HOUSE RESEARCH ORGANIZATION bill analysis 4/8/2003

HB 651
Pitts, Campbell
(CSHB 651 by R. Cook)

SUBJECT: Creating a savings incentive program for state agencies

COMMITTEE: Government Reform — committee substitute recommended

VOTE: 6 ayes — Swinford, Gallego, Allen, Casteel, R. Cook, T. Smith

0 nays

1 absent — Callegari

WITNESSES: For — None

Against — None

On — Susan Biles, Comptroller's Office; Carla James, Texas Incentive and Productivity Commission

BACKGROUND: In 1989, the 71st Legislature created the Texas Incentive and Productivity Commission (TIPC) to reduce state expenditures and increase revenues by recognizing and rewarding state employees whose suggestions help to improve the quality of service to Texas citizens. TIPC originally managed two incentive programs — one that rewarded individual state employees and another that recognized suggestions from employees as a team, division, or entire agency. Savings from the suggestions were allocated to the agency, the originating fund, TIPC, and the employee or group of employees.

The 76th Legislature in 1999 enacted SB 355 by Harris, continuing TIPC until September 1, 2003, and combining the two incentive programs. Individual state employees could receive bonuses equal to 10 percent of the resulting first-year savings, up to $5,000. Employee groups could receive bonuses of up to 10 percent of the first-year savings, to be divided among group members. The amount could not exceed $5,000 for each member. SB 355 repealed the allocation to the originating fund and to TIPC, allowing each agency to keep all savings not awarded to individual employees or employee groups.

DIGEST: CSHB 651 would create a savings incentive program for state agencies that would allow agencies to keep one-half of any annual savings in undedicated general revenue, up to 2 percent of the amount of undedicated general revenue appropriated to the agency from nonfederal sources for that fiscal year. Any savings would have to be appropriated to the agency by the Legislature and spent on items that would not create new or expanded services or require ongoing funding in future years.

An agency that spent less undedicated general revenue from nonfederal sources than it was appropriated for a fiscal year would have to report the savings to the comptroller before October 30 following the end of the fiscal year. The comptroller would have to verify the savings within 60 days of receiving the notice.

The bill would take effect September 1, 2003.

SUPPORTERS SAY:

CSHB 651 would help end the "use it or lose it" mentality of state agencies in making budget decisions late in the fiscal year. Agencies now fear that if they do not use all their appropriations by the end of the fiscal year, the remaining funds will "lapse" or be returned to general revenue or other funds. The comptroller's e-Texas report identified a significant increase in late fiscal-year spending from fiscal 1998 through 2002. During August, the last month of the fiscal year, agency spending increases by an average of 57 percent from July. CSHB 651 would help end this "land rush" flurry of spending.

Agencies, much like state employees, would respond to positive incentives to save money and improve efficiency. The current system offers incentives to overspend and actually punishes agencies for innovation. Leaving too much funding unspent, whether because of savings or other efficiencies, could lead the Legislature to conclude that the agency is overfunded and should have its budget reduced. Allowing agencies to keep some of the identified savings would encourage them to implement savings programs.

Experience with the TIPC employee programs and similar savings incentives in other states shows that these initiatives generate real savings. Employee suggestions brought to TIPC have saved Texas more than $77 million since the inception of the program. The State of Washington saved $207.6 million through a savings incentive program adopted in 1997 to promote agency efficiency and support its public schools.

The bill would not create additional paperwork or red tape for agencies. The comptroller already maintains records on lapsed funds and easily could verify the amount of savings achieved by the agencies.

OPPONENTS SAY:

CSHB 651 would not prevent year-end budget gamesmanship nor end the punishment of greater efficiency by state agencies. South Carolina created an incentive program to allow agencies to carry forward unspent funds from fiscal 2001 to 2002, and the agencies saved $46 million. However, the state legislature swept that money into the general fund to offset a budget deficit. Texas lawmakers have sent similar mixed messages on savings by requiring all agencies to reduce their budgets by 7 percent in the current fiscal year, with no reward for finding extra savings.

OTHER OPPONENTS SAY:

Agencies, especially small ones, would find the ceiling of 2 percent of their general revenue budgets too small to be a meaningful incentive. Agencies already return some $30 million to $50 million in lapsed money each fiscal cycle, and CSHB 651 would not necessarily improve on that. The state should expand incentive awards to as much as $250,000 and should encourage managers and employees to adopt “best practices” programs. Payment of cash bonuses would reward good state employees and agencies who rightly feel underappreciated.

NOTES:

HB 651 as introduced would have set the limit on fund retention from savings at 1 percent of the undedicated general revenue derived from nonfederal sources. The substitute would raise that limit to 2 percent.

The companion bill, SB 447 by Williams, has been referred to the Senate Finance Committee.