

ALASKA STATE LEGISLATURE
HOUSE SPECIAL COMMITTEE ON WAYS AND MEANS

March 8, 2022

11:35 a.m.

MEMBERS PRESENT

Representative Ivy Spohnholz, Chair
Representative Adam Wool, Vice Chair
Representative Andy Josephson
Representative Calvin Schrage
Representative Andi Story
Representative David Eastman (via teleconference)

MEMBERS ABSENT

Representative Mike Prax

COMMITTEE CALENDAR

HOUSE BILL NO. 376

"An Act relating to the Executive Budget Act; relating to strategic plans, mission statements, performance plans, and financial plans for executive branch agencies; and providing for an effective date."

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HB 376

SHORT TITLE: STRATEGIC PLANS FOR STATE AGENCIES

SPONSOR(S): REPRESENTATIVE(S) KAUFMAN

02/22/22	(H)	READ THE FIRST TIME - REFERRALS
02/22/22	(H)	W&M, STA, FIN
03/08/22	(H)	W&M AT 11:30 AM DAVIS 106

WITNESS REGISTER

NEIL STEININGER, Director
Office of Management and Budget
Juneau, Alaska

POSITION STATEMENT: During the hearing on HB 376, described the current process used by the administration to measure agency performance and incorporate mission statements into the budget process.

REPRESENTATIVE JAMES KAUFMAN
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: As the prime sponsor, introduced HB 376.

MATTHEW HARVEY, Staff
Representative James Kaufman
Alaska State Legislature
Juneau, Alaska

POSITION STATEMENT: On behalf of Representative Kaufman, prime sponsor of HB 376, provided a PowerPoint presentation, titled "Strategic Planning, Budgeting, Execution, and Reporting to Improve Outcomes and Address Longstanding Performance and Management Issues."

ACTION NARRATIVE

[11:35:56 AM](#)

CHAIR IVY SPOHNHOLZ called the House Special Committee on Ways and Means meeting to order at 11:35 a.m. Representatives Wool, Josephson, Eastman (via teleconference), Schrage, Story, and Spohnholz were present at the call to order.

HB 376-STRATEGIC PLANS FOR STATE AGENCIES

[11:36:30 AM](#)

CHAIR SPOHNHOLZ announced that the only order of business would be HOUSE BILL NO. 376, "An Act relating to the Executive Budget Act; relating to strategic plans, mission statements, performance plans, and financial plans for executive branch agencies; and providing for an effective date."

[11:37:28 AM](#)

NEIL STEININGER, Director, Office of Management and Budget (OMB), described the current process used by the administration to measure agency performance and incorporate mission statements into the budget process to give context to the ideas in HB 376. He explained that while the budget process in the legislative branch is confined to legislative session, the executive branch begins its budget process for the next year on the day the conference committee passes a final budget and is passed out of both bodies of the legislature. That internal process has different phases and steps to it, he said, and accommodates the

changes made from the governor's budget to what is finally enacted, and changes made from vetoes, and how that sets up a foundation toward building the next year's budget.

MR. STEININGER related that when [the executive branch] receives the conference committee report out of the legislature, the first step is to work through the veto review process with the departments and the governor and how that impacts program plans going forward. He said changes to the prior December's plans are considered through the authorize process internally, which builds to the authorize budget which is net of conference committee, veto actions taken, and fiscal notes for passed legislation. He stated that agencies are internally looking at what they are authorized to spend for that given fiscal year, and from that authorized number the management plan is built.

MR. STEININGER noted that while the management plan isn't directly called out in statute, it is reflection of the program plans and financial plans discussed in the Executive Budget Act (EBA). He said that is where the state agencies look at how much money they are authorized and they then provide OMB and the governor with the detailed financial information called for in the EBA, referred to as the revenue detail and expenditure detail reports that are part of the annual budget books. That information, he elaborated, defines the line items, specific expenditures, specific contracts that the departments are intending to engage in, as well as the position control numbers (PCNs), the salary levels, and the classification information.

MR. STEININGER advised that the due date for departments to put together this large volume of information is generally the end of July because the departments are simultaneously closing out their prior year's budgets. From there, he said, OMB issues a memo with more specific guidance on what the governor's office is looking for as each department thinks about its mission and vision in development of the next year's budget. That is informed by the work that happened immediately after conference committee, he added, internal conversations are started about how to build and execute a budget for the following fiscal year.

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REPRESENTATIVE STORY requested an example of what the memo would say to inform a department commissioner about what the governor would like to see happen.

MR. STEININGER replied that every year the memo is slightly different, as would be expected. For example, he recalled, a [2020] memo asked agencies how they were responding to the sudden shift in workforce from working in the office to working remotely [due to the COVID-19 pandemic]. He said the memo asked for specific deliverables, the number of employees that had gone out of the office, what types of work went out of the office, how that was initially impacting delivery of services, and how that could have either beneficial or detrimental impacts to services if it became a long-term way of doing business. Oftentimes, he advised, there are questions about the individual programs in each agency and the agency's statutory obligations, and the agency is asked to weigh those against the current reality of delivering government services in the state and provide advice and information on that. This year is a year into telework, Mr. Steininger continued, and the agencies were asked more questions about their longer-term thoughts on things like space needs. Getting information now isn't just for the next year, he explained, but also for a budget change that may be needed four years from now.

REPRESENTATIVE STORY asked whether an overall goal is to create efficiencies and create the smallest state budget as possible.

MR. STEININGER responded that when facing large budget deficits, a big piece of the goal is ensuring that limited resources are prioritized well. He said a subgoal is working towards the goal of delivering services well and operating a department the best it can be operated. Whether facing a budget constraint or surplus, he added, the goal is to deliver services as best as possible.

[11:46:38 AM](#)

CHAIR SPOHNHOLZ inquired about the way that performance measures and indicators are incorporated into the executive branch's planning process.

