

HOUSE FINANCE COMMITTEE  
January 21, 2016  
1:32 p.m.

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CALL TO ORDER

Co-Chair Neuman called the House Finance Committee meeting to order at 1:32 p.m.

MEMBERS PRESENT

Representative Mark Neuman, Co-Chair  
Representative Steve Thompson, Co-Chair  
Representative Dan Saddler, Vice-Chair  
Representative Bryce Edgmon  
Representative Les Gara  
Representative Lynn Gattis  
Representative David Guttenberg  
Representative Scott Kawasaki  
Representative Cathy Munoz  
Representative Lance Pruitt  
Representative Tammie Wilson

MEMBERS ABSENT

None

ALSO PRESENT

Pete Ecklund, Staff, Representative Mark Neuman; Craig Holt, Director, Outlook Associates; Mark Luiken, Commissioner, Department of Transportation and Public Facilities.

SUMMARY

PRESENTATION: UPDATE ON INTERIM RESULTS BASED BUDGETING

CRAIG HOLT, DIRECTOR, OUTLOOK ASSOCIATES

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF  
TRANSPORTATION AND PUBLIC FACILITIES

Co-Chair Neuman discussed the meeting agenda. The committee would hear a presentation from the Department of Transportation and Public Facilities (DOT) on work it had done over the interim to incorporate results-based budgeting into its management and budget processes. He noted that the Department of Health and Social Services (DHSS) had undergone the same process several years earlier.

PETE ECKLUND, STAFF, REPRESENTATIVE MARK NEUMAN, elaborated that approximately three years earlier DHSS had undertaken work with Craig Holt [director of Outlook Associates] to incorporate results-based budgeting (RBB) into the department's budgeting and management processes. He reiterated that DOT had begun the process during the past interim. The two departments combined represented about \$4 billion of the state's budget (including state and federal funds). He noted that Mr. Holt would hold a training on Saturday for anyone interested in a more in-depth look at results-based budgeting and how it had helped the two departments to work towards improved outcomes.

Co-Chair Neuman remarked that the training was the upcoming Saturday.

Mr. Ecklund relayed the details on the meeting time and location. The purpose for RBB was an effort to change the culture of government (moving away from just getting dollars) to a management approach in order to get better outcomes. The goal was to change how the legislature interacted with the departments. He detailed that the finance committee members were investors who invested in the departments' activities and in outcomes and results. He furthered that it represented a philosophical and culture change in the relationship between the legislature and the executive branch agencies; it also represented a culture change within the departments.

^PRESENTATION: UPDATE ON INTERIM RESULTS BASED BUDGETING

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CRAIG HOLT, DIRECTOR, OUTLOOK ASSOCIATES, provided a PowerPoint presentation titled "2016 House Finance Briefing Results Based Budgeting/Alignment (RBB/RBA)" (copy on file). He underscored that a more detailed presentation would be provided on Saturday. He noted the training would

utilize examples from DHSS and DOT in more detail. He explained that the departments [DHSS and DOT] had taken two similar but different approaches. He elaborated that DHSS had really focused on trying to get a sense of how its money was flowing (its former \$2.8 billion budget had been reduced). He would discuss how the money was flowing to direct services. Additionally, he would address cuts and funding sources. He added that DHSS was currently in the process of bringing its measures along; whereas DOT had focused on getting its measures started. He explained that the presentation would address measures and alignment. He furthered that DOT had begun the process of aligning its monies and budget with the outcomes. He expounded that the legislature would be able to see what the final picture should look like - it would demonstrate accountability for how the dollars flowed and how well the investment was doing.

Co-Chair Neuman asked members to provide questions throughout the presentation.

Mr. Holt addressed slide 3 titled "Key Concept: Mission Statement." He reiterated that the legislature acted as investors on behalf of Alaskans. He noted there were 15 or 16 agencies in addition to various boards and commissions. He relayed that the first focus should be on the mission of the agencies; it would set the framework for how all of the agency services flowed down. He cautioned that if the legislature did not agree with the mission it should stop because everything else would be a surrogate conversation for not agreeing on the mission. He read from slide 3:

SHOULD:

- Briefly state WHY department exists,
- Highlight UNIQUE contribution of department,
- Unify the core services/service groups,
- Be memorable and usable

Mr. Holt elaborated that the mission should be memorable and usable because it was supposed to bring focus to the people involved in the organization. He continued addressing slide 3:

SHOULD NOT:

- Be list of everything we do,
- Include statements of values,

- Include "qualifiers" of who, how well, how good, or
- Contain language that is vague and unclear.

Mr. Holt moved to slide 4 titled "Mission Statement - Examples." The first mission statement example on the slide pertained to the Department of Fish and Game:

To protect, maintain, and improve the fish, game, and aquatic plant resources of the state, and manage their use and development in the best interest of the economy and the well-being of the people of the state, consistent with the sustained yield principle. (DFG)

Mr. Holt elaborated that in addition to the department's mission, the statement included what the department would do, how well the department would do it, and who the department would do it for. He addressed the second mission statement example on the slide that pertained to the Department of Corrections:

Provide secure confinement, reformative programs, and a process of supervised community reintegration to enhance the safety of our communities (DOC)

Mr. Holt remarked that the DOC mission statement language sounded like three core services the department delivered to enhance the safety of communities. He believed the statement indicated the importance of the focus on the enhancements to increase the safety of Alaska's communities. He remarked that the focus would enable the department to measure how well it was doing. The third mission statement example was the Department of Education and Early Development:

To ensure quality standards-based instruction to improve academic achievement for all students (DEED)

Mr. Holt pointed out that when focus was placed on the first part of the statement versus the latter it could mean something different. The fourth mission statement example was for the Department of Transportation and Public Facilities:

Keep Alaska Moving through service and infrastructure (DOT)

Mr. Holt remarked that the DOT mission statement was clear. The last mission statement on the slide was for the Department of Labor and Workforce Development:

Provide safe and legal working conditions and to advance opportunities for employment (DLWD)

Mr. Holt spoke to the importance of mission clarification. He believed the department's mission statements had a good foundation to start with.

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Mr. Holt addressed slide 5 titled "Why Mission Clarification is IMPORTANT" that addressed the Alcohol Beverage Control Board as an example. He read from the slide:

Alcohol and Beverage Control Board

Is the "Mission".....

