

FY22 White Paper



To: Clay Pearson, City Manager
From: Eric Roche, Budget Officer
CC: John McCarter, Interim Finance Director
Date: February 5, 2021
RE: Review of Current and Future Budget Practices

The purpose of this memorandum is to provide background on current and future methodology used to develop the annual budget and lay out a preliminary calendar for Fiscal Year 2022 Budget Development.

Background

Pearland's budget process is always evolving. A recent major change, which more behind-the-scenes, came several years ago with the move to New World Financials. The software is not without its faults, but overall it enabled staff to run financial reports in a much more detailed, customizable, and frequent way. The software platform also changed how the Budget Office created the budget, moving to a more collaborative partnership with departments.

Software aside, our budget methodology follows the trend of most cities by being an amalgamation of several individual systems. Pearland uses the Priority Based Budgeting label because it most closely matches the city's goal of setting the budget according to the strategic priorities set by City Council. These funding decisions are then reflected in the programs chosen to receive additional resources in the next budget cycle Evolving Methodology

The Mayor and City Council have voiced support for two adjustments to the way the budget is crafted. First, Council would like to be specific in setting the strategic direction and priorities for the City beyond the Budget adoption which lays out the priorities and plans each year. Second, some Councilmembers would like to see the ideas behind activity-based budgeting implemented. Each of these are discussed below.

Strategic Direction and Priorities

A new form of strategic management is discussed in an accompanying white paper titled "Strategic Plan Management". That paper covers the framework the City is working towards adopting and deploying. The important takeaways for this discussion are that the framework is flexible and should be modified over time to better fit Pearland.

The fundamental enhancement to the organization will be the adoption of Objectives and Key Results (OKRs). *Objectives are the outcome staff want to achieve. Key Results are the data-driven methods we use to get there.*

For example, a complete OKR could look like the following:

Objective: Dramatically improve city streets by the end of FY22

Key Results

- Decrease water penetration by doubling the amount of crack-sealing performed to 2000 linear feet
- Provide smooth streets by expanding the total square footage of major road resurfacing by 4 miles
- Increase our efficiency by reaching 95% uptime on street maintenance vehicles
- Inform the public about improvement projects by doubling the number of user engagements on the street maintenance website (measured by Google Analytics)

Another example could be:

Objective: Make Pearland the best City to work for in the Houston Metro

Key Results

- Increase employee engagement scores by 5 percentage points in the annual survey
- Improve the percentage of job candidates accepting an offer of employment by 25%
- Reduce employee turnover rate at the two-year mark by 50%
- Implement 10 lessons learned from interviewing 25 of our best employees' about improving the workplace.

OKRs will exist at the Citywide level and Department level. Where Council's involvement is critical in setting higher level direction for what the citywide objectives should reflect. For example, staff may want to set a citywide objective of "improving tourism in Pearland". However, Council may not really see that as a strategic priority for the City.

The agreed-upon vision for the future of Pearland should rightfully come from the Mayor and City Council. This vision should inform broad strategic goals. The most challenging aspect for everyone involved will be to limit the breadth of the strategic goals. If *everything* is a priority, then *nothing* is. Hence, the need to accurately set scope of the city's strategic priorities by intentionally limiting what is a priority at a given time. Strategic goals that are too broad result in staff trying to do too much at once, the opposite of making strategic choices. It is critical that staff can examine the Council's strategic goals and *not* feel that every possible idea or program could fit somewhere.

The Mayor and Council have a difficult job to do. Creating great strategic goals requires limiting the scope – which necessarily requires the political willpower to say "this is not a priority right now". As the number of goals increases, staff's ability to meet them declines rapidly.

One way to make limiting the number of Mayor and Council's Strategic Goals easier would be to make the goals have a shorter term. For example, they could be set each year before the budget cycle. Goals not yet achieved could be carried over to the next year if Council so chooses. This would also provide elected officials the opportunity to let stakeholders know that just because something isn't a priority this year, doesn't mean it won't be next year. It's up to the Mayor and Council to determine how often they want to revisit and revise their goals. A good suggestion is to revise them no more than once a year. As staff implement OKRs and the Mayor and Council provide increased strategic direction a more frequency cycle time (1 year goals vs 4 year goals) would allow the organization to learn faster. Strategic Management is a muscle, and the more reps everyone gets the better everyone will be at it. Hence, it is recommended that the council provides formal strategic priorities once a year.

Example of Difficult Strategic Goal Categories for Staff to Implement

1. Environment – Improve the natural and built environment to be the best in the Houston Metro with special attention to streets, curbs, sidewalks, parks, housing, and water/sewer systems, and strengthen the transportation system in ways that enhance connectivity among neighborhoods, business centers, and cultural/health/recreational destinations.
2. Public Safety – To protect Pearland residents, visitors, and employees by providing comprehensive, high-quality public safety and public health services, including strategies to prevent or significantly reduce public safety and public health problems and threats in a timely manner.
3. Financial – Be transparent and employ best practices in governance and management, and strengthen, expand, and make judicious use of Pearland’s economic resources to achieve and maintain solvency and build resilience.
4. Economic - To develop a vibrant economy where there is opportunity for job creation, entrepreneurship, and growth, particularly in historically underdeveloped areas; all citizens have opportunities for creating wealth and prosperity; and visitors continue to consider Pearland a desirable destination.

To be clear, the above goals would be a great vision for the City. The challenge is that almost every staff activity imaginable fits within these. The purpose of strategic goals isn’t to be a column header under which staff lists everything they do. The purpose of strategic goals is to provide direction on what matters most.

