things are getting done, somebody is keeping their eye on the ball, and there is constant focus on service delivery improvement. People really seem to resonate with that. We see it in a variety of ways either through opinion surveys or just the person on the street who you have a casual conversation with: ‘Who do you work with?’ ‘Well I work with the city.’ ‘Well it is a great city.’ And they will start ticking off the things that they love about Sunnyvale. I have worked for six different municipalities, and I have never been in a place where that was the sense of the community as it is here.”

Finally, although Sunnyvale does a lot of internal and external communication on performance, some managers feel communication is something they have to keep working to improve:

- “I don’t think that we do a good enough job in communicating internally what our results are, what our successes are, and effectively communicating that with the community.”
- “Communication is something that we really need to work on. . . . We are constantly looking at what other cities have done. We need to keep doing that. There is so much to learn.”

### **Performance Measurement Implementation Issues**

***How is the quality of performance information perceived, and how have performance measurement quality issues been addressed?***

### **Sunnyvale Officials’ Ideas of Quality Performance Information**

Not surprisingly, with so much performance measurement experience in Sunnyvale, the people interviewed had a lot to say when asked to describe what they thought “quality” performance measures are. Some words and phrases they used were: Meaningful, significant, useful, understandable, measurable, crisp and clean, concrete, well-defined, objective, comparable, targeted, easy to administer, and can validate their accuracy. More specific notions of “useful” and “meaningful” were expressed as: outcome-oriented, results-oriented, builds your budget, helps you communicate what you are doing to the community, means something to city staff and to members of the community, provides flexibility, and can use the information to improve.

People interviewed generally felt that most of Sunnyvale’s performance measures met their criteria for quality measures, though some said the quality of measures varied by program or service. Those who responded in percentages gave answers ranging from 50 percent to 90 percent of the measures they saw as meeting their criteria for good measures. The low end of that range came from someone who was especially interested in outcomes, and the City’s shift to an outcome focus was only about half completed at the time of the interviews.

Two managers noted a preference for measures that could be benchmarked. One gave the example of how Sunnyvale benchmarks its crime rate: “Any cop will tell you that the City has very little control over the crime rate. You do have some control over whether we are better or worse than other communities. So the measure that we use in public safety is not

our crime rate, but our crime rate relative to the state and our county. It is a sophisticated weighted measure. We can say that historically our crime rate will be 50 percent below the national average. It will be 40 percent below the California average and 30 percent below our regional neighbors. That is what we hold the Public Safety Department to. Comparability and benchmark-ability are good things.”

### **Critique of Sunnyvale’s “Old” Measurement Approach—Before the Shift to Outcomes**

Several people mentioned overly detailed measures, or a build-up of unnecessary measures:

- “One of the criticisms of our old system was that even with 20 years of experience with performance measurement, a lot of it really was widgets—the number and percentage of this, the number and percentage of that.”
- “We got extremely good at measuring what we did. Probably to a fault. . . . If someone asked us what does it cost to do something, we knew exactly what it cost. As I said, ‘to a fault,’ I think because we were spending more time than necessary or justifiable in doing that.”
- “The system has tended to be not particularly flexible to change. Because you lose comparability. So there are a lot of residual measures that if someone really looked at them closely, they would say, ‘Why in the world are you measuring that?’”

### **Internal Questioning of Measures and Data**

Several managers mentioned that people at any level—from program managers to the City Council—can question whether or not the city is measuring the right things. As one manager put it, “The program manager may be doing great and everything on paper looks great because he is meeting performance measures. But there comes a question whether or not the outcome is really being met. We are doing everything that we said that we were going to do but we are still not getting where we want to get to. That can happen at any level in the organization.” Another manager admitted, “I have some measures that I don’t think are necessarily the best measures. Everyone probably has some measures that they would like to get rid of.” Another manager noted a continual concern for data quality: “People who collect the data . . . question it regularly. . . . In fact, internally we are real concerned with continually trying to make sure that it is accurate and it is reflective of what is going on.”