- Public Protection
- Facilitation of Commerce
- Revenue Collection / Disbursement
- All of the above
- None of the above

Does it make a difference what the Mission is?

Mr. Holt explained that the question "does it make a difference what the mission is?" was rhetorical. He furthered that it could lead to frustration if the mission was public protection, but the agency thought that its focus was revenue collection and disbursement. He believed it underscored the importance of having clarity and agreement on the mission. He turned to slide 6 titled "Shifting from Inputs to OUTCOMES." He pointed to images on the left side of the slide showing bags of money, positions, and technology, which were the input side of the equation. He detailed that there could be significant conversation about the input side of the equation, but the real issue for the legislature as investors was how the items contributed to the safe movement of people and goods; statewide access and connectivity; and access to exploration and development. The shift represented the conversation away from how much the state had to what the

state was getting with it. He stressed that even in dire fiscal times Alaska still had money that was being invested. He recalled being told in the past that the less money a person had, the more important it was to ensure the money was going to the right things.

Mr. Holt further illustrated the point on slide 7 titled "Investing in RESULTS, not Activities." He spoke about construction and asked rhetorically if spending all of the money or underspending a budget constituted success. He explained that if there was a focus on the activities that went in, it was possible to have the conversation. Alternatively, one could consider how construction spending helped improve the safe movement of people and goods; statewide access and connectivity; and access to exploration and development.

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Mr. Holt turned to slide 8 titled "What's IMPORTANT to Measure." He spoke to the importance of what was measured once the focus on the mission and outcomes was clear. He quoted a friend who had stated that "many things are measurable, few were meaningful." He expounded that it was not about having "lots of stuff," but about measuring the right thing. For example, the outcome of a jobs training program should be people getting jobs. He addressed a number of activities that went into accomplishing the job outcome:

Activities

- Person's case is established
- Person is trained
- Person receives child care assistance
- Person is taught interviewing skills

Mr. Holt elaborated that the items were important, but it was important to not lose sight of whether the outcome was achieved. He questioned whether it was good if an agency was successful at three out of its four programs. He answered that it depended. He asked if a mission was successful if the focus was on a person getting a job and more people obtained jobs. He stated that it was a good thing, but questioned if it could get better. He remarked that in difficult fiscal times it was important to know whether a person placed in a job was receiving adequate training. He furthered that it was important to know

because it provided an opportunity for improvement. He reiterated that the focus should be on the results and activities. He stated that there would be an example pertaining to DOT.

Representative Gara pointed to slide 8 related to a job training program. He discussed that although the current job market was poor, individuals who had gone through a job training program were employable and much better off than before. He asked why the right result was a person getting a job. He remarked that it could take a person six months to get a job due to the poor economy.

Mr. Holt replied that it was a great question. He stated that it was important to not lose sight of the fact that the purpose of the program was to get people jobs. He furthered that there were many things that could impact a person's ability to get a job. He stated that if the economy continued to do poorly and there continued to be fewer and fewer jobs, it became a decision for investors on whether to continue investing in life-skills or if there were other options. The measurement only specified what happened and not whether a good or bad job had been done. He noted that a person could prepare themselves as much as possible, but if there was not a job, there was not a job. Investors needed to monitor in order to determine whether the type of skills needed to be adjusted in order to ensure that when the job market bounced back that people were ready for employment.

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Co-Chair Neuman spoke to his personal educational experience. He noted that the state had five or six vocational education entities between DLWD, the University, the DEED, and the Department of Military and Veterans Affairs. He asked whether the state was training in the right things if it took a person six months to get a job.

Mr. Holt replied that the topic was to stimulate the conversation.

Representative Kawasaki remarked that the result was the metric being used. He detailed that childcare assistance was one of the core activities within DHSS but not DLWD. He reasoned that a metric for DOC was the recidivism rate. He stated that 33 percent of offenders returned to jail within

two years after their release; many returned because they could get access to healthcare in the prison system. He wondered how to measure an outcome or result when it pertained to several agencies.

Mr. Holt answered that the information highlighted the point. He believed that when legislators focused on the results it would probably involve multiple agencies. He relayed that when DHSS had conducted the process it had involved multiple divisions with real core outcomes and had taken a consolidated effort to get it done. He referred back to the outcome example of a person getting a job (slide 8). He detailed that the method would be to determine which agency had the lead and to then determine which agencies contributed to the activities and who should be held accountable for the outcome. Whether the outcome was a person getting a job or gaining life skills, someone had to be in charge of carrying the measurement forward. He noted that he had worked in the field for 30 years and it was not uncommon to have multiple agencies contributing to an outcome. He intended to provide examples to illustrate his point.

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Representative Wilson discussed that she was in charge of the University budget and believed the outcome to measure should be graduates. She provided an example and used a low graduation rate. She asked if legislators should drill down into all of the reasons students may not be graduating if it was basing its funding on the graduation level.

Mr. Holt replied that he strongly advised investors in a large organization such as the legislature to stay at a high level. He furthered that it was right for them to ask questions if the result was not being achieved. He believed it was appropriate to get further into the details if satisfactory answers were not provided. He encouraged the legislature to avoid trying to solve the issues itself. He added that it may be that the legislature and the agency have a disagreement on what success was.

Representative Wilson provided a scenario where the mission was for a person to get a job, get a degree, or get a diploma and it was determined that \$5,000 would cover getting the right pieces in place for one of the three. She asked about results being achieved at a later time for less

funding. She thought it would be back on the agency to determine how to get more from the funding because it knew what the goal was. She opined that if the legislature was going to stay at a 10,000-foot level it was necessary to know what the goal was. For example, she believed the legislature should know the amount of money it required to obtain the goal of graduation. She stated that if a graduation rate decreased from 30 percent to 20 percent the agency would get less funding until it determined why goals were not being met. She reasoned that the agencies were large and it was difficult for the legislature to drill down to figure out what had happened. She believed the legislative finance subcommittees got into trouble when they got into the weeds and began micromanaging versus setting an attainable goal.

Mr. Holt agreed. He recommended that the legislature remain at a high level as investors and agree to the results it would receive; if the results were not being achieved the legislature could ask the agency to come speak with them during the interim.

