



Office of the City Auditor

**Report to the City Council
City of San José**

**OFFICE OF
ECONOMIC DEVELOPMENT
PERFORMANCE MEASURES:
EXISTING MEASURES ARE
GENERALLY MEANINGFUL,
USEFUL, AND
SUSTAINABLE, BUT CAN BE
IMPROVED**

**Report 13-03
February 2013**

February 13, 2013

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

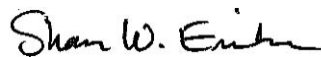
Office of Economic Development Performance Measures: Existing Measures Are Generally Meaningful, Useful, and Sustainable, But Can Be Improved

The mission of the City Manager's Office of Economic Development (OED) is to catalyze job creation, private investment, revenue generation, and talent development and attraction. OED publicly reports a variety of performance data related to business development and economic strategy, regional workforce development, and arts and cultural development. It is finalizing measures for its real estate services.

This report is one in a series of departmental performance measure reviews by the Auditor's Office to improve the quality of performance data. As part of this review, OED has already revised some performance measure data, labels, and methodologies, and will be adding or deleting measures to improve its performance reporting. In our opinion, the revised performance measures generally meet the City's criteria of being meaningful, useful, and sustainable. We recommend OED develop additional performance measures for economic development incentives and general business satisfaction. We further recommend OED assess—by core service—how performance data can be used by management and staff to help analyze past performance, establish next performance objectives, and examine overall performance strategies.

This report includes four recommendations. We will present this report at the February 21, 2013 meeting of the Public Safety, Finance, and Strategic Support Committee. We would like to thank OED and the Budget Office for their time and insight during the audit process. The Administration has reviewed the information in this report and their response is shown on the yellow pages.

Respectfully submitted,



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Table of Contents

Cover Letter	i
Introduction	1
Background	1
Audit Objective, Scope, and Methodology	4
Finding I	
Existing Performance Measures Are Generally Meaningful, Useful, and Sustainable, But Can Be Improved	7
Business Development and Economic Strategy Performance Measures	7
Regional Workforce Development Performance Measures.....	13
Arts and Cultural Development Performance Measures	15
Real Estate Services Performance Measures	19
Documenting Performance Measure Methodologies	20
Using Data to Improve Performance – Moving Towards Performance Management.....	21
Conclusion	25
Appendix A	
Budget Office’s Methodology Sheet	A-1
Administration Response	yellow pages

Table of Exhibits

Exhibit 1: OED Adopted Operating Budget in FY 2012-13, in Millions	2
Exhibit 2: OED Authorized Staffing in FY 2012-13, in Full-Time Equivalents.....	3
Exhibit 3: Investing in Results (IIR) Criteria for Performance Measures	4
Exhibit 4: Business Development Revised Performance Measures.....	8
Exhibit 5: Regional Workforce Development Revised Performance Measures.....	14
Exhibit 6: Arts and Cultural Development Revised Performance Measures.....	16
Exhibit 7: Real Estate Services Revised Performance Measures	20

Introduction

In accordance with the City Auditor's Fiscal Year (FY) 2012-13 Audit Work Plan, we have completed an audit of performance measures publicly reported by the City Manager's Office of Economic Development. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the City Manager's Office of Economic Development (OED) and Budget Office for their time, information, insight, and cooperation during the audit process.

Background

The City Auditor reports on City government performance through the annual *Service Efforts and Accomplishments Report*. In September 2009, we also issued a white paper, titled *Performance Management and Reporting in San Jose: A Proposal for Improvement*, which recommended improvements to data quality. That white paper illustrated the importance of moving from performance *measurement* (measuring and reporting inputs and outputs) to performance *management* (using data to improve performance). To facilitate that process, we recommended reviewing and reducing the number of performance measures, with the goal of ensuring that publicly reported performance measures are meaningful, useful, and sustainable. We also recommended a focus on documenting data collection methodologies and validating performance measures.

This is the fourth in a series of departmental performance measure reviews. We previously reviewed and validated (1) the Department of Transportation's sewer line cleaning program performance measures and costs, (2) the Airport's service level indicators for police and fire services, and (3) the Fire Department's performance measures.

Office of Economic Development Organization and Budget

OED's mission is to "Catalyze job creation, private investment, revenue generation, and talent development and attraction."

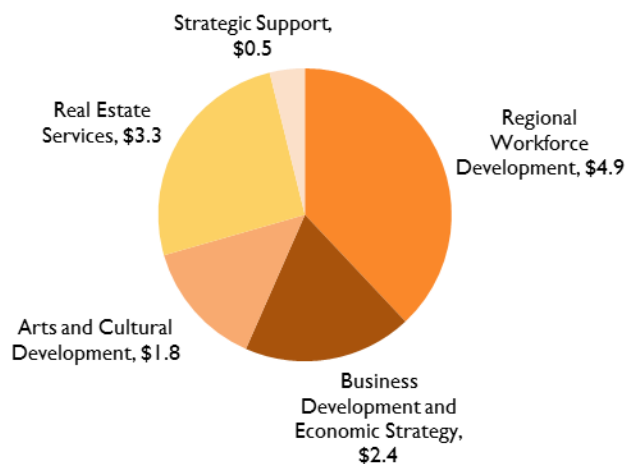
OED was founded in the 1990s as a small think tank-like unit, but its mission and resources have expanded and evolved over time to encompass much broader

OED Performance Measures

services. In 2000, work2future was added to OED to carry out regional workforce development, as those services transitioned from the county to the City. The Office of Cultural Affairs (OCA) was added in 2005, and the Real Estate Services and Asset Management (Real Estate Services) unit moved from the Department of Public Works to OED in 2010-11.

OED's operating budget for FY 2012-13 totaled \$13.0 million. Exhibit I shows OED's budget by core service. Additionally, OED had authority for nearly \$4.1 million of General Fund City-Wide Expenses and it also oversees various other funds.¹

Exhibit I: OED Adopted Operating Budget in FY 2012-13, in Millions



Source: FY 2012-13 Adopted Operating Budget

¹ FY 2012-13 adopted City-Wide Expenses for OED included subsidies of \$1.0 million to the Tech Museum of Innovation and \$0.8 million to History San José, as well as \$0.8 million to the Economic Development/Incentive Fund.

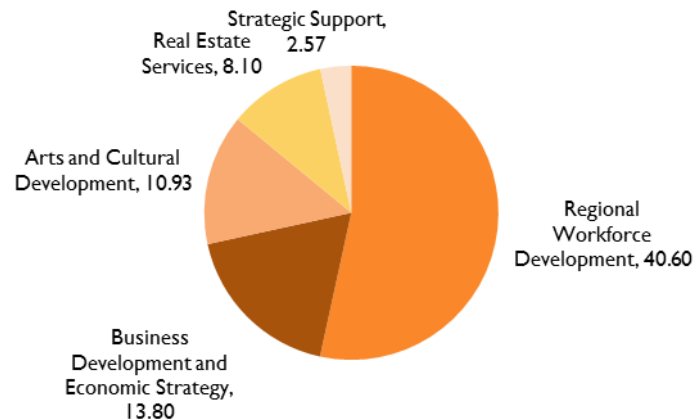
Lead responsibility for the following Funds lies with OED, with their FY 2012-13 adopted funds available shown:

- Business Improvement District Fund: \$3.0 million
- Economic Development Enhancement Fund: \$0.7 million
- San José Arena Enhancement Fund: \$2.6 million
- San José Diridon Development Authority: \$0.4 million
- San José Municipal Stadium Capital Fund: \$29,000
- Transient Occupancy Tax Fund (TOT): \$15.5 million shared between OED, the Convention and Cultural Affairs Fund, and Team San Jose for convention and visitors bureau services
- Workforce Investment Act Fund: \$15.3 million, \$5.2 million of which supports OED's operating budget

OED also manages the contract with Team San Jose for the operation of the City's convention and cultural facilities, which had operating expenses of \$25.2 million in FY 2011-12 with operating revenues of \$19.4 million. The convention center previously was operated by a City department.

Exhibit 2 shows OED’s authorized staffing for FY 2012-13 by core service, totaling 76 full-time equivalent positions.

Exhibit 2: OED Authorized Staffing in FY 2012-13, in Full-Time Equivalents



Source: FY 2012-13 Adopted Operating Budget

OED Performance Measures

OED publicly reports a variety of performance data related to business development and economic strategy, regional workforce development, and arts and cultural development. It is finalizing measures for Real Estate Services.

The City’s annual Operating Budget—one of the primary mechanisms for publicly reporting performance—includes performance measures for OED in its departmental chapter. Additional measures are reported in the Community and Economic Development (CED) City Service Area (CSA) section of the Operating Budget. The annual *Service Efforts and Accomplishments Report (SEA)* includes some of the same measures as well as disaggregation and comparisons of those numbers where available.

OED submits reports and verbal updates to the Community and Economic Development Committee of the City Council, which may include references to performance measures and targets.

Externally, OED’s work2future division reports workforce development performance data to its Workforce Investment Board (WIB) and the California Employment Development Department (EDD).

OED was instrumental in developing the City’s 5-year Economic Strategy. OED leads the implementation of the Strategy through the CED CSA and shapes the 18-month work plans which are reported to the City Council. It also contributed

to the City’s Green Vision whose first goal is to “Create 25,000 Clean Tech Jobs as the World Center of Clean Innovation.” Tracking performance for both the Economic Strategy and the Green Vision is done through regular reports to the City Council, separate from the budget.

Meaningful, Useful, and Sustainable Performance Measures

For our review, we used the criteria of meaningful, useful, and sustainable which the City adopted in 1999 in its Investing in Results (IiR) framework. See Exhibit 3 for a description of the criteria.

Exhibit 3: Investing in Results (IiR) Criteria for Performance Measures

Meaningful	<ul style="list-style-type: none"> • A measure must be understandable to internal and external stakeholders. • A measure must be based on goals or objectives related to an organization’s mission or purpose. • A measure must be focused on a controllable facet of performance.
Useful	<ul style="list-style-type: none"> • A measure must be based on reliable data. • A measure must accurately assess performance. • A measure must be comparable to other periods or targets. • A measure must be reported at the appropriate level and to the appropriate audience (i.e. high-level measures should be included in high-level reports, certain measures may be important for management decision making and others for public accountability purposes, and so on).
Sustainable	<ul style="list-style-type: none"> • The value of the data must meet or exceed the effort to collect the data.

Source: 1999 Investing in Results framework

Audit Objective, Scope, and Methodology

The objective of our review was to assess if OED’s performance measures were meaningful, useful, and sustainable. In October 2012, OED submitted performance measurement data for the fiscal year ending June 30, 2012 (FY 2011-12) to the Budget Office and the City Auditor’s Office for inclusion in the Operating Budget and the *Service Efforts and Accomplishments Report*, respectively. The Auditor’s Office then requested supporting backup documentation for the measures. The submitted performance measures, data, direct observation, and supporting documentation were the basis of this review and validation process.

We limited our review to the performance measures contained in the budget; we did not review performance measures OED reports elsewhere, such as City Council committee reports. Furthermore, this review does not include

performance measures for the convention and cultural facilities operated by Team San Jose because we perform an annual performance audit of these contractually established measures.

We obtained economic development performance measures reported by other jurisdictions, including New York City, the Portland Development Commission (Oregon), the City of San Diego, the City and County of San Francisco, and the City of Sunnyvale. We also reviewed literature and best practices in performance measurement for economic development, including but not limited to: David Ammons and Jonathan Morgan's "State-of-the-Art Measures in Economic Development"² and Harry Hatry's *Performance Measurement*.³

For accuracy, we conducted walkthroughs with OED staff to discuss the data sources, methodology, and reporting behind each performance measure. We interviewed staff from each of OED's core services: business development and economic strategy, regional workforce development, arts and cultural development, and real estate services. We discussed the meaning, use, and sustainability of the data with OED management and the Budget Office. While we sampled some of the performance measures' underlying data, we did not audit the state's Job Training Automation System workforce development database, the City's PeopleSoft business tax database, the MuniServices sales tax database, or the City's AMANDA development permits database.⁴

We suggested revisions to some performance measures based on supporting documentation. OED and the Budget Office agreed with the proposed changes shown in Exhibits 4, 5, 6, and 7 of this report.

² International City/County Management Association (ICMA), PM Magazine, Volume 93, Number 5 (June 2011)

³ The Urban Institute Press, 1999

⁴ AMANDA (short for Advanced Maryland Automatic Network Disk Archiver) is the database and tracking system used by Development Services partners (Planning, Building & Code Enforcement, Public Works, and the Fire Department) to track all permit information and activities.

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Finding I Existing Performance Measures Are Generally Meaningful, Useful, and Sustainable, But Can Be Improved

Summary

OED's publicly-reported performance measures that we reviewed generally met the criteria of being meaningful, useful, and sustainable, as revised. Based on our review, OED revised the methodology of some measures, clarified the wording of some measures, and will add or delete some measures. OED also corrected some of its performance measure data. To close gaps in its reporting, we recommend OED develop performance measures for the City's economic development incentives and survey business satisfaction. OED should also document its methodologies for calculating measures.

We further recommend that OED assess—by core service—how performance data can be used by management and staff on an ongoing and frequent basis to help analyze past performance, establish next performance objectives, and examine overall performance strategies.

