Performance and Efficiency Initiatives Report

Prepared for the Legislative Management Committee and the Governor of the state of Utah in accordance with H.B. 326, “Performance Reporting and Efficiency Requirements,” 2021 General Session

December 2021
EXECUTIVE SUMMARY

In the 2021 General Session, the Legislature passed H.B. 326, “Performance Reporting and Efficiency Requirements,” which codified and expanded performance measurement and created an “efficiency improvement process” for operations at state agencies. This legislation is novel in that it requires extensive collaboration across the legislative and executive branches of government, including between the Office of the Legislative Fiscal Analyst (LFA), the Governor’s Office of Planning and Budget (GOPB), the Office of the Legislative Auditor General (OLAG), and state agencies. Beginning in 2021 and each year thereafter, LFA and GOPB report to the Governor and the Legislative Management Committee on the status of the efficiency improvement process and any recommended changes. This year’s report outlines our shared vision to build on Utah’s culture of industry and cooperation through the development of the efficiency improvement process to continuously improve state services for all Utahns. Through the collaborative partnerships specified in the legislation, our respective leadership, and an advisory committee, we will ensure clear roles and responsibilities for the selection, evaluation, implementation, and review phases of the efficiency improvement process.

For the first year, in consultation with our respective leadership and with agencies, LFA and GOPB will jointly choose approximately three pilot projects to undergo efficiency evaluations. In this report, we also provide a status update on the performance measurement component of the legislation because that process informs and overlaps with the efficiency improvement process. With a more proactive and streamlined approach to measuring performance for budget line items and new funding items, we will provide policymakers and other stakeholders with easily accessible and actionable information to improve services provided by state agencies. Our vision for these new performance and efficiency initiatives extends beyond performance measurement and the efficiency improvement process.

We see this new function as an opportunity to study other issues that could broadly improve state government in Utah, such as enhancing the effectiveness of personnel and process management by building the capacity and skills of our managers. Through this work, LFA and GOPB have started identifying potential refinements to the guiding statute for the efficiency improvement process. We plan to provide our recommendations in next year’s report in December 2022. We look forward to providing state agencies with expertise and resources to support innovation and continuous improvement of state services so Utah may continue as one of the best managed states in the nation.

Vision

The state of Utah is widely recognized as one of the best-managed states in the nation. Utah’s culture of industry and cooperation, combined with its leaders’ fiscal prudence and thoughtful long-term planning, has created a lean and effective government. Yet, we know that we can do better.

The state imposes taxes and fees to fund government programs, placing a heavy fiduciary responsibility on our elected officials to appropriate and expend those funds conscientiously and on state employees to effectively execute the work of government. However, efficient use of taxpayer dollars is negatively impacted when state employees are overburdened by compliance-oriented documentation and reporting. The situation is additionally complicated when managers lack the training and time to supervise employees successfully and to improve the processes for which they are responsible. A risk-averse culture at all levels of government is often punitive toward innovation rather than supportive of problem-solving, sometimes undercutting the state’s most important goals.
Although Utah policymakers value objective assessment of taxpayer investment returns, the historical lack of a unified vision across branches of government has prevented truly effective implementation of performance measure development and reporting.

Our vision for Utah government builds on the state’s existing work ethic and fiscal judiciousness to create a culture of innovation, where bold management efforts are rewarded and not punished. We will support our managers with training and capacity to be agents of efficiency with excellent soft skills and we will provide professional learning that makes long-term employment with the state an attractive career track for talented individuals. We will measure fewer but more meaningful outcomes to assess and re-evaluate taxpayer investments. We will streamline outdated bureaucracy to focus efforts on those outcomes. To accomplish all this, we will coordinate across the legislative and executive branches to support agencies and focus their efforts on providing exemplary service to the people of the state of Utah.

Statutory Direction

H.B. 326, “Performance Reporting and Efficiency Requirements,” codified and expanded performance measurement and created an “efficiency improvement process” for operations at state agencies. This legislation requires collaboration across the legislative and executive branches of government, including LFA, GOPB, OLAG, and agencies. Of note, the statute specifies that any entity receiving state funds may be subject to the efficiency improvement process, though we will use the term “agency” throughout this report.

The Legislature provided further direction to LFA and OLAG in H.J.R. 6, “Joint Rules Resolution – Legislative Procedure Modifications,” including specific considerations for the efficiency evaluations, OLAG’s review process, and how legislative committees will be informed of follow-up reviews and may make their own recommendations to the full Legislature.

Report

This document is the first required report for LFA and GOPB to update the Legislative Management Committee and Governor on the status of the efficiency improvement process. Because the efficiency improvement process informs and overlaps with the performance measurement aspect of the legislation, we provide the status of both processes in this report. Collectively, we refer to the efficiency improvement process and performance measurement process as “performance and efficiency initiatives.”