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Mr. Holt addressed slide 9 titled "Example Results."

- Ensure sustainability and harvestable surplus of fish and wildlife resources (DFG)
- Workforce Development to support Alaska hire and economic development (DWLD)
- Foster responsible commercial development and use of state land and natural resources (DNR)
- Provide access to state lands for public and private use, settlement, and recreation (DNR)
- Strengthen Alaska Families (DHSS)
- Protect vulnerable Alaskans (DHSS)

Mr. Holt elaborated that the last two points on slide 9 were included because they were short and brought quick focus to their goal. He noted that long sentences tended to not bring focus. Providing a clear and concise focus made it possible to have a discussion on the expected level of performance. Mr. Holt turned to slide 10 titled "'Balanced Set' of Measures." He emphasized the importance of sequencing. He stated that something could be measured once there was agreement on the focus. He stated that

measurement had added two fundamental elements including efficiency and effectiveness. He detailed that efficiency included cost indicators (i.e. cost per unit), which were contrasted against the quality of the services provided. He stated that the efficiency figure was used to compare how well the agency was doing with total costs. He juxtaposed efficiency with the effectiveness (i.e. how timely and accurate the service was). He turned to a construction academy example on slide 11. He elaborated that a construction academy had been implemented due to the need for construction workers. He reiterated the importance of simplifying the mission. He furthered that if the mission was to increase the number of qualified construction workers, the measures were fairly easy to determine. The slide showed the efficiency as the cost per client that gets a job (in construction) compared to the average time it took to get a construction job and the percentage of post graduates employed in the construction field. He noted that the three items were not a complete list, but would provide a good indication about whether the academy was moving in the right direction. He added that it was important to discuss the items with the agency; it was important to have agreement on the mission and core services and how success was measured.

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Representative Gara addressed slide 11. He provided an example of a woman going through the construction academy who secured a job on the North Slope, but not in construction. He wondered why the scenario would not be counted as success.

Mr. Holt replied that it depended on the way success was defined by those measuring the results. He detailed that the measurement could easily be modified to remove the words "in construction" from the measurement. He elaborated that it illustrated the importance of the definition and agreement with an agency. He furthered that if the real focus was ensuring that individuals were employable, he advised removing the words from the intended outcome.

Representative Gara asked for verification that the slide was not trying to specify the way the measurement should be done.

Mr. Holt agreed and explained that it was merely an example. In the example the outcome was very clear that the goal of the construction academy was to train people for employment in the construction field. He stated that the legislature could discuss whether to broaden the measurement. Alternatively, it was possible to look at a couple of measures (i.e. what it cost for a student that got a job and what was the subset of the number that got a job in construction).

Representative Gara referred to conversations he had with agencies about measuring outcomes. For example, he had asked the Office of Children's Services for years about the high school graduation rate and the agency had not known the answer for many years. The agency had told him that with the staff it had it would need to take staff away from kids to do the data compilation. He remarked on the state's \$3.5 billion budget deficit. He observed that it would not improve without measures, but on the other hand, to do the work would mean taking employees from direct jobs to do the data compilation.

Mr. Holt responded that he had personally done the work inside of government for the State of Oregon; they had been directed to have no net increase in administrative cost. The investors had also given the departments the ability to report back that they needed relief from certain reporting in order to work towards another goal. He advised letting the State of Alaska departments come back to the legislature for relief if departments thought they needed more. He stated that it should not result in an increase or take away from direct service. He asked if he had answered Representative Gara's question.

Representative Gara replied in the affirmative, assuming there were areas that employees could be taken away from to provide the work.

Representative Edgmon shared that he had read recently that it was a rule of thumb that any organization had at least 20 to 30 percent waste. He asked for Mr. Holt's thoughts and wondered if the number was even higher in governmental organizations.

Mr. Holt replied that he was not familiar with the rule of thumb Representative Edgmon had referred to. He stated that 10 percent was not an unreasonable number. He furthered

that government did a lot of processing; some was self-inflected and some was not. He furthered that it required a minimal amount and number of people to set up something like the measures. He explained that much of the raw data that comprised the indicators was already being gathered.

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Representative Edgmon asked if undertaking the process - that went back to the constitution and core values - would be advisable when the legislature was considering making difficult budget cuts.

Mr. Holt replied in the affirmative, beginning with the missions. He stated that the advantage was that the state only had 16 agencies in addition to boards and commissions and had only been around for 56 years. He had worked on the East Coast where governments had been in business for 200 years and did not know where to find enabling legislation. He believed Mr. Ecklund had stated that together the DHSS and DOT budgets accounted for about \$4 billion. He noted that DOT had four core services and DHSS had seven. He thought the entire state may have 25 or so core services, which was not too many to have a framework to take a look at.

Representative Edgmon observed that by not using the process it appeared that the legislature was cutting the budget in a random manner.

Representative Guttenberg stated that there were nuances in programs. He detailed that the construction academy was not designed to get people jobs in construction, but to enable people to determine whether they want jobs in construction. He elaborated that the number of people who graduate and want to work in construction was different from the number of people who graduate. He provided the dental hygiene program in Fairbanks as another example. He elaborated that an individual did not require a certificate, but needed to be competent. He stated that when an instructor knew an individual was ready they called a dental office and the student got a job. He stated that they never graduated. He spoke to figuring out a way to nuance the effectiveness. He noted that it also brought up another issue related to the number of people who are competent at the end of the course and would be recommended by the instructor for a job. He provided another example of five people in a welding class

one year who were certified and recommended by the instructor and others in the class who were not recommended the following year. He stated that the nuances played an important part in influencing the numbers.

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Mr. Holt answered that the purpose of the current conversation was three measures and a clear mission. He noted that they had quickly arrived at a conversation about what constituted success in a mission. He furthered that once success was determined it was possible to create the measures and get everyone "marching to the same direction." He stressed the importance of having the conversation prior to allocating money to an item. He explained that otherwise the agency may be thinking one thing while the legislature was thinking another, which could cause frustration on both sides.

Representative Gattis noted that different people could have different perspectives on what a state agency should or could be doing even if the employees understand what their role is. She remarked on people being on the same page and understanding what their roles and end missions were. She opined that sometimes there was a disconnect and she believed the current topic was a great conversation to have. She thought it was great for employees to know they were all on the same page.

