

SUBJECT: State agency performance assessments by independent foundation

COMMITTEE: State Affairs — favorable, without amendment

VOTE: 15 ayes — Solomons, Menendez, Cook, Craddick, Farabee, Gallego, Geren, Harless, Hilderbran, Jones, Lucio, Maldonado, Oliveira, Swinford, S. Turner

0 nays

WITNESSES: For — William Denney, Quality Texas; Dale Crownover; Donald McLachlan

Against — None

On — Susan Kamas, Workforce Solutions Board of Central Texas

BACKGROUND: Government Code, ch. 2056 requires state agencies to develop and publish strategic plans covering five years. The plans must include, among other things, a statement of the mission and goals of the agency and the groups served by the agency.

The Government Code defines a state agency as a department, board, commission, or other entity of state government, but not a university system or an institution of higher education that:

- has authority that is not limited to a geographical portion of the state;
- was created by the Constitution or a state statute with an ongoing mission and responsibilities;
- is not the office of the governor or lieutenant governor or within the judicial or legislative branch of government; and
- is not a committee created under state law whose primary function is to advise an agency.

DIGEST: HB 1485 would require state agencies to undergo a performance assessment by the Quality Texas Foundation or another independent foundation selected by the Governor's Office of Budget and Planning.

Assessments would be based on criteria in the Malcolm Baldrige Criteria for Performance Excellence. The Governor's Office of Budget and Planning would adopt rules to implement the assessment program by October 1, 2009, with the consultation and comments of the Legislative Budget Board (LBB).

Agency assessment program. State agencies would have to establish a six-year plan to assess their management, accountability, performance, and customer service using the Baldrige criteria. Agencies would have to assess their progress in implementing the plan every two years.

An agency would have to submit its most recent biennial assessment to the foundation selected by the Governor's Office of Budget and Planning every second year after the agency adopted a plan. The foundation would develop criteria to evaluate the assessment with regard to the agency's:

- quality management, accountability, and systems for evaluating performance; and
- leadership effectiveness, planning, customer service, performance measurements, process management, and employee focus.

After receiving an assessment from an agency, the independent foundation would submit a report with its evaluation and recommendations to the agency, the LBB, the presiding officers of both houses of the Legislature, and the Governor's Office of Budget and Planning.

Sunset review. If the agency failed to significantly improve a deficiency noted by the foundation in a previous assessment, the lieutenant governor and the speaker of the House could jointly require that the agency be included in the group of state agencies under Sunset review before the next legislative session. In the event of such a recommendation, the review would be treated as a scheduled Sunset review.

Awards for performance. The Governor's Office of Budget and Planning could grant an award of up to 10 percent of the net savings or increases in revenue to a state agency that demonstrated significant improvement in a deficiency noted in a previous assessment and that reduced state costs by increasing efficiency, productivity, or state revenue as a direct result of the change. An award would be computed using a cost-benefit analysis of the net annual actual or projected savings or increase in revenue greater than \$500 after deducting the cost of implementing the change. Savings or

increases in revenue would have to be certified by the agency and the LBB.

A state agency that received an award under this provision could use the funds for a targeted salary increase or one-time merit payment for employees, or for information technology hardware or software designed to increase the agency's accountability and customer service.

Initial agency assessments. By October 1, 2009, the Governor's Office of Budget and Planning would select six state agencies to conduct the assessment — two with at least 800 full-time employees, two with at least 100 and fewer than 800 full-time employees, and two with 100 or fewer full-time employees. The agencies selected would have to establish the six-year plan and submit an assessment by March 1, 2010. No other state agencies would have to submit a biennial assessment before March 1, 2012.

The bill would take effect September 1, 2009.

**SUPPORTERS
SAY:**

HB 1485 would save taxpayer money by increasing the efficiency and performance of state agencies and would improve the customer service and work environments at agencies under review. Short-term costs of implementing the assessment could be absorbed by agencies with existing resources with no great expense. The bill would provide for a pilot program of six state agencies that included an evaluation of those agencies by an independent foundation. An independent foundation, such as Quality Texas, would be responsible for evaluating agency self-assessments and making recommendations based on the Malcolm Baldrige Criteria for Performance Excellence.