## **Efforts to Change Performance Measures: In General**

Generally speaking, Sunnyvale departments were always supposed to be able to change their performance measures, but as one manager was quoted above, in practice changes were infrequent. A person from the City Manager's Office described two perspectives on changing a measure: "From the department's perspective, it is very difficult to change a measure. From my perspective, it is very easy. It is difficult, because they have to articulate the need. They have to demonstrate why they want to do it. Tell me; if it is reasonable, we will do it." A department director noted two reasons for changing measures: "We change them most often when they either don't result in information that is useful for us or we can't get good information to measure it." Another director gave an example of a measure of purchasing performance that became obsolete and was dropped: "There was a measure that said something to the effect . . . 'invitations for formal bids will be mailed out within 10 days.' Where that apparently came from was there was a problem with formal invitations for bids being mailed out, which you think that you could just deal with. . . . Now we don't mail invitations out. We have them on the Internet. We have this little measure that is obsolete and we finally got rid of it."

## **Changing Performance Measures to Make the Big Shift to Outcomes**

Since 1996, the biggest influence on changing performance measures has been the shift to outcome management. One manager described the thinking behind the change: "We began to ask, 'Are we doing the right things? Are we asking the right questions? Are we measuring the important things that can help us to sharpen our focus in delivering service? . . . We came out with a process that really focused on a high level. . . . What kind of services do we really want that are important for outcome management? We worked with the departments and asked them to step back and rethink their purpose. . . . What value do they bring to the table?" Several things the city has been trying to accomplish with the new outcome structure are:

- Streamline performance measures to focus on the most critical aspects of each program, that really get at why a program exists. Managers described Parks and Library examples:
  - ❑ "In our parks program they really streamlined their measures down to focusing on safety, accessibility, and functionality. Those are the three critical aspects of the parks. . . . They have criteria for each one of them. From reading the public document and what is important to the public it is very clean, crisp and simple."

- “A standard library measurement is number of books per capita. Librarians stepped back and said, really what does that measure? Nothing, just the number of books that we have. They decided that what they are trying to do is, when people come through the door, they want that citizen to find what they are looking for. So now they are measuring, one of the many things, is the success rate for their patrons in finding the book that they were looking for. It doesn’t matter how many books you have, but do you have the right one?”
- Enable programs to cross department lines to achieve measurable outcomes that several departments contribute to. A department director described this example: “Development Services is one of the few programs . . . that involves not just this department but other departments as well. For example, we have pieces of Public Works in there, their engineering function, even though they don’t report to me, they are accountable to a different manager and director, we have their participation in Development Services. Similarly we have Public Safety: fire permit, safety reviews. This provides a nice example of the highest-level measure all the way down to the activity level and it shows how it all comes together.”
- Create some standard measures that are the same for every program. So far, Sunnyvale has been successful with two standard measures: Each program and service must have a customer satisfaction target, and must target achieving a “budget/cost ratio” of 1.

In switching to the new structure, managers have sometimes struggled over how to define outcome measures. They want to measure conditions important to the public, but they also want to be measuring things they have some control over. One manager gave this example: “One of our programs is called Economic Prosperity. . . . We thought originally that it might be a good barometer of performance to track employment or unemployment. It might be a good barometer to track the vacancy rate of commercial space. With the presumption being . . . that somehow we could influence that as a municipality. What we have found that those . . . measures might tell you a little bit what is happening in the regional economy but we couldn’t really evaluate our contribution to that in terms of what we are providing in services and support that businesses and the community needed. So we have abandoned some of those measures.”

In some cases, the city has stretched beyond what it can directly control, at least in programs where the city has partners that can influence important outcomes. So, for the Columbia Neighborhood Center, structured as an interdepartmental program under the city manager, with the school district and private nonprofit agencies as partners, the city has

gone a bit out on a limb and targeted improving achievement by youth in a neighborhood school as a key outcome.

As with any major change, departments generally need some time for trial and error to arrive at suitable measures for the new outcome focus. As one director noted, “Our department converted over to the new outcome structure about a year ago. So we are still in the process of refining and perfecting our measures. It was a substantial change from the previous system.”

### **Taking Outcomes Further with the Quality of Life Initiative**

To some extent, the Quality of Life Index will stretch the idea of outcomes beyond city service responsibilities, including new measures. However, even there, city staff and the Council have been concerned that they not venture too far beyond what the City can control. So, for example, under the strategic priority “high-quality education,” the approved measures focus on the number of city collaborative activities with school districts, and number of Sunnyvale youth completing job search workshops, rather than academic achievement (Sunnyvale, 2003).