Mr. Holt agreed. He stated that the alignment piece was the most important part going forward in government. He stated that if nothing was measured, but everyone was pulling towards the same mission it was 10 to 15 percent; the number increased when measurements began. He believed the commission would have some powerful things to share related to employee understanding and alignment.

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Mr. Holt advanced to slide 12 titled "Cascading and Aligning - the Picture." He stated that there were different levels to measure including the mission, core services, and programs. He drew attention to the left and right sides of the slide and noted that the arrows were purposefully one directional. He emphasized that the mission should drive the core services; and the core services should drive the programs. He remarked that the

investors should remain in the mission and core service levels when making investment decisions; staff within the agencies were responsible for implementing the programming component. The right side of the slide related to contribution measurement (arrows were directed up); if alignment was done correctly on the left side of the chart, the measures should be validating the contribution the programs were making to the mission. He referenced the earlier discussion he had with the committee related to jobs. He stated that if only three out of four activities were done well by an agency the legislature should take a look at the issue. He reiterated his belief that the legislature should remain at the mission and core service level. He discussed the frequency of measurement, which tied directly to the type of work being done and the window of decision making based on the data. He remarked that the legislature was in session once a year and needed data appropriate to enable it to make investment decisions that were appropriate for the next year. He noted that the legislature should not be involved on programmatic measures that were examined on a monthly or semi-weekly basis; at that point he believed the legislature would be micromanaging the agencies.

Co-Chair Neuman believed the legislature needed to look at programs to determine whether to fund them. He did not want to partially fund programs. He wondered why the legislature should not look at them and asked if Mr. Holt was looking at programs in a different sense. Mr. Holt replied that he was referring to a different context. He agreed that programs should not be partially funded. He explained that the chart on slide 12 was speaking to three different levels. He detailed that in the context he was speaking to, program meant front line services and not programmatic budgeting.

Representative Wilson noted that the legislature was not funding programs, it was funding core services to provide the results it was looking for. She furthered that how a department chose the programs to achieve the desired results was up to the department.

Mr. Holt agreed. He intended to use DOT as an example to illustrate the point later on. He moved on to slide 13 and provided an example related to the Las Vegas fire department titled "Alignment - Fire Dept. (LV)." He spoke to two core missions for firefighters including minimizing

the loss of life and loss of property due to fire. He detailed that there was a six-minute window where a multitude of things occurred. At the department level they had two measures including lives lost to fire and estimated dollar value of loss due to fire. The core service level included the percentage of calls responded to within six minutes and the percentage of fires contained within "room of origin." He had learned that the core service components directly tied to the core mission of the department. He had been told by firefighters that if a fire could be contained to the room of origin, the result in loss to life and property was almost a factor of 10. He stated that once the fire hit the duct work it meant absolute destruction. He addressed the programmatic level:

Program

- Average maintenance cost/truck
- Average time for fire truck response
- Average time for containment, once on site

Mr. Holt elaborated on the importance of maintaining the fire trucks. He stated that the fire station worked on measures at the programmatic level. The core service level looked at all of the fire stations across the city and at the department level the core mission related to minimizing lives lost to fire.

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Mr. Holt turned to slide 14 titled "Alignment - DOT/PF." He discussed that DOT's mission was to keep Alaska moving through service and infrastructure. He noted that the following core services of the department corresponded with those in the program level:

Core Services:

- A. Average Time to Re-establish Service
- B. Change in Road/Runway Condition Rating / Dollars Invested
- C. Number of Miles Meeting Goal & Target/ Total Miles

Program:

- A. Average time from notification to repair
- B. Dollars spent/ lane mile maintained
- C. Redo's (\$'s) / Total Budget (\$'s)

Mr. Holt pointed to core service C - the number of miles meeting goal and target versus total miles; and program level C - redo versus total budget. He appreciated when anyone willing to admit when something was not done right the first time. He furthered that if a certain amount of work was planned under a limited budget and a mistake was made, it would prevent the plan from coming to fruition. He turned to a DOT maintenance chart on slide 15 titled "DOT/PF - Maintenance (Core Service)." He pointed to the first column on the left that included core and direct services. For example, surface maintenance was listed as a core service and underneath were the corresponding direct services including routine maintenance and incident response. The chart also included four other columns including conformance to plan, timeliness, accuracy, and cost; for each one of the services the department measured whether it adhered to the plan accurately and in a timely way and how much it had cost.

Mr. Holt turned to slide 16 titled "DOT/PF - 4 Core Services." He explained that DOT had developed a tool to accomplish a certain set of measures. He furthered that the department had involved various regional employees to verify that it had selected the appropriate measures and had developed a matrix of services that had been assigned to work teams. For example, regardless of where a person was employed within the department, if a person was doing snow removal, there was an expectation on how it would be accomplished. Services had been identified and a work team carried the services out. Subsequently measures that had been carried out statewide were populated into a performance matrix for each work team (slide 17). He continued to discuss the work team related to snow and ice removal. He emphasized that there was no question for the work group on its mission, how to measure it, and how it aligned. The department was currently implementing the matrix measurement structure and would probably have good measurement data in six to nine months. He believed it was elegant in its simplicity and that it brought consistency to what was important. He appreciated DOT's focus on improvement. He recalled the DOT commissioner's comment about working to do things better. He stated that DOT had really focused on implementing the measurement infrastructure; DHSS was starting the process at present and had put its initial focus on the budget. He advanced to slide 21 titled "DOT&PF Core Service Alignment." He stated there were four core services for the department; the

teardrops below the core service sections indicated divisions and which core services they contributed to.

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Representative Gattis asked about timeliness and wondered who determined whether a customer had been served.

Mr. Holt answered with slide 19 titled "DOT/PF - Example 'front line.'" He elaborated that the agencies and the legislature should agree on the measures and the definition to ensure clarity. He furthered that DOT had consulted its staff to determine which measures would not be applicable. He used avalanche mitigation as an example - staff had considered what would constitute a measure of timeliness.

Representative Gattis referred to snow plowing on the Glenn Highway. She believed the department and the customers had a different idea on whether a job had been done and in a timely manner. She wondered how to include the customers as part of the determination on whether the department could do better and where its strengths and weaknesses resided.