Quality Texas is a non-profit 501c(3) that originated from an idea suggested by Gov. Ann Richards and has since been offering seminars aimed at improving organization performance. The organization now also administers the Texas Award for Performance Excellence. The Baldrige criteria provide a holistic assessment of an organization by reviewing its profile in several categories of performance, including leadership, strategic planning, customer focus, measurement and knowledge analysis, workforce focus, process management, and results.

Requiring an independent review of self-assessed plans would be a valuable supplement to the current oversight and review processes because

it would emphasize different goals and provide an independent perspective on the performance and functions of state agencies. The Baldrige criteria offer valuable insights into overall agency performance that might not be captured by governmental reviews. The Baldrige evaluation would allow a third party to review interactions and relationships within the agency that cannot be captured easily by organizational flow charts and statutory revisions. An independent non-profit foundation would provide a fresh perspective that could result in significant savings to the state at little cost to taxpayers. Agency self-assessments would be relatively simple to conduct and would focus agencies on questions central to successful performance and service.

An independent foundation would evaluate agencies' self-assessments and provide a report with the findings of the review and recommendations for improvement. The evaluation would have minimal cost because it would be conducted by a non-profit with highly qualified and experienced staff with streamlined processes. Agencies would have an incentive to implement recommendations in the evaluation by being eligible to receive up to 10 percent of enhanced savings or revenue resulting from changes suggested by the foundation.

Requiring agencies that did not adopt recommendations from their last assessment to undergo review by the Sunset Commission would be further incentive to implement the suggestions in good faith. Such reviews would not subject the agency to being abolished, but an agency being evaluated would have to participate as though it were a regularly scheduled Sunset review.

HB 1485 would take a measured approach to establishing the performance assessment system. The bill would set up a pilot program with only six agencies of varying sizes selected by the Governor's Office of Budget and Planning. This would allow the Legislature to review the program and terminate or revise it based on results over the next two years.

**OPPONENTS
SAY:**

HB 1485 would not identify a funding source for establishing the assessment program. The bill would have two significant, short-term impacts on state finances – it would require an unknown amount of staff time and resources to adopt the six-year assessments and it would require either the Governor's Office of Budget and Planning or state agencies to pay an independent foundation for an evaluation. While in the long run the evaluations might save the state revenue, the short-term costs required to

initiate the assessment program would place a burden on the state's already strained finances. Agencies do not, at this time, have the extra resources available to devote to successfully participating in the program without any additional funds available to cover added costs.

HB 1485 also would use standards of evaluation that might not be suited for reviewing state agencies. While these criteria may have value in evaluating private businesses, hospitals, and other entities, they may not be as effective in assessing state agencies. State agencies are more structurally rigid than private businesses because they are governed by statutes, boards and commissions, legislative appropriations, and missions governed by law and other factors beyond the agency's control.

A two-year pilot program would not be enough time to test the value of using the criteria that eventually would be used to evaluate all state agencies, which vary greatly in size, purpose, and structure. Developing evaluation standards to apply fairly to all agencies would be a difficult charge, and applying assessment standards that have been only lightly tested for one biennium would present an unnecessary risk.

OTHER
OPPONENTS
SAY:

While applying the Baldrige standards for performance excellence to state agencies could result in some valuable reforms, an independent entity would not necessarily need to administer the evaluation. State agencies currently are subject to multiple levels of review by several entities, such as the Sunset Advisory Commission, LBB performance review, the State Auditor's Office, legislative committees, and others. Bringing another entity into the oversight process would add one more layer of reporting requirements. The bill should look at ways to incorporate the quality review standards into existing procedures, perhaps using an independent foundation as a consultant.

HB 1485 would provide only one opportunity to review the six agencies in the pilot program. This would not be very informative because it would not provide the opportunity to demonstrate improvement based on the results of the assessment and the evaluation by the independent entity. The bill should be amended to include more than one evaluation assessment per agency in the pilot period.

NOTES:

The LBB estimates the bill could have a significant fiscal impact to the state but that the precise cost cannot be quantified with available information.

