ID # (assigned by CSG): 08-S-04AL

Please provide the following information, adding space as necessary:

State: Alabama

Program Category: General Operations: Administration

1. Program Name:
   SMART Governing

2. Administering Agency:
   Department of Finance

3. Contact Person (Name and Title):
   Joshua Knight, Planning Analyst

4. Address:
   100 North Union Street

5. Telephone Number:
   (334) 353-0563

6. FAX Number:
   (334) 353-1948

7. E-mail Address:
   Joshua.knight@finance.alabama.gov

8. Web site Address:
   www.SMART.alabama.gov

9. Please provide a two-sentence description of the program.

   SMART Governing is an initiative that integrates strategic planning and performance management into the budget process of the State of Alabama as described in the Budget Management Act of 1976. This provides the information necessary to enhance accountability, transparency and the overall management of state government.
10. How long has this program been operational (month and year)? Note: the program must be between 9 months and 5 years old on March 1, 2008 to be considered.


11. Why was the program created? What problem[s] or issue[s] was it designed to address?

In 2003, Governor Riley proposed a comprehensive tax reform package for the State of Alabama. This package passed the legislature but was rejected by the taxpayers of Alabama with a clear mandate for more accountability and efficiency in state Government.

Part of the systemic problem in Alabama was that the public demand for transparency and efficiency required clear objective information about the performance of government. Specifically, plans are necessary for accountability and transparency, and performance information is necessary to make informed management decisions that improve services and efficiency. At the time, Alabama had very limited centralized management information. The only performance information that Alabama collected were reports that counted meaningless items such as paper clips and phone calls. Moreover, these insignificant reports (all paper based) were simply printed, shelved, and forgotten each quarter.

Ironically, this was not a new issue for Alabama. In 1976, the legislature passed a budget law which requires the development of plans and the reporting of performance information for both the governor and agencies. In accordance with this law, a few governors attempted to launch pilot programs for performance-based budgeting. However, these pilots only included a few select agencies. The problem was that with only four guaranteed years for each administration, a trial program with one or two agencies had little chance to change the status quo. After each administration ended, following administrations failed to rise to the challenge of applying the pilot program to all state agencies.

The lack of management information caused both budgetary and organizational problems for the state. With no system for collecting and analyzing plans or performance information, there was no objective data to justify investments or prudent cuts in the budget process. In addition, with this lack of information, commissioners and other executive officials—many serving only 4 years at a time—had no guarantee that performance information was available to assess and manage their agencies. Finally, with only scattered and sporadic planning, and no uniform process, interagency planning around priorities for the state was only possible when particular administrations made a point to facilitate collaborative efforts.

Alabama had no formal plan, no centralized data to manage, no consistent way to make informed budget decisions, and nothing to show the public for their tax dollars. Thus the creation of SMART was both in response to rising public demand for government accountability and a pre-existing legislative mandate for performance-based budgeting.
12. Describe the specific activities and operations of the program in chronological order.

The program began in 2004 when Jim Main, the newly appointed Finance Director for Governor Bob Riley, resolved to fully implement the Budget Management Act of 1976. With the assistance of numerous public and private partners (see question 19) the Finance Department established a cycle for planning and reporting performance that is directly linked with the budgeting cycle.

The SMART Cycle essential includes various drafts of the SMART Plan, an executive level summary of an agency’s strategic plan that communicates the agency’s key goals and how it will accomplish those goals, justifies agencies budget requests, and provides the framework for tracking agency performance. Goals must be specific and measurable and are formulated using the Governor’s Priorities. The various steps of the cycle, including capital planning, are used to develop statewide plans, evaluate budgetary decisions, track progress towards goals, manage agency performance, and provide the public with vital information about how tax dollars are spent. Agencies plan and report throughout the year, but one cycle could be described chronologically as follows:

The Executive Planning Office (EPO) holds annual training in the spring for all agencies focused both on how to participate in the SMART process, and how to effectively plan for and track performance. Participants in training represent a broad range of state employees and officials including commissioners, budget officers, program managers, and planning coordinators. These participants are generally grouped together with similar agencies for training to encourage collaboration. Before and after training, EPO staff meets with select agencies that have been asked to meet with the Finance Director and the agencies that need the most improvement in their planning process.