### **Documenting Measures and Measurement Procedures to Help Ensure Data Quality**

Several managers described how, in the Sunnyvale system, each measure must be well documented. The documentation not only carefully defines each measure (for example, the start and end points for measuring response times), but also specifies the data sources and spells out “standard operating procedures” for collecting and compiling data and for calculating each measure. The rigorous documentation makes it easier for departments to maintain data accuracy and timeliness when there are any changes in staff who have data collection or reporting responsibilities. It also enables easier verification of data for accuracy and reliability.

### **Audit Roles in Maintaining and Improving the Quality of Performance Measurement**

Sunnyvale’s internal audit staff, who report to the finance director, play important roles in improving and maintaining the quality of performance measurement. Internal auditors have, for many years, verified performance data accuracy and reliability, and helped departments improve data management, to improve data quality and integrity. Because performance measures help determine managers’ pay, managers are on notice that intentionally misrepresenting performance data is considered fraud. So a number of random audits are

done, in part to protect against fraud. But fraud has not been a major problem and, as one manager said, “We view auditing not from the ‘gotcha’ perspective, but to ensure that you have the proper documentation, to help you simplify your data gathering process, and to make sure that you improve your measurement.” Another manager described the audit function as “not an effort to find fault; it is to work with managers to ensure the information is accurate and they know how to read it, interpret it, and use it to make corrections when necessary.” An auditor described the same roles and added another: “Validate measures and make sure that they are good measures.” That *validation* role represents a transition for auditors as Sunnyvale has been shifting to an outcome focus. In addition to traditional data verification roles, auditors are also now expected to assess whether measures reported are valid representations of intended program outcomes. One auditor noted that an audit active at the time of the interviews was leading to a change in performance measures.

***What kinds of organizational supports are provided, and how have organizations been changing to accommodate performance measurement?***

**Sunnyvale Had Long Ago Internalized Performance Measurement into the Organization**

As the city of Sunnyvale has been using performance measurement for over twenty years—for most of that time as part of an integrated planning and management system—any major organizational changes to accommodate measurement had occurred long before the GASB interviews. There has long been significant oversight of PAMS from the City Manager’s Office and performance budget review, analytic support, and random verification audits from the Finance Department. However, Sunnyvale has built a strong integrated performance management system without creating a large performance measurement bureaucracy. It had long ago become integrated into how departments and staff did their business. As one manager replied when asked about organizational changes or special staffing: “None. Data capturing? Just do it. . . . We count a lot of things in Sunnyvale. It is just part of the culture. . . . It is just part of the deal.” For purposes of this case study, we have focused on organizational supports and changes that have occurred with the shift to outcome management in recent years.

**Staffing**

For several years of more intensive change to outcome management, staff support from the City Manager’s Office increased, as an assistant to the city manager had to focus on the

system full time. As is the tradition in Sunnyvale, departments did not assign special “planners” to design their new program structures and measures, but it became the responsibility of department directors and their service and program managers to design their own new structures and measures. One department director did acknowledge having increased the emphasis on developing and collecting data as part of some staff’s jobs, and adding more time of existing administrative staff to assist in monitoring performance. In the Finance Department, a new internal audit role was created to augment auditing under outcome management, helping to add validation of performance measures to existing verification-oriented audit roles.

### **Manuals and On-Line Documentation**

A thorough manual or “planning guide” was prepared on outcome management, documentation of PAMS was updated to reflect the new program outcome structure of the budget, and a new manual was created for the revised management performance contracting and appraisal system. Also, a city intranet site was created for outcome management with extensive on-line documentation, including the steps in the process, instructions, examples, and templates. Although the intranet materials were useful to department staff in the early years of the outcome focus, a manager more recently reported that these on-line materials have not been kept current since then. The city used a consultant to help prepare the original planning guide, which also has methodologies for customer feedback and change management.

### **Departmental “Guru Training” and Follow-up Coaching**

At least one “guru” or lead person was designated in each department for the outcome-based restructure of programs and measures. Once a year for about three years, the assistant to the city manager who then led outcome management development provided a full day of “guru training” to the lead staff from all departments scheduled to move to the outcome structure. The department gurus were then responsible for training and assisting other program managers in their departments. The lead city management staff also provided follow-up coaching and facilitation to each department as they designed and implemented their new program structures and measures. One department director noted using a consultant to assist staff in that department’s changeover.

