

A Report from the
**TEXAS
PERFORMANCE
REVIEW**

UNIVERSITY OF TEXAS
AT ARLINGTON

CHALLENGING The Status Quo:

Toward Smaller, Smarter
Government



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**VOLUME ONE
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CAROLE KEETON RYLANDER • Texas Comptroller of Public Accounts



March 2, 1999

The Honorable George W. Bush
The Honorable Rick Perry
The Honorable James E. "Pete" Laney
Members of the 76th Texas Legislature

Ladies and Gentlemen:

I am pleased to present our most recent performance review of Texas state government, as authorized by House Bill 2009 approved by the 1991 Legislature. The enclosed report, *Challenging the Status Quo: Toward Smaller, Smarter Government*, summarizes 86 separate issues and includes 199 detailed recommendations for making state government more efficient and effective.

This report includes proposals that initially appeared in the Texas Performance Review's staff draft issued in December 1998, as well as new issues developed at my direction. Other issues have been modified to reflect new information, improved recommendations, and other amendments that make sense for Texas. This report demonstrates the firm commitment of this office to introduce innovation and best practices into government operations, so that we may serve Texas taxpayers in the most cost-effective way possible.

In all, the proposals in *Challenging the Status Quo* will free up \$1.25 billion in all funds during the 2000-01 biennium, including \$429.6 million in general revenue. It will yield \$1.86 billion in all funds over the next five years.

Revising issues from the staff draft of December and developing innovative new proposals in a very short timeframe required a significant commitment from my staff. I understand that the hardest work begins now, as we attempt to help the Legislature turn these proposals into law. My staff and I are eager to work with you. We will be pleased to discuss these proposals and provide any information you may require.

Sincerely,

Carole Keeton Rylander
Texas Comptroller of Public Accounts

Challenging the Status Quo:

Toward Smaller, Smarter Government

By all accounts, Texas, on the cusp of the 21st century, is driven by a powerful, well-tuned economic engine.

The Lone Star economy, more diverse than ever before, is generating jobs at a near-record pace. Inflation remains tame. Times have been rough for drought-stricken agriculture and a slumping oil patch, but most Texans are seeing better days than they have for nearly two decades.

Key economic indicators are strong and vigorous. Housing starts surged a whopping 30 percent in 1998, rising to their highest level since the unprecedented housing boom of 1984. Personal income, after inflation, is climbing by 5 percent a year. Annual exports, an indicator of Texas' growing muscle in the international economy, have quadrupled to \$84 billion over the past decade.

Companies in Texas are doing better, overall, than businesses in the rest of the United States. The state's annual rate of growth in nonagricultural wage and salary employment has exceeded that of the nation as a whole for the last 39 quarters—since mid-1989. Meanwhile, growth in the state's domestic product is expected to outpace the nation's by 1.4 percent a year for the next two years.

It's no surprise, therefore, that Texans feel good about their economy. The state's consumer confidence last year reached its highest level since regional readings began in 1981.

With the exception of agriculture and oil, times are good—so good the 1999 Legislature has \$5.6 billion in additional funds available over the amount appropriated last session.

Texas is a big, extended family. Like any good family, we need to spend wisely, invest wisely, and save some for a rainy day.

Controlling Government Growth

Although they may be tempted to savor the moment and open the state's coffers for their favorite causes, state lawmakers still face unusual pressures. No one wants to spend lavishly on scores of new government programs and then, when the economy slows, be forced to make painful choices between program cuts and tax hikes. The days of roller-coaster growth and spending are over—or should be, at any rate.

Most Texans believe that our policymakers should keep state spending on a tight leash, even with a record budget surplus. The best way to prevent government from growing without bounds in good economic times is through a judicious combination of tax cuts and spending restraints. These two measures, taken together, can force state government to become lean and stay trim during good times and bad.

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— Carole Keeton Rylander

Still More to be Done

Texas government today is more efficient, effective, and accountable to its customers, the citizens of Texas. The state has become a national model in a number of areas including performance budgeting and educational accountability.