In July, agencies submit the first form in the cycle, the SMART Plan (the subsequent three forms are revisions of the SMART Plan with additional information and refinements). This document is an executive level summary of the agency’s strategic plan focusing on key, measurable goals, annual strategies and objectives. In late July and August, the commissioners and top staff from most of the largest agencies (roughly 40 agencies each year) meet with the Finance Director and key executive branch officials to discuss each agency’s goals from the SMART Plan and review their performance. The EPO staff then follows-up with these agencies to refine the plans based on feedback from the meetings.

In November, agencies submit the SMART Budget Request. The SMART Budget Request ties the goals and performance data from the plan to agencies’ requests for funding, and is used to establish and justify the Governor’s Recommended Budget. Again, about 40 agencies meet with the Finance Director to discuss their request as it relates to their plan and performance targets. All Budget Requests are delivered to the legislature for their review (now online, but initially in paper format). After the legislature passes the budget, agencies may revise their plans (especially performance targets) based on actual funding with the SMART Operations Plan.
While submitting the Operations Plan, agencies also set quarterly performance targets for the upcoming year. Again, EPO reviews the Operations Plan and any changes to targets in comparison with changes in funding. The performance objectives and goals are then tracked throughout the year. Reports are produced comparing targets and actual performance each quarter and are published to the web. Dashboard reports of goals directly supporting the Governor’s Priorities are provided to the Governor’s Office, and follow-ups are made on plans that are significantly off target.

At the end of each Fiscal Year, agencies can apply for high performer status, which provides administrative benefits (increased purchasing thresholds and more budgeting latitude). To finish the cycle of accountability, the Examiners of Public Accounts reviews the planning information to ensure the integrity of the data reported through the SMART Cycle. All forms are reported online on the SMART website, which is completely open to the public.

This cycle is based on the budget process which takes three years from start to finish. At one point in the cycle agencies are planning for two years in the future, finalizing targets for next year, and reporting on performance for the current year. Thus Executive Planning Office staff is constantly working with agencies as they complete each cycle.

13. Why is the program a new and creative approach or method?

There are many states with Strategic Planning, Budgeting and Performance systems. Our system is similar in many ways, but SMART is fundamentally different than most states’ programs for three major reasons: 1) Our plans are actively updated and require specific accomplishable goals, 2) The planning process is interwoven with the budgeting cycle, and 3) Bi-annual meetings with agencies and decision makers that facilitate both management of performance and the budgeting process.

The biggest difference between SMART and most other states is that we want our planning and performance information to be living documents that are actively used and managed. To this end, we are not looking for full blown “Strategic Plans” — many times, such large documents only outline and define an agency’s mission which is already established in the law and therefore it is simply shelved. Likewise, we are not looking for a long list of performance measures for every program—these may be useful to program managers, but not to the public and decision makers. Instead, we require an actual working performance plan to improve agency services and operations which is actively tracked. For this reason we require long term (3-5 year) goals that measure improvement in the agencies’ efficiency and/or quality of services with a measure and a specific end point. For example: “We will decrease traffic fatalities from 1200 to 850 by 2012”, or “We will recruit 100,000 jobs to Alabama by 2010.” These specific goals provide targets reflecting the agencies priorities to track over the multiple years allowing us to hold the state accountable for tangible accomplishments.

The other major difference is that SMART was designed to be integrated into the budgeting process. Each agency goal that requires new investments must fit into their total budget request each year. This forces us to reconcile all the goals of the agency with their
current budget and any inflationary increases. It also provides the basis for enabling budgetary discussion to focus on performance. Agency personnel tell us that this process requires the budget officers and the managers of the agency to actively coordinate in the planning and budgeting process, and that this alone has changed the culture of many agencies.

The third major element is regular meetings between agency managers and the executive decision makers to discuss plans and performance. We recognize that the Citi-Stat model has its benefits, but the frequency of the meetings required by that model (every two weeks—or in state-stat monthly) doesn’t fit the reporting capabilities of most state organizations. Similarly, where other state programs focus on these regular meetings to discuss performance in focus areas, we have opted for consistent meetings with agencies to ensure the utility of performance information in the budgeting process. (We do address functional issues through regular meetings with the Governor’s Policy Councils, which include top agency officials in similar functions to meet regularly.)

Instead of the continual meetings with agencies of citi-stat and state-stat, and the topical focus of other programs, we meet bi-annually (in July and November) with the majority of agencies (relative to funding) to discuss the entire agency, its priorities, plans and performance, and how these issues impact the budget. As mentioned in question #12, these meetings involve the agency’s commissioner and top staff, the Finance Director, Planning and Budget Staff, and representatives from the Governor’s Office.

I4. What were the program’s start-up costs? (Provide details about specific purchases for this program, staffing needs and other financial expenditures, as well as existing materials, technology and staff already in place.)

SMART Governing began in August of FY 04. The start-up costs were very minimal and are estimated at only $7,500 for FY 04. These low costs were possible because the development of the process was done with volunteer work from PARCA, many agencies, private industry, and existing Finance and Governor’s Office staff. In FY05, SMART held a training session for agencies in which roughly $20,000 was spent on professional services to help with training. It was not until the last quarter of FY05 that SMART began to hire actual staff.

I5. What are the program’s annual operational costs?

In FY04, an estimation of $7,500 was spent on consultant work to help the SMART process. FY05 consisted of a statewide training session which resulted in about $20,000 worth of professional services. The first staff members were hired in the last quarter of FY05.

FY06 was the first full year that SMART budgeted for salaries and benefits. In FY06, SMART had employed 5 FTE’s and spent a total of $230,573.44 on salaries, benefits, travel, rentals and leases, and supplies. SMART also spent $221,126.23 on
automation costs and professional services. It is important to note that the SMART process became completely automated during FY06 which incurred the most expensive charges to date.

Over the course of FY07, SMART employed 9 FTE’s. SMART spent a total of $446,110.55 on salaries, benefits, travel, rentals and leases, utilities and supplies. $107,145.58 was spent on refinement and maintenance of automated applications and professional services.

16. How is the program funded?

SMART Governing is funded through the Department of Finance’s appropriation from the State General Fund. Partnerships with local universities and a local non-profit consulting group provide additional manpower support, facilitation and advising.

17. Did this program require the passage of legislation, executive order or regulations? If YES, please indicate the citation number.

The BUDGET MANAGEMENT ACT (Code of Alabama 1975, Sections 41-19-1 through 41-19-12) provided the framework for SMART and was passed in 1976, but had never been fully implemented.

18. What equipment, technology and software are used to operate and administer this program?

SMART Governing currently utilizes an automated system to gather statewide planning and performance information. All planning documentation is completed and submitted by the agencies and institutions via the SMART website. The current planning forms are custom built MS Visual Basic .NET web applications. All data is stored in a SQL Database. All reports are generated via Reporting Services. Application programming and database/reporting management is currently facilitated by the State of Alabama, Information Services Division (ISD).

Analysis is currently run through MS Excel spreadsheets which are created and maintained by SMART Governing planning analysts. SMART Governing currently uses MS Office, including Word, Excel, PowerPoint, Access, and FrontPage on a daily basis. Adobe Professional and Project Kickstart are also other software programs that are utilized within the office.
I9. To the best of your knowledge, did this program originate in your state? If YES, please indicate the innovator’s name, present address, telephone number and e-mail address.