Mr. Holt answered that he had been the DOT commissioner in Oregon and had been faced with the same set of issues. He advised that legislators as the investors should sign off on the measures. He furthered that if legislators wanted to have public involvement it was their purview. He recommended being realistic; the narrative "out there" with the state's current fiscal crisis was that people would tank on services they delivered. He explained that an expectation could be set too high in relation to the amount of funding that was provided. He reiterated that it was the legislature's purview. He remarked that he had been working with Washington D.C. and three days before presenting performance measures he had been asked what the citizens thought; therefore, he had sought the information out. He advised that the process had to be done thoughtfully because perception of service versus reality was not always the same thing. For example, a person could have a perception of a service based on one negative experience, while 99 percent of the time the service was good; therefore, using the measures that compiled all of the data was very important.

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Co-Chair Neuman asked about ways to measure the success of a service. He reasoned that a result was based on actions taken. He wondered how to know whether DOT was plowing snow on time with the amount of money that had been allocated for winter maintenance. He guessed they could look at any accidents that had occurred as an indicator. He asked how to do that without looking at a five to ten-year average of road maintenance, winter maintenance, the number of miles, and the number of accidents. He wondered how else to measure results outside of looking at the data.

Mr. Holt answered "that's why these are always late to the party." He stated that the pertinent question was "what is the actual appropriate measure?" He stated that the legislature was funding all state agencies at a significant amount of money. He advised implementing the measurements and determining whether there was agreement on their acceptability until trends were available. He disputed any argument that the process was worthless before five years of data was available.

Co-Chair Neuman remarked that it was not possible to know who would fill the legislative seats the following year. He provided a measurement example where the legislature allocated \$10 million for the DOT snow removal budget and within the year there were 20 accidents, 3 of which were fatal. Subsequently the legislature provided \$30 million and the number of accidents did not improve. He observed that in the example the basis on which the legislature chose to provide more money did not result in improvement. In RBB he did not see a matrix on how to measure based on performance. He reasoned that performance could only be based on what had been done.

Mr. Holt answered that measuring performance was one thing, while comparing it to something else to determine the level of success was another.

Co-Chair Neuman clarified that he was inquiring about comparing performance to itself.

Mr. Holt agreed and clarified he was speaking to the trend. He stated that it could take some time. But a person could probably look at two or three seasons of the department's activities to get a sense of a trend. He cautioned that "these don't stand by themselves, they just tell you what happened." He furthered that in Co-Chair Neuman's example a

person could look at the measures and ascertain that something did not seem right if \$10 million in additional funds were allocated to snow removal but accidents did not decline. He explained that that was the point the dialogue should occur and the legislature should determine whether the explanation made sense. He stated that when people tried to measure 50 to 100 things it became meaningless because there was no focus.

Co-Chair Neuman commented that it was meaningless if data was not recorded and if there was no awareness to the levers that were pulled and the cause and effect. Mr. Holt agreed.

Co-Chair Neuman wanted a meaningful matrix to be measured. He did not know who would serve in the legislature and he wondered how future legislators would know decisions he had made.

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Mr. Holt returned to slides 15 and 16 in response to Co-Chair Neuman's question. He relayed that in a year there would be four core service matrixes that would contain data, which would provide a starting point. He furthered that at that point data would need to be collected and reported on.

Co-Chair Neuman believed it was a large problem. He referred to frontline social workers for foster kids as an example. The legislature had allocated funding for 15 additional social workers and had put more money into computers and data. He wondered how to know whether the additional items were working. He wanted to better understand about inputs and outputs. He discussed coming up with something the departments could do that legislators could agree on and analyze. He surmised that there had to be trust between the departments. He could see where the matrix behooved the department, but he wondered how it would be helpful to the legislature related to proving the needed funding.

Mr. Holt answered that as departments put the tools together the legislature would have the discussion with them about the alignment and measures. He recommended asking departments whether they had any data for the legislature to look at. Subsequently, the legislature could

agree on a certain amount of funding. At that point the framework would be set in place for the next legislature to hold the departments accountable.

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Representative Wilson returned to the topic of Office of Children's Services. She reasoned that legislators looked at services at a different level when looking at issues for constituents versus for budgeting purposes. She spoke to the measurement of an issue such as children's services that contained many intricacies (i.e. public defenders, courts, guardians ad litem, and other); there was more than one department that affected the outcome. She used how many children were put back in their home as a measurement. She reasoned there was a portion that the Office of Children's Services impacted, but there were many other players as well. She asked how to measure an organization's success if they only played a part in the outcome.

Mr. Holt responded that it was the precise policy discussion the legislature needed to have; whether the legislature wanted to continue to invest in small pieces spread out or in a different way. He stated that it was not always necessary to reorganize to accomplish results. He provided an example based on his experience and recalled that whenever a new program was developed they had always found a way that [Oregon] DOT had supported it in order to receive funding. He stated that some of it was historical buildup. He explained that the Oregon governor had put someone in charge in order to accomplish the goals. He detailed that if there were problems the commissioner - through work with the governor - solved the issues. He believed the process illustrated in his presentation would highlight Representative Wilson's point.

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Representative Wilson suggested that legislator played two roles including allocating a budget and helping constituents navigate through issues with state agencies. She furthered that in their role with constituents, legislators looked further into agency details and whether they were following their policies. She reasoned that it was not possible to keep their role with constituents separate from their role in the budget. She wondered if it was possible to keep the two things divided.

Mr. Holt replied that legislators had a tough job. He believed legislators needed to set their investment framework. The reality was that legislators did have constituents and he surmised they worked with them on an exception basis where they had to go into an agency to ask for further detail. He stated that it created problems to take the one thing and presume that it was a problem everywhere as opposed to considering whether the issue was an aberration. He furthered that it was the value of the bigger framework; even though a legislator needed to do its diligence on a single case it also had the backup showing that overall an agency appeared to be doing well based on the broader indicators.

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Representative Wilson presented a hypothetical scenario in which an agency was not working. She wondered if that was the time to have a discussion about privatization. She reasoned that everything did not always work as expected. She wondered if there was a point to have a conversation about whether the service really did not belong within government.

Mr. Holt responded that there could be success if every department had the mission matrix system operational. He furthered that the results would provide the total picture. He noted that there was not time for him to speak to how to solve problems. He added that the legislature had many mechanisms it could deploy. He elaborated that the process in the presentation set up a discussion and accountability framework that would lead into the discussions mentioned by Representative Wilson.

Representative Wilson asked about a scenario where the accountability not working. She elaborated that a service to be performed could be outlined in a department, but could not be getting done. She surmised it would bring them to a point where other options should be discussed. She continued that the state still may be mandated to provide the service, but it could consider where else the service could be provided. She asked there were several years where the missions and measures were not accomplished it would be a point for the next conversation to happen.

Mr. Holt agreed that if the legislators as the investors were not seeing the return, it needed to start asking questions. He stated that everyone knew that the definition of insanity was doing the same thing and expecting a different result. He reasoned that if a change was not made a change in the result would not occur.

Mr. Holt moved on to slide 22 titled "DOT&PF/NR Alignment." He looked at alignment on a regional basis and focused on the Northern region in his example. The slide contained four core services and the operating divisions within the region. Color coding on the chart indicated the contribution the divisions were making to the core services. For example, the slide indicated that the color red representing design contributed to all of the core services. The slide illustrated how alignment was contributing in the division. He stated that the slide also provided visibility into how the \$106 million budget for the region was divided across the core services and the specific contributions of each division. He believed it provided the power for legislators to actually begin some "what if" scenarios. The legislature could use the results to determine if it deemed that a reduction was necessary. He pointed to core service 2 "operate Alaska's transportation infrastructure" and questioned how the service would be impacted if the funding was cut in half. He observed that 78 percent of the core service was being done by the Division of Highways and Aviation. He pointed to the services provided by the division including illumination, signals, snow and ice maintenance, surface maintenance, and bridge maintenance. He remarked on the significance of the services and believed the cut may be too deep. He illuminated that without even looking at measures, the methodology in the presentation would provide helpful analysis tools; it would enable legislators to quickly establish a service impact. At that point it would be easy to see how a smaller cut, such as 10 percent, would impact the division. He reiterated that it would be possible to quickly see some of the impact of the potential cuts. He stated that it would then form a good conversation between legislators and the departments.

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Mr. Holt turned to slide 24 titled "FY2015 Budget Alignment" related to DHSS. He noted that the slide reflected a spending typology that enabled legislators to

see how money flowed and the potential effect to a program based on the money. He noted that during his presentation the upcoming Saturday he would show information updated to 2016 and 2017, in addition to cuts that had been made and the impacts the cuts had; it would allow them to get down to a program and do "what if" scenarios in real time to determine the impact of different options to help legislators with deliberations. He furthered that it would give legislators more opportunity to analyze. He relayed that it had taken DHSS a couple of years to get to the current point. He reiterated his earlier statement that DOT had put the emphasis on getting the measures going and were currently moving towards the budget.

MARK LUIKEN, COMMISSIONER, DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES, moved to the portion of the presentation titled "Alaska Department of Transportation and Public Facilities: How we are Using RBB/RBA" beginning on slide 25. He addressed slide 26 titled "Overview." He intended to discuss why RBB/RBA was chosen, why the particular methodology had been selected, and how the department had employed the methodology. He planned to address how DOT had used RBB/RBA to navigate through the \$34-plus million unrestricted general fund (UGF) budget cut for FY 16. Additionally, he would speak to how the department had used RBA to provide a clear framework for preparing its FY 17 budget and how it was using the methodology to improve how it provided the context for ongoing department transformation.

Co-Chair Neuman asked Commissioner Luiken to address how the department would measure the effects internally as well.

Commissioner Luiken addressed slide 27 titled "Why We Chose RBA." He recalled seeing the budget alignment chart shown earlier in the presentation (slide 24) the previous year and wanting to develop one for DOT. He recognized that the department needed a better way to communicate with the legislature about how DOT's budget was managed. He discussed his personal goal of "One DOT," which he would discuss later in the presentation. The idea was that the methodology provided a framework that could allow DOT to align horizontally and vertically towards the concept of One DOT. He furthered that the real challenge was the state was facing enormous fiscal challenges; therefore he felt it would be irresponsible if the department did not use a

framework to look at the best tools that would enable the department to deliver its mission and to clearly communicate how it would do so. He detailed that DOT had absorbed a \$34.5 million budget cut in one year and had used results based alignment to help. He recognized there would be additional funding challenges ahead and the framework was helping the department look ahead to FY 17. The department was looking for the best tools to ensure it was delivering on its mission; the RBA tool heightened the importance of telling the department's story to its investors. He furthered that the department could better explain its funding needs by linking its resources to its core service outcomes; it could also articulate the risk of the resource reductions to the outcomes and measure mission accomplishment. The department was focused on the measures supporting decision making and on the outcomes it was trying to achieve; it would lead to accountability and would enable the legislature to hold the department accountable for the funding it allocated to DOT. Additionally, the department was using the tool to operate as a continually improving organization (creating efficiencies, reducing costs, and providing Alaskans with the best transportation system).

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Commissioner Luiken addressed how the tool helped DOT navigate the FY 16 \$34.6 million reduction (slide 28). The department had looked at it as an opportunity to catalyze cross pollination of ideas. He detailed that the department had held eight workshops over a nine-month period, where it had brought people in from throughout the department related to the four core services (i.e. to operate, maintain, expand, and provide marine transportation services). The department recognized that it could not be a top down exercise and had to come from within the organization, which had allowed DOT to begin the process of horizontal alignment (an increased understanding of how everyone in the department had contributed to the mission). He furthered that the process was also aiding vertical alignment as well. The goal was for every employee to understand how they contribute to the mission through direct and core services. For example, his hope was that ultimately an operator would understand that they kept Alaska moving through service and infrastructure. He turned to slide 29 titled "Prepare." The tools had provided a clear framework for preparing the governor's proposed

budget. He detailed that the department's executive team had been given scenarios and reduction targets within the Office of Management and Budget development process and had asked the individuals if they could support the process. He spoke to the importance of having complete consensus as a team. He continued that the department had taken the time to look at its organization and had recognized that there were some inefficiencies. The department was looking at ways to reduce the inefficiencies; one way was to examine how the department was organized. For example, the slide illustrated an example of how DOT had reorganized and streamlined the aviation structure; it had also centralized planning.

Representative Edgmon referred to the aviation example on slide 29. He observed there were 14 boxes in the old aviation flow chart and 7 in the new chart. He asked about the net result and wondered if employees had been let go or reassigned in other areas of the department.

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Commissioner Luiken replied that part of the answer pertained to absorbing some of the cuts. He stated that there was probably not a significant difference in the number of people doing the work, but a reorganization of responsibility had taken place. He elaborated that there had been a streamlining of decision making and response times. He did expect the department would likely see some reduction in personnel, but it had only been working on the RBB process for four or five months so it had not reached that point. From an organizational perspective, the department was reducing the time it took to get information up and down the chain.

Representative Gattis asked for clarification. She wondered if the chart on slide 29 indicated that seven positions had been removed or if the individuals had been reassigned to another area in the department.

Commissioner Luiken replied that the number of people had not yet been reduced, but an organizational structure change had taken place. He advanced to slide 30 and relayed that RBB/RBA was providing a context and lexicon for ongoing transformation under the One DOT organizing principal; he wanted RBB/RBA to be part of the department's DNA. The slide included an image of the RBA website that

contained all of the matrixes shown earlier in the presentation. Additionally, the website contained the tool for the work teams to use to determine their departmental roles. He continued that as DOT had undergone the process it had begun looking at where it had experienced mission creep away from its direct core services. The process was allowing the department to make the decisions about whether each service provided by the department fell within its core service category.

Representative Munoz wondered how the Alaska Marine Highway System (AMHS) fit into the One DOT goal. Additionally, she asked how RBA/RBB affected AMHS.

Commissioner Luiken replied that providing marine transportation service was one of the department's core services. The department recognized the vast importance of AMHS to the overall transportation system. He addressed how AMHS fit into One DOT and explained that DOT was focused on providing transportation service and facilities to all Alaskans.

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Commissioner Luiken continued to address slide 30. He pointed to another website example showing one of the initiatives that had come out of RBA: everyday lean intranet sites. The department was collecting input from employees on ways it could reduce the cost of doing business. The department's intranet site enabled employees to communicate ideas they believed would save the department money directly with the commissioner. For example, the department "busted up" numerous sand spinners each year - the spinners cost approximately \$5,000 each. He explained that a department employee had designed a guard that cost about \$400, which could potentially save \$25,000 to \$30,000 annually. The example included one of the ways the department was using the framework to improve and align as an organization and to communicate with the legislature. The department was developing measures to determine how it was conforming to plan, how it was doing on accuracy, timeliness, and cost. He expounded that DOT would ultimately look at the measures on a quarterly basis at the leadership level; there were leadership level measures that the department hoped to have running smoothly in one year. He believed it would take a year to determine which measures were meaningful and helped DOT make the right

decisions. The department had loads of data; and the goal was to determine the important data that would enable them to make decisions.

Co-Chair Neuman stated that he would like to see the process in all departments statewide to enable internal measurement across departments. He asked if DOT was seeing comparisons between its divisions. He asked if there were any examples where the department had started to work "interagency" with what it had developed.

Commissioner Luiken replied that DOT was engaging with DHSS to learn from its budget development. Simultaneously DHSS was learning from DOT on how it had developed measures. He believed that as other departments saw the framework, DOT would be happy to help the departments understand how it worked and how it could be incorporated. He continued to address slide 30. He stated that every DOT employee would be given the chance to attend an RBA workshop by November. He elaborated that they wanted employees to understand the process in order to understand how to identify which measures were most effective to help them do their job. The department would continue to refine its budget presentation for efficiency and effectiveness. He explained that ultimately DOT was rewarding efficiency and effectiveness. Lastly, the department was telling others what it had learned in the process.

Co-Chair Neuman shared that he had asked former DHSS Commissioner Bill Streur how the process had worked for him. Mr. Streur had relayed that a department employee had told him it was the first time someone had actually asked him what he did for the department and why it was important. He discussed the usefulness of tool for employees to realize they were part of a system and how they could make the program better. He noted that the story shared by Mr. Streur had made an impression on him.

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Representative Gattis addressed that some private businesses tapped employees and retirees as a resource to ask about efficiencies. She remarked on the low number of residents in Alaska. She shared that her husband had recently retired from FedEx. She detailed that FedEx had financially rewarded innovative employees. She furthered that if someone on the outside of the organization could

find savings the company would give the person 50 percent of the savings. She surmised that if the state could save 50 percent and someone had incentive to help it would be a win-win situation. She stated there were many ways to incentivize individuals working for the state.

Commissioner Luiken appreciated the comments. He elucidated that the budgeting method was based on a couple of leadership principles. First, leaders have more influence than they recognize and know - the method was helping leaders to recognize and exercise the leadership. Second, the people closest to the work often know best where efficiencies could be found to make the job better. He furthered that DOT received a grant from the Western Association of State Highway and Transportation Officials it could use to help incentivize the activity.

Representative Edgmon thought the presentation had been good and saw the usefulness of the budgeting method. He stated that DOT had already demonstrated results. He addressed that it was a political environment where some employees were classified and others were not. He furthered that in rural Alaska the costs of services were much higher and the economies of scale were less than in urban areas. He wondered about some of the challenges that made the construct more challenging to put into practice.

Commissioner Luiken replied that the geography of the state and the magnitude of the landmass made the implementation challenging. He detailed that the state's large size made it difficult to get the word out to small maintenance stations to ensure the employees understood their job and how it contributed to the department's mission. He believed it was one of the biggest challenges facing the department.

Representative Edgmon asked for verification that AMHS accounted for 46 percent of the department's undesignated general funds. Commissioner Luiken replied that the number had been 46 percent, but based on the budget from the prior year it was considerably lower at present.

Representative Edgmon observed that DOT had unique challenges because its responsibility was much different than that of DHSS. Additionally, DOT was largely funded through federal appropriations and was responsible for building, designing, maintaining, and keeping things moving. He furthered that DOT's personnel costs were

probably lower than those at DHSS. He struggled with how to even the playing field between all state agencies as he considered how the legislature allocated spending. He reasoned that it made for an uneven playing field if several agencies were implementing the results based budgeting but others were not. He stated that it would be helpful further down the road to have other agencies implement the budgeting method as well in order to allow legislators to look at the issue more analytically.