MR. STEININGER answered that the performance measures themselves are a living document constantly being worked on to meet those objectives. They come into the annual budget cycle, he said, in the internal discussion when departments have received the memo and are working on their proposals and recommendations to OMB and the governor's office for where to take their department in the next fiscal year. During that time, he continued, [the departments] also gather the data to show if they have met or not met their performance measures, whether those were set

recently or 20 years ago. How much attention is given to that process, he advised, varies department by department and how frequently a department is changing the questions it's asking about how it's performing. Some departments take the current mechanical system of performance measures, the information put into the budget books and posted on the OMB website, as their way to advertise their work and show their accomplishments and efforts in the service they provide. Some do a very active job, he noted, while others rely on updating performance measures that were put together 20 years ago, a different mechanical means that doesn't necessarily fit into that same box that is set up right now. But no department puts together its budget recommendations without thinking about what's best for the service delivery of that department, Mr. Steininger added, some just do that more actively and some more passively.

CHAIR SPOHNHOLZ asked which departments are taking an active approach as opposed to static and not focusing on those annual performance indicators.

MR. STEININGER replied that a good example of a department having its mission and vision ingrained is the Department of Education and Early Development (DEED) through the Alaska Education Challenge. He said each group within DEED considers the mission and vision and how that fits into delivering education to students.

CHAIR SPOHNHOLZ asked whether there are other departments not using [performance indicators] as actively.

MR. STEININGER responded that he doesn't want to shame any departments. He stated that in looking at the budget book for OMB, OMB's key accomplishment of fiscal year 2021 (FY 21) was that it delivered the December budget's mission on time.

CHAIR SPOHNHOLZ suggested that the performance indicators are maybe not being used in a way they were intended, which is to improve outcomes for Alaskans. She inquired about the mechanism for updating those.

MR. STEININGER answered that he would say OMB accomplished a lot more than that in FY 21 and he needs to put more attention to this next year. He explained that the budget books kept in the House Finance Committee room are the voluminous information called for in the Executive Budget Act. For example, he noted, the budget book for the Department of Health and Social Services (DHSS) is over 1,500 pages, while the budget books for smaller

departments are a couple hundred pages. He pointed out that to get a quality output from any kind of performance measure, effort must be put in by the person producing it, but effort must also be put in by the person consuming it, and the legislature is the one consuming these products. He advised that light is added by asking questions in subcommittee about performance measures and how they show that departments are meeting their missions and services to Alaskans that the legislature expects of the executive branch. The mechanism is that both sides need to be actively engaged in the process.

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REPRESENTATIVE STORY agreed with Mr. Steininger's assessment of DEED, and that the legislature comes up behind that. She stated that the DEED commissioner really ran with the Alaska Education Challenge which was put together by hundreds of stakeholders. She related that at a recent joint meeting of the House and Senate education committees, DEED provided an excellent presentation about what it was doing in each of five categories. Last year, she further related, the House Education Standing Committee put in budget and intent language to learn what reading curriculum was being used by each district. A report was given to the legislature on 1/22/22, she continued, and DEED is using that information to talk to the districts about whether their reading curriculums are giving the results they want. She said that is a great example in how the different policymakers need to be working together so missions are resourced well.

CHAIR SPOHNHOLZ offered her agreement and said part of the reason that DEED is so focused is the combination of leadership and a broad planning process that involved many stakeholders across the state. Broad stakeholder alignment and committed leadership creates a lot of ownership in a process, she stated.

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REPRESENTATIVE WOOL, regarding Mr. Steininger's self-critique of OMB, asked whether OMB didn't publish its accomplishments or didn't focus enough on the accomplishments on certain items.

MR. STEININGER replied that he would say both. He explained that it's easy to get lost in just doing the work, and not think about how to communicate the accomplishments externally or how to measure the accomplishments. An example of this, he stated, was dealing with all the COVID-19 pandemic money that came into the state in FY 21 and making sure it was going in the best

directions for the state. He advised that OMB interacts with the agencies to get budget objectives and works through budget deliverables to put together the best budget possible. The memo, he continued, asks leading questions to get the department to think about a subject matter deliberately. He stated that asking the departments in the early stages of the pandemic to deliberately think about how telework was going to change their department was to force them to step back from the moment and do some forward thinking about what they're doing and why. He said it shows in OMB's budget book that OMB didn't apply the same standard to itself.

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REPRESENTATIVE WOOL commented that it's analogous to planning a party and cleaning the house before [guests] show up, so not only showing them the house but doing the work to make the exposition favorable.

CHAIR SPOHNHOLZ shared her belief that some of the performance indicators make sense and some strike her as make work. She said a great performance measure focuses on improving the work product to meet organizational goals. Rather than chasing around the annual budget process, she continued, the questions to ask are what should be done and how should it be done to ensure that Alaskans are getting their needs met. Government's role, she opined, is to create a community in which people thrive and succeed and business succeeds, which means examining what is being done, whether it should continue being done, or whether it should be let go so other things can be done better and not have an inefficient use of resources.

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MR. STEININGER resumed his discussion of the budget process. He stated that performance measures and discussion of mission measures and accomplishments happen during the budget process, and that deliberate work and deliverables are involved in putting together the budget book at the end of the process. He advised, however, that the focus during the budget development process is on the iterative change records because that is what's going to be discussed most during legislative session, so production of the other documentary materials is a side project in that process.

MR. STEININGER noted that there is a wide variation in what the departments put forward depending upon how a department is

structured and whether the department is thinking about those documents as a messaging tool about their accomplishments and challenges. Those documents come to OMB towards the end of November or early December, he said, so they are one of the last things OMB is reviewing before release of the budget on December 15. He offered his belief that the statutory deadline for the budget books is a couple days before the start of session.

MR. STEININGER stated that the end product from this process is a narrative of the department's accomplishments or challenges in delivery of mission along with reports, as per the requirements of the Executive Budget Act. He noted that about two-thirds of the overall volume in the budget books is the financial information requested by the legislature through that statute. From there, he continued, is the start of the legislative budget process and the start of session where discussion is primarily about those iterative changes in the change records and what is being changed, not necessarily what was done.