We will provide another report by May 1, 2022 and then annual reports each December thereafter regarding the status of these performance and efficiency initiatives and any recommended changes.

Background

In addition to this new statutory direction passed by the Legislature and signed by the Governor, two recent legislative audits by OLAG support the need for this work.

* A Performance Audit of Social Service Agencies’ Performance Measures – This audit reviewed performance measures for Social Services agencies but made recommendations applicable to all agencies. OLAG’s recommendations were:
1. Address the oversight gaps that exist for large programs by considering funding levels or another basis (services offered, interagency processes) to allocate measures.

2. Consider supplementing activity measures with those quantifying fiscal impacts and other impacts of agency efforts to achieve their accomplishments.

3. Include brief statements regarding the basis for targets when reporting results in the new information system.

4. Supplement performance results with the following contextual information: 1) Meaningful targets, 2) Specific planned agency activities to improve, and 3) External factors that may influence results.

We have already implemented some of these recommendations in LFA’s Compendium of Budget Information (COBI) performance measures for this year.

An In-Depth Follow-Up of the State’s Career Service System – This audit found that only 30 percent of state managers have received management training from the Division of Human Resources Management (DHRM). OLAG recommended increased training for managers, to cover at least “proper discipline, performance evaluation, and performance improvement of subordinates.”

EFFICIENCY IMPROVEMENT PROCESS

Partners

As directed in statute, the primary entities involved in the efficiency improvement process will be LFA, GOPB, OLAG, and agencies. We envision all of these entities working together collaboratively and as equal partners. Although the reports we will publish are termed “efficiency evaluations,” we are not consultants who attempt to fix operations from an outside perspective. We will bring expertise and resources but work with agencies to develop recommendations about anything that could improve efficiency, with the agencies as the ultimate owners – from applying business principles to expanding management training to updating statute to reduce bureaucracy. The agencies will be integral to developing these recommendations and will be the ones to put the recommendations into practice. We believe this grassroots approach is not only the best practice, but will increase engagement in the process and build capacity for continuous future improvement.

Advisory Groups

LFA, GOPB, and OLAG will seek input from their respective leadership. GOPB will form an advisory committee called the Efficiency and Process Improvement Committee (EPIC). EPIC will be comprised of the following members:

- One representative from the Department of Government Operations
- One representative from GOPB
- The Governor’s Chief Innovation Officer (CINO) or the CINO’s designee
- Two representatives from state agencies with 500 or fewer FTEs
- Two representatives from state agencies with 501 or more FTEs
- One representative from LFA (non-voting)
EPIC will meet monthly on an ongoing basis. EPIC will primarily provide input and suggestions to GOPB and act as a resource and connection to other resources for agencies as they implement recommendations from the evaluations.

**Process Overview and Roles**

The figure below outlines the basic steps in the efficiency improvement process, and the roles of various partners in that process.

<table>
<thead>
<tr>
<th>SELECT</th>
<th>EVALUATE</th>
<th>IMPLEMENT</th>
<th>REVIEW</th>
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<tbody>
<tr>
<td><strong>AGENCIES</strong></td>
<td>Suggest projects for evaluation</td>
<td>Provide data for and participate in evaluations</td>
<td>Implement recommendations and collect data</td>
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<tr>
<td><strong>LFA &amp; GOPB</strong></td>
<td>Review performance measures and other criteria, gather project options, prioritize and propose final project list</td>
<td>Evaluate operational efficiency, possible rewards or incentives, alignment of performance measures with agency function, make recommendations</td>
<td>Provide resources and technical assistance if needed</td>
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<td><strong>EPIC</strong></td>
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<td></td>
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<tr>
<td><strong>LEG. MGT. &amp; GOV.</strong></td>
<td>Suggest projects for evaluation, review final proposed project list</td>
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<td>Receive status report each December and consider changes</td>
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<tr>
<td><strong>OLAG</strong></td>
<td>Receive completed evaluations and conduct a risk assessment if necessary</td>
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<td>Review evaluation and implementation updates, conduct in-depth reviews if needed, report to legislative committees</td>
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<tr>
<td><strong>LEG. COMMITTEES</strong></td>
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<td>Review in-depth reviews from OLAG and make policy or budget recommendations</td>
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Selection for Evaluation

For the first year, LFA and GOPB will jointly choose approximately three pilot projects to undergo efficiency evaluations, in consultation with our respective leadership and with agencies. We will identify these pilot projects and present them to the Legislative Management Committee and Governor by May 1, 2022.

In future years, we will consider the following selection criteria:

- Agency performance measures
- Requests by the Governor’s Office, Legislative Management, EPIC, or agency leadership
- External audits
- Customer and employee feedback
- Other relevant information

Based on the criteria and input above, LFA and GOPB will develop respective lists of potential projects. We will then meet to organize the potential projects into one prioritized list and set a schedule for evaluations for the next year. We will report this list and schedule to the Legislative Management Committee and Governor each December.