## **City Council Member Training and Workshops**

Outcome management training was provided to City Council members. As the first wave of departments made the change, the Council had weekly workshops on outcome management.

## **Organizational Changes Fostering Teamwork and Collaboration**

For some programs and departments, new outcome program structures have driven some organizational changes. These changes have not generally involved adding new positions, but have involved reassigning responsibilities and fostering more teamwork across traditional organizational lines, including across department lines for multidepartment programs. At least one program—the Columbia Neighborhood Center—requires teamwork across jurisdictional lines (the city and school district) as well as across sectors, as private agencies are also partners. One city management staff commented on the need to shift to a more collaborative, team approach to management: “We have done that with the Office of the City Manager. We had to do that when we moved to outcomes. Assignments changed. Our work is more team based. It totally drives everybody crazy right now. It is something that we need to work on more with people. The whole training of command and control doesn’t really work. . . . In Sunnyvale, individually we have achieved a high level of quality. I think that the next breakthrough will be a more collaborative environment. We need to have more of a team approach. . . . That is a concept that we need to instill in our folks. We are beginning to do that.”

## **Technology**

Before the shift to outcomes, Sunnyvale had what someone described as “homegrown” technology to support PAMS. To the extent possible, departments integrated compilation and management of their performance data into information technology they used to manage their departments. For example, Fleet Management captures part of its performance information from its computerized maintenance system. As Community Development has upgraded its permit tracking system, it has captured more useful information and automated data sharing with the Finance Department. The biggest recent change in technology is implementation of a new financial management system for the city. This system, which required a large investment by the city, was not implemented especially for outcome management, but it has been implemented concurrently with it. It is expected to make financial systems more sophisticated and reliable, which should make cost allocations that

support outcome management and the performance budget more reliable. At the time of the interviews, new technology was not being used for any of the new types of outcome measures. They were being calculated using standard spreadsheet software and “cut and paste” into the budget. The city’s intranet, mentioned above, was an example of a recent technology used to support development of outcome management. City Manager’s Office staff referred to it as a time saver, as department staff got materials faster—as they needed them—by downloading them from the intranet site, and city management staff didn’t have to take the time to make and distribute extra copies.

***What barriers have been identified to making effective use of performance measurement and how are those barriers being addressed?***

The barriers and problems raised by Sunnyvale officials interviewed fit into three groups:

1. Issues or problems that have long accompanied performance management in Sunnyvale
2. Relatively new problems that may be associated with the transition to outcome management
3. Term limits, which can work against continuing long-term City Council commitment

**Long-Standing Issues or Problems**

*Line employees below management are not involved with performance measurement.* Several people interviewed spoke of Sunnyvale not driving the use of performance measurement down to staff below the program manager level. Clearly, lower-level line employees are affected by the system, as changes made by management to improve performance can affect how they do their jobs. But lower-level employees are not, themselves, users of the system, which potentially limits the number of employees who might make creative contributions to performance management or feel dedicated to achieving performance targets. An auditor noted that she found a “lack of understanding of the system below the program manager level.” A department director said, “The biggest problem is probably the connection between what we are asking them to do and the big picture. There has always been a problem of how you connect what happens at the line level with the overall outcome.” Part of the problem has been that performance-based pay is only for management employees. This, according to one manager, has “created a nightmare for us, because our employees think that we work our butts off and yet the managers are gaining all of the credit. You make money off our backs. They tried through negotiations to implement a full incentive system. The only bad part is that they want the carrot or the bonus but they

don't want the sanction. They don't want the stick. We say in order for you to buy the incentive system, it has to have both aspects. We don't want people just coasting in this city. So we have been at an impasse for many years." To address this issue, within the last few years a labor-management task force examined the potential for non-managerial performance-based pay. The task force concluded that the city's nonmanagerial employee appraisal system did not lend itself to performance-based pay, and they created a new employee evaluation tool. The evaluation tool was piloted for a year but needs further refinement. When that tool has been revised and tested further, and is considered stable and workable, the city may entertain developing performance-based pay as part of future labor-management negotiations.

*Sunnyvale has lacked systematic, understandable public performance reports.* The city communicates with citizens extensively, but the most widely distributed public reports only provide performance highlights. They do not give a comprehensive picture of performance, nor do they systematically focus on a limited, consistent set of measures selected for public interest. One manager felt that the city does have performance information that would interest citizens, but "it is all buried in this huge tomb [the budget document] so people really don't get to it." The Quality of Life Initiative, intended to lead to a Quality of Life Index and a report card issued annually to citizens, is the city's main effort to address this issue. [The first Quality of Life Index Report was issued in June 2003.]