Example of Great Strategic Goals for staff to Implement

1. Environment – Improve street conditions throughout the city and fill in gaps in sidewalk infrastructure wherever possible.
 - a. This is better because staff know to focus on street maintenance and sidewalks, but it allows room for staff experts to determine the best way to do that.
2. Public Safety – Make Pearland the safest place to live by lowering violent crime, reducing vehicle collisions, and finding alternative solutions for mental-health related 911 calls.
 - a. Staff sees this and knows what to focus on. For example, property crime is not a focus, so new resources could be focused on violent crime. It also spells out a goal for a new method to handle mental-health related calls, without saying how it should be done.
3. Financial – Make Pearland’s finances as transparent as possible and improving the city’s bond rating to AAA.
 - a. Again, these are very specific. They are big ideas and will take a lot of work to accomplish, but that’s what the Mayor and Council’s Strategic Goals should be.
4. Economic – Increase the number of high-tech design and manufacturing businesses within Pearland increasing the creation of new small businesses in every industry.
 - a. This goal provides specific guidance to staff on the type of business attraction policies that the council will be more likely to support. However, “high-tech design and manufacturing businesses” straddles the line between being too specific or simply very important to council. If staff felt that a proposed strategic goal like this is too specific, they could provide feedback on the draft version of the Mayor and Council’s Strategic Goals explaining why.

In general, the revisions to the Strategic Goals are much simpler and easy to interpret. They limit staff to focusing their extra energy and time on specific things. This is the crux of strategic planning – focusing on what matters most. By providing no more than 3-5 strategic goals at a time it

provides staff the best opportunity to meet them. These goals will then be reflected in the OKRs created by staff and will then cascade across the organization.

Activity-Based Budgeting

Activity-based budgeting is a method of preparing a budget on the basis of activity-based costing which became popular in the 1990s and early 2000s. It last saw a resurgence in use around the time of the Great Recession beginning in 2008. Several city governments that were held up as best-practice examples of activity-based budgeting were: Indianapolis, Milwaukee, and Baltimore. However, only Milwaukee appears to have remain committed to Activity-Based Budgeting, although it appears to be a parallel addition to their normal line-item budget.

The largest difference from our current Priority Based Budgeting framework is that activity-based budgeting shifts the focus from inputs (salaries, equipment, etc.) to outputs (total cost of providing drinking water). This shift enables everyone to see how much money is needed to perform each activity the city does – and who is involved in each activity across departments and divisions.

From a high level, activity-based budgeting is fairly simple. First, a complete list of services being handled by each department and division is created. Then each activity is assigned direct costs. Finally, based on the amount of time and resources consumed by each activity, an indirect cost is generated and assigned to the activity.

Activity-Based Budgeting is essentially a larger extension of an accounting method known as Activity-Based Costing (ABC). ABC can help an organization eliminate unnecessary activities and compare the cost of different programs. It does this by shedding light onto the “hidden” costs of activities that don’t fall neatly into a single program or division. ABC could help the city:

- Decide whether a service should be done in-house or contracted out
- Set user fees in relation to cost
 - Could uncover areas where areas are supposed to be 100% funded by user fees but are being accidently subsidized by taxpayers.
- Recover costs of running programs mandated by state/federal government
- Estimate the cost of increasing or decreasing the level of service
- Set priorities and performance targets
- Monitor implementation of the budget

There are a few obstacles to this approach. First, the city’s budget system is not set up to capture the necessary information for this approach. A manual approach would be required to determine how much time is spent on each activity. This work involves mapping out city activities and figuring how much time and money is spent on each. This would be an extraordinarily time-consuming process to conduct city-wide. The information would also become quickly outdated unless a new system is put in place to regularly capture this information as part of the budgeting process. It’s also likely that additional effort would also be required to regularly transpose Pearland’s line-item budget into a parallel activity-based budget. The amount of staff time required to do this should not be underestimated. At least three new budget analysts would be required to fully implement activity-based costing. The cost of administering an activity-based budget should be weighed against the benefits of adopting it.

While Activity-Based Budgeting certainly has benefits, the cost of acquiring the information appears to be extremely high. In one case study, the City of Sommerville, MA partnered with the Harvard Kennedy School of Government to implement Activity Based Budgeting. Sommerville had a population of 77K at the time the case study was written (2007) and a total budget of \$153M.

It took the assistance of 63 student volunteers from Harvard just to identify all of the city's activities. It took another semester's worth of students to map each activity to performance metrics. Even with all this assistance, the Mayor of Sommerville, who had initially hoped to have the entire budget be built with Activity-Based Budgeting was forced to change his plans and compromise on the scale of the project.

Instead of using this method for the entire budget, Sommerville used it to answer specific questions about specific divisions. In Sommerville, the Police's Traffic Control operations was a hot topic. Staff used the methods of Activity-Based Costing to analyze the true cost of the unit's activities (Investigating Accidents, Managing Tow Companies, Traffic Enforcement, etc.). This information helped them make staffing decisions to increase traffic enforcement and determine if it would be supported by increased ticket revenue.

Approaching Activity-Based Costing as an analytical method instead of a budgeting method would provide the organization the ability to obtain the benefits of ABC without the large time investment for adopting it across the entire city. ABC could be deployed to specific work-groups to provide more insight into the true cost of each activity, but should be done so only when the following guidelines are met:

1. The budget program in question is not a sacred cow when it comes to increasing or decreasing the budget.
2. The program is high cost.
3. High quality data is readily available.
4. The opportunity cost of staff performing this work is less than the benefits of the work.