Business Development and Economic Strategy Performance Measures

For the Business Development and Economic Strategy core service, OED seeks to assist business location and expansion, advance San José's Economic Strategy, and support Council policy-making. Specifically:

- To attract new businesses to San José and to retain and assist expanding companies already operating in the City, OED staff contacts and meets with businesses. The goal of these meetings is to learn about business and industry needs, build relationships with business leaders, provide information, market the City to firms, and represent the City.
- Upon request, OED assists companies with their City permits. For example, OED may introduce firms to the Development Services permit process and act as facilitator between a company and the City during the permit approval process.
- OED leads policy initiatives on business incentives and administers general and specific incentive programs on behalf of the City.
- OED leads the City's 2010-2015 Economic Strategy, a cross-departmental effort implemented through successive 18-month work plans. As the City Manager's designee, OED leads the CED CSA, staffs the Council committee, and provides policy and analytical support for Council decision-making.

- OED’s work2future Business Services Unit and BusinessOwnerSpace.com also connect companies to employment services (see the section on “Regional Workforce Development Performance Measures”).

Existing Business Development Measures Are Meaningful, Useful, Sustainable, and Accurate

The existing business development measures, as revised and shown in Exhibit 4, generally appear to be meaningful, useful, and sustainable. They are also materially accurate.

It is important to note that some of the measures reflect key outcomes, such as job creation and tax generation, going beyond merely counting activities and outputs (i.e., the number of outreach meetings, which may or may not result in job creation). Performance management literature emphasizes the importance of measuring and reporting outcomes, even though these are further removed from controllable facets of performance for which the Investing in Results framework calls. OED also reports an efficiency measure, *tax revenue per OED outreach expenditure*, which enables program evaluation, comparison, and improvement.

Exhibit 4: Business Development Revised Performance Measures

Performance Measure, as revised	FY 2011-12	Notes	Methodology
Job Creation and Retention			
1) <u>Estimated</u> jobs generated/ <u>retained</u> by companies that received OED assistance by:		Revised methodologies, including the methodology for jobs retained from permit assistance efforts, and corrected math errors.	OED manually compiles a list of assisted companies, including a list of Special Tenant Improvement (STI) and Industrial Tool Installation (ITI) permits from the AMANDA system.
Type of company:			
a) Industrial	a) 5,950 (estimate)	Added disaggregation of jobs into new and retained.	OED compiles job figures from the PeopleSoft business tax database or communication with companies. For STI/ITI firms, OED includes a fraction of jobs, based on a square feet-to-employee ratio.
b) Commercial/Retail	b) 177 (estimate)		
c) Total	c) 6,127 (estimate)	Revised the label to clarify that jobs counted may be new <i>or</i> retained jobs.	
Type of job:			
d) <u>New</u>	d) 3,021 (estimate)		
e) <u>Retained</u>	e) 3,106 (estimate)	Total originally submitted as 7,218.	Firms are categorized as industrial or commercial/retail, as Clean Tech or not, and as new or retained. New jobs are counted for one year only; retained jobs are counted only if the firm seriously threatened to leave San José.
f) # of Clean Tech Jobs <u>generated/retained</u> from City efforts	f) 302 (estimate)	Clean Tech originally submitted as 293.	
(CED) ⁵ (OED) (SEA)			
2) # of establishments <u>participating in the Enterprise Zone, Foreign Trade Zone, and Business Cooperation Program incentive programs</u>	294	Added.	OED pulls a report of Enterprise Zone Hiring Tax Credit Vouchers from its database, and manually adds Foreign Trade Zone and Business Cooperation Program firms.

⁵ In parentheses, we show if the performance measure appears in: the Operating Budget’s Community and Economic Development section (CED), the Operating Budget’s OED section (OED), or the Auditor’s *Service Efforts and Accomplishments Report* (SEA).

Performance Measure, as revised	FY 2011-12	Notes	Methodology
Revenue Generation			
3) Actual <u>Estimated</u> increases in revenue (property, sales, utility, and business transient occupancy taxes) from attracted or expanding businesses which previously received assistance from the City (excludes property and utility taxes):		Revised methodology for revenue from retained companies, and corrected math errors. Added disaggregation of revenue into new and retained.	For companies on the job creation list, OED compiles sales tax revenue from MuniServices, which processes Board of Equalization data. If data are unavailable, OED reasonably estimates revenue. OED adds estimated business tax revenue, according to the formula of \$150 for the first eight employees and \$18 for each additional employee with a \$25,000 cap. No sales tax revenue is included for STI/ITI firms.
a) <u>Taxes from new companies</u>	a) \$1,036,865 (estimate)	Revised the label to clarify that this is an estimate, explained which taxes are included.	
b) <u>Taxes from retained companies</u>	b) \$ 639,073 (estimate)		
c) Total (CED)	c) \$1,675,938 (estimate)	Originally submitted as \$1.26 million.	
4) Ratio of estimated tax revenues (e.g. property, sales, utility, and business transient occupancy taxes , excludes property taxes) generated by assisted companies per <u>estimated OED outreach</u> expenditure (OED) (SEA)	\$1.91 per \$1.00 (estimate)	Revised the methodology of calculating expenditures and corrected math errors. Revised the label to clarify that this is an estimate, which taxes are included, and that only <i>outreach</i> costs are used. Originally reported as \$7.8 per \$1 and displayed as 7:8 (sic).	Divide total from 3) above by OED expenditures. OED expenditures are calculated as salaries, benefits, and retirement payments for business outreach staff, plus overhead.
Outreach			
5) # of Business Owner Space participants <u>businesses</u> receiving assistance, access to capital, technical or human resources support or information (CED) (SEA)	25,207 (estimate)	Revised the label to clarify that participants instead of businesses are counted. Originally submitted as 61,717 (sum of partner organizations' clients and unique website visitors in 6) below).	OED collects monthly reports from partner organizations by email.
6) <u>Unique website visitors to businessownerspace.com</u>	36,510	Added disaggregation of website visitors from in-person participants counted in 5).	Google Analytics report of unique website visitors.
7) # of companies receiving <u>OED</u> permitting assistance (OED) (SEA)	46	OED assists some, but not all STI/ITI applicants.	OED manually compiles a list of firms that it assisted from a list of all STI/ITI applicants from the AMANDA system.
8) # of firms with which <u>OED</u> held meetings	284	Added. OED had a target of 250.	Manual count by OED business outreach staff.

