NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY COMMITTEE

Thursday, October 16, 2003
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Al Carlson, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Al Carlson, Ken Svedjan, Dave Weiler; Senators Randel Christmann, Michael A. Every, Ray Holmberg; Citizen Members Dick Hedahl, John Patrick Traynor; Executive Branch Members Pam Sharp, Gordy Smith

Others present: Rick Berg, State Representative, Fargo

Jeff Delzer, State Representative, Underwood
Bob Skarphol, State Representative, Tioga
Blair Thoreson, State Representative, Fargo
Judy Zelio, National Conference of State Legislatures, Denver, Colorado
Eldon Mulder, Mulder and Associates, Anchorage, Alaska
Harry Hatry, Katherine Mark; The Urban Institute, Washington, D.C.
Arley Williams, New Mexico Legislative Finance Committee staff, Santa Fe, New Mexico

See attached appendix for additional persons present.

It was moved by Representative Svedjan, seconded by Senator Every, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

GOVERNMENT PERFORMANCE AND ACCOUNTABILITY STUDY

Ms. Judy Zelio, National Conference of State Legislatures (NCSL), reviewed NCSL's involvement with the results-based government project. She said NCSL and The Urban Institute began studying state activities relating to results-based government in 1998. She stressed the need for executive and legislative cooperation in the development of a results-based government system.

Mr. Eldon Mulder, Mulder and Associates, discussed performance budgeting. Mr. Mulder said performance budgeting:

1. Measures the mission and outcomes of state agency programs.
2. Empowers legislators to ask the right questions.

3. Provides useful information (what has the agency accomplished with the state's investment).
4. Helps legislators focus on policy.
5. Assists in making appropriation and policy decisions.
6. Increases public confidence because measures are understandable to the public.

Mr. Mulder said performance budgeting provides useful information at various levels of budgeting from high-level summaries to very specific detail.

Representative Svedjan asked how the performance budgeting system was implemented in Alaska by the executive branch. Mr. Mulder said because agency staff know much more about agency-specific activities and what is appropriate to measure, legislative staff worked with agency staff in developing the measures.

Representative Skarphol asked what the appropriate number of measures should be developed for each agency program. In Alaska Mr. Mulder said each program within an agency has between three to eight performance indicators. He said each year the legislature reevaluates the measurement indicators and may make changes if the measures are not providing needed information.

Executive Branch Member Smith asked how the measures are validated. Mr. Mulder said approximately 10 percent of the measures are audited.

In response to a question from Representative Carlson, Mr. Mulder said in Alaska a separate stand-alone bill is passed each legislative session containing the performance measure targets.

Representative Weiler asked for the outcome of performance budgeting in Alaska. Mr. Mulder said although not all legislators believe it has been successful in Alaska, he believes that members ask better questions and that more policy-based discussion is occurring. He said state agencies have a more clear direction of their mission and that some duplicate programs have been eliminated.

Mr. Harry Hatry, The Urban Institute, commented on the key aspects of "Legislating for Results." He reviewed the following five key legislative actions for obtaining useful outcome information:

1. Legislate a process for regular reporting of results-based information to the legislature by

each major state program, identifying clearly what the program has accomplished for the state's citizens, not merely what activities the program has undertaken. Mr. Hatry said Louisiana, Texas, and Florida have the most extensive systems currently in place among the states. He said the federal government also uses this process.

2. Provide training in "Legislating for Results" for legislators and legislative staffs.

3. Ask legislative staffs to review in advance the performance information provided by agencies to identify issues for legislative consideration during hearings and other legislative sessions. Mr. Hatry said this may be the most critical step in obtaining reliable and understandable information.

4. Seek explanations from agencies for variances on outcomes. Mr. Hatry said some states, including Texas and Louisiana, require agencies to explain any variances from target indicators of more than 5 percent. He suggested that explanations of any variances exceeding 10 percent may be adequate.

5. Establish a formal process for reviewing the quality of the outcome data. As the data is used for making major funding and programmatic decisions, it becomes necessary for the legislature to have confidence in the data. Mr. Hatry said in Texas and Louisiana the State Auditor's office audits a sampling of the data and certifies that the data and the process involved is reliable.