There are several states with performance-based budgeting initiatives; however, ours was a specifically tailored program utilizing elements from many programs. Credit for customizing this to the needs of Alabama must be given to the SMART Executive Group and the initial members of the SMART Steering Committee:

### SMART Executive Group

<table>
<thead>
<tr>
<th>Name</th>
<th>Role</th>
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<tbody>
<tr>
<td>Jim Main</td>
<td>Finance Director</td>
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<tr>
<td>Bob Childree</td>
<td>State Comptroller</td>
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<tr>
<td>Brent Peinhardt</td>
<td>Consultant, Vantage Associates</td>
</tr>
<tr>
<td>Jim Williams</td>
<td>Consultant, Public Affairs Research Council</td>
</tr>
<tr>
<td>Bill Newton</td>
<td>Budget Office Director</td>
</tr>
<tr>
<td>Anne Elizabeth McGowin</td>
<td>Assistant Finance Director (SMART Director)</td>
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<tr>
<td>Dave Stewart</td>
<td>Governor’s Chief of Staff</td>
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### SMART Steering Committee

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<thead>
<tr>
<th>Name</th>
<th>Agency</th>
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<tbody>
<tr>
<td>William Ashmore</td>
<td>State Employees Insurance Board</td>
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<tr>
<td>Al Austin</td>
<td>Human Resources</td>
</tr>
<tr>
<td>Joyce Bigbee</td>
<td>Legislative Fiscal Office</td>
</tr>
<tr>
<td>Fran Copeland</td>
<td>Public Safety</td>
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<tr>
<td>Ed Davidson</td>
<td>Public Health</td>
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<tr>
<td>Rachel Dickinson</td>
<td>Finance</td>
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<tr>
<td>Anne Evans</td>
<td>Mental Health/Mental Retardation</td>
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<tr>
<td>Bill Flowers</td>
<td>Transportation</td>
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<td>Mike Lewis</td>
<td>Medicaid</td>
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<td>Anne Elizabeth McGowin</td>
<td>Finance</td>
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<tr>
<td>Winona Nelson</td>
<td>Rehabilitation Services</td>
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<tr>
<td>Allen Peaton</td>
<td>Youth Services</td>
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<tr>
<td>Craig Pouncey</td>
<td>Education</td>
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<tr>
<td>Marvin Jones</td>
<td>Senior Services</td>
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<tr>
<td>John Jacobs</td>
<td>Corrections</td>
</tr>
<tr>
<td>Marcia Rucker</td>
<td>ADECA</td>
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20. Are you aware of similar programs in other states? If YES, which ones and how does this program differ?

Yes this is covered primarily in question 13. The following is a brief overview of some states which we have adapted elements.

The cycle format is similar to many states, most like Texas; the major difference is the have a two year budgeting cycle. The general terminology is adapted by looking at planning processes from virtually every state with a published planning glossary. The use of measurable goals with specific targets and end dates, to our knowledge, is not required in any state. The method for justifying the budget through linking goals to a Fiscal Impact, to our knowledge, cannot be found in other states.

21. Has the program been fully implemented? If NO, what actions remain to be taken?

The core of the SMART Process is fully implemented as all agencies are participating in the planning process. However, we plan to grow and expand to support the process. Two major components will soon be added.

First, we will begin reporting on quality of life indicators for the Governor’s Priorities and related to agencies’ goals. These will be similar to many states’ “report cards” or “score cards” that show how state government impacts societal indicators like unemployment, crime statistics and student achievement to name a few.

Second, the state is on the path to purchase a new ERP system which will eventually encompass the planning system. This will allow data from many existing systems to be used for analysis and reporting.

22. Briefly evaluate (pro and con) the program’s effectiveness in addressing the defined problem[s] or issue[s]. Provide tangible examples.

Pros:

• Automated system allows for complete transparency: virtually all state programs have plans on the web and are regularly reporting performance.
  - For examples see website www.smart.alabama.gov
  - Average hits per month: 2,432 / Last report: 3,374 (January 2008).
  - Public approval of this administration has been exceedingly high.
• Limited number of goals and measures make plans more meaningful and forces questions about agency priorities.
  - This provides a user-friendly format for state decision makers to understand as well as members of the general public.
• Specific, Measurable goals force agencies to constantly plan rather than create a strategic plan that may sit on the shelf.
• Direct connection to the budget request changes the way participants think about and justify budgets—change in both agency staff and decision makers.
• Planning meetings with commissioners encourages buy-in with agency leadership.