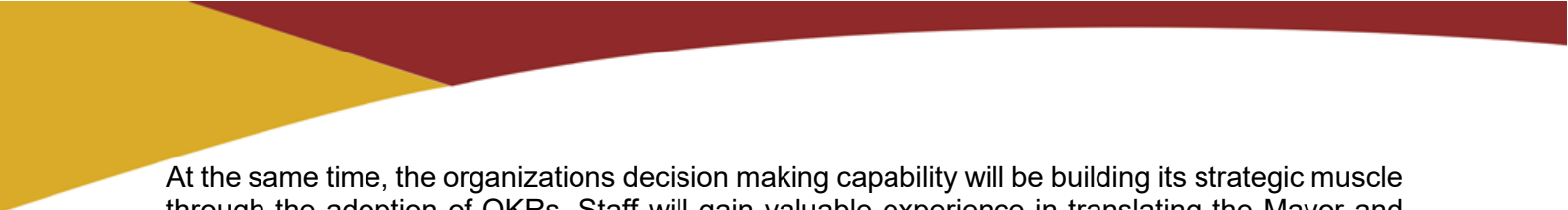
Potential pilot areas for ABC could be allocating fleet costs into department budgets, allocating IT costs into department budgets, or allocating facilities costs into department budgets. Each of these are high-dollar items that would provide the public, elected officials, and management with a truer sense of what an activity costs.

At the end of the day, ABC and ABB are methods that help organization leverage data when making decisions. The City's data efforts seek to accomplish this by building the organizations data capacity and continually including ever-more incisive information within memos, white papers, and presentations. The Strategic Data Initiative white paper calls for the creation of a Data Governance Committee to build the foundations and guide the organization in its data efforts.

Looking Further Out

The Budget Office will continue to build its own data capacity, allowing for more detailed financial analyses and providing the public, elected officials, and staff with more information in easy-to-digest systems like dashboards. The recent (at the time of writing) Utility Dashboard launch serves a number of purposes. It provides critical information and facts to guide public discussion on a significant topic in Pearland. It also provides staff valuable practice for the creation and delivery of data products. Finally, it serves as a signal of our commitment to government transparency.

In future years we will be building on these efforts by investing in staff's data skills citywide, creating a data culture that spans organizational silos, and building the data tools and pipelines that we know will be needed in the future. These data efforts will allow the budget process to become more data-driven, hopefully providing much of the context that activity-based budgeting would provide.



At the same time, the organizations decision making capability will be building its strategic muscle through the adoption of OKRs. Staff will gain valuable experience in translating the Mayor and Council's goals into Objectives and Key Results (see Strategic Management white paper). The improvements in the organizations ability to create and achieve its priorities will lead staff to focus on *what* matters most. The investments in data will improve staff's ability to answer *how* we achieve those priorities.

Pearland's budget practices will evolve to take advantage of the growing strategic and data resources to help guide financial resources to where it matters. The budget, ideally, will become a document that clearly reflects the City's priorities and allocates funding to programs based on what the data shows.

FY22 White Paper



To: Clay Pearson, City Manager
From: Eric Roche, Budget Officer

CC: Trent Epperson, Deputy City Manager
Ron Fraser, Assistant City Manager

Date: February 5, 2021

Re: Strategic Plan Management

Executive Summary:

Objectives and Key Results Strategic Management Method

Challenge:

Pearland has experienced rapid growth over the last 20 years that has outpaced the ability to scale up all the internal systems to meet the challenges of running a large suburban city. The City is now updating policies and procedures that match the organization as it stands today and will grow with the City well into future. One important aspect of this will be adopting a formal method of creating, monitoring, and achieving the City's priorities. A city without such a system risks trying to do too much and achieving too little.

If the right system is adopted, the organization will be able to prioritize and accomplish its goals on a regular basis – while managing an increasingly complex organizational structure and public expectations. The right system would be a proven, lightweight, easy to administer, and powerful tool to achieve the strategic priorities set by city council, the mayor, and the citizenry.

Proposal:

To address this challenge, I propose that the organization adopt the Objectives and Key Results framework (OKRs). Objectives are the outcome we want to achieve. Key Results are what we will do to achieve them. Every key result is measurable, and data driven.

This tool has been used by a multitude of leading companies across industries to drive results. It is flexible, easy-to-understand and works at the citywide, department, division, and individual level. *It aligns with our high-performance culture by encouraging innovation from the bottom-up and creates vertical strategic alignment wherever possible.* Best of all, **it creates a well-defined culture where staff can continue to stretch themselves while documenting that work and those achievements.**

Risks:

The main risk when adopting a strategic management system occurs during the adoption process. This method may displace some current methods of how the organization sets goals and monitors progress – a change that may create some resistance internally. *If there isn't complete buy-in to using the system, it will quickly collapse.*

This paper seeks to minimize this risk by explaining OKRs and then demonstrating their advantages. To be successful, city leadership must agree that:

- 1) The City needs a formal strategic management system
- 2) OKRs are the system they want to use
- 3) Change in organizational behavior and culture may be required in order to build OKRs into the DNA of the City
- 4) The OKR rollout will move slowly at first and will roll out over time to all departments and divisions

Recommendation:

To move forward with adopting and implementing OKRs, a pilot project should be launched with a few departments to test and refine the methodology. Once the process is ironed out, the next step will be to roll it out to each department and then division.

The end goal is to have a single framework in place (OKRs) throughout every department and division so that every resident, elected official, and staff person knows what our priorities are and what we are doing to achieve them. After OKRs are rolled out to departments, the city's budget will be able to clearly reflect the citywide priorities by increasing resources in the highest priority areas and holding steady in areas that are not a priority for improvement at that time.

In addition to helping align increased staffing and funding with city priorities, OKRs will serve as a single, uniform vehicle for reporting progress throughout the City and to Elected Officials. Having the entire organization communicate its objectives and key results using the same language and format will allow the City Council, Mayor and city management to easily and quickly understand how the organization is performing because the reports are focused on what really matters most – our priorities.