But we cannot rest on our laurels. We can, and must, continue to do better.

For example:

- Government spending has slowed, but its rate of growth remains too high. The Legislature appropriated \$87.1 billion for Texas' 1998-99 biennium, of which \$48.9 billion represented undedicated general revenue; these levels represented increases of 22.7 and 23 percent, respectively, over the appropriations of just two biennia ago.
- Many duplicative functions and overlapping responsibilities have been pared from state agencies, but others remain untouched.

- Texas has eliminated some burdensome regulations, but hundreds of outdated rules remain on the books and new regulations continue to multiply, many unnecessarily.
- Texas has made some attempts to introduce competition into state government, but the efforts have been piecemeal and have proceeded in fits and starts. A comprehensive approach is needed to truly open state government to the benefits of the competitive market.
- Texas has taken a national lead in education reform, but too many of our children continue to graduate from high school without the skills needed to succeed in a technology-driven economy.

The basic challenge facing Texas policymakers remains: to reduce the size and cost of state government while making government accountable to the taxpayers.

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Fiscal Impact of the Performance Review Recommendations, Fiscal 2000 and 2001

(Amounts in Millions)

Issue Area	General Revenue Impact	Other State Funds Impact	Federal Funds Impact	Total, Including Federal Funds
Education	\$ 65.40	\$ -1.00	\$ -1.07	\$ 63.38
Regulatory Reform	0.07	0.00	3.84	3.90
Cross Government	20.00	14.30	0.00	34.34
General Government	71.40	671.90	-0.13	743.17
State Employees	188.00	-7.40	0.00	180.60
Health and Human Services	79.70	0.00	122.78	202.48
Public Safety	-0.09	-18.00	26.45	8.36
Housing	5.00	0.00	8.60	13.60
Total	\$429.60	\$659.81	\$160.48	\$1,249.88

Note: Totals presented may not add due to rounding.

A Vision for Our Future

Comptroller Rylander's vision for the 21st century is paychecks and jobs for Texans; limited government, unlimited opportunity. Her commitment to free markets, smaller government, lower taxes, and increased educational excellence for Texas children is unwavering.

Nothing is more important than education. The Comptroller will be "the education watchdog" for the people of Texas. She will see to it that more of every education dollar goes directly into the classroom where it belongs.

Limited government and lower taxes spur economic growth. Research has demonstrated repeatedly that states with low tax burdens outperform their high-tax counterparts in economic growth and in job creation.¹ Allowing individuals and businesses to keep more of the money they earn provides more capital for savings, investment, and consumer spending, and thus encourages the creation of new jobs.

Similarly, a lighter regulatory burden frees businesses from bureaucratic chores and allows them to focus on increasing value for their shareholders and customers. Government should not be in the business of micromanaging business—when it does, the taxpayer ultimately pays the price.

Smaller government has become a fashionable topic, but it continues to garner more lip service than action. Trimming government requires a focus on core functions, the introduction of competition into government services, the abolition of unnecessary work, streamlined work processes, and the reduction or elimination of low-priority programs. Most of all, achieving smaller government requires policymakers to ask hard questions about each and every program, the most fundamental being: "Should government even be doing this at all?"

Real, fundamental change cannot be achieved within any institution—whether in government or the private sector—without a vision of where you want to go and how to get there. Comptroller Rylander's vision for Texas government as we approach the 21st Century is based on a

simple set of principles. These principles, highlighted in the box below, will guide the Comptroller's future efforts to scrutinize government, and include the work of a Texas citizens' waste-fighting commission soon to be formed.

A New Direction for the Texas Performance Review

Past Texas Performance reviews focused largely on identifying short-term cost-cutting opportunities in specific programs at individual agencies. The exercise was useful, particularly in its early days, in helping lawmakers and agencies identify ways to save money. However, as the 1990s come to a close, the easiest savings opportunities—the "low-hanging fruit"—have already been plucked. To move forward, Texas needs a new approach.