*The need persists to keep strengthening managers' understanding and use of measurement.* Despite Sunnyvale's long track record of accomplishments through performance management, several managers noted that performance measurement is not used uniformly well throughout the organization, and there is a continuing need to strengthen managers' understanding and use of measures. As one manager said, "There is still a tendency in our organization to report your numbers because you have to report your numbers versus using your numbers to help you manage and strategize." Another manager said that some people "lack an understanding as to why we do it. . . . There is a fear factor about how the information is going to be used." According to another manager, that lack of understanding creates "an obstacle to taking the long-term view [and an] obstacle [to] accountability—taking ownership for how you use the resources to achieve a service level." Managers who don't take ownership of their measures tend not to work at improving or refining the measures. One department director felt that through the years, there could have been more improvement of measures than there has been, that the budget process allows for that. "However, a lot of people . . . don't bring it up. They don't want to rock the boat." And while performance budgeting has been part of Sunnyvale's success, according to one director, it has also made some managers reluctant to propose improvements. Their thinking

is, “Don’t raise the bar. Don’t take money away from me. So the connection with the resource allocation can be kind of a weight that we drag behind us.” Sunnyvale managers see this set of problems as “a continuous training issue,” as one manager put it. One suggestion has been to give program managers a “refresher course.” Another manager said, “I have been advocating for a less structured approach. Identify those in the organization who really know how to use the system to their advantage, who view it less as a requirement and more as a source of useful guidance and information to make them better managers. Identify those people in the organization to work with those who are less adept at using the information.”

*Sunnyvale historically has lacked benchmarking data for many services, but more benchmarking opportunities are arising.* Sunnyvale looks for external benchmarks or standards, where possible, to use in setting performance targets, such as when the city targets crime rates at specified levels below national, state, and county crime rates, rather than at absolute levels. However, for many municipal programs and services, good comparative data have not been available. But that has been changing. As one department director said, “Although we tried to do a lot of benchmarking there wasn’t a lot of good benchmarking to be done out there. Now that is changing. Over the last five years we have seen a tremendous improvement in opportunities for people doing this kind of thing. It is improving and I think that we will see more of that in the future.”

### **Newer Problems Associated with the Transition to Outcome Management**

*Outcome management creates a greater need for trust in program managers, reliability of measures, and monitoring by higher management.* A department director described this issue in some depth: “One of the key issues for me is that moving to an outcome-based budget has to have a lot more trust and reliability than the [old] performance-based objective budget needed. It was very easy to describe tasks—what we were doing—and the performance measures, and then to monitor whether or not we were doing it. We are going to find that it is a little more difficult to (1) measure what the outcome is and (2) give flexibility to program managers and employees to get to that outcome, without counting widgets or following the SOPs for counting all of these [tasks]. . . . We are giving some leeway to employees to make changes in what they do based on the need to meet the outcome. That imposes on us some more monitoring. We have to be sure that we know about whether people are headed in the right direction. But theoretically it is going to allow them to make some changes that they couldn’t in the past.”

*Focusing on results-based rather than organization-based programs has potential to erode accountability.* As programs cross traditional organizational lines—across

departments, or even within the same department—managers in charge of programs can have people who do not report to them playing key roles in helping to achieve program outcomes and in spending budgeted resources for the program. One department director felt Sunnyvale’s early experience with such programs had led to “accountability being a little bit eroded,” and said, “we have to work on that.” The director cited an example of confusion for responsibility for outcomes in an interdepartmental program, in which the program manager cannot control what the other departments do. The director also cited a related set of programs within a single department. In this case, the programs were reorganized by customer group, rather than by common functions or facilities. According to the director, in both cases the program managers could not control what others were spending or charging to their programs, could not tell what their costs were, and had lost budget control of their programs. The director describing this problem said, “I don’t know the answer to it. I do know that it is an unintended consequence. We need to get to the bottom of it and try to figure out how to integrate accountability with the overall outcome.”