Efficiency Evaluations

Efficiency evaluations will include the following components:

- Identification of basic information and budget data.
- Assessment of an agency’s system of work. Evaluation of operational efficiencies and inefficiencies and recommendations for process improvements based on management principles.
- Possible development of operational efficiency measures for future tracking and evaluation.
- Review of current performance measures and assessment of whether measures are aligned with operations, as well as the agency’s mission and broader state goals.
- Consideration of recommending training for managers, including both soft skills and operational efficiency training.
- Consideration of whether rewards or incentives should be provided for implementing evaluation recommendations.
- Review of statutes, administrative rule, and other requirements for policies that contribute to government bureaucracy without providing clear value, and recommendations for changes to streamline those policies.
- Consideration of budget adjustments to increase effectiveness.

Evaluations may include the following detailed questions:

**Agency and Program Information**

- What is the agency’s stated mission and goals? If applicable, what is the program’s mission and goals?
- Who are the stakeholders, decision-makers, and customers?
- How does the agency’s and program’s mission and goals align with their statutory requirements?
• How well does the agency and program meet their customers’ needs?
• What are the agency’s line item measures?
• Do the agency’s line item measures capture the goals and statutory requirements well?
• Do the line item measures capture the desired outcomes or outputs that could logically be used to predict desired outcomes?
• Are the line item measures meaningful to the agency?
• Do the line item measures drive desired behaviors?
• How does the agency consider equity? How does the agency engage the community? (e.g., private sector, organizations)

System of Work Understanding

• Does the agency have a clear understanding of the process flow of their systems?
• Does the agency have other operational measures, internal or otherwise, that help measure progress toward the desired outcomes?
• Are the operational measures valid with reliable data and responsive enough to capture changes in performance?
• What trends and other information are the operational measures showing?
• How well do the line item and/or operational measures of the agency tie back to the agency’s budget and funding sources?
• How well do the operational measures account for demand, productivity, efficiency, and customer service?
• What processes and/or services is the agency providing that are not working toward stated goals, improving the operational measures, or are statutorily required?
• What statute, rules, and policies are keeping the agency from improving and/or meeting their goals and targets?
• What non-controlled-for variables are materially affecting the operational performance or outcomes of the agency?

Other Considerations

• What are the consequences of any misalignment between desired outcomes and actual performance?
• Does the agency have a process for continuous improvement?
• What recommendations does the agency have for their own improvement?
• What resources could be invested in the agency to improve performance?
• Consider a budget structure review.
• Consider how the agency is or could better use nonlapsing funds effectively, particularly over a 3-5 year time horizon.

LFA and GOPB will develop a finalized list of questions and considerations for efficiency evaluations and provide this to the Legislative Management Committee and Governor by May 1, 2022.

Post-Evaluation

After the efficiency evaluations are complete, agencies will work to adopt and integrate recommendations. LFA and GOPB may provide direct training or technical assistance, if appropriate and as resources allow. Agencies will also have access to expertise from EPIC and from the
Division of Human Resource Management’s Center for Excellence. Agencies will provide periodic implementation updates to LFA, GOPB, OLAG, and EPIC.

LFA will refer all completed evaluations to OLAG. OLAG will consider, based on the evaluations, whether they should conduct any reviews or make any recommendations to the Legislative Audit Subcommittee for further action. OLAG will then track each agency’s progress on implementing the evaluation recommendations on an ongoing basis. At any point, OLAG may recommend an in-depth review to the Legislative Audit Subcommittee. OLAG will present any prioritized and completed in-depth reviews to the appropriate legislative committees; committees may then make recommendations to the full Legislature.

Based on implementation updates from agencies and OLAG reviews, LFA and GOPB will summarize the status of the efficiency improvement process in the report to the Legislative Management Committee and Governor each December.

PERFORMANCE MEASUREMENT

Goals

Performance measurement in the state has been ongoing for many years. With this new performance initiative, we seek to accomplish the following:

- Tie performance measures to the budget by telling the story of investments, outputs, and outcomes for any organization or project funded by Utah taxpayer dollars.
- Align and streamline measure development and reporting through increased collaboration between the legislative and executive branches to reduce burden on agencies and focus their efforts on providing best service to their customers.
- Displaying measure results on an accessible public dashboard to enable policymakers, agencies, media, and the public to see the impact of taxpayer investments.

Types of Performance Measures

H.B. 326 required reporting of two specific types of performance measures.

New Funding Item Performance Measures

Set for new funding appropriated by the Legislature during a legislative session that costs $10,000 or more from the General Fund or Education Fund

Funding items may:

- Be one-time or ongoing
- Create new programs or add funding for existing programs
- Include pass-through funding
- Reported once, after the close of the first fiscal year of funding
- Show the short-term impact of new funding
Line Item Performance Measures

Set in an appropriations bill to identify how performance for each line item will be assessed

- Reported annually
- Show long-term trends and progress toward key agency outcomes

Over time we plan to expand beyond these measures to include measures around operational efficiency, organizational health, and high-level population outcomes. We plan to scaffold measures from granular funding items to population outcomes to create a comprehensive view of the impact of state services.

Review Process

We envision performance measure development as a grassroots process. For both new funding item measures and changes to line item measures, we first ask the agencies for their suggestions, as they are the most knowledgeable about available data sources, existing measures, and internal goals, with which we likely want to align. Then agency representatives work with the associated budget analysts in LFA and GOPB to improve and refine the measures. As needed, that group collaborates with the dedicated performance teams in LFA and GOPB for additional guidance and to address any disagreements. The performance teams, along with their advisory groups, work on the high-level vision for performance measurement in the State and improving quality and consistency of measures across agencies.

Review Schedule

In 2019, the Legislature established the accountable budget process in JR3-2-501. This joint rule directs LFA staff and legislative appropriations subcommittees to conduct an in-depth review of approximately 20 percent of the budget under each subcommittee’s purview each year, such that the full budget is reviewed over the course of five years. We will align with the accountable budget process by conducting an in-depth review of the line item and other performance measures on the same schedule for the same agencies.

Implementation Status

Beginning in April 2021, GOPB, LFA, and agencies worked to develop over 400 performance measures for new funding items from the 2021 General Session. Agencies will report the results of these measures in August 2022.

Throughout the summer of 2021, LFA and GOPB developed a new joint performance measures repository. We used a customer-experience-focused process in partnership with the national organization Coding it Forward to develop a solution responsive to various stakeholder interests, which was based on over 50 interviews with members of the Legislature, media, and public, as well as state employees.

On Sept. 1, 2021, we unveiled the first phase of the new repository as part of the Budget Prep application used annually by agencies to report on and propose their budgets. Agencies used the new
repository to report their line item performance measures for FY 2021. LFA and agencies reported these measures to the appropriations subcommittees in their October 2021 meetings.

LFA and GOPB are continuing to develop the repository, including a dashboard for easy display of the data to multiple stakeholders. The dashboard, which will be found at performance.utah.gov and include all line item measures, will be live by April 2022. We will continue to develop the dashboard on an ongoing basis, with a second phase launching in the fall of 2022 that will include the first report of funding item measures.

Line item performance measure data are currently available on the performance tabs in LFA's Compendium of Budget Information (COBI). With the repository, we were able to gather the data in one location and automatically generate the graphs in COBI, significantly streamlining our process to publish these data.

Below is an example of a performance measure display in COBI.

**A Balanced Budget**

Target = Spending authorization equal to or less than consensus revenue estimates plus appropriated transfers and prior-year balances. Target line equals revenue as of the Spring prior to a given fiscal year. Bar equals initial appropriations for a given fiscal year.

![Graph showing budget compared to target for FY 2018 to FY 2022](image)

**MANAGEMENT EFFECTIVENESS AND FUTURE PROJECTS**

Our vision for these new performance and efficiency initiatives extends beyond performance measurement and the efficiency improvement process. We see this new function also as an opportunity to study and make recommendations on other issues that could broadly improve state government in Utah.

The first of these projects will be around management. As cited earlier, only 30 percent of managers in the state have received formal management training. Management of people and management of operations are specialized skills. Like other skills, they can be taught effectively. Because we envision the performance and efficiency initiatives as fundamentally grassroots, with agencies playing a pivotal role, building capacity with agency managers is integral to the success of those initiatives. There are particular challenges for the state regarding management: Many agencies have a high rate of turnover, such that managers sometimes lack extensive experience. Additionally, limited resources can mean that managers have little time to fulfill their managerial functions for personnel and for evaluating and improving internal operations. Even managers who receive training often receive it after or
long after their promotion, such that they miss important opportunities when first establishing relationships with their supervisees. Agencies have individual issues related to management but many issues can be considered statewide. Further, some policymakers are interested in significantly changing the career service system. Over the long-term, these changes could include a new compensation structure, other incentives and rewards, and establishment of an executive service track. To support the performance measurement and efficiency improvement processes, as well as these engaged policymakers, in 2022 we will begin evaluating management issues in the state as one of our first study initiatives.

**RECOMMENDED STATUTORY CHANGES**

H.B. 326 specifies that LFA and GOPB should provide any recommended changes to the efficiency improvement process statute in the annual December report. We have identified a few minor adjustments that would be desirable, but plan to continue compiling these items and will provide a complete recommendation for changes in the December 2022 report.