To ensure that cuts and savings are permanent and won't become undone in future budget cycles, Texas needs systemic, structural reforms that cut across state agencies. Texas has had some success in improving its systems—a notable example is the introduction of performance budgeting—but for the most part, public employees remain trapped in systems that fail to adequately reward excel-

Comptroller Rylander's vision for the 21st century is paychecks and jobs for Texans; limited government, unlimited opportunity.

10 Principles for Texas in the New Century

- ◆ **Develop a better-educated workforce**
- ◆ **Direct more of every education dollar into the classroom**
- ◆ **Raise the bar on student performance**
- ◆ **Cut taxes in Texas**
- ◆ **Introduce competition into Texas government**
- ◆ **Improve government performance and accountability**
- ◆ **Reduce the size of government**
- ◆ **Bring common sense to regulations**
- ◆ **Use technology to cut costs and increase quality**
- ◆ **Return control to communities and individuals**

lence, discourage competition, and ultimately fail to serve the best interests of taxpayers.

Government often fails to deliver services in a cost-effective manner because state employees work in an environment that does not reward excellence. The pay of front-line workers generally is linked to longevity, not performance. Public-sector managers have even fewer incentives. Their compensation typically is tied to the size of their staff and budget.

Comptroller Rylander proposes a series of structural changes, ranging from rewards for performance to customer service standards for each agency, with objectives that go further than the elimination or improvement of specific programs.

The 86 proposals in this report are intended to achieve continuous improvement in state government's operations, reduce costs both in the short and long terms, and change incentives within government. If adopted by the 1999 Legislature, these recommendations would free up nearly \$937 million in all funds through fiscal 2001 and even greater rewards in future years. When combined with the revenue available in the budget surplus, these savings should allow the state to enact record tax cuts while simultaneously making a very substantial investment in public education. This effort will further the Comptroller's ultimate goal: a leaner, less costly, more efficient, and more accountable state government.

*"Many times
government strives
to do better what it
shouldn't be doing
at all."*

— Carole Keeton Rylander

About this Document

Many recommendations in this report were prepared by the Texas Performance Review staff under John Sharp, the previous Comptroller of Public Accounts, and published in a "staff draft" in December 1998. Comptroller Carole Keeton Rylander has substantially modified many of these proposals. She and her staff also have introduced many new ideas and specific recommendations that underscore her commitment to thoroughly reshaping Texas government.

The proposals referenced in this volume are described in detail in Volume II of this report. Issues in Volume II are divided into eight sections that generally correspond to major program areas of state government, and identified according to the following abbreviations:

ED	Education
RR	Regulatory Reform
CG	Cross-Government
GG	General Government
SE	State Employment
HHS	Health and Human Services
PS	Public Safety
HOU	Housing

For Instance, ED 1 is the first issue within the Education section of Volume II.

Develop A Better-Educated Workforce

Texas has emerged as a national leader in education reform. Student scores in Texas climbed to the top tier nationwide after the state passed landmark legislation based on the simple but powerful principles of local control and increased accountability. Every year, the Texas Education Agency (TEA) releases public reports on each school district's performance on accountability standards such as academic performance, dropout rates, and attendance rates. Since 1993, when the Legislature established the Texas Public School Accountability System, the bar has been raised annually to ensure that Texas schools continue improving.

Nevertheless, many Texans still lack the skills needed to succeed in the 21st century. TEA estimates that 4 million adult Texans never graduated from high school. Yet Texans no longer compete with students from New York, Illinois, or California alone. They must hold their own with graduates from Asia and Europe as well. As Texas competes more vigorously in world markets, our children must be prepared to meet the growing and more sophisticated demands of the international marketplace. Texas has a responsibility to raise its educational standards and strive for excellence in all schools.

1. Raise Standards

Since the mid-1980s, Texas has made great strides in assessing and improving student performance. The heart of this effort is the Texas Assessment of Academic Skills (TAAS) test, a mandatory exam every student must pass to graduate from high school. The present TAAS test emphasizes basic skills such as reading and mathematics, but in future years it must become more rigorous and cover more academic subjects.