*Some departments have felt a strain in shifting to outcomes without adding staff.*

Outcome management eliminates required reporting on the highly detailed work task level, and thus allows departments to reduce the number of specific data elements they are required to track and report. Even so, some department directors felt the shift to outcome management had increased the measurement burden on staff rather than reduced it. As one director described it, “We haven’t had any resources to do it. . . . We continued to try to do more and more with the same amount of staff resources. The system takes a lot of resources to feed it. Somebody has to write the SOPs and make sure that they are being adhered to and that the information that comes back is accurate. So that requires some additional effort.” Another director said, “As to the workload, we haven’t added staff; we probably should have. The former City Manager didn’t want anybody to really know how time consuming [a shift to outcomes] is . . . because he didn’t want anyone to say, ‘I don’t want to do it.’ [But] it has had a huge impact on us.” At the time of the interviews, it was premature to say whether this was only a transitional problem that would be eased by the time new measures were stabilized.

### **Term Limits: A Potential Threat to Continuing, Long-term City Council Commitment**

One department director cited term limits as shortening the time horizon of Council members; this can reduce the Council’s commitment to Sunnyvale’s performance management system, which is so geared to long-term improvement and financial stability. According to the director, “Term limits has put a whole new spin on what politicians are

looking for during their terms here. The Mayor that was here when I first got here was on the Council for 20 years, was here when this system was implemented, and was instrumental in moving it from a public safety pilot to a Citywide program. Now our Council Members serve eight years max. Often less . . . A lot of people have bailed after a four-year term. So there is a question about how committed they are to following through with some of these things. . . . Long-term issues, in my view, are going to be more difficult for Council to grab onto, when the results may be far beyond members' tenure on the Council. That will be a real challenge for government in general.”

One potential result of having more new Council members, and fewer members with a history of relying on Sunnyvale's performance management system, is that the Council may lose its trust in the system, which can be the first slip down the slope to micromanagement. At the time of the interviews, another department director was disturbed to have noticed “a couple of new Council Members leafing through [the budget] saying, ‘I know that number is not right—abandoned vehicles taken out of the neighborhoods within five days. I don't know where that number comes from. I bet you are making it up.’ That kind of thing can really shoot the whole process.”

At the time of the interviews, no one offered a specific solution to maintaining Council's long-term view, and commitment to performance management, in an era of term limits. However, the new Quality of Life Initiative may offer some hope in that regard, especially if the city succeeds in capturing the public's attention with its first Quality of Life Index Report. If the public shows great interest in a consistent set of strategic quality of life issues, which the city reports on year after year, Council members are likely to take notice and want to show that they are supporting measurable improvements toward these long-term public priorities.

## **Evolution of Performance Measurement**

***What lessons have been learned from the performance measurement experience to date, and what are future expectations for the use of performance measurement?***

### **Lessons Learned**

The lessons expressed by Sunnyvale officials can be grouped under two broad themes:

- Getting value from performance measurement is a long-term learning process.
- A supportive organization culture and committed leadership are essential for successful use of performance management.

## ***Getting value from performance measurement***

These lessons relate to both individual learning and organizational learning. People can learn, individually, to understand and use measures analytically, and as one tool, balanced with others, in management. The organization can learn from the experiences of its people and teams to improve its measurement systems and approaches.

*Both training and “learning by doing” are important.* Several people talked about the importance of training, which is one way people learn. They mentioned the need to train employees and to train elected policy makers—Council members, in Sunnyvale. But training will take people just so far. They have to learn from their experience in working with performance measures. As one manager said, “It takes a lot of effort to try to not only understand but to fully use the tools that are available.”

*Learn to measure the right things; learn to ask questions to find the right measures.* Two people cited the adage, “What gets measured gets done.” And several others expressed similar thoughts to emphasize the importance of measuring “the things that we really want to happen.” As one official said, “Your outcome statement can say whatever it wants, but if the measures don’t reflect that then that really doesn’t happen.” Another cited examples of how misguided measures led to misguided behavior, unintended consequences, and a poor use of resources. Several managers discussed how it takes effort, and careful questioning, to develop good measures, especially good outcome measures. One manager described why an “industry standard” measure, total fire dollar loss, was not meaningful for Sunnyvale, where property values have been volatile. So they decided to measure “fire loss as a percent of assessed value.” Another manager referred to “the value-added question. You have to ask that question several different ways.” Another manager described his process for defining outcome measures: “You really have to write down and define what you do. It sounds like a very simple thing. But to actually write down what I would call a good measure, that really captures the essence of what you are doing and what is important. . . . I don’t know how many hours it took to develop this thing. . . . It is tough. You keep asking why you are doing [what you do]—Why? Why? Why?—to distill everything that you do into a few simple phrases that are all encompassing.”

*Learn to use measurement as an analytic tool.* Several managers stressed that through training and experience, people need to learn to use measurement as a tool to get real value from it. One stressed the importance of analyzing, for example, both productivity and quality, and not improving one at the expense of the other. Another manager talked about “a learning process to . . . not get bogged down in the detail, but to be able to piece together a mosaic of

what that set of data is telling you about your service and the product that you are producing.”

*Learn to balance measures and other factors for effective management.* Several officials stressed the importance of not “only looking at the numbers” but of balancing what you measure with other knowledge and experience to manage effectively. A Council member put it this way: “My greatest fear perhaps is that someone would focus so much on the outcome measure and nothing else. But that hasn’t happened. There are reasonable people who do other things even though they are not measured because they know that they are important.” One manager said that measures “are useful in giving you information, but they are not really answers. You still have a brain and you have to use judgment. You still have to consider external factors.” The manager went on to discuss “balancing the system so it doesn’t become so large and overwhelming that you have to report your numbers but you don’t have time to think about how to use them effectively, or to use the other side of your brain. One of the biggest dangers is allowing the system to totally run what you do. So make sure that it doesn’t become larger than life.” A department director talked about balancing managers who are strong in measurement with managers with other strengths: “We have some managers who are extremely strong in performance-based budgeting. We also have some people in the organization who are very strong from the operations side. The organization needs them. They are not strong performance-based managers, they are not necessarily very creative, but they are very strong operationally. People have a good rapport with these managers and they know how to get the job done. Finding a balance between those people is an important part of what we are doing.”

*Learn to change and improve measurement approaches and systems.* Several people talked about the progress Sunnyvale had made, and needs to continue to make, in advancing its overall measurement approaches. A manager described it as a progression from learning to master one system of measurement before moving on to outcomes: “I think we had to go through what we did, and get good at what we did for these 20 years, and then move us to the next logical place, which is outcome measurement.” An auditor discussed the importance of improving data collection systems, so they provide accurate data for credible measures and so they are as efficient as possible to limit data costs. A department director discussed how Sunnyvale was still learning how to master the outcome approach, how the city needed to solve problems that had arisen to make outcome management work as intended. As the director put it: “We built this test car in the laboratory and now we are taking it out on the road, and we have to wheel it back in and tighten its bolts. We have learned a lot. Some things we have absolutely learned that we shouldn’t do.” As an example, the director went on to describe how some initial cost allocations of overhead activities distorted

the costs of other activities and distorted accountability for those costs. So they had to “roll back” some overhead cost allocations.

*Learn to take a long-term view toward performance improvement.* If getting the full value from measurement is a long-term learning process, then it follows that it takes time to convert measurement to performance improvement, and most improvement will be captured over the long term. One manager stressed that “you have to take the long term. You can’t always depend upon immediate results.” Another said: “I caution people . . . especially if they are starting from scratch, not to look for tremendous changes or monumental improvements in a typical two-year budget cycle. In fact, in anything less than five years . . . you are not going to see monumental improvements.” The manager described how it takes time to develop measures that didn’t exist, then get several years of data to “start to be able to do some trend analysis. . . . I think that you will see some real benefit from [performance measurement]. It’s not a fix-all for everything. It is not an immediate fix for almost anything.”

### ***A supportive organization culture and committed***

One of the most common themes of the interviews was how performance measurement had become part of the organization culture of the city of Sunnyvale. Not surprisingly, most people interviewed cited the need to develop an organization culture that builds a commitment (or, in some people’s words, “buy in”) to measuring and improving performance as an important lesson of Sunnyvale’s experience. Several people mentioned that the commitment must start at the top, with the government’s leadership, and especially commitment by the City Council. Some of the ways people identified to build the needed culture and commitment follow.

*Elected and appointed leaders must show their commitment to performance management through their actions.* In a Council member’s opinion, an organization’s staff will take its cues from the actions of its leaders: “It has to do with your actions. Your political leadership. They are going to look to the political leadership first and say, Are you really committed to it? Are you going to do it? Then they are going to look at the city manager and senior management. Are they really committed to it? Can I find a way to get around it? Again, through your actions, not just your words, but your actions and deeds that demonstrate you are really committed to this and this is the way that it is going to be. Then eventually it will take hold.”