Strategic Management Through OKRs

Execution is Everything

Can you be a high-performance organization without goals? No.

Are goals without a method to achieve them worth anything? Again, no.

Pearland has quickly grown into a major suburb of Houston. In order to keep up with the service levels that set us apart during that growth, we need to adopt a management system to prioritize and administer its strategic goals. Now is the right time for Pearland to formally adopt that management system.

As Pearland continues to grow, strategic alignment will become exponentially more complex. This happens to all organizations as they develop and mature. An important next step for the City is already underway - to create and adopt a strategic plan. This plan should contain vision, mission, and values statements. It will become the north star for how staff operate.

While necessary, this foundational document is not sufficient to achieve outcomes. What truly matters is the *execution* of the strategic plan. *Any plan without an execution method will quickly be left to sit on the shelf.* With that in mind, this white paper will outline one such administrative method, Objectives and Key Results (OKRs).

A strategic plan's main effect is to focus staff efforts and energy into what *really* matters. The plan cannot, by definition, contain everything the organization does. The adage "if everything is a priority then nothing is" applies here. **Management needs a framework that allows them to focus on the 3-5 things that matter most and to align the *entire* organization behind those objectives.**

OKRs are not a brand new, flash in the pan, trendy system. They have been in use since the 1960s. The system originated at Intel but has since been used successfully by countless companies – including Google, Anheuser-Busch, BMW, Disney, Exxon, Samsung, and the US Office of Management and Budget¹. This has led to it being a field-tested methodology for leading organizations. If companies as large and diverse as these can use it to align staff efforts, then Pearland will also benefit from OKRs.

¹ Measure What Matters, Andy Grove, Page 12

In November, 2019, a memo on [Future Budget Methodology](#) in Pearland was published. This memo outlined the City's transition to Priority Based Budgeting. With that transition, the organization shifted away from viewing the budget as an outcome unto itself. It now sees the budget as an important input into citywide priorities, but recognizes that things like staff innovation, process, and execution also play a pivotal role in achieving those priorities.

It's important that the City's budget reflect our priorities. OKRs are the next step in formalizing our version of priority-based budgeting, where residents and city council set high-level priorities and staff achieve objectives to work towards those priorities.

Traditional Strategic Planning Pitfalls

Before looking at the benefits of OKRs, it is important to understand the issues that arise from traditional strategic plan management. Below, we will discuss those pain points. Later, this paper will cover how OKRs address these problems.

A common process for strategic plans in cities goes like this. First, a cross-departmental group of staff develop a mission, vision, and values statement for the organization. Next, departments are organized into functions such as "Public safety" or "Infrastructure". Then, goals are drafted for each function. For example, "Have the best infrastructure". Departments at the "infrastructure" table lists out their own department's strategies underneath each goal. It ends up being a very top-down and siloed affair. Below is an example of how this might look.

Traditional Strategic Plan Example

Goal: "Have the Best Infrastructure" Team: Infrastructure Strategies:
1. Maintain Streets
2. Maintain Sidewalks
3. Maintain Street Lights
4. Plan for new developments

The strategies listed here are vague. How will you know when streets are maintained? What actions will you take? How will you measure success? Many times, a city's strategic plan is little more than a listing of what departments and divisions already do. In those cases, why have a strategic plan at all? The typical strategic management methods miss out on important cross-departmental collaboration. For example, Fire probably has thoughts on fire hydrants, an important piece of city infrastructure. However, they are part of the "public safety" function and don't get to contribute to the "Infrastructure" discussion in this scenario.

Typically, what happens next is that each department creates a plan to meet their strategies. Each division then does the same.

This alignment of strategies to goals is important, but in most cases it's completely top-down. Why would we expect staff to get excited about a top-down plan that didn't allow them to meaningfully contribute? For example, a budget analyst would only get to contribute to the Budget Division's plan. But what if they had a brilliant idea to find more money for street maintenance? What if their project is such a good idea that it should be one of the organization's main efforts over the next year? The typical process is not as engaging as it could be, nor does it allow staff to contribute their own brilliance to the effort.

Ideally, a city could draft a strategic plan in a way that allows anyone with good ideas to contribute – whether from the top of an organization or the frontlines. A better system would also foster goals across silos.

The typical strategic planning process also takes time - a tremendous amount of time. In Kansas City, it took five years before the Citywide Business Plan and all department strategic plans were in a good place and somewhat vertically integrated (albeit top-down). Elections then changed the members of the City Council, and the plans no longer aligned to the vision of the elected officials. **It's important that Pearland choose an execution method that is both agile and doesn't require an army of staff to oversee.**

Once the plan is drafted, it must be administered. Oversight of a typical plan involves a once a year report out to the city council on a list of tasks that were performed. This is not the same thing as achieving real outcomes for residents, businesses, and visitors. The long timeline of these plans, often four or five years, create a lack of urgency to complete assigned strategies. This is frustrating for city council members, mayors, and city managers who want to make a difference *now*, not five-years in the future. It's also frustrating to staff who don't find the long-term goals to be motivating.

Finally, some organizations align pay with the accomplishment of goals in the strategic plan. It is widely agreed upon by organizational experts like John Doerr, an investor, venture capitalist and author of "Measure What Matters", that this should be avoided. Matching raises with strategic plan execution leads to staff setting extremely conservative goals because it makes failure a punishment, rather than a growth opportunity. Goals become things staff already does – thus guaranteeing raises.

Take a second to look at the two scenarios below where the Budget Officer is setting one of their objectives.