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REPRESENTATIVE WOOL recalled Mr. Steininger stating that the budget books and reports are a big part of what OMB does. He asked whether enough eyes are seeing them and whether the budget books are being utilized as originally intended.

MR. STEININGER responded that during his six and a half years at OMB it has at times felt like a lot of work went into a document that he never got questions about, but there have also been times when there was conversation about whether this body of work could be slimmed down. So, he said, people were looking at it and not necessarily generating questions. He related that OMB receives a lot of clarifying questions and dialogue about the change records, but not as much about the narrative description of the challenges of an individual component. In the subcommittee process, he continued, the departments are probably experiencing this much differently than is OMB and are receiving questions about what is written in those documents. He said he thinks they are being used, but that they could be improved. The work product, he stated, is only as good as the effort that goes in and the engagement from the consumer of the product, and both sides need to come together to make this better.

REPRESENTATIVE WOOL commented that as a consumer his critique isn't of the reports but that the jobs of [subcommittee members] are so full that there are time and bandwidth constraints which

make it frustrating to not be able to delve deeper into the data and reports. He said he appreciates the work being done.

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REPRESENTATIVE STORY stated that as a consumer she wants to resource the missions of the departments; for example, resourcing substance abuse interventions related to the opioid epidemic. She noted that when the legislature put in an increment for social workers last year it was vetoed, but now it is being funded by the administration. She asked how much [consideration] is given by managers when they hear resounding messages to fund something.

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MR. STEININGER answered that between sessions there is a deliberative process where the directive from the governor is discussed and then advice of program managers flows up to the division directors that flows up to the commissioner who then talks to the governor. Sometimes, he added, that results in the governor talking to the program manager to get more information. There is room in the process for back-and-forth to try to meet existing challenges, he continued. Sometimes, he noted, the performance measures don't necessarily get to the heart of the actual delivery of the service or the real need in the community.

CHAIR SPOHNHOLZ expressed her appreciation for OMB's hard work on the complicated issue of producing the state budget. She related that the committee is considering how to make more efficient uses of state resources, so the committee wants to understand the relationship between performance and the budget. She said it sounds like there are opportunities to address this and the segue is probably HB 376.

MR. STEININGER stated that shining light on these things and having these conversations is how to improve them and get to a better process.

[12:17:36 PM](#)

REPRESENTATIVE JAMES KAUFMAN, Alaska State Legislature, as the prime sponsor, introduced HB 376. He spoke from the sponsor statement [included in the committee packet], which read as follows [original punctuation provided]:

Alaska is often in the news for the wrong reasons. When it comes to national rankings of states by performance metrics in key societal areas, we often come close to the bottom. This includes critical areas such as education, health, and public safety.

We spend billions (with a "B") to serve a relatively small population, but somehow improvement seems elusive, and sometimes impossible to achieve. We live in a beautiful and truly amazing state, but the performance of our state programs has not done justice to our unbounded potential.

A main reason for this is that the State of Alaska is a vast and complex multi-billion-dollar enterprise that does not have a well-developed and fully integrated Operations Management System and Quality Management System (OMS/QMS). We have fragments of what an appropriate enterprise-scale performance management system might look like, but not something of the order that would be expected in other endeavors of our magnitude.

So, the question is: How can we start to drive a higher level of performance, rising to meet our many challenges while successfully improving the cost/benefit ratio of our programs?

Fortunately, the answer to that question is available, and has been successfully implemented by high performing organizations in both the public and private sector. We have referenced and adapted those systems in the creation of HB 376.

So, what is HB 376, and how could it drive a beneficial transformation?

HB 376 revises the Executive Budget Act (EBA). Under the new system, every annual budgeting cycle will occur within the framework of a 4-year strategic plan, biennial strategic plan updates, and 1 year performance management/execution plans. The people managing and doing the work will set goals, objectives, and key performance metrics to meet legislative intent that is confirmed with every budget cycle. The legislature will fund budgets that are

aligned with strategic and performance management plans.

Switching to this form of planning, budgeting and performance management will put us on a much better path towards a leaner and stronger future. Our OMS will guide how our enterprise runs, while the QMS will address how we continually improve, and how improvements are sustained.

To be clear, HB 376 does not provide an instant cure for all problems, but by reforming the EBA, which is the foundation of how we plan, manage, measure, and fund our programs, we will be able to pursue other, more comprehensive continuous improvement processes that will lead to better outcomes.

[12:20:36 PM](#)

MATTHEW HARVEY, Staff, Representative James Kaufman, Alaska State Legislature, on behalf of Representative Kaufman, prime sponsor of HB 376, provided a PowerPoint presentation, titled "Strategic Planning, Budgeting, Execution, and Reporting to Improve Outcomes and Address Longstanding Performance and Management Issues." He displayed slide 2, "Overview," and said he would discuss the problem statement; current state under Alaska Statute (AS) 37.07, the Executive Budget Act (EBA); and proposed future state with HB 376, including its structural changes to AS 37.07, plan content summaries, and boards and commissions; benefits; and examples of other states.

MR. HARVEY moved to slide 3, "Problem Statement." He said Alaska's management of programs and projects has not been as strong as many citizens expect from the government. He reported that Alaska consistently scores lower than other states in many key metrics. For example, he continued, Alaska is number 45 overall in best states according to US News, and Alaska received a C-minus report card for infrastructure by the American Society of Civil Engineers (ASCE). He related that Alaska has fragments of an appropriate enterprise-scale management system, but not something that cohesively blends operational, performance, and quality management. He asked the question, "How can we start to drive a higher level of performance while successfully improving our overall cost/benefit ratio?"