*Key actions by elected officials include staying strategic, avoiding micromanagement, and holding people accountable.* A Council member described how the political leaders should act to build a performance-based organization culture: “Start with the Council. We

have to buy into the fact that we are not going to get in there and micromanage at the program level. We have to be able to stay at the strategic level. Set the outcomes, and let the staff go. We can't get in there and say we want you to do it this way and this way and this way. You have to resist that urge. First the political leadership has to agree that it is going to happen and respect the process. Then we have to be absolutely willing to hold people accountable. If we do not, they won't think that it is serious and it won't be important to them." A department director concurred, citing as important "the political will and the ability of the politicians to deal with objectives and let the administrative work occur at the administrative level. Don't get into the day-to-day work of your staff. Just give them the policy direction. That has been extremely successful here because our process was really driven more by Council in the first place. Our Council has been extremely supportive in giving us the policy and what they want as an outcome, and letting us go do it. We tell them how we are going about doing that, and we will report out on our performance."

*Pay attention to people as well as numbers.* Show people they are valued; build their comfort level through flexibility and a "bottom-up" approach. One manager said: "One of the lessons that we have learned is that you can be so productivity driven that you forget the people side—whether people feel they are valued. Certainly in today's environment it is very important for people to have an overall feeling of well-being to show creativity. If you only look at the numbers, then you don't have the breakthrough." This manager went on to note how performance measurement can be "a very intimidating system," so "you want people to feel good about what they put in." Another manager concurred, saying: "Anyone who wants to, knows that I am in charge of that program, and what my performance is. You are vulnerable. You are exposed. So you kind of need to build in a safety mechanism for a trial period. Something to give people time to become comfortable with it. . . . If it is going to be successful, I think that it needs to be bottom-up, giving people flexibility even if it is not what you consider to be the best measure."

*Help people see performance measurement as a tool, a way to communicate.* As one manager put it, "People need to see it as a tool. Not a 'got you.'" The manager went on to say, "People will tell you that it consumes a lot of time to support this kind of system." To make it worth their time, "create a system they can use to communicate with people—to tell people how well they are doing."

## **Future Expectations**

The Sunnyvale officials interviewed were mostly optimistic about the future. They felt the city will continue to improve performance, as it has in the past. They saw themselves

continuing to refine their outcome measures and using outcome management to serve Sunnyvale residents better. And they saw outcome measures and the Quality of Life Index as improving public communication about performance. One future concern raised had to do with whether a City Council whose membership turns over more often, due to term limits, will maintain the fiscal discipline inherent in the city's long-term financial planning, and the commitment to a strategic, performance-based approach to governing. But by and large, they saw a future where measurement will evolve and performance will improve, as in the following comments:

- “One of the things that we often get harangued about, and more often from our own staff, is the constant improvement idea. Are we down to the final frontier here and can we continue to see this improvement? We go through that at budget hearings where they showed improvement so we adjust their budget to reflect an increased performance and therefore less money. People were constantly talking about that diminishing return. . . . I have to tell you that for the 17 to 20 years that we have been doing this, we continue to see improvement. In some areas, some pretty monumental improvement, that you would think after 20 years would not exist any more. I am convinced that we can do it for another 20 years and still see the kind of improvements that we have seen.”
- “I would say that we keep changing. We will look and decide that we are either right on the money with our outcome measures, or we need to refine them. I would guess that we will refine them some, and that we will keep finding better ways to report that information to the public. We will hear from the public what is important to them and we will put that back in the measures. . . . We will change what we are doing, get feedback, and keep going back and forth. I see it evolving slowly over time and getting better and better at really measuring things that are important to the community.”
- “For us in the short term, moving to an outcome system, I think that we will see some improvement in meeting the objectives of the residents better than we have in the past. Because we are going to know more about and think about what we are doing. I am hopeful that that will also allow us to refocus our work in areas that mean more to the public and maybe find some things that we are doing for our sake that we don't need to do.”
- “As time goes on, [outcome management] will help me focus on the important things for the future. I think that it will better define what we do and tell the taxpayers and tell our constituents what kind of bang they are getting for their buck.”

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