Scenario	Chance of Staff Failure	Resident Outcome	Staff Outcome
Objective A: The Budget Officer will find an additional \$4,000,000 in the budget for street maintenance.	High	All streets being maintained at their current PCI	High chance of failure. If linked to pay, a high chance of not getting a raise.

Objective B: The Budget Officer will find an additional \$250,000 in the budget for street maintenance	Low	One additional street being maintained at its PCI	Low chance of failure. If linked to pay, a very low-risk way to get a raise.
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Objective A is the riskier, but better outcome for residents. Objective B is overly cautious and designed to guarantee the employee a pay raise. Even if the Budget Officer fails to meet the \$4,000,000 goal in Objective A, it is likely to still be a much better outcome than if they had adopted Objective B.

Objectives motivate staff's behavior. Which objective would benefit the residents of Pearland more? Which objective would a staff member choose if their pay raise depended on it? If it's not the same answer to both questions, the organization has incentivized the wrong behavior.

To protect the strategic plan's purpose and integrity, it should be kept separate from any pay-for-performance plan. In the future, it is possible for Pearland to have merit-based-pay alongside a strategic plan, but the two should not be linked.

Basics of OKRs

What is an OKR? An **OKR** consists of an **Objective** and its **Key Results**. In contrast to traditional strategic management systems, OKRs offer a modern, lightweight approach to setting, communicating, and cascading (aligning) priorities across the organization. They are also highly collaborative and create transparency throughout the organization.

Objectives

The objective is the outcome we want to achieve. It is what sets the priorities for the coming months and years and should be simple enough to fit on one line. The Bold Goal listed above, "Have the best Infrastructure" is an objective, but it could be better written. It's not very realistic, it's ambiguous, and it will never be clear if the City has reached it. A better objective would be more concise, give a clear direction of what the goal is, and stretch staff to achieve more.

Bad Objective	Better Objective	Great Objective
Have the best infrastructure	Improve City Streets	Improve the total City Streets PCI Score by 5 points.

Citywide objectives are extremely important, and they should be wrestled with by management for several hours when being set. No more than 3-5 objectives should be considered citywide objectives at a given time. This keeps the strategic plan focused on what is *most* important and makes administering the plan feasible for staff. Each objective

is assigned an owner who is responsible for it and who will grade their organizations progress towards it. Grading will be discussed in detail later.

Key Results

If objectives are the “Whats” then Key Results are the “Hows”. Key Results (KRs) are the things staff will do to achieve the Objective. They must be measurable. If you can’t measure it then it isn’t a KR. These should be drafted collaboratively and assigned owners. At the citywide level, department directors and senior managers should collaborate to create the KRs for each citywide objective. There should not be more than five KRs per objective since each additional one waters down the importance of the others – the opposite of prioritizing and aligning. For example, if an objective requires 15 KRs to complete it, then it needs to be rescoped. Below is an example of a complete OKR.

Annual Objective: Improve the City Streets PCI Score by 5 points.

Annual Key Results:

1. Complete 9 lane miles of asphalt rehabilitation on city streets
2. Increase the number of joints sealed by 20% over last year
3. Increase the annual lane miles crack sealed by 50% over last year
4. Use Lean Process Improvement to draw the Infrastructure Reinvestment Fund balance down to \$100,000
5. Ban freight trucks from three additional city streets to lower wear-and-tear from heavy vehicles.

Key results should be set at the annual (pictured above) and quarterly level (pictured below) so that large problems can be broken down into manageable chunks. Breaking down annual objectives into quarterly objectives also allows the organization to track progress and address shortcomings as they happen. An example of the above OKR at the quarterly level is shown below.

1st Quarter Objective: Improve the City Streets PCI Score by 1.25 points.

1st Quarter Key Results:

1. Complete 2.25 lane miles of asphalt rehabilitation on city streets
2. Increase the number of joints sealed by 5% over 2019 Q1
3. Increase the annual lane miles crack sealed by 12.5% over 2019 Q1
4. Use Lean Process Improvement to draw the Infrastructure Reinvestment Fund balance down by 25% from the FY21 Adopted Budget

5. Ban freight trucks from one additional city street to lower wear-and-tear on streets from heavy vehicles

If all the Key Results are achieved at the quarterly level, then the Annual Objectives will also be achieved. Key Results should incorporate targets that push staff to innovate, so management should only expect about 60%-70% of KRs to be met. If staff is regularly achieving 100% of their KRs they aren't winning, they are not aiming high enough. Inspiring goals breed inspired action – so it's important for management to carefully push staff to set Objectives and Key Results that they are excited for and also a little nervous about reaching. This stretching of staff to achieve more is a key feature of OKRs that will be discussed further in this paper. The key takeaway is that this is how management pushes staff to take risks in order to drive dramatic improvements. It's also where management can reign in risk on a case-by-case basis if they desire to do so.

Benefits of OKRs

Organizational Alignment

“Once the top-line objectives are set, the real work begins. As they shift from planning to execution, managers and contributors alike tie their day-to-day activities to the organization’s vision.”

-John Doerr in “Measure What Matters”

City Executives alone could not possibly know the plethora of improvements and changes needed to achieve an objective – but through the OKR system staff are able to find ways to contribute in a thousand different places. One of the main benefits of OKRs is that they create a cascading effect across the organization since in addition to the Citywide OKRs, each department, division, and even employees set their own OKRs. Each worker and team should see the Citywide OKRs reflected within their own. It will never be a perfect match, but where possible staff can contribute to a citywide or department OKR. For example, a staff member may have three OKRs that are critically important to their division's work, and a fourth OKR that links to a citywide OKR. Another staff member may have three OKRs that link to a citywide or department OKR, and only one that does not. Both situations are fine because the system is meant to be flexible – it allows for and encourages cascading linkages between OKRs at different levels in the organization but doesn't require them. This cascading effect is what aligns staff's efforts throughout the organization.