OED Performance Measures

Performance Measure, as revised	FY 2011-12	Notes	Methodology
Macroeconomic Indicators			
9) Estimated ratio of San José jobs to employed residents (CED) (SEA)	0.84 (estimate)	Revised data source and clarified label.	Computed from Census Bureau data. Before 2010-11, derived from the Association of Bay Area Governments' <i>Projections</i> report.
10) Unemployment rate in San José metropolitan area (CED text) (SEA)	8.7%	Also appears in the Budget's Community Profile section. The Auditor's Office is considering using City-specific data in future SEA reports.	U.S. Bureau of Labor Statistics report; average of monthly data.
11) Job gains/losses in San José metropolitan area (CED text)	33,100	Comparing June 2012 to June 2011.	California Employment Development Department data.

Source: Auditor's analysis of data provided by the Office of Economic Development

To Close Gaps in its Reporting, OED Should Add and Continue to Refine Some Performance Measures

OED's existing performance measures on business development do not include performance measures on the City's incentives for economic development or from a San José-specific business survey. OED has also begun disaggregating some measures to highlight more of the underlying trends, as discussed below.

Incentives

OED advocates for business-friendly policies in the City. For instance, following OED staff recommendations, the City Council approved construction tax and traffic impact fee reductions in for North San José through 2014 ("policy incentives").

In addition to policy advocacy, OED manages and oversees a variety of incentive programs for businesses. OED administers the Enterprise Zone, which offers state tax credits, and the Foreign Trade Zone, which eases duties and international trade rules. The City has also established a Business Cooperation Program which refunds to companies a portion of the City's net new use tax.⁶

Since 2011, five companies—C8-Medisensors, Maxim, Netflix, Polycom, and SunPower—have negotiated individual incentive packages with the City or with the former Redevelopment Agency. Under those arrangements, the City or Agency would have paid up to \$9.1 million to those companies in tax refunds, grants for capital expenditures, or development fee reimbursements. To date, only \$1.7 million of City or Agency funds have been paid to companies and not all agreements have come to fruition.

⁶ There were no participants in the Business Cooperation Program during FY 2011-12.

While OED provides a prospective analysis to the Council of a particular incentive package's benefits—for example estimating future job creation tied to a particular grant—its performance measures do not track the cash value of refunded, deferred, or foregone City revenue, or the outcomes of the incentive packages.

In addition to tracking the number of establishments participating in the Enterprise Zone, Foreign Trade Zone, and Business Cooperation Program incentive programs (a performance measure added during this review), OED should report the cash value that firms receive from incentive packages. A model can be found in the Portland Development Commission's performance measures—including estimates of foregone revenue to the City, broken out into tax abatements and waivers. To allow analysis of outcomes of the City's incentives—for example job creation—and to compare their efficacy with other alternatives and their costs, OED should regularly report how previously granted incentives have led to actual results.

Recommendation #1: To assess the scope, efficacy, and outcomes of the City's incentives (e.g. Council-approved agreements and policy incentives such as construction tax and traffic impact fee reductions), the Office of Economic Development should develop and consistently calculate the realized results, and incorporate that analysis into its performance measures.

A San José-Specific Business Survey

OED obtains various studies and reports on the regional business climate and also receives anecdotal feedback from business leaders when it meets with companies at events or outreach visits, but it currently does not directly collect information from a broad sample of San José businesses.

A direct survey of San José businesses would allow OED to track San José-specific business issues against the regional business climate, since many economic policy decisions are weighed in a local context and against neighboring jurisdictions. In addition, a business survey would provide feedback on companies' satisfaction with City services. Such feedback could ultimately inform and guide OED's policy advocacy work and help with management's prioritization of limited resources for economic development.

One example of such a survey tool is The National Research Center's "Main Street Business Monitor™" survey instrument. If resources are available, a survey could be segmented by industry type, firm size, and location to gain further insights from the data. Alternatively, OED can use free or low-cost online survey tools, as it has done in the past.

Recommendation #2: To assess the needs of San José companies and seek feedback on OED and City services, the Office of Economic Development should conduct a periodic survey of San José businesses.

Disaggregation

In the past, OED reported highly aggregated performance data. In some cases, the aggregation of data into a single reported number does not give voice to the component parts and thus may lessen the value of certain performance measures.

For example, the previous job creation performance measure (*jobs generated by companies that received OED assistance*), summarized three categories of jobs: (1) new jobs created; (2) retained jobs that already existed in San José; and (3) jobs created or retained as a result of permit assistance.⁷ Clearly, these categories carry distinct meanings. The old performance measure did not differentiate between job attraction and retention. OED has begun to disaggregate some performance measures and report the components separately. In FY 2011-12, OED's efforts resulted in 3,021 new jobs and 3,106 retained, of which 1,493 are from permit assistance. The revised measure, shown in Exhibit 4, breaks out jobs created and jobs retained.

Improving Performance Measure Labeling

During our review, we found that a number of performance measure labels did not accurately reflect the meaning of the underlying data. After discussing the strategic alignment, purpose, and methodology of each measure with OED, we proposed several label changes that have been already accepted and incorporated as shown in the Exhibits.

For several performance measures OED added a designation that the measure is an estimate. This was necessary to accurately reflect the data sources or calculations. For example, the tax generation measures include what a company theoretically owes the City in business taxes, rather than the City's actual realized revenues, and sales tax data may reflect only two quarters rather than the full fiscal year. Previously, the measure was labeled *Actual increase in revenue* [...].

Further, for a few performance measures, OED clarified what is counted. While the tax generation measure previously stated that it included property, sales, utility, and transient occupancy taxes, OED adjusted the label to reflect that only sales and business taxes are included in the calculation (for most years).

⁷ While City assistance with certain permits may be instrumental in attracting or retaining a company in San José (i.e., for significant technology or building upgrades), other permits may not play so prominent a role. For example, OED counted jobs for (1) a company adding square feet of office space that are associated with new jobs, and (2) a long-standing San José company receiving permit assistance for a loading dock and public art on its building.

Some Business Development Measures Will No Longer Be Reported

Performance management literature notes that having too many performance measures can lead to “more confusion or ‘noise’ than useful data.”⁸ OED will delete the following performance measures from its high-level reporting to make room for other, more meaningful measures of outcomes. OED will continue to track these internally if needed.

- *% change in number of jobs (Job Growth) from prior fiscal year:* This measure from the CED section of the budget compares jobs created by OED-assisted firms to the previous year’s number, in percentage change terms. It does not reflect macroeconomic job growth because only jobs related to OED actions are counted.
- *# of meetings with foreign firms regarding operating in San José:* According to OED, this measure retained from years ago no longer reflects its priorities. We recommend instead that OED fold this metric into workload reporting on its broader outreach efforts, such as its target to reach out to 250 firms.

Regional Workforce Development Performance Measures

OED’s largest division, work2future, is responsible for assisting businesses in hiring a quality workforce through assessment, supportive services, and skills training funded by federal Workforce Investment Act (WIA) grants and monitored by the California Employment Development Department (EDD). The program serves San José, Campbell, Morgan Hill, Los Altos Hills, Gilroy, Los Gatos, Saratoga, Monte Sereno, and unincorporated areas of Santa Clara County.

With nearly 41 full-time equivalent staff, work2future operates “One-Stop Centers” that offer a range of services to help job seekers. At One-Stop Centers, job seekers can enroll in work2future programs, receive an initial assessment, meet with work2future staff, and participate in activities. Upon completion of this “welcome process,” work2future staff works with each job seeker to determine next steps which may include comprehensive assessments, counseling and support, workshops, community resources, and/or job networking services. As noted earlier, work2future also connects businesses to employment services, business development (i.e., help with business plans), access to capital, and industry trends and information.⁹

The federal Department of Labor defined “common measures” that all WIA-funded entities, including work2future, must track. In our opinion, these measures met the City’s criteria for being meaningful, useful, and sustainable, as

⁸ Behn, Robert. “Why Measure Performance? Different Purposes Require Different Measures” Public Administration Review, Sept/Oct 2003, Vol. 63, No. 5.

⁹ According to work2future, services for businesses are not funded with WIA grant funds.

described below. The Auditor’s Office reviewed the four performance measures for Regional Workforce Development shown in Exhibit 5.

Exhibit 5: Regional Workforce Development Revised Performance Measures

Performance Measure, as revised	FY 2011-12	Notes	Methodology
<p>1) Number of enrolled work2future clients receiving discrete services (counseling, job placement, and occupational training)</p> <p>a) <u>Adults</u></p> <p>b) <u>Dislocated workers</u></p> <p>c) <u>Youth</u></p> <p>(CED) (SEA)</p>	<p>a) 4,125</p> <p>b) 2,137</p> <p>c) 274</p>	<p>Originally submitted as 6,262 (the sum of adult and dislocated clients).</p> <p>Because the prior aggregate measure did not provide perspective into the relative mix or proportion of client types, we break down clients by type. OED has agreed to make this change in its City reporting.</p>	<p>Standard query of data in California Job Training Automation System (JTA) that work2future staff has inputted and that the state periodically validates, monitors, and/or audits.</p>
<p>2) <u>Estimated % of clients placed in jobs relative to federal mandated goals</u></p> <p>a) <u>Adults</u></p> <p>b) <u>Dislocated workers</u></p> <p>c) <u>Youth (Placement/ Education)</u></p> <p>(CED) (OED) (SEA)¹⁰</p>	<p>a) 46%</p> <p>b) 55%</p> <p>c) 78%</p>	<p>Originally submitted preliminary data “relative to federal mandated goals:”¹¹</p> <p>a) 100%</p> <p>b) 102%</p> <p>c) 118%</p> <p>Prior measure (as originally submitted) reported performance as a percent of the mandated goal, which did not provide a sense of the actual success rate. Also, because of a lag in results, performance for FY 2011-12 reflects October 2010 to September 2011 clients. OED could footnote this in the budget.</p>	<p>Final performance results are not released by the state for many months after the end of a program year, but work2future queries JTA to approximate actual performance results.</p>
<p>3) <u>Estimated % of Workforce Investment Act (WIA) clients employed six months after initial placement relative to federal mandated goals</u></p> <p>a) <u>Adults</u></p> <p>b) <u>Dislocated Workers</u></p> <p>(CED) (OED) (SEA)</p>	<p>a) 78%</p> <p>b) 81%</p>	<p>See above discussion of past performance reporting.</p> <p>Originally submitted preliminary data “relative to federal mandated goals:”¹²</p> <p>a) 102%</p> <p>b) 97%</p> <p>OED could footnote that FY 2011-12 results are for clients served from April 2010 to March 2011.</p>	<p>See above.</p>
<p>4) # of business clients served by the Business Services Unit</p> <p>(OED)</p>	<p>304</p>	<p>Clients served range from prospective small businesses to large, multi-national companies (like Cisco and AT&T) seeking employee assistance programs.</p>	<p>Business Services Unit staff maintains a contact log of business clients and counts total clients served at year-end.</p>

Source: Auditor’s analysis of data provided by the Office of Economic Development

¹⁰ FY 2011-12 figures presented here differ slightly from those in the 2011-12 *Service Efforts and Accomplishments Report* because the California Employment Development Department issued final performance results in December 2012.

¹¹ The mandated federal job placement goals for work2future in FY 2011-12 were 44 percent for adult clients, 52.2 percent for dislocated worker clients, and 65 percent for youth clients.

¹² The mandated federal job retention goals for work2future in FY 2011-12 were 76 percent for adult clients and 83 percent for dislocated worker clients.

Regional Workforce Development Measures Are Meaningful, Useful, and Sustainable, as well as Accurate

As revised, the workforce development measures are meaningful. Program outcomes generally are easy for the general public and other stakeholders to understand, reflect the primary work of work2future, and are controllable facets of the operation in that the division can adjust programming to attempt to influence success (job placement and job retention) rates. As shown in Exhibit 5, OED has reframed its presentation of its results to enhance their meaning. Specifically, for the last several years OED reported work2future performance relative to mandated federal goals rather than in absolute terms.¹³ This means that if work2future had a federal goal to help 50 percent of job seekers attain employment, and it actually helped 55 percent, it would then report performance of 110 percent (55 percent divided by 50 percent times 100 percent). Reporting actual performance—55 percent in this example—gives the City Council and public a better sense of work2future’s performance, and OED can additionally continue reporting performance relative to mandated federal goals in the budget to give a snapshot of results compared to targets.

The revised measures also meet the City’s criteria for being useful and sustainable. OED work2future staff must enter basic client data into the division’s web-based case management information system. Client information is uploaded into the EDD Job Training Automation System (JTA) on a daily basis. EDD regularly audits and monitors work2future to verify program compliance with rules and regulations and also ensure proper data collection and entry. This also ensures data accuracy. The JTA system also records which clients have entered or retained employment based on the EDD’s collection of base wage data reports.¹⁴ Because measures are already mandated for state- and federal-reporting purposes, they require no additional effort for City-reporting purposes, and are thus sustainable.

Arts and Cultural Development Performance Measures

OED’s Office of Cultural Affairs (OCA) is the City’s lead agency for supporting and promoting the development of a rich arts and cultural environment for the City’s residents, its workers who live in neighboring communities, and its many visitors. OCA was placed in OED after the City’s five-year economic development strategy from 2003 identified a vital community as a factor in the

¹³ The California Employment Development Department provides annual performance targets to work2future. Occasionally, the targets for the applicable fiscal year arrive late in the fiscal year which makes continuous performance measurement and management more difficult.

