

Director's Board Report

July 2019

Thank you Chairman Moad, and good morning members of the Idaho Transportation Board. Because some of you are new, my director's report this month will be different than I normally present, rather than highlighting recent events and major accomplishments, I will be providing the board with a high-level overview of the improvements we have made to the department in the last 10 years, and how these improvements benefit Idaho taxpayers.

First, I would like to share a short video introducing you to the department. As you saw in the video, ITD has become a highly successful and award-winning agency. When I became director of the Idaho Transportation Department in 2009, things were very different. ITD was not considered a successful organization. In fact, it was just the opposite.

I accepted the job knowing the department was under a dark cloud. The Idaho Legislature thought we were inefficient. Governor Otter had no confidence in ITD. He had issued an executive order detailing how the department was to be run, and even organized a group of Idaho businessmen to advise the department. The public

had no trust in ITD, and the media was feeding on the negativity.

As you can guess, all of this led to very low morale among the employees. Newspapers across Idaho were featuring negative stories about ITD:

- Needing to get our house in order.
- Lack of credibility.
- Losing our mojo.
- One even quoted a state senator saying ITD was dysfunctional.

This negativity led to ITD losing out on a much-needed gas tax increase that was strongly supported by the Governor. It had been nearly two decades since the department had received a revenue increase, and funding levels were not keeping pace with costs. We had good, hard-working employees. They were not the problem. They did great work, but they worked in silos. They needed a new direction, and more importantly, a common vision. Which would get everyone moving in the same direction.

That was 2009 . . . 10 years ago. A lot has changed since then, and those changes have had a major impact on the department. We cut our staffing level by more than 10 percent. And even with fewer employees, our performance indicators are up. We improved our accountability, and earned full support of the Idaho Legislature.

That led to two major revenue increases in three years. One of them was the largest increase in the department's history. These are amazing accomplishments, and the media took notice. They now report on ITD's successes, and on our innovative and highly successful culture.

Since 2009, ITD has earned 139 national awards and honors for transportation innovation and excellence. Many of them were the nation's highest. This did not happen by accident. It was a long road to get where we are now, but we were guided by our vision to become the best transportation department in the country. This is not meant to be an arrogant vision, there is a lot of thought behind it. We simply want to look at the best agencies in the nation, adopt their best practices, and then find ways to do them even better. We want to be an **A Plus Organization** in an **A World**.

During the 40 years I have worked in the transportation industry, I paid close attention to what was going on around me. I learned what works, and what does not work. I came to realize that government agencies need to change. They need to serve the citizens. Not serve themselves.

Agencies need to focus on measuring and improving the results that directly affect their customers. These are the results the public actually sees and benefits from. I believe agencies need to wisely invest their revenue to maximize the return on investment, and drive economic opportunity.

They need to track and measure their performance. And measure outcomes and results. Not processes.

I believe the best decisions are made closest to where the work is being done, and operations are taking place. When I arrived at ITD in 2009, I implemented a plan that reflected this philosophy. At that time, ITD was using a 1960s civil service model to run a 21st Century organization. It was not working.

- ITD had too many layers of management.
- Pay was based on layers of supervision.

- And there was a strong culture of restrictive central control.

Government agencies have been that way for a long time. It all stems from the way they compensate employees. The 1960s model pays people based on the number of years they have worked for the agency. And the number of people they supervise. People are paid based on the number of layers under them. Or as your next-door neighbor might say, the layers of bureaucracy.

This way of compensating employees drives the structure of an organization. It requires more layers. More people. And a large, centralized headquarters.

That kind of centralization means decisions are made far from where the work is done, and the operations are taking place. The 1960s organizational structure drives an agency's performance measures. They are process based, rather than being focused on outcomes.

For example, a process-based performance measure might be how much salt is spread per mile during a snow storm. But the public is not interested in the amount of salt on a highway. They care about how safe it is to drive on a highway during a snowstorm. Process-based measures tend

to focus on “HOW” something is done, rather than “WHY” it is important. Processed-based performance measures drive an agency’s decision making. And lead to agencies and their employees answering questions with “no, because. . .”

They might say “no, because that is not our process.” Or “no, because this is the way we have always done it.”

What they should be saying is “Yes, if. . .” “Yes, we can do that, if we do this first.” Or “Yes, we can do that, if you take these other steps.