MR. HARVEY addressed slide 4, "Current Executive Budget Act." He explained that the sponsor started by looking at the EBA

where budgeting is tied to performance under Title 37, Public Finance, and Chapter 07, Executive Budget Act. He said HB 376 does not propose the statement of policy under Sec. 37.07.010, which states in part: "It is the purpose of this chapter to establish a comprehensive system for state program and financial management that furthers the capacity of the governor and legislature to plan and finance the services that they determine the state will provide for its citizens." He related that the EBA describes the role of the legislature, OMB, and the governor in the budgeting and program execution process. He further related that the EBA includes two sections which deal mainly with planning and performance: AS 37.07.050 which describes what goes into the budget books currently and the roles and responsibilities for issuing and setting mission statements and desired results; and AS 37.07.080 which is program execution and which states that the executive branch still has full authority for executing the programs.

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MR. HARVEY turned to slide 5, "Proposed Future State: HB 376," and discussed the three proposals in HB 376. First, he said, the bill would change some of the responsibilities. Mission statements and desired results are currently issued by the legislature, he related, but what is not written in statute would be pushed down to the executive branch, the people who are closer to doing the work and closer to the customers of the services. They would publicize their measures and results and targets so that they have ownership over them. Second, to increase the organization of what is currently in AS 37.07.050, the bill would change the planning hierarchy by breaking out AS 37.07.050 into different sections - statewide priorities, strategic plans, performance plans, and financial plans. Three to six long-term statewide priorities would be set by the governor, he elaborated, and these can be high level. The strategic plans would list the mission, goals, and objectives for each agency, he continued, and the mission can be set in statute, or some units of the agency can set them themselves if they are not set in statute. He said the performance and financial plans would be annual plans. The performance plans would state the program structure and performance history and targets, he added, and the financial plans would state financial history and budget information. Third, to aid in transparency and reporting, Mr. Harvey explained the bill [would require] quarterly performance reports on progress towards measures, targets, and any results that are being added throughout the

year. These plans and reports would be posted on a single, public website, he noted.

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MR. HARVEY showed slide 6 depicting a graphic of the hierarchy of planning. The hierarchy, he explained, starts with statewide priorities at the top, which are executed through agency mission statements, goals, and objectives that are in an agency's strategic plans. These four-year strategic plans, he said, are updated every two years with the first coming at the beginning of a gubernatorial term. Annual performance and financial plans, he noted, are tied to the objectives, and the financial history and budget information are worked alongside the performance measures.

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MR. HARVEY continued to slide 7, "Structural Changes to AS 37.07," and provided an overview of [four] of the structural changes proposed to the Executive Budget Act. He said the first would be a title change of AS 37.07.016 that would add reference to strategic plans and performance plans. The second, he stated, would be a title change of AS 37.07.050 that would add reference of strategic plans with the goal of refocusing this section on strategic plans and breaking out what is currently listed as necessary for the budget books. He advised that it changes the title due to moving some of that performance and financial information to their own sections. The third change, he explained, would be a new section AS 37.07.055 for specific requirements for boards and commissions so that they would not be required to do their own strategic, performance, and financial plan; they would have an operations plan and financial information for a budget. The fourth change, he related, would be a new section AS 37.07.085 to describe the annual [performance and financial] plans.

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MR. HARVEY proceeded to slide 8, "Agency Strategic Plans - AS 37.07.050." He explained that four-year strategic plans would be submitted at the beginning of each gubernatorial term and these plans would be updated at least once every two years during the four-year cycle. He said these plans would include: a description of the strategic plan and mission statement; three to six goals for the agency, with a definition of goals included in the bill; specific, measurable, realistic, and timely

objectives, with a definition of objectives included in the bill; methods of gathering user group opinions, which is currently in .050; populations served by the agency and population trends; key external factors; and required legislation and regulatory changes if needed to complete the goals and objectives.

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MR. HARVEY spoke to slide 9, "Agency Performance Plans | New AS 37.07.085(b)." He explained that annual performance plans would be submitted to the legislature by December 15th of each year to incentivize planning for performance alongside the budgeting process. He said these plans would include: description of the agency's program structure and proposed changes to the program structure that say how the agency needs to be organized to achieve these goals and objectives; identification of each program's constitutional or statutory authority; defining the agency's program with a program purpose statement to describe the services provided, customers served by those services, and the benefit or intended outcome of the program; [identification of] the performance measures aligned with the strategic plan and stating which goals and objectives each performance measure will be tied to; [identification of] the results for each performance measure over the past four years, if available; and [identification of] performance targets for each measure for the next fiscal year.

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MR. HARVEY reviewed slide 10, "Agency Financial Plans | New AS 37.07.085(c)." He stated that annual financial plans would be submitted to the legislature by December 15 of each year. He said these plans would include revenue and expenditure history for the prior four fiscal years; breakdowns of each revenue source and amount expended on each type of expenditure; estimates [of revenue and expenditures] for the current and next fiscal year; budget requested for the succeeding fiscal year; number of positions; cost of services; reports of receipts made the last year and estimates for the current and next years; and other information required by OMB.

[12:29:19 PM](#)

MR. HARVEY discussed slide 11, "Boards and Commissions | New AS 37.07.055." He related that this new section would create a section specific for boards and commissions and would require a

financial plan and an operations plan, which are currently required from boards and commissions. The financial plan, he noted, would include the budget requested for next year; expenditures for the last year, authorized for this year, and proposed for next year; an explanation of the services to be provided by the board or commission for next year, including the need and the cost for services; total positions; report of receipts; and any identified legislation that is required for that board or commission. He further related that under this new section: the boards and commissions would be required to annually provide a plan for operation of programs; the boards and commissions would be required to develop a method of measuring results; and a board or commission would be required to provide a closeout report upon its termination, and agency programs related to the board or commission.

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MR. HARVEY addressed slide 12, "Benefits." He reiterated the benefits: align the strategy of all agencies with the governor's statewide priorities, which are publicized; link short-term tactics and funding to mid-range department level strategy, which is in line with the governor's statewide priorities; push responsibility for defining measures and targets to the executive branch, which are the people closest to the customers of the services; reduce duplication of goal-setting and financial information at a program or component level because the planning will be led by department level and divisions and programs should be contributing to the department plan; and increase the level of detail regarding program structure and program definition.