¹⁴ To obtain its client job placement and client employment retention performance measures, work2future staff draws data from the state JTA system’s base wage reports because, unlike some other employment assistance programs, work2future is an integrated workforce investment board and no longer conducts exit interviews with its adult and dislocated worker clients.

OED Performance Measures

“vital cycle of success” model for economic development. OCA staff coordinates the City’s outdoor special events, manages its permanent collection of public art, and awards and oversees arts and cultural grants.

The Auditor’s Office reviewed 11 performance measures for OCA shown in Exhibit 6. As discussed below, OED has agreed to delete seven measures that are not as meaningful and/or useful to the public as the others. This significant reduction mitigates the “noise” of having too many performance measures.

Exhibit 6: Arts and Cultural Development Revised Performance Measures

Performance Measure, as revised	FY 2011-12	Notes	Methodology
1) % of residents rating the availability of a diverse range of quality arts and cultural activities in the City as good or excellent (CED)	N/A	Data unavailable because the survey was temporarily suspended in 2011-12. Furthermore, OED has expressed a desire to change the wording of these questions.	Collected through the biennial City-wide Community Survey.
2) # of public art works in <u>the City’s permanent collection</u> (OED) (SEA)	256	Records in OCA’s accession (collection management) database may relate to multiple art works, and one art work may be composed of one or more components. This complicates the count.	Staff adds to or subtracts from the prior year art works count based on changes to the collection in the current year.
3) % of public art works <u>in the City’s permanent collection</u> that are in good to excellent condition based on their physical and operational condition (OED)	80%	Staff is considering revising its methodology to present the overall condition of the collection in a way that takes into account the complexity and cost of maintenance.	Annually, staff assesses the condition of pieces in the public art collection on a scale from no-work to extensive-repairs required. Staff then tabulates the number in good to excellent condition, and divides that number by the total.
4) # of outdoor special events coordinated <u>by OCA</u> (OED) (SEA)	324	OCA’s role in coordinating outdoor special events varies event-to-event and may cover multiple instances for events. For instance, Evergreen farmers’ markets made up more than 100 of the 324 special events coordinated by OCA.	Staff runs a standard report on special events in OCA’s database and counts all instances of events (i.e., a farmers’ market may have multiple instances in a year but only one entry in the database).
5) # of <u>event reported attendees at OCA-coordinated events</u> (OED) (SEA)	2.0 million (estimate)	Nearly 1.0 million of reported attendees at OCA-coordinated outdoor special events were for Winter Wonderland and Christmas in the Park.	Staff runs a standard report on special events in OCA’s database and summarizes actual attendance based on ticket sales or event organizer estimates.
6) % of residents rating the City’s efforts at providing an adequate number and variety of outdoor special events as good or excellent (CED) (OED)	N/A	Data unavailable because the survey was temporarily suspended in 2011-12. Furthermore, OED has expressed a desire to change the wording of these questions.	Collected through the biennial City-wide Community Survey.

Performance Measure, as revised	FY 2011-12	Notes	Methodology
7) Total Estimated fiscal impact <u>City revenue</u> from signature events (events and festivals solicited and supported by the City) including direct and indirect spending (CED)	\$1.9 million (estimate)	Prior to the FY 2012-13 budget, this metric was “economic impact,” which includes impacts to local businesses. It was modified to “fiscal impact” (i.e., tax revenue to the City) during FY 2011-12. FY 2011-12 signature events included the Rock ‘n’ Roll Half Marathon, Amgen Tour of California, San José Jazz Festival, ZERO1, Cinequest, San José International Mariachi Festival, and Cirque du Soleil production of “Totem.”	Staff identifies signature events (named in CED budget chapter). For each event, staff identifies attendance using ticket sales or reports from the event organizer, and uses the City Council-approved economic model to calculate the fiscal impact generated by the event’s attendees based on the type of event.
8) Grant funding for special events (OED)	\$252,000	A subset of “Total OCA grant awards” below.	Staff queries OCA’s grant database for festival, parade, and celebration grants made during the fiscal year and sums the grant awards.
9) Total OCA grant awards (OED) (SEA)	\$2.2 million	Includes funds for festivals, parades, and celebrations (\$252,000), operating grants for arts and cultural groups (\$1,658,000), project and program grants for cultural groups (\$210,000), and other special or pilot program grants (\$115,000).	Staff queries OCA’s grant database for grant amounts for awards made during the fiscal year. Amounts in the database match the awards approved by the Arts Commission.
10) # of arts and cultural grants awarded and monitored (OED) (SEA)	87	Organizations may receive multiple grants in one year; 67 organizations funded in FY 2011-12 received 87 OCA grants. The measure previously included grants monitored, which were awarded in the prior year; this led to double-counting.	Staff queries OCA’s grant database for awards made during the fiscal year, and counts the number of grants awarded.
11) % of responding funded cultural organizations rating funding process <u>the arts grants program</u> good to excellent based on responsiveness, timeliness, and integrity (OED)	95%	Clarified the label to reflect actual survey question. Staff is considering removing “integrity” from the survey question in future years; however, the FY 2011-12 survey included it so we have left it in place.	Staff annually emails each funded cultural organization a link to an online survey with questions about the organization’s experience with the arts grants program. Staff then uses the online survey tool to report results.

Source: Auditor’s analysis of data provided by the Office of Economic Development

Remaining Arts and Cultural Development Measures Are Meaningful, Useful, and Sustainable, and Accurate

OCA’s revised measures meet the City’s criteria for being meaningful. The measures are understandable to internal and external stakeholders, and reported outputs and outcomes reflect controllable facets of OED’s performance. The measures also meet the criteria for being useful and sustainable. The figures come from queries of OCA’s frequently updated databases and, while there may be opportunities to improve the division’s databases, the measures use event-related, grant-related, or art work-related information that is likely to remain consistent over time.

Some Arts and Cultural Development Measures Will No Longer Be Reported

As stated in *Performance Management and Reporting in San José: A Proposal for Improvement*, to ensure that performance measures remain meaningful, useful, and sustainable, they must be consistently reexamined. Since the City's annual Operating Budget is a high-level public report, any performance measures included therein should be appropriate for a public audience. Too many measures in one report, however, can be overwhelming, especially for people who may not be familiar with a department's various services. In other words, too many performance measures can lead to "more confusion or 'noise' than useful data."¹⁵

Using the Operating Budget as a starting point, we discussed with OED which measures were most important or meaningful for both day-to-day management as well as high-level public reporting. OED will delete from the Operating Budget some measures that are less meaningful, useful or pertinent to its core service (but will continue to track them internally, as needed). Measures OED and the Budget Office plan to delete include:

- *% of residents rating the City's efforts at enhancing public spaces with public art as good or better*
- *% of event organizers rating City services good to excellent based on safety and planning*
- *# of non-profit sponsored events*
- *Ratio of City grant funding to all other event revenue sources for City-sponsored events*
- *Ratio of OCA support to all other revenue sources for OCA-supported cultural organizations*
- *# of City-funded cultural organizations*
- *Attendance at Grantee programs*

Arts and Cultural Development Measure to Consider Reporting

The National Citizen Survey^{TM16} includes results for *Residents' opportunity to attend cultural activities*. By reporting The National Citizen SurveyTM metric, OED can replace several of the City's biennial Community Survey-based performance measures that seek to quantify micro aspects of OED's efforts with a single, macro indicator of cultural offerings.

¹⁵ Behn, Robert. "Why Measure Performance? Different Purposes Require Different Measures" Public Administration Review, Sept/Oct 2003, Vol. 63, No. 5.

¹⁶ Since 2011, San José has participated in The National Citizen SurveyTM, a mailed survey to a random sample of San José households. The Auditor's Office publishes the results along with its annual *Service Efforts and Accomplishments Report*.

Real Estate Services Performance Measures

In FY 2010-11, Real Estate Services moved from the Department of Public Works into OED, with a focus on improving asset management and generating returns on the City's investments. Real Estate Services staff manages the City's real estate assets and facilitates real estate-related transactions to support City projects and generate revenue.

Real Estate Services generates revenue by leasing properties where the City is the landlord, including leases with telecommunications companies, and by selling surplus City-owned properties and temporary and permanent rights. It supports City projects by acting as a subject-matter expert and consultant when called upon by other departments.

Real Estate Services Is Currently Finalizing Meaningful, Useful, and Sustainable Performance Measures

In the Proposed FY 2012-13 Operating Budget, OED introduced new measures for the function, which previously had little visibility in the City's budget. The performance measures spotlight two aspects of the group's role: receiving timely lease payments when the City is the landlord, and quoting and delivering on accurate timelines to client departments. These measures were:

- *% of lease payments received within 30 days of due date*
- *% of property acquisition rights acquired within 12 months*

They, however, do not fully describe all of Real Estate Services' activities and the proposed labels may be confusing to lay readers. We therefore suggested OED delete the proposed measures, and it agreed.

Based on a review of best practices for government real estate services and on conversations with staff, we found OED has an opportunity to add new measures to capture and report the value of Real Estate Services more completely and accurately. Exhibit 7 shows the Real Estate Services measures that OED has agreed to report in the budget.

Exhibit 7: Real Estate Services Revised Performance Measures

Performance Measure, as revised	FY 2011-12	Notes	Methodology
<u>1) Revenue generated from:</u> a) <u>Leases</u> b) <u>Telecom</u> c) <u>Surplus property sales:</u> <ul style="list-style-type: none"> • <u>General Fund</u> • <u>Other Funds</u> (SEA)	a) TBD b) TBD c) TBD • TBD • TBD	The budget provides revenue targets.	To be determined.
<u>2) # of properties managed</u>	TBD	This measure would give a sense of Real Estate Services workload.	To be determined.
<u>3) # of real estate transactions</u>	TBD	This measure would give a sense of Real Estate Services workload.	To be determined.

Sources: Auditor’s review of best practices for government real estate services and conversations with Real Estate Services staff

Documenting Performance Measure Methodologies

We found that OED lacked documentation of its methodologies for gathering and computing most of its performance measures. Staff generally followed logical steps when they tried to replicate the previous year’s calculation, but they did not always have documented methodologies on-hand.

When definitions, data sources, and methodical steps for preparing performance measures are not well-documented, performance data can become compromised. OED also risks that performance measures may become inconsistent, less meaningful, or less useful in the future. For example, the lack of documented methodologies led staff to use an outdated overhead rate and to incorrectly compute sums. OED has revised its calculations and now reports accurate measures. It is important to note that, for a few performance measures, especially for work2future, OED had documented methodologies, showing the definitions and time period of its performance data.

The Budget Office provides methodology sheets that staff can use (see Appendix A). By documenting the data sources, database queries, definitions, criteria for what is included or excluded, timing and time periods of data, and calculation steps, as applicable, OED can strengthen its future performance measurement.

Recommendation #3: To ensure that its performance measures remain meaningful, useful, and sustainable, the Office of Economic Development should document the methodology for calculating each of its performance measures.

Using Data to Improve Performance – Moving Towards Performance Management

The availability and use of performance data within OED varied across core services. While business development, OCA, and work2future have had performance measures in place for years, Real Estate Services is still finalizing performance measures (due to its transition from Public Works in FY 2010-11). We see further opportunities for management to actively and frequently use the performance data to set priorities and guide service delivery, an idea supported by the City Manager's Office in the co-signed cover letter to our white paper, *Performance Management and Reporting in San José: A Proposal for Improvement*.

Challenges to Measuring Economic Development Performance

The field of economic development presents inherent challenges to the usefulness of performance measures. Several of OED's data sources are available only with a time lag. For example, tax revenue data and workforce placement/retention outcomes can only be determined months after the fact.

Further, it can be a challenge to attribute to OED successes that are out of its control. Firms may choose to locate or expand in San José based on many different considerations, of which OED assistance with a permit or OED-provided information may be only one of many factors. This means that OED's performance measures may overstate or understate the City's role in creating jobs and generating tax revenue. Moreover, OED has a small outreach team attempting to impact a large local economy.

Furthermore, some of OED's work bears fruit only after years of building relationships and engaging with companies. This presents additional challenges: Should jobs be counted only when the firm actually fills positions, or once a firm announces its intent to create a certain number of jobs? Should jobs be counted repeatedly over multiple years, if OED continues to work with the same firm?

Macroeconomic Indicators

Another challenge in measuring economic development is the recognition of failures: is it fair to deduct job losses from OED's job creation/retention measure? Currently, performance measures give little perspective on job losses and company closures; in effect OED's performance measures tell of its successes only.

The City's five-year Economic Strategy, issued in November 2003, suggested other broad economic indicators, such as real income per capita (a proxy for standard of living), to track performance and progress implementing the strategy. OED describes the context of its work by highlighting a few macroeconomic indicators. For example, it shows the San José metropolitan area's unemployment rate and job gains/losses on the Service Delivery Environment page of the

Community and Economic Development (CED) City Service Area budget, preceding the CED performance measure tables. OED should continue tracking and reporting these overall outcomes, as they can give perspective on the economy OED is attempting to influence. Locating them in close proximity to its other performance measures allows the reader to draw comparisons and understand the context. Performance management literature has emphasized the importance of tracking ultimate outcomes, even if they are beyond an agency's immediate influence.