The example on the next page shows how a Citywide Objective cascades across departments, divisions, and individuals OKRs. For an objective like street maintenance, the bulk of the work may be traditionally done by Public Works, but this example shows how the Finance Department can also align its work to reach the goal.

Citywide OKR: Improve Streets PCI Score by 5 Points

City Manager

Objective Improve the total City Streets PCI Score by 5 points
Key Results <ol style="list-style-type: none"> 1. Complete 9 lane miles of asphalt rehabilitation on city streets 2. Increase the number of joints sealed by 20% over last year 3. Increase the annual lane miles crack sealed by 50% over last year. 4. Ban freight trucks from three additional city streets to lower wear-and-tear on streets from heavy vehicles

Public Works Department

Objective Improve the total City Streets PCI Score by 5 points
Key Results <ol style="list-style-type: none"> 1. Complete 9 lane miles of asphalt rehabilitation on city streets 2. Increase the number of joints sealed by 20% over last year 3. Increase the annual lane miles crack sealed by 50% over last year. 4. Ban freight trucks from three additional city streets to lower wear-and-tear on streets from heavy vehicles 5. Investigate 3 new street maintenance techniques and write white paper on their effects and costs

Finance Department

Objective Increase the funding for City Street Maintenance by 50%
Key Results <ol style="list-style-type: none"> 1. Disaggregate the Street Maintenance Budget into activity-based budgets 2. Decrease fuel costs for street maintenance vehicles by 10% 3. Write at least three white papers on improving street-maintenance bids and contracts to reduce costs 4. Improve estimated project cost accuracy by 15 percentage points over the 3-year average accuracy rate. 5. Run Lean Process Improvement for Public Works to identify and reduce waste when outsourcing street maintenance work.

Streets & Drainage Division

Objective Improve the total City Streets PCI Score by 5 points
Key Results <ol style="list-style-type: none"> 1. Complete 2.25 lane miles of asphalt rehabilitation 2. Increase number of joints sealed by 5% over last 2019 Q1 3. Increase annual lane miles crack sealed by 12.5% over 2019 Q1 4. Run Lean Process Improvement for Public Works to identify and reduce waste when outsourcing Street Maintenance work to reduce the time it takes by 33%. 5. Investigate 3 new street maintenance techniques and write white paper on their effects and costs

Budget Division

Objective Increase the funding for City Street Maintenance by 50%
Key Results <ol style="list-style-type: none"> 1. Dissagregate slurry seal, crack seal, and street resurfacing into different budgets 2. Fund replacement of 5 of the least fuel-efficient vehicles 3. Analyze three past projects to figure out why our budgets were off initially and write white paper on recommendations 4. Run Lean Process Improvement for Public Works to identify and reduce waste when outsourcing Street Maintenance work to reduce the time it takes by 33%. 5. Find an additional & sustainable \$1M for Infrastructure and Reinvestment

Eric Hammond, Asst. Dir. PW

Objective Find 5 ways to reduce hard or soft costs in Street Maintenance
Key Results <ol style="list-style-type: none"> 1. Investigate 3 new street maintenance techniques and write white paper on their effects and costs 2. Reduce street maintenance contract bid cycle time by 50% from 2019 average 3. Hire two new equipment operators 4. Enter all current and FY2020 projects into new asset management software

Eric Roche, Budget Officer

Objective Increase the funding for City Street Maintenance by 50%
Key Results <ol style="list-style-type: none"> 1. Run Lean Process Improvement for Public Works to identify and reduce waste when outsourcing Street Maintenance work and reduce the time it takes by 33%. 2. Write white paper on street maintenance costs per mile compared to other cities in the area 3. Integrate activity-based infrastructure reinvestment fund into citywide budget 4. Transfer \$500K in salary savings from the General Fund to the Street Maintenance Fund. 5. Analyze overtime expenses and write whitepaper on recommendations

By having the City Manager prioritize Street Maintenance, Public Works is not the only Department to align their work with the objective. This example shows how the Finance Department, Budget Division, and Budget Officer can contribute to the objective. A traditional strategic plan would miss this cascade of actions and alignment of resources. Not pictured are the multitude of other departments, divisions, and hundreds of staff members who would also align their own OKRs to help achieve this Citywide OKR.

Tracking OKRs

“For best results, OKRs are scrutinized several times per quarter by contributors and their managers. Progress is reported, obstacles identified, key results refined. On top of these one-on-ones, teams and departments hold regular meetings to evaluate progress toward shared objectives. Whenever a committed OKR is failing, a rescue plan is devised.”

-John Doerr in “Measure What Matters”

Rather than wait for a year-end report out on what happened, OKRs lend themselves to regular check-ins. Managers can meet every two weeks with their direct reports to check in on employee’s progress. If something is falling behind, a manager can then help get it back on track. If a Citywide goal is falling behind it’s better to find out about it early using the regular check-in process. Then, whatever is holding the OKR back can be fixed. If the Street Maintenance OKR we have been discussing was falling behind, City Leadership (because this is a Citywide OKR) would devise a rescue plan to fix it. Remember, we expect some degree of failure in this system because we push staff to stretch themselves. If an Objective is not completed, it may be carried over to the next set of OKRs or discarded if it is no longer a priority.

OKRs will benefit from electronic tracking and the organization should spend time to find the right tool to track OKRs with. Ideally, the City finds a tool that allows great insight into the organization, is easy to administer, and makes staffs job of entering and scoring OKRs as simple as possible. Many affordable and quality options exist. However, before going and procuring a new tool, staff will evaluate existing options, including ClearPoint Strategies software.