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MR. HARVEY moved to slide 13, "Examples." He outlined several examples: the [1993] federal Government Performance and Results Act (GPRA) and the [2010] GPRA Modernization Act (GPRAMA); Arizona strategic plans; North Carolina strategic plans; and New Mexico's Accountability in Government Act.

[12:32:36 PM](#)

MR. HARVEY displayed the graphs on slide 14 related to the Department of Defense (DOD) which has a [Planning, Programming, Budgeting, and Execution] (PPBE) program. He noted that the goal is five years out and that the goal [is reached] by programming backwards through [five] annual plans.

REPRESENTATIVE KAUFMAN remarked that he likes the Planning Ahead Programming with Future Years Defense Program (FYDP). He said DOD is trying to anticipate where it should be defensively in that point in time and so is measuring a goal. There is a lot of argument about money, he stated, and he likes that this is talking about where DOD needs to be and looking at that strategically over that time period.

[12:33:34 PM](#)

MR. HARVEY addressed the diagram on slide 15 from The Standard for Portfolio Management by Project Management Institute, a professional organization that has global standards for project portfolio management. He drew attention to the hierarchy outlined in the diagram of vision and mission leading down to management of operations and programs and projects.

MR. HARVEY explained that the diagram on slide 16 is from the federal government and is a result of the GPRAMA. He said it depicts the federal government's hierarchy of planning from mission, goals, objectives, performance indicators, and the different types of outcomes, input, and efficiency indicators below that. He said this is out of OMB's guidance at the federal level.

[12:34:33 PM](#)

MR. HARVEY next provided a sectional analysis of HB 376 [included in the committee packet], which read as follows [original punctuation provided with some formatting changes]:

Section 1:

Revises an existing Executive Budget Act reference in AS 16.05.110(b) to the newly created AS 37.07.085, "Performance and Financial Plans", due to the reference to budget request supporting information.

Section 2:

Revises AS 37.07.010 to include reference to strategic plans, associated strategies, and the change to multiple planning periods

Section 3:

Revisions to AS 37.07.014(a): Responsibilities of the legislature.

- Changes the role of the legislature from issuing mission statements for agencies and subunits to reviewing and analyzing mission statements and performance plans issues by the governor for each agency.
 - Some missions are set in statute and this method can still be carried out. Where not set in statute there is not a clear mechanism for changing mission statements of agencies. Providing agencies the ability to write and communicate their mission statements will allow a higher likelihood of progress in the direction of statewide priorities
- Removes the issuance of desired results and replaces with reference to the performance plan.

Section 4:

Revisions to AS 37.07.014(b): Responsibilities of the legislature.

- Removes language directing the legislature to adopt a method of measuring results.
 - There is not a clear way of adopting these 'methods of measuring results' so they do not often change.
- Replaces the semi-annual reporting requirement with a reference to AS 37.07.014(f)
 - This bill adds a requirement for a quarterly performance report to be made available on a public-facing website in subsection (f)
- Adds a reference to a strategic plan

Section 5:

Revision to AS 37.07.014(c): Responsibilities of the Legislature

- Replaces 'operating program' with strategic plans and financial plans

Section 6:

Revision to AS 37.07.014(d): Responsibilities of the Legislature

- Adds a reference to strategic planning
- Clarifies that the legislature's role is to authorize the capital program and financial plans necessary to implement agency performance plans
- Reinforces the hierarchy of planning, from strategic planning to performance and financial plans
 - Review and analyze strategic plans and mission statements
 - Assess how annual plans contribute to multi-year plans
 - Review and integrate financial plans into performance plans
 - Maintain all plans on a publicly available internet website

Section 7:

Revision to AS 37.07.014(f): Responsibilities of the Legislature

- To help fulfill the legislature's responsibilities, **each agency shall:**
 - Allocate resources to implement multi-year plans
 - Express program results in measurable terms
 - Measure progress towards multi-year plans and other results
 - Promote activities consistent with multi-year plans that reduce future costs
 - Plan for both the short- and long-term
 - Require accountability at all levels for meeting multi-year plans
 - Adds a reference to strategic planning
 - Requires quarterly reporting to OMB on progress towards the performance plan

Section 8:

Revision to AS 37.07.014(g): Responsibilities of the Legislature

- Removes Boards and Commissions from this section.

- o Boards and Commissions are moved to a newly created section AS 37.07.055

Section 9:

Revision to AS 37.07.016: Governor's use of strategic plans, mission statements, and performance plans

- Adds reference to strategic plans and performance plans in title of section
- Directs the [Governor] to review strategic plans, mission statements, and performance plans
- After review, the Governor shall approve, or require OMB to revise, the strategic plans, mission statements, and performance plans
- Strategic plans and mission statements shall be used to implement and execute the law
- Performance plans shall be used to achieve the desired results of the strategic plans and mission statements

Section 10:

Revision to AS 37.07.020: Responsibilities of the Governor

- Adds reference to two new sections
 - o The additional references ensure that agency strategic, performance, and financial plans as well as boards and commissions operations and financial plans will be submitted along with the budget

Section 11:

Revision to AS 37.07.040: Office of Management and Budget

- Adds new plan names to the list of plans in which OMB must assist in coordination, analysis, development, and updates.
- Removes OMB's responsibility for the administration of a state agency program performance management system
- Adds three new subsections which clarify OMB's role in the hierarchy of planning and reporting

- o (12) Compile strategic plans and submit to the governor
- o 13) Compile performance plans and submit to the governor
- o (14) Compile quarterly reports and submit to the legislature

Section 12:

Repeals and Reenacts AS 37.07.050: Agency Strategic Plans; Mission statements

- Each agency shall develop 4-year strategic plans that are consistent with authority and the governor's statewide priorities
- Plans must be updated and submitted to OMB at the beginning of each gubernatorial term and at least once every two years
- Strategic plan must include:
 - o Description of strategic plan and mission statement
 - Mission Statement must:
 - state the public purpose of agency and programs
 - describe services provided and activities conducted
 - include explanation of why and for whom services and activities are provided or conducted
 - o Identify three - six **goals** for the agency
 - **Sec 20:** "goal" means a broad statement generally describing a desired outcome for an agency or a program of the agency
 - o Identify specific, measurable, realistic, and timely objectives related to each goal
 - Must contribute to progress towards goals
 - Must be based on recommendations of division directors of the agency
 - o Describe methods of gathering user group opinions
 - o Describe population served by the agency and trends affecting that population
 - o Identify key external factors that could affect progress
 - o Identify legislation and regulatory changes required

- OMB's role in development of the hierarchy of plans
 - Review the strategic plan. Ensure consistency with statewide priorities and other provisions
 - Approve or require agencies to revise the strategic plans.
 - Review each performance plan. Ensure consistency with statewide priorities and strategic plans.
 - Approve or require agencies to revise the performance plans.
- OMB may prepare strategic plans if a state agency fails to transmit information by a date specified by OMB
- All documents submitted to the office under this section are public information
- Removes boards and commissions from this section

Section 13:

Adds a new section AS 37.07.055: Boards and commissions: programs; operations and financial plans

- Financial Plans
 - Boards and commissions shall submit a financial plan by December 15th to OMB, Legislative Finance, and the legislature.
 - Plan must include:
 - Budget information
 - Budget requested for next fiscal year
 - Expenditures made during previous fiscal year
 - Expenditures authorized for current fiscal year
 - Expenditures proposed for next fiscal year
 - Explanation of services, need for services, and cost of services
 - Number of total positions employed or under contract, including for capital improvements
 - Other information required by OMB
 - Receipts information
 - Receipts for previous fiscal year
 - Estimate of receipts for current fiscal year

- Estimate of receipts for next fiscal year
 - Identification of legislation required to implement financial plan
- Operations plans
 - Boards and commissions shall submit an annual operations plan by a date prescribed by OMB
 - OMB shall:
 - Review each operations plan for alignment with statewide priorities, appropriations, planning methods, and legislative authority
 - Approve or require revision of the operations plan
- OMB shall assist in preparation of financial plan
- OMB may prepare financial or operations plans if a board or commission fails to transmit either plan by an OMB specified date
- OMB shall compile and submit a summary of boards and commissions financial plans by December 15th to a governor-elect
- All information from a board or commission to OMB is public information
- Appropriations requests
 - Identification of objectives intended for the program and problem or need that the program is intended to address
 - An assessment of achievement of original objectives of the program
 - A statement of costs, performance, and accomplishments in each of last four fiscal years
 - A statement of number and types of persons affected by the program
 - A summary statement of the number and cost of personnel employed or under contract over the last three completed fiscal years
 - An assessment of the effect of the program on the economy of the state
 - An assessment of the how the policies meet the objective of the legislature
 - An analysis of services and performance estimated to be achieved over the life of the agency
 - A prioritized list of the activities the board or commission would expect to perform if the life of the agency were to be continued.

- Boards and commissions shall develop methods for measuring agency results
- OMB shall report quarterly to the governor and legislature on operations of the boards and commissions

Section 14:

Revision to AS 37.07.060(a): Governor's Recommendation

- Requires the governor to identify three to five statewide priorities to guide strategic and annual planning
- Adds reference to the new planning statutes
- Adds reference to new plan structure
- Removes reference to the previously used mission and desired results

Section 15:

Adds a new section to AS 37.07.060: Governor's Recommendation

- Requires the governor to present the strategic plans and mission statements in a joint session at the same time as the governor's budget message

Section 16:

Amends section AS 37.07.070: Legislative Review

- Adds the new, cohesive structure of planning to the legislative review list

Section 17:

Amends section AS 37.07.080(a): Program Execution

- Adds a reference to strategic plans
- Removes desired results as an exception to the agencies' authority to execute their programs

Section 18:

Amends section AS 37.07.080(d): Program Execution

- Clarifies that salary increases must be in accordance with strategic and performance plans as well as any annual operations plan

Section 19:

Adds a new section AS 37.07.085: Performance Plan and Financial Plan

- Each agency shall develop annual performance and financial consistent with the strategic plan
- Plans must be submitted to Legislative Finance, the Senate, and the House by December 15th of each year
- The Performance plan must include:
 - Description of the agency's program structure and any proposed changes
 - Identification of each program
 - Constitutional and/or statutory authority
 - A program purpose statement which describes the services provided, the customers served by the program, the benefit or intended outcome of the program
 - Identify performance measures which contribute to progress towards the agency's strategic plan
 - Identify goals and objectives that each performance measure corresponds to
 - Identify results for each performance measure over the past four fiscal years
 - Identify performance targets for each performance measure for the succeeding fiscal year
- The financial plan must include:
 - Revenue and expenditures for each program for the prior four fiscal years
 - Breakdowns of revenue and expenditures for each program: Amounts received by each revenue source and amounts expended on each type of expenditure
 - Estimates of revenue and expenditures for current and next fiscal year
 - Budget requested to carry out proposed plans of the agency in succeeding fiscal year
 - Expenditures authorized for current fiscal year
 - Expenditures proposed for succeeding fiscal year

- o Number or positions employed or under contract
- o Cost of services provided by each program
- o Report of receipts of agency for expenditures made during prior year, estimate for current year, and estimate for next year
- o Identification of legislation required to implement the proposed financial plan
- o Other information as necessary
- OMB shall assist in preparation of performance and financial plans.
- If any state agency fails to submit these plans, the plans may be prepared by OMB
- Once each calendar quarter, each agency must prepare and present a performance report
 - o Identification of performance measures and related goals and objectives
 - o Results for each performance measure and progress towards target
- All performance and financial plan documents and reports are public information once forwarded to OMB.
- All plans and reports must be published on a publicly available internet website
- Performance plans must be developed with employee participation