“Yes, if” is a positive answer, and agencies that focus on the “yes, if” are far more likely to meet customer needs than “no, because” agencies. The results of the 1960s civil service model are not ideal. It creates large bureaucracies that focus on policies and procedures rather than outcomes.

And agencies that are more interested in serving themselves, rather than serving the citizens. The good news is that government agencies do not have to remain stuck in the past. They can be changed, and they can be improved.

We developed a model at ITD that dramatically improved our performance. It starts with the way we compensate our employees. We developed a new system with horizontal career paths that compensate employees based on their skills and abilities. Not the number of people they supervise, or the number layers under them.

The pay levels within each horizontal career path are based on four things.

- Time
- Training
- Testing
- And Teamwork

Here is how it works. Before employees can move up to the next level of the pay scale, they are required to obtain training in new skills. Then, they must demonstrate over a period of time that they can use those skills in the field to be more productive and efficient. Plus, each individual, and their entire team, must attain measurable goals that we set in advance.

If any member of the team does not reach the goal, no member of the team is eligible to move to the next level of pay. That creates positive peer pressure, and also motivates high achievers to mentor newer employees to make sure the entire team obtains the measurable goals.

Horizontal Career Paths are a win-win situation at its finest. The employees win, because they can improve their job skills and performance, and improve their standard of living. They understand what they have to do to take responsibility for advancing their careers. The supervisors win, because they have highly functioning teams focused on achieving “team” goals. Not individual goals.

But most importantly, the citizens of Idaho win, because the goals we set for individuals and teams at ITD can be seen and felt by every Idahoan. The realignment gave us a smaller workforce Less bureaucracy. Better results. And more satisfied employees.

That is an overwhelming success, by every measure. However, removing every other layer of supervision eliminated the vertical career paths most organizations rely on to promote valuable employees. So we developed the horizontal career paths I mentioned earlier.

We realigned into a much leaner organization. We reduced the layers of management from nine layers to five. eliminated 62 positions that only supervised one employee, and “EVERY” assistant-manager position.

At the same time we increased the span of control for supervisors. No one at ITD lost their jobs or pay as a result of realignment. We reduced the workforce through natural attrition and retirements. Our new structure created a vibrant, streamlined agency that is more effective and more accountable. And now we have clearly defined roles for each level of our organization.

Level one is the Director. Who is accountable for the performance of the organization, and serves as the primary contact with:

- The Idaho Transportation Board
- The Governor’s office
- The Idaho Legislature
- Other state agencies
- And the federal government.

The Director provides the vision for the department, and sets the direction. In military terms, this is the level that would say: “We are going to war against this country or that country, and we are going to win!”

Level two is the executive officers. They are responsible for setting the strategic direction. They must remove obstacles that interfere with getting work done, and ensure effective communication and coordination among all areas. Simply stated, they must break down the silos.

The Executive Team members are held accountable and measured by the goals of the strategic plan. In military terms, this is the level that would say: “To win this battle, we must take one of those three hills. We will take the middle hill, which gives us the best strategic advantage.”

Level three is the administrative level. These are typically Division Administrators and District Engineers who set the roadmap to get to the desired destination.

They are responsible for establishing the tactical direction needed to achieve the goals. This group is measured by business plans that include goals, budgets, and timelines for the programs they oversee.

In military terms, this is the level that would say: “Our tactic will be two-fold. We will attack first from the left, to weaken the enemy. Then on day two we will attack from the right and finish the battle within 24 hours.”

Level four is the managerial level. This group is responsible for programs and projects, and is measured based on whether they are delivered:

- Within the defined scopes
- At or under budget
- And on-time.

In military terms, this is the level that would say: “To take the middle hill, we need 2,000 troops, seven tanks, and three days worth of ammunition and supplies.”

Level five is the first line supervisors. They work directly with front line staff to ensure the daily work is being done. They are measured by, and held accountable for, the daily performance of the teams they supervise. In military terms, these are the sergeants leading troops into battle.

Five layers seems to be the right number. If there are more than five layers, the roles begin to blur and it becomes difficult to determine who is ultimately responsible for what.

In ITD's old organizational structure, a position might fit into layer 2, 3, or 4. If they can fit into layers 2, 3, or 4, you probably only need one clearly defined layer.