Grading

“OKRs do not expire with the completion of the work. As in any data-driven system, tremendous value can be gained from post hoc evaluation and analysis.”

-John Doerr in “Measure What Matters”

How do we measure and communicate progress on Key Results? At the end of a quarter each employee is expected to grade their OKRs on a scale from 0 (completely failed) to 1 (knocked it out of the park). Since employees are encouraged to stretch themselves when setting targets, the goal is to have an average score around .6 to .7. This is extremely important to remember. Individuals or a team constantly getting 1’s are not winning, they are sandbagging. In this system, a degree of failure is expected as a regular part of the process and seen as a growth opportunity for the employee and team. Taking

time to self-assess is an important process for creating better objectives for the next quarter.

For example, the Budget Officer’s quarterly grade for the objective may look like this:

Objective: Improve funding for City Street Infrastructure by 50%

Key Result	Grade
1. Run Lean Process Improvement for Public Works to identify and reduce waste when outsourcing Street Maintenance work and reduce the time it takes by 33%.	.4
2. Write white paper on street maintenance costs compared to other cities in the area	1.0
3. Integrate activity-based Infrastructure Reinvestment fund into citywide budget	.6
	Average Score = .67

For Goal 1 they were able to run the process improvement, but it didn’t result in reducing waste or helping to spend down the fund. So, they would give themselves a .4.

For Goal 2 they were able to write the white paper. It helped the city council see how Pearland compared to 15 other cities and see that our per mile cost was above average – a major finding. So, they get a 1.

For Goal 3 they successfully integrated the activity-based portion of street maintenance into the fund but did not finish integrating the sidewalk budgets – leaving 40% of the funding not allocated by activity. So, they get a .6.

To get a quarterly score you can average the score across KRs. In this example, the Budget Officer had a quarterly score of .67– right on target.

Every OKR is scored in this way – with Key Result owners assigning scores and then reporting out on what they achieved. If the OKR was not met, its owner should report out on what they learned and what they plan to do about it. Grading shouldn’t be thought of as a punishment, but as an opportunity for reflecting. An individual need only spend 15 minutes a quarter grading themselves. A team might spend an hour or two on this. Citywide OKRs may take several hours to discuss and grade.

Transparency

“Meritocracy flourishes in sunlight. When people write down “This is what I’m working on,” it’s easier to see where the best ideas are coming from.”
-John Doerr in “Measure What Matters”

Most companies that implement OKRs choose to make them transparent throughout the organization. This means that any employee can look up all staff members, divisions, departments, and citywide OKRs at any time. Not only does this help objectives cascade between silos, it also prevents duplicative work. City Management can drill down to find out what an employee is prioritizing, and employees can more effectively collaborate because they know what everyone's priorities are.

"When goals are public and visible to all, a "team of teams" can attack trouble spots wherever they surface"

-John Doerr in "Measure What Matters"

For example, if Budget has a KR to replace 5 fuel inefficient vehicles, they would see that Fleet has a similar KR to increase fleet efficiency. They could then partner on the project. In another example, the Budget Officer might look at Public Work's OKRs and see that they have already hired a consultant to run their Lean Process Improvement – so the Budget Officer shouldn't adopt this as their own KR.

A Vision for Pearland

"OKRs surface your primary goals. They channel efforts and coordination. They link diverse operations, lending purpose and unity to the entire organization."

-John Doerr in "Measure What Matters"

The City of Pearland will benefit from a formalized system to create, monitor, and achieve its goals. There are other systems for administering a strategic plan, but OKRs are a flexible, lightweight, and transparent tool that fits our innovative culture well. They provide City leadership with excellent visibility into the organization, and allow for leaders to ask, "why can't we do more?".² However, they are not a silver bullet. They require dedication and time. For OKRs to succeed, they must become the primary way of organizing Pearland's work. However, the benefits are immense.

OKRs provide:

- A system that pushes for results now, not five years from now
- True prioritization of objectives for staff to transparently and collaboratively align their efforts with
- A multiplier effect from cascading objectives throughout the City's organizational chart and across silos
- A workforce empowered to use their creativity and skills to set their own goals and contribute in new ways
- The ability to measure our progress towards what matters most

As with anything worth doing, OKRs will create some additional work for staff. However, regularly achieving the organizations highest objectives is worth the administrative overhead. The alternatives are limited. The City of Pearland could adopt a different

² Larry Page, Alphabet CEO and Google Cofounder in "Measure What Matters" discussing his opinion on OKRs.

strategic management system – which in this authors experience are more burdensome than OKRs. Or, the City could choose not to adopt a strategic management system at all and instead have an informal approach to achieving its priorities.

This linkage between council priorities, OKRs, and budgeting will allow the organization to fund objectives in a more nuanced way than before. Eventually, the budget book will reflect the OKRs, which will replace the existing key performance indicators as needed. The link between budgets and OKRs will take some time for staff to fully develop and will be further explored in a future paper.

Next Steps

We can successfully deploy and leverage OKRs in Pearland. However, it can't happen all at once. The next step is to launch a six-month pilot program (2 OKR quarterly cycles). This will help staff refine and learn the OKR system. Strategic execution is a muscle, and the pilot process is a required exercise so that we can sustain commitment during a future OKR rollout to departments, divisions, and individual staff members. The first cycle or two are not going to be perfect, but the organization will get better at it over time.

FY22 White Paper



To: Clay Pearson, City Manager
From: Eric Roche, Budget Officer
CC: Dan McGhinnis, CIO
Date: February 5, 2021 Strategic
Re: Data Initiative

One of the most advantageous things Pearland can do for long-term efficiency and effectiveness of public resources is to further its use of data in management and policy decisions. However, that is easier said than done. This paper outlines what will be the first step in formalizing data efforts within the organization. Before any strategy document can be created, before meta data standards can be enforced, and before training initiatives launch, a Data Governance Team (DGT) should be established.