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Co-Chair Neuman agreed that DOT had a complex budget given its various funding mechanisms and all of the different work it did. He did not believe people realized that DOT owned and maintained most of the state buildings. He pointed to the complexity of the University and DHSS budgets as well and remarked on the helpfulness of breaking them down for the legislature and the public to view.

Mr. Holt addressed Representative Edgmon's previous question related to the geographical challenges of the state. He had observed that due to the geographical difference people became very insular in their thinking and decide that something could only be done in one way. He furthered that when employees were presented with other ways of doing a job it opened up opportunity for improvement. He believed that the people doing the work were in the best position to determine quick improvements. He shared that he had friends who worked for FedEx - the company measured things by the second because they believed the driver was the one who best understood the job. He noted that FedEx had also tried to be consistent in its focus in order to begin looking at what it cost to provide similar services around the state. He agreed that if the budgeting method was implemented by all agencies it may be easier to look at the budgets; however, he stated that the various agencies were like apples and oranges. He remarked that the state was diversified like any investment portfolio. He furthered that the state could choose to take more risk in some areas and less in others - the framework could help the legislature set up a true investment portfolio on a statewide level. He added that the state would not always get stellar return on everything because that was not the nature of the business.

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Representative Edgmon had always wished for a process that allowed state agencies to look internally at their moving parts and to align them in a way that produced better outcomes - that would help the legislature during session. He believed the legislative budget subcommittees, the 90-day session, and what was done during session and out of session, were all worthy of examination. He thought the legislature should make it a priority on its own.

Mr. Ecklund commented that two agencies had taken a deeper dive into results based budgeting. He relayed that even though they had not done results based budgeting, all of the other agencies had core services outlined and measures with results. He continued that the other agencies had not realized the internal benefits realized by DOT and DHSS. He detailed that the two agencies had benefitted from the process at the department level and in their communication with the legislature. He furthered that everyone heard about the negative aspects of government including silos, inefficiencies, and poor communication; but the process had helped DOT and DHSS break down silos because they had a clearer picture of their mission goals. The departments were accomplishing effectiveness and efficiencies; whereas, the benefits between the legislative finance committees and the departments was the investor mentality. He reasoned that it was a different dynamic when finance committee members viewed funds they were appropriating as investments into agencies and held agencies accountable. He furthered that the conversations could still take place with departments that had not done the deep dive into the method. He pointed to the detailed budget books as a resource, which included core services, missions, and results. He added that the results based budgeting was not a silver bullet, but provided another tool legislators could use to evaluate core services/programs and what the state could afford. He noted that even though some programs may be beneficial, it may be possible that the state could not afford to provide them any longer.

Mr. Holt addressed slide 31 titled "Key Questions for Department Leadership." He remarked that there was a starting point for each of the [budget] committees. He noted that they would not have the same level of detail as DOT and DHSS, but they did have information that provided a starting point. He believed investors should be asking departments what their mission is and "if you don't agree -

stop." He stated that good performing programs that did not align with the mission caused problems. He read from the slide:

- How do agency Core Services contribute to the Mission?
- Change the culture of government, moving away from just getting dollars, to more of a management approach to getting better outcomes.
- Changing how the legislature and departments talk about investing, verses just budgeting
- This process is not a means to an end nor a means to a pre-determined decision, rather it is a means to a conversation: engaging policy makers in the discussion of "what's important", "where should we invest", and "how did we do"?
- Focus is to improve service to Alaskans -not keep score.
- Most entities have adequate effectiveness measures, but are light on efficiency measures. Measures must be balanced.

Mr. Holt emphasized that asking departments how they were using their performance measures was not micromanaging. He provided an example of micromanaging. He concluded with takeaways on slide 32:

- Change the culture of government, moving away from just getting dollars, to more of a management approach to getting better outcomes.
- Changing how the legislature and departments talk about investing, verses just budgeting
- This process is not a means to an end nor a means to a pre-determined decision, rather it is a means to a conversation: engaging policy makers in the discussion of "what's important", "where should we invest", and "how did we do"?
- Focus is to improve service to Alaskans - not keep score.
- Most entities have adequate effectiveness measures, but are light on efficiency measures. Measures must be balanced.

Mr. Holt elaborated that investing included an embedded expectation that there would be some type of service or improvement return.

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Co-Chair Neuman discussed that almost on a daily basis legislators heard about the benefits of programs including how they saved money and lives; then the legislature had to decide whether the state could afford the programs. For example, if the Department of Public Safety saved lives maybe money should be put towards Alaska State Troopers instead of DHSS or other. He wondered how to measure items against each other. He elucidated that the state had many great programs and many things people wanted to see funded (e.g. broadband and public radio). He furthered that there were great programs that helped children learn, but the Department of Education and Early Development and schools wanted more school funding. He wondered if there was a way to use the results based budgeting to measure programs against each other. He wondered how to decide what to fund and what not to fund.

Mr. Holt answered that it was the difficult position legislators were in and he believed it was the reason they were elected into office. He furthered that when there were insufficient funds to cover expenses it was necessary to either borrow money or eliminate programs. He stated that the RBB method was one way to help. He remarked that the state was in a very difficult fiscal position at present. He agreed that there was no silver bullet and the types of things legislators had to do to determine services going forward could not be the same as in the past. However, there was not a formula or program that could compare programs to determine the best return - programs became value-based. He was not aware of any program that would allow the decision to be easily made. The RBB could help get some of the "flack" out of the way in order to examine the potential impact of decisions. He believed that information alone was worthy of undertaking the process. The process would enable legislators to knowingly could say that there would be hurt and the legislature could come to a compromise on what the budget would look like for the next year with some sense of knowledge on what the impact would be.

Co-Chair Neuman addressed that the Saturday morning meeting would provide a more in-depth picture. Mr. Holt replied that the presentation would include many DHSS examples.

Co-Chair Thompson addressed the agenda for the following day.

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ADJOURNMENT

3:22:35 PM

The meeting was adjourned at 3:22 p.m.