Target Setting

We found varying meanings and uses of targets for performance management in OED. Performance management literature emphasizes the benefits of target setting and managing towards targets, but it is not clear if some of OED's targets reflect an estimate, an aspiration, or a management goal. Furthermore, consequences (if any) can vary dramatically.

To illustrate the variety of OED targets: work2future is assessed against its targets, but its job placement and retention targets are provided by EDD with little to no City input. For business development, the City has published a 5-year goal to improve the ratio of jobs to employed residents to 0.88 and a 2012-13 target of 0.86, against an accepted standard of 1.00 jobs per employed resident. The General Plan lists a target of 1.3 jobs per employed resident by 2040.

Management literature recommends the periodic examination of results against targets. Those discussions facilitate the improvement of services by opening up questions about the meaning and quality of what is counted, whether citizens receive services efficiently, and how resources are allocated.

The Importance of Frequent, Periodic Discussions of Performance with Executive Management

OED has recently developed a dashboard of priority projects and activity for its own internal use. Most of its performance measures, however, are compiled and reported on an annual cycle for the budget and the *Service Efforts and Accomplishments Report*. Based on our review, it appears that OED makes relatively little use of the data outside of these established annual reporting channels, perhaps due to the challenges with data availability and questions about the meaning of data and targets. We see opportunities for OED to improve by analyzing performance data on an ongoing and frequent basis.

In *Performance Management and Reporting in San José: A Proposal for Improvement*, the Auditor's Office suggested that the City Manager's Office work with City departments to develop a performance management system (1) in which ongoing periodic meetings to discuss performance measures were held, (2) which included appropriate management, and (3) which used performance data to help analyze past performance and establish performance objectives moving forward. We also

emphasized the importance of meetings with executive staff to discuss the data as frequently as it becomes available. We reiterate our white paper's recommendations, in hopes that OED will build on its existing efforts and move from performance measurement towards performance management.

Recommendation #4: The Office of Economic Development should assess—by core service—how performance data can be used by management and staff on an ongoing and frequent basis to help analyze past performance, to establish next performance objectives and targets, and to examine overall performance strategies.

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Conclusion

The City Auditor's Office thanks the Office of Economic Development (OED) and the Budget Office for their input and cooperation. We have validated the performance measures as indicated above. OED has already revised some of its methodologies and performance measures. We make the following recommendations to further improve the accuracy and usefulness of OED's performance measures.

RECOMMENDATIONS

Recommendation #1: To assess the scope, efficacy, and outcomes of the City's incentives (e.g. Council-approved agreements and policy incentives such as construction tax and traffic impact fee reductions), the Office of Economic Development should develop and consistently calculate the realized results, and incorporate that analysis into its performance measures.

Recommendation #2: To assess the needs of San José companies and seek feedback on OED and City services, the Office of Economic Development should conduct a periodic survey of San José businesses.

Recommendation #3: To ensure that its performance measures remain meaningful, useful, and sustainable, the Office of Economic Development should document the methodology for calculating each of its performance measures.

Recommendation #4: The Office of Economic Development should assess—by core service—how performance data can be used by management and staff on an ongoing and frequent basis to help analyze past performance, to establish next performance objectives and targets, and to examine overall performance strategies.

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APPENDIX A

Budget Office's Methodology Sheet

PERFORMANCE MEASURE OR ACTIVITY & WORKLOAD HIGHLIGHT METHODOLOGY WORKSHEET

Department:

Type of Measure	<u>CSA</u>	<u>Core Service</u>	<u>SEA only</u>	<u>Operational Service (internal measures only)</u>
	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Alignment				
Rolls Up to: (if applicable) CSA: CSA Outcome: CSA Strategic Goal: Department: Core Service(s): Operational Service(s):				
Meaning				
Measure: (exact text)				
Key Measurement Area (Quality, Cost, Cycle Time, or Cust. Satisfaction)				
Use				
Purpose <i>Why is this important to measure? For whom is this data intended? Who benefits most from this data?</i> Major Users				
Sustainability				
Data (be specific) <i>Formula/Calculation and/or Data Components; Frequency, Sample Size</i>				
Source (be specific) <i>Data Source(s) and/or Availability/Schedule</i>				

Prepared By:

Last Date Revised: (MM/DD/YYYY)

Memorandum

TO: Sharon Erickson

FROM: Kim Welsh

SUBJECT: SEE BELOW

DATE: February 7, 2013

Approved



Date

2/9/13

SUBJECT: RESPONSE TO CITY AUDITOR'S 2012-2013 AUDIT OF OED'S PERFORMANCE MEASURES

In August 2012, the City Auditor's Office initiated a review and audit of the Office of Economic Development's Departmental Performance Measures to assess if the measures were meaningful, useful, and sustainable. The review of OED's performance measures focused on the measures displayed in the budget.

The audit is now complete and has resulted in four recommendations by the City Auditor. This memo provides OED's response.

Recommendation #1

To assess the scope, efficacy, and outcomes of the City's incentives (e.g. Council-approved agreements and policy incentives such as construction tax and traffic impact fee reductions), the Office of Economic Development should develop and consistently calculate the realized results, and incorporate that analysis into its performance measures.

OED agrees with this recommendation.

OED understands the need to assess the results of City incentives and agrees with the intent of this recommendation. However, at this time OED is only able to implement part of the recommendation. OED will establish methods to determine the results from Council-approved incentive agreements with individual companies and from policy incentives that affect several companies (e.g., traffic impact fee reduction).

In order to track results from more general policy incentives that affect a larger number of companies, OED may require a technology solution and cooperation with the Department of Planning, Building, & Code Enforcement.

February 7, 2013

Subject: Response to City Auditor's 2012-2013 Audit of OED's Departmental Performance Measures

Page 2

Recommendation #2

To assess the needs of San Jose companies and seek feedback on OED and City services, the Office of Economic Development should conduct a periodic survey of San Jose businesses.

OED agrees with this recommendation and will identify an efficient, meaningful way to survey the needs of San Jose businesses and to receive feedback about services received.

Recommendation #3

To ensure that its performance measures remain meaningful, useful, and sustainable, the Office of Economic Development should document the methodology for calculating each of its performance measures.

OED agrees with this recommendation and will work with Budget Office to update and document methodologies used.

Recommendation #4

The Office of Economic Development should assess – by core service – how performance data can be used by management and staff on an ongoing and frequent basis to help analyze past performance, to establish next performance objectives and targets, and to examine overall performance strategies.

OED agrees with this recommendation. OED has established and shared with all staff a "Dashboard" of key quantitative performance measures and priority projects.



KIM WALESH

Director of Economic Development
Chief Strategist