Section 20:

Adds new paragraphs to AS 37.07.120: Definitions

- Goal: A broad statement generally describing a desired outcome for an agency or a program of the agency
- Objective: A measurable target that describes the end result that a service or program is expected to accomplish in a given amount of time
- Performance Measure: A quantifiable and enduring measure of an outcome, output, efficiency, or effectiveness
- Strategic plan: A strategic plan developed under AS 37.07.050

Section 21:

Amends Section AS 44.66.020(c): Agency Programs

- Removes reference to previous method of mission and measures

Section 22:

Amends Section AS 44.66.020(d): Agency Programs

- Removes reference to previous method of agency priorities

Section 23:

Amends Section AS 44.66.050(a): Legislative Oversight

- Updates the new 65---reference to the budget of boards and commissions

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REPRESENTATIVE EASTMAN surmised that much of this information would be relatively easy to have when there is continuity in the administration from one year to the next. However, he posited, in the case of a new administration, some of the deadlines would be very early on.

REPRESENTATIVE KAUFMAN replied that there may be work that could be done on the cadence, but even now a new governor must respond quickly when coming into office. He allowed the bill isn't a fix for everything, but said the difference is that a new governor would be coming into an organization that was aligned along the concept of four-year strategic plans updated bi-annually and then the execution plans that go with it. A new governor would be coming into an organization that was more aligned to achieving strategic objectives, he continued, and therefore the system would be more able to integrate the new governor's strategic objectives as actual deliverables for the budgeting process, and then once budgeted, for the ensuing goal driven management process.

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REPRESENTATIVE SCHRAGE drew attention to the hierarchy depicted on slide 6 and asked how the legislature's role would change if HB 376 was enacted.

REPRESENTATIVE KAUFMAN responded that the difference is moving down the setting of goals to the people who are doing the work, which moves it closer to the customer, which gets better alignment along a strategic high-level plan, as opposed to setting that in some cases legislatively.

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REPRESENTATIVE SCHRAGE offered his understanding that it would remove the goal setting process from the legislature and put it into the hands of the executive. He asked whether at that point the legislature would be sitting by to let the executive navigate that process on its own. He further asked whether the executive would then have to come to the legislature for approval of those goals.

REPRESENTATIVE KAUFMAN answered that the annual budgeting process would include the goal and implementation of the goal. This would be a more vibrant discussion, he said, than just saying what was spent last year and how the agency did. It would get into a leaner discussion, he continued, meaning a more focused, more effective discussion of achieving the desired results: What was the mission? What was the outcome? What was measured? How well was the funding used to do what [the agency] said it would do? If the target wasn't met, how will the target be met in the future? Representative Kaufman stated that at a very high level the orientation of the programs is designed into the legislation that creates the program. If the legislature creates a program, he continued, there is a legislative intent on what it does and that flows down to the granular level of program management within the structure of the agency. The legislature wouldn't be out of the picture, he stated, it would be a different role, more like a board would approach a chief executive with everyone understanding what the mission is, and what is being judged is how well that mission is being implemented.

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REPRESENTATIVE SCHRAGE related that in his experience sitting on boards, the board sets objectives, then the executive creates a management plan with key results, and the executive comes back to the board with updates on how that is going.

CHAIR SPOHNHOLZ interjected that the other difference between a board and a legislature is that a board hires and fires the CEO, which is a key way that the board drives focusing in on the goals the board has set, whereas a legislature does not do that.

REPRESENTATIVE KAUFMAN clarified that it was just an analogy for illustrative purposes.

MR. HARVEY explained [the bill] would remove issuance of mission and desired results. He said several departments and agency subunits have their mission set in statute and the programs defined in statute with legislative intent, so that will be defined still. The program execution part of the Executive Budget Act, he continued, still says the role of the executive branch is to execute the laws as written by the legislature, so they will fulfill that intent. The goals, objectives, performance measures, and targets, he stated, will be set by the executive branch for how it can best fulfill the legislative intent by using the mission statements, many of them set by the legislature in statute. So, Mr. Harvey summarized, it is removing the words issuance of mission and desired results and setting up a performance system, but it is baking the performance system into the Executive Budget Act and the mission and legislative intent of programs will still be in statute.

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REPRESENTATIVE WOOL asked why it would only be up to the governor. He noted that OMB creates many reports, and lots of these reports are required by the legislature. He observed that [HB 376] would implement a four-year plan, a two-year update, an annual report, and a quarterly report. He surmised that this would be a lot of labor and that the fiscal note reflects additional labor requirements. The sponsor seems to have a bone to pick with boards and commissions, he contended, and many of the requirements that would be made of them informally would be similar to what are made of departments. He asked whether boards and commissions are a particular problem that the sponsor is trying to solve.

MR. HARVEY replied that it's what boards and commissions do now. He related that the sponsor didn't want to include them in strategic plans, financials, and performance plans as required of agencies. He said it's more an organization

of what is currently in .050, the agency program and financial plan's mission statement section, which puts all of this in one section by organizing it and making some of it a longer-term cycle. The boards and commissions would only have to do some of that work every other year in planning for four years. It isn't necessarily a new report, it's splitting it out into a longer-term cadence for planning and reporting some of that information.

REPRESENTATIVE WOOL stated that some of this seems more applicable in corporate settings with CEOs and boards that don't change every two to four years and there is not so much tension between components of the organization as there is here. He said he questions whether this would work but allowed that the sponsor has references to state governments that have implemented some of these techniques.

REPRESENTATIVE KAUFMAN responded that currently the fiscal note is indeterminate because of the possibility that this could be a net reduction in what is produced in the budget books, which are massive and take a lot of work. He related that HB 376 was a daunting 10-month project, so he realizes the bill is daunting to hear. He said the reason wasn't to turn corporate, but rather how to fit a continuous improvement process within state government as has been done elsewhere. The nexus for all this is the Executive Budget Act, not so much as the quality improvement part of it, but more of the alignment of processes around strategic planning and better long-term planning. In looking at the cadence of planning, he stated, four years matches the election cycle and seemed about right. Others have done five years for various reasons and that could be something to look at, he noted, but the net result should be less work, not more.