Ms. Katherine Mark, The Urban Institute, played an audiotape of outcome-based questions that legislators could ask. She said the audiotapes and final report will be distributed in 2004. A transcript of the audiotape discussion is on file in the Legislative Council office.

Representative Carlson asked how often there is a legislative review of the outcome measures. Mr. Hatry said agencies should report quarterly on key measures; however, to appropriately manage agency programs, he said program directors should be measuring substantially more outcomes than those reported to the legislature.

In response to a question from Representative Carlson, Mr. Hatry and Mr. Mulder said establishing a procedure to verify the reliability of the data should be implemented after the outcome-based reporting system has been implemented.

Mr. Mulder said modifications to the outcome-based system can be made after a basic system is in operation.

Mr. Hatry reviewed six key legislative actions for effectively using outcome information:

1. Examine outcome information as part of the budget request reviews.

2. Review state programs periodically outside of the budget process to identify which services have strong results and which have poor or weak results. This will indicate to agency personnel that the legislature is interested in results, not only activity and outputs. This will also encourage agencies and programs to focus on results and how best to deliver services.

3. Review the latest outcome information related to key issues as a basic starting point when developing policies and new authorizations.

4. Require that outcome information be included as a major criteria when establishing performance incentives for agencies and state employees. This will increase accountability of the agencies and employees and encourage them to focus on important service outcomes.

5. Support and encourage agencies to include outcome targets in service contracts and grants. This will increase accountability of contractors and grantees and encourage them to focus on important service outcomes.

6. Include outcome information when communicating with constituents. If possible, obtain from agencies service outcome information relating to the constituent's county or city.

Ms. Mark played an audiotape of examples of legislative use of outcome information in Louisiana which identified an ineffective state program.

A copy of the report is on file in the Legislative Council office.

Representative Carlson asked if state agencies or the Legislative Assembly should set agency outcome indicators. Mr. Mulder said agency directors are much more knowledgeable of their programs and appropriate measurements; however, he said, the Legislative Assembly needs to be involved in establishing the key measures for each program. He said this would not preclude the state agency from having additional measures to use internally.

Representative Delzer asked how it is possible to develop outcome measures for very large agencies such as the Department of Human Services. Mr. Mulder said many large agencies in other states have been very receptive to the development of performance measures as it allows agency budgets and programs to be more easily understood; however, it does take time to develop appropriate outcome measures for the large number of programs in large agencies.

Executive Branch Member Sharp asked if traditional or program line items should be used in an agency's appropriation when using performance budgeting. Mr. Hatry said some states use both traditional and program line items in agency appropriations. He said legislators should focus on outcomes

rather than line items because outcomes relate more directly to policy. Mr. Mulder said that states may appropriate by traditional line item, but the line items should not be the focus of the budget discussion.

Citizen Member Traynor asked how the efficiency component of an agency's program is determined. Mr. Mulder said initially it is difficult to determine, but over the years a history of costs and outcomes is developed which shows trends that can be used and compared to other states' outcome and efficiency measures.

The committee recessed for lunch at 12:00 noon and reconvened at 1:15 p.m.

Mr. Mulder discussed the implementation of legislating for results in Alaska. He said in the first year Alaska set its mission statements for agencies, in the second year it established indicators for half of the agencies, and in the third year it established indicators for the remaining agencies. He said useful information was available in the sixth year after implementation because at that point three years of background and comparative data was available. He said it is important for agencies to have adequate mission statements. He said agencies should not include in mission statements what the agency does, but rather what the agency is about.

Mr. Mulder said the key components to establish an outcome-based system include:

1. Establishing the system in statute.
2. Agreeing on a system approach among legislative leadership.
3. Committing to the process for the long term.

Citizen Member Hedahl asked how legislators who are not involved in the interim study or on appropriations committees can be involved in an outcome measure system. Ms. Arley Williams, New Mexico Legislative Finance Committee staff, said in New Mexico, strong legislative leadership, training sessions, and the presentation of outcome-based information to standing committees in addition to appropriations has lead to an acceptance of the system by a majority of the legislature.

Representative Weiler asked how many states use outcome-based information. Ms. Zelio said at least 33 states report a use of performance-based information, but only six or seven use the data for making legislative budget decisions.

Ms. Williams said New Mexico approved its Accountability in Government Act in 1999 and has been involved in a four-year phase-in of the outcome-based system. She said agencies submit performance data targets and performance data history as part of each agency's budget request. She said the role of legislative staff is significant in the process of establishing performance measures and performance targets. She said when developing measures, many sources exist to assist in the development of outcome measures, including the federal government and other states' programs.

Senator Holmberg asked how the system was phased in in New Mexico. Ms. Williams said each year a mix of small, medium, and one or two large agencies was added. She said training of staff at the agency, executive, and legislative level was very important.

Citizen Member Traynor asked if agency strategic plans were required by the legislature in New Mexico and Alaska as part of the outcome-based system. Both Ms. Williams and Mr. Mulder said strategic plans were not required by the legislature as part of the outcome-based system. Mr. Hatry said strategic plans may be developed later.

In response to a question from Representative Carlson, Ms. Williams said New Mexico includes each program's measures in the general appropriations act. Mr. Mulder said in Alaska a separate bill contains all agency outcome measurers.

Mr. Bill Monroe, HTZ Business Systems, commented on government performance and accountability practices and the use of performance management information systems. He said in 1991 Texas began its performance measurement system. He said although agencies measure many outcomes, the legislature focuses only on the key measures for each program.

Mr. Monroe said the performance measurement system is based on a balanced score card concept which involves the development of the program's vision and strategy and the critical success factors to achieve the vision. He said key performance indicators measure the agency's progress in achieving its vision. He said the balanced score card concept:

1. Clarifies and builds consensus on strategic direction.
2. Communicates strategy and measures of success on all levels for staff and citizens.
3. Communicates cause and effect relationships.
4. Aligns behavior and increases the focus on priority initiatives.
5. Provides insight into the achievement of strategic objectives and goals.

Mr. Monroe said each agency program should have a clear and focused mission. He said although programs may measure many outcomes, only 5 to 10 key performance measures should be monitored at the legislative level for each program. He said the other performance measures should have a cause and effect relationship to the key measures of the program.

Mr. Monroe said in Texas performance measure reports of agencies are reviewed in depth by the legislature once each interim.

Mr. Monroe reviewed the use of the PeopleSoft enterprise performance management module for compiling and reporting the performance measure data. He said it is his understanding that North Dakota has already purchased this software as part of

its ConnectND computer system project. He said the system allows the customization of reports for viewing certain performance measure data and identifies whether the measure is on target or not.

Mr. Monroe said fiscal notes on proposed legislation in Texas are required to include at least one performance measure.

Mr. Monroe said based on the Texas experience, it is important for an outcome measure system to:

1. Focus on clear, key performance measures.
2. Use software to gather and report on the data.
3. Develop standardized measures and score cards.
4. Use incentives, benchmarks, and consequences.
5. Use the data to make policy and funding decisions at the legislative level.

A copy of his report is on file in the Legislative Council office.

COMMITTEE DISCUSSION

Executive Branch Member Sharp said changes are being made to the Office of Management and Budget's budget system to allow for the input of performance measure information for the 2005-07 budget cycle.

Senator Christmann suggested the committee receive testimony from state agencies regarding agency perspective on the implementation of an outcome measurement system in North Dakota.

Senator Christmann said while the systems being discussed appear useful in theory, he is concerned that in practice the system may not achieve its intended results.

Citizen Member Hedahl said he is encouraged by the discussion and presentations made before the committee. He said he believes the system presents a new way to review agency functions.

Representative Weiler suggested the committee review information from other states regarding the concepts of outcome measurement systems.

Executive Branch Member Smith said every state agency should have a strategic plan to guide their operations. He suggested the committee review agency plans currently in place.

Chairman Carlson said later in the interim the committee should consider drafting a bill for consideration by the 2005 Legislative Assembly to establish an outcome-based system in North Dakota and if approved by the 2005 Legislative Assembly, to begin the implementation process.

Chairman Carlson said for the next committee meeting he will consider the suggestions of the committee members and work with the staff to provide the committee with information on other states' outcome measures and related legislation and to arrange for testimony from various state agencies.

The committee adjourned subject to the call of the chair at 4:10 p.m.

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Allen H. Knudson
Assistant Legislative Budget Analyst and Auditor

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Jim W. Smith
Legislative Budget Analyst and Auditor

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