Cons:
• Because the primary audiences of SMART are the public and decision makers, the information is limited to an executive level summary. This can, at times, create a false sense of security because program managers must have more information supporting these documents to effectively manage performance and establish goals. This also forces agency directors to select a limited number of programs to be reflected in the agency’s top priority goals.
• Because our process is linked tightly to the budget cycle, the planning process spans several years, and may be cumbersome as goals and priorities change. With time, and as agencies get used to the process, this has become less of a problem.
• Having the process verified with the Examiners of Public Accounts is essential. However, this has caused some agencies (specifically those under review of the Sunset Committee) to be reluctant to set challenging targets for fear of legislative scrutiny based on audit findings.

23. How has the program grown and/or changed since its inception?

Implementing a program that involves changing a new process for 200+ public entities and over 34,000 employees takes time. Moreover, building the shared understanding of the planning process to make the data comparable between agencies and across multiple years requires a substantial investment of time, training, evaluation and feedback. For this reason, we have progressively refined our planning model each year:

The first year (FY 06 Budget Cycle) there was a focus on getting all agencies to simply come up with general, broad goals (some of which were not measurable), build a planning process, and begin measuring and reporting real performance data.

The second year (FY 07 Budget Cycle) focused on refining these goals, moving towards measurable long term targets and connecting planning elements together. This was the first year for formal training sessions. Additionally, higher education planning and capital plans were added to the planning process.

In the third year (FY 08 Budget Cycle), all goals were required to be measurable and all the planning elements connected directly. The connection between goals and the budget request was redefined. The Examiners of Public Accounts began reviewing agency’s performance information for accuracy of data. This data was also the first used to create dashboard type reports for the Governor’s Priorities. Governor’s Policy Councils began meeting. Statewide indicators were created for use in the planning process (not yet published to website).

In the fourth year (FY 09 Budget Cycle), very little changed. This year is focused on managing the plans instead of teaching the process. The first Governor’s strategic plan was created integrating the SMART process. The first statewide Capital assets plan was created.
24. What limitations or obstacles might other states expect to encounter if they attempt to adopt this program?

Literature analyzing obstacles to performance-based budgeting initiatives in state government abounds, and our experience has confirmed many of their findings. However, our late arrival in this field allowed us to anticipate these problems as much as possible. The following are the largest obstacles we have faced:

1) RESISTANCE TO CHANGE: One of the primary obstacles has been resistance to change from state agencies (this includes a resistance to reporting meaningful performance information, assuming responsibility for performance, setting challenging targets, and budgeting for performance). The way to get around this amiably is through personal attention and time spent with staff involved in the process. This bottom up approach must be supported by executive influence on the agency leaders to increase the emphasis on managing data and regularly planning.

2) BUDGET PRIORITIES: The information will not settle every question about the priority of programs. While we might be able to compare the cost of incarceration between work release programs, primary facilities and supervised parole, performance data doesn’t make the choice between critical programs simple. Performance data is the foundation for the conversation about investment and results. Therefore, it doesn’t make the decisions, it simply makes the decision making process more informed.

3) LEGISLATIVE BUY-IN: Legislative buy-in is the final link to integrating the performance information into the budgeting process. However, building a legislative interest in plans and performance information is no easy task. Our efforts with the legislature began with strong leadership support in the legislature. However, when election cycles come around and the legislature is distracted by political battles, “good data” is of little interest. The key must be to institutionalize it in the legislative process slowly by working with the Legislative budget officials and any legislative auditing body such as our Examiners of Public Accounts. These groups work for the legislature and therefore their understanding of the usefulness of this information is essential to its effectiveness in the legislative setting.

4) DEVELOPING GOOD MEASURES: As with anything, the measures that agencies use in the beginning, with little exception, will not be ideal. The process of improving measures takes time, leadership and consistent encouragement from internal and external sources. Research on best practices can help staff develop suggestions, but forcing measures on agencies takes away the very ownership of the process that is essential for it to be effective, so the role of staff must almost always of a management consultant.