REPRESENTATIVE KAUFMAN continued his response. He stated that currently everything is messy and very hard to sort through because it evolved over time. Creating this new platform would open the door for quality management, he said, but presently there is no alignment with that because of not running on strategic plans which would give a high-level view to allow the whole executive branch to be aligned along a strategic plan and more standardized. The more standardized, the easier it is to measure because similar styles are being looked at while dealing with the different pieces, he advised. For example, auditing a well-run company is remarkably easy because everything is

apparent, present, and presentable, but auditing a company that is having trouble is a slog because it is hard to get what is needed for the audit and people are running around hair on fire. This is an opportunity to simplify the process, he stated, even though it may not seem like it because of the volume of material presented today. Once this is worked through, he continued, the Finance Committee will have a much tighter deliverable that gets at the meat and potatoes of what needs to be done, how it is being done, how it is being funded, what the changes are, and so forth. The goal is a tighter package that is more relevant while looking at budgeting. The legislature, he added, would be thinking in a more strategic long-term cadence like the military Department of Defense graph where DOD is not saying, "What are we going to spend?" but instead saying, "Where are we trying to get over that longer term four-year planning period."

CHAIR SPOHNHOLZ stated that the legislature must look at what passage of this bill would mean now and into the future, and the indeterminate fiscal note strikes her as not fully accurate of the short-term fiscal impacts. She agreed that results-based management could get to saving money down the line but argued that in the short term this would create a significant amount of work for any administration that is responsible for implementing this totally new process, which is worth pursuing. She said the goals of HB 376 are commendable.

CHAIR SPOHNHOLZ drew attention to Section 6 which describes the legislature's responsibility to review and integrate financial plans into performance plans. She asked whether this isn't something the administration should be doing and then the legislature would review the administration's proposal when the legislature reviews the plans and budget.

REPRESENTATIVE KAUFMAN answered that when it says to review and analyze [the legislature] is looking at a strategic plan and mission statement and understanding it within the context of the annual budget cycle.

CHAIR SPOHNHOLZ stated that the bill's proposal to move the results-based management and the planning process from the legislature to the administration makes sense since the administration does the operations and execution of administration. But, she continued, it looks here that the legislature is being asked to implement something that is

being proposed by the administration. She said having the administration do that makes more sense and then the legislature approves or disapproves that, given the legislature doesn't do implementation.

MR. HARVEY replied that OMB would still be responsible for compiling and working with the agencies to produce the performance plan and the financial plan. The legislature would still be responsible for the appropriation process, he continued, to ensure that the legislative intent and the legislative and statutory mission statements can be met and to ensure the performance plan can be executed, which includes the program structures and performance measures. He related that if the legislature funds part of the financial plan then it could change the program structure, which would mean that they would have to come back with an update on the performance plan and the financial plan, similar to what they currently do with an authorized budget and a management plan. He further related that after it passes conference committee the financial plan could change, likely will change, which means that they would have to come back with an authorized performance plan and financial plan.

CHAIR SPOHNHOLZ remarked that one of the tensions with this planning process is the possibility of situations where the administration approves and puts forth a plan but then the legislature says, "Not so fast." An interesting tension in government, she continued, is that government is defined to be efficient in some respects because of the three branches, but this makes it difficult to be efficient in the legislature.

REPRESENTATIVE KAUFMAN responded that a recent example was in Legislative Budget and Audit (LB&A) where the cure for an audit finding was to hire two personnel to provide a certain function. He said LB&A made sure the finance subcommittee was aware that this was linked to the audit finding and not adding staff for no reason. That is an example, he added, of how having understanding in the legislature helps achieve goals. He agreed with the chair that it can be a challenge.

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REPRESENTATIVE STORY drew attention to the pyramid depicted on slide 6 and suggested making the top wide to include the

governor and the legislature because they represent the people. The governor and legislature need to come up with the statewide priorities and goals, she posited, because they are equal bodies of governance. This would result in common goals, she continued, so that when administrations change there won't be a long deviation in the plan. She pointed out that boards and commissions and their executive directors spend time together coming up with a plan and in school districts the superintendents talk to their board members and their communities. Representative Story related that in her experience with school boards it costs a lot of money to do evaluations of programs that are truly unbiased. In the human needs arena, she added, it takes commitment of revenues to truly measure how an intervention is working under the Department of Health and Social Services. She asked if HB 376 would apply to state corporations and if they are accounted for in the bill.

MR. HARVEY answered that he believes the Executive Budget Act does not apply to all state corporations. He said it would include the University of Alaska but would not include the Alaska Railroad Corporation which is not subject to the EBA. He said he would get back to the committee with a list.

REPRESENTATIVE STORY agreed with receiving a list and suggested the committee also receive a different top structure.

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REPRESENTATIVE KAUFMAN responded to Representative Story that he appreciates the difficulty of making good performance measures and not spending time and effort measuring the wrong thing. He asserted that there is a huge cultural opportunity to get better at measuring performance, and the goal to reduce cost is really the goal is to improve. He said every inefficient thing has a high opportunity cost, not just a monetary cost and that is a big part of it. He related that he loved the human side of his career in quality management because somebody's wellbeing in their job could often be improved by simply finding the right things and fixing the right things. The opportunity and the challenge with this bill, he continued, is to make it all work well together. He allowed it's going to be a long haul and he appreciates discussions about how to improve outcomes. He said the permanent fund

is an example of excellence in Alaska's system and the reason why is that an enterprise management type model was adopted, and there are opportunities in the other sectors of Alaska's government as well.

[HB 376 was held over.]

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ADJOURNMENT

There being no further business before the committee, the House Special Committee on Ways and Means meeting was adjourned at 1:14 p.m.