TAAS test results have improved for every ethnic group at every grade level. The existing standards, however, need improvement. A school or district now can receive an "acceptable" rating even if fewer than half of its students score 70 percent on the TAAS test—the classroom equivalent of a "C-" grade. What that means is that a district can keep its "acceptable" rating even if half of its students consistently fail the TAAS test. Given the demand for highly educated workers, lawmakers should raise the bar for student achievement and district performance.

ACTION: For a school or district to receive an academically acceptable rating, at least 70 percent of its students should pass the Texas Assessment of Academic Skills (TAAS) test by 2000. In addition, a minimum number of students should score 95 percent on the TAAS test—the equivalent of a solid "A"—before a school or district can receive a "recognized" or "exemplary" state rating. (See ED 3, Volume II.)

2. Increase Public/Private Educational Partnerships

Partnerships are created every day in the private sector, with the understanding that each partner brings new strength to an alliance. Educational partnerships between the public and private sectors are proving crucial to educational improvement. The Texas Business Education Coalition represents an ongoing partnership between hundreds of small and large Main Street businesses and local school districts; its goal is to improve classroom performance by drawing upon the business community's wealth of experience and knowledge.

As Texas competes more vigorously in world markets, our children must be prepared to meet the more sophisticated demands of the international marketplace.

Educational partnerships are expanding into the areas of early childhood education, basic skills training, and contributions of employee time, equipment, and property. For example, the private sector has provided more than 30 worksite or "satellite" schools to local school districts around the country. In these arrangements, the private company provides and maintains the physical space while the school district supplies the books, teachers, and curriculum. Typically, most of the students are the children of company employees.

ACTION: State law should offer tax incentives to businesses that assist in the educational process by providing early childhood education programs, adult education programs, or free or low-cost facilities for schools. (See ED 2, Volume II.)

3. Funnel More of Every Education Dollar Directly into the Classroom

Classroom instruction accounts for only 52 cents of every dollar Texas spends on education. Yet the central mission of a school is to provide students with an education, not to run a transportation service, cafeterias, or other ancillary activities. Schools can channel more money into the classroom by achieving greater efficiencies in ancillary services and introducing innovative management practices into school district operations.

ACTION: The Comptroller's office should establish a program that provides research, policy and technical assistance to school districts to help them drive more dollars to the classroom. (See ED 5, Volume II.)

4. Attract, Retain, and Reward Good Teachers

Most Texas teachers are dedicated and proficient educators. But unless teaching

remains an attractive option for bright, motivated persons, Texas cannot expect to attract quality professionals to our public schools. Teacher salaries are based on tenure and educational attainment rather than the innovative and effective teaching that truly merits additional pay.

ACTION: Texas should institute a salary bonus system for teachers who improve the academic performance of their students. In addition to giving teachers their due, the program would help Texas public schools attract and retain the best teachers. (See ED 1, Volume II.)

5. Improve Teacher Retirement Benefits

As many as 80 percent of Texas' teachers are not covered by Social Security, making their state retirement benefits crucial. The Teacher Retirement System of Texas (TRS), which served more than 687,000 active members and 158,000 retirees in 1997, is in excellent actuarial shape and can afford to bolster its benefits and make them more flexible.

ACTION: Annuities for current retirees should be raised by 5 percent to 7 percent to restore lost purchasing power. In addition, the multiplier of 2 percent per year of service used to calculate retiree benefits should be increased incrementally, to 2.1 percent and then to 2.25 percent, as soon as the system's actuary can certify that these increases can be funded at current contribution rates and that the system would remain actuarially sound. (See SE 3, Volume II.)

Teachers and state employees work hard for their money and merit continuing opportunities to reap rewards. As in the private sector, state employees should have opportunities to devise their own retirement plans, with more choices among retirement options.