ITD's realignment was so innovative and successful that it won the American Association of State Highway and Transportation Officials' **President's Award for Administration.**

After the realignment, we began reviewing all positions when they became vacant to see which should be filled, and which could be eliminated. We reduced our workforce by more than **10 percent**, generating nearly **\$106** million in salary savings. At the same time we measurably increased our performance.

Let's see what the public thought about it. (video plays here)

Our compensation system drives our organizational structure. The new structure gave us fewer layers of management.

We increased the span of control for supervisors, and reduced our workforce by more than 10 percent, while other agencies continued to grow.

While we may have fewer employees, they are more highly skilled. Which means we are able to get more work done with a smaller workforce. Our organizational structure drives our performance measures.

Because we removed layers of management, we are able to have fewer layers telling the front-line workers how to do their jobs. Instead, we are empowering employees to make decisions. After all, who knows best how to do their jobs?

Our performance measures track outcomes the public can actually see and benefit from, and are directly tied to the goals of our strategic plan.

We have full transparency, because our performance measures are constantly updated and posted for all to see in our online dashboard. ITD's outcome-based performance measures drive our decision-making.

We empower our employees to make decision, and we have developed a strong culture where employees say “Yes, if. . .” rather than “no, because. . .”

We are constantly striving to improve our culture, to make it as constructive as possible. And the results speak for themselves.

We have less bureaucracy. Our decisions are based on actual impacts to the public. We are providing better services at a lower cost. And most importantly, we are serving the citizens, not ourselves.

On screen, you see the ITD Dashboard posted on our website. It shows how ITD is doing in the 10 performance measures that are most important to the public, and provides comparisons to the performance of surrounding states.

The trends I am about to show you are the result of placing decision-making as close as possible to where the work is done, and clearly demonstrate what happens when you pay people based on their performance.

It is important to note that these improvements happened after we cut our workforce by more than 10 percent. This chart shows the percent of time highways are clear of snow and ice during storms.

In 2010, we kept the roads clear 28 percent of the time. Last winter, we kept the roads clear of snow and ice 86 percent of the time, and that was “during” storms. We define “clear” as when the public can safely drive the posted speed limit.

Here is another performance measure. It shows the average number of days it takes DMV employees to process a vehicle title. In 2013, it took an average of eight days. In 2018 they were able to process titles in an average of four days.

This is an amazing improvement, especially when you consider that Idaho is the fastest-growing state in the nation. Because as the population increases, so does the workload for DMV employees.

Because of a smaller workforce, limited funding, and a rapidly increasing population, ITD employees have to work harder, faster, and smarter to keep up.

This news story shows how they are doing exactly that. The changes we have made over the past 10 years have created a more efficient organization with great results, and employees who are happier and more satisfied in their jobs.

Employee satisfaction and motivation continue to trend upwards. We don't want to go backwards. The results of going backwards would be this:

If we can no longer implement Horizontal Career paths, then we have to go back and reestablish vertical career paths. In order to reestablish vertical career paths, we have to put more layers back in.

Putting layers back in means we need more people. And, if we need more people, since our budget is now bigger and we are providing a higher level of service . Rather than the 1,830 people we had in 2010, we might need 1,900 or 2,000 people.

You can see why we do not want to go backwards. Our organization is in a much better position than it was 10 years ago. We are delivering services in the most efficient way possible, while at the same time taking care of our employees.

Idaho's elected officials have noticed ITD's increased performance, and have voiced their support and approval. Let's see what they are saying. (video here)

When I appeared before the Joint Finance and Appropriations Committee for the first time 10 years ago. I promised that ITD would find ways to deliver better services at a lower cost. And I promised we would not ask for any increase in revenue until I could assure that every penny was being spent as wisely as we could.

Today, I can assure the board we are doing just that. We have transformed ITD from an agency that was under a dark cloud . . .

To one that others look to as a model agency.

In fact, the **White House** asked us to develop the case study you see on the screen, so they could share it with other agencies across the county.

Thanks to the tremendous support of the Idaho Transportation Board and the budget flexibility provided to ITD by the Idaho Legislature, we are making good on our promises, and have turned ITD into an agency that moves—

not at the speed of bureaucracy—but at the speed of business.

Mr. Chairman, we look forward to your leadership as together we move toward our goal of becoming the best transportation department in the country. This concludes my Director's Report for July, 2019.