Data governance is a systematic approach to the planning, oversight, and control over the management of data throughout the organization. It determines who can use it, when they can use it, for what purpose, and which methods can be used. Data is often referred to as “the new oil” – a fitting metaphor for the Houston area. *If data is the oil, then data governance is oilfield administration.* The Data Governance team will be responsible for creating a holistic and strategic approach to managing, securing, storing, and using data within the City of Pearland.

The main benefits of a structured data governance approach are:

1. Better policy making as a result of consistent, uniform data across the organization.
2. A clear systematic approach to improving processes and data that helps provide the information for leadership and the whole team to become more agile and scale up lessons learned.
3. Increased efficiency through the ability to leverage existing processes and data.
4. Improved confidence in data quality, consistency, and documentation of data processes.

Failure to move to a formal data governance structure can result in:

1. Siloed data analysis and access to data
2. Transparency efforts focusing on datasets that are easiest to access, not necessarily the datasets of the most value
3. Data quality issues remaining unresolved for longer or remain completely unknown
4. Vastly slower data projects as high-quality pre-vetted data would not be immediately accessible

The Data Governance process will be staffed by a Data Governance Team (DGT) that will build the foundation that enables increased use of data in the future. The committee will serve as the main forum for creating and approving data policies, adopting data standards, handling escalated issues, and choosing which information to pro-actively publish online. The DGT will consist of individuals from IT, Budget, and other departments as appointed by the City Manager.

The core team will consist of the following:

- Eric Roche, Budget Officer – Chair
 - Responsible for overseeing the data governance committee. Responsible for communication and monitoring success.
- Dan McGhinnis, Chief Information Officer
 - Responsible for determining which staff will be assigned responsibility for various data resources, ensuring compliance with data protocols, and balancing the number and scope of DGT projects to existing IT resources.
- Khoa Nguyen, Financial Analyst
 - Responsible for making best-practice recommendations in the field of data analytics and business intelligence, surfacing current issues, and consulting on proposed new software purchases.
- Thanh Tran, Database Administrator
 - Responsible for making best-practice recommendations in the field of data storage, data pipelines, and managing data access.
- Colton Schultz, GIS Specialist
 - Responsible for making best-practice recommendations in the field of geospatial data.
- Paul Yeates, Cyber Risk & Intelligence Specialist
 - Responsible to ensure data is secured and adequate cyber security protections are in place related to the data storage and retrieval.
- TBD, Attorney
 - Responsible for ensuring DGT activities are in accordance with the law. Also provides advice on balancing the competing mandates of complete transparency in government with privacy rights.
- TBD, Human Resources Education
 - Responsible for integrating DGT training activities into the organizations larger training program and ensuring consistency between programs.

Their first task will be to establish a citywide data strategy within six months of the team's creation. The strategy document will focus on the following six areas initially:

1. Streamlining Data Access
 - a. Improving staff's access to data is critical. Efforts undertaken under this banner will focus on making it as easy as possible for staff to access accurate, up-to-date information so that they may integrate it into their work product.
2. Improving Transparency through Open Data
 - a. Residents own the data generated by the City. However, privacy concerns exist when automatically publishing this information on a regular basis. As such, the

DGT will establish a policy for approving which data should be made publicly available.

- b. The DGT will outline responsibilities and next steps to formalize an Open Data program in the City of Pearland.
3. Governance of Existing Data (metadata, standards, APIs, etc.)
 - a. The DGT will determine who is responsible for day-to-day stewardship of the City's main data sources. This will enable future discussions on data integration and interoperability, reducing data redundancy, improving data quality, and managing metadata.
 - b. The DGT will also review the current level of data security and, if necessary, make recommendations on how to enhance it.
 - c. The DGT will work to balance the spirit of Texas Open Record Laws, while also identifying ways to protect resident's, visitors, and businesses privacy.
 - d. The DGT will ensure adherence to Federal and State laws and regulations in relation to the security of data. Public Safety specific data will be reviewed for compliance with CJIS and actively communicated with Police and Fire.
 4. Upgrading and Future-Proofing Data Infrastructure
 - a. The DGT will establish how it will be involved in technology procurements to ensure maximum data interoperability, use, and long-term sustainability of data assets.
 - b. The DGT will perform best-practice research to determine the best systems, such as API management, integration platforms, and ETL tools, that will enable the City to scale its data operations in a sustainable manner. These tools become the foundation for building data pipelines, tools, websites, dashboards, analyses, etc., and are therefore crucial to implement early on.
 5. Fostering a Data Driven Culture
 - a. The DGT will determine which data skills various types of employees should have and will then begin to deliver training into the organization.
 - b. The DGT will create a regular series of meetings for staff interested in data to meet, discuss problems, present interesting analyses, and receive training.

The Data Governance initiative is not a “big-bang” program. Instead, its impact will be noticeable as more and more employees begin to easily integrate data into their everyday work. Those integration projects will create significant results for the community facilitating actionable items for the City to undertake. The Data Governance Initiative is a necessary and essential precursor that enables those outcomes.

Next Steps

The next step is for the City Manager to formally create the Data Governance Committee and assign committee members.

Additional Reading

- Harvard Business Review: [Your Board Needs a Data-Integrity Committee](#)
- Harvard Business Review: [What's Your Data Strategy:](#)
- Harvard Business Review: [How Chief Data Officers Can Get Their Companies to Collect Clean Data](#)
- Harvard Business Review: [Building the AI-Powered Organization](#)
- Harvard Business Review: [Data-Driven Cultures Start at the Top](#)