"I'm going to be 'the education watchdog' for the people of Texas, seeing to it that more of every education dollar goes directly into the classroom where it belongs."

— Carole Keeton Rylander

ACTION: An optional lump-sum payment plan should be offered to retirees of both TRS and the state's Employees Retirement System (ERS). This option, increasingly popular in other states, gives retirees greater flexibility in their financial planning by allowing them to draw a large lump-sum payment upon retirement in exchange for reduced monthly benefits. (See SE 4, Volume II.)

6. Make Schools Safer

Children cannot learn when they fear for their safety. Parents were worried about violence in schools even before the 1997 string of school-related shootings across the country. Statistics show that gang-related violence and incidents involving vandalism and weapons found on school property have risen sharply in recent years.

Texas can help improve education by taking steps to keep our schools safe. Some schools have taken the initiative to develop programs to eliminate drugs and violence, but many others lack such efforts, and even when the programs are in place, it is difficult to measure their success.

ACTION: School districts, as a part of their annual performance reports to parents and the community, should report on violent and criminal incidents that occur on each campus, as well as district prevention and intervention initiatives. (See ED 7, Volume II.)

7. Clean the Slate at Substandard Schools

Many Texas children are trapped in low-performing schools that have failed to improve despite pressures from the Texas Public School Accountability System. A number of states as well as some Texas school districts have experimented with a powerful remedy: reconstitution.

Reconstitution calls for at least some, if not all of a school's staff to resign and reapply for their jobs. The proposal is to give the staff a probationary period to improve before cleaning the slate and give the school's staff a final chance to meet their responsibilities to students. Several San Antonio districts experimented with reconstitution and reported dramatic improvements in test scores.¹

ACTION: Chronically low-performing schools should be required to reconstitute their staffs if they fail to improve after a probationary period. A school should be given a reasonable opportunity to improve student performance before its staff and administrators are reassigned. (See ED 6, Volume II.)

Chronically low-performing schools should be required to reconstitute their staffs if they fail to improve.

8. Prepare Toddlers for School

Groundbreaking research suggests that efforts to improve public education must start with children well before they enroll in school. In Texas, 700,000 children are three years old or younger. Research shows children begin to learn far earlier than previously thought; their ability and capacity to learn are largely molded in those first crucial months and years. Policymakers in several states have devised ways to enhance the development of their youngest citizens. Texas' efforts have been scattered and uncoordinated.

ACTION: State childhood programs should take advantage of recent discoveries in brain research by finding ways to apply that new knowledge to programs that educate Texas' youngest children. A high-level task force should devise a Texas Zero to Three Plan and implement model programs to assist parents help their children excel. (See ED 8, Volume II.)

Bring Common Sense To Regulations

Texas companies have long complained about unnecessary, confusing and burdensome rules and regulations. The regulatory environment is particularly difficult for small businesses, the backbone of the private sector. State regulations sometimes are developed in a vacuum, without participation from the persons who must comply with them.

The Comptroller's office gleaned a number of recommendations last year from conversations with small business owners and employees across the state, who offered many suggestions about how the state's regulatory framework might be streamlined and improved. Front-line state workers also were helpful; many had long known what needed to happen and had been waiting for someone to ask.

Government regulation is unquestionably necessary in some areas. But in most cases, rules can be laid out in a less costly and burdensome manner than is common today. In addition, too many outdated, useless rules remain on the books in Texas.

It's high time for Texas to prune the tendency of agencies to issue and main-

tain rules at every turn. In the end, the Secretary of State's Office might not have to kill a forest to issue its weekly *Texas Register*. Texas can escape the regulatory rut by taking the following specific actions:

1. Create a Business Bill of Rights

Every business has the right to expect prompt and accurate response from state agencies. Companies should expect regulatory information to be clear and easy to obtain. Agencies should respond accurately and in a timely fashion to all requests for information, clarification, and materials. In addition, state agencies should make an ongoing commitment to streamline regulations and the regulatory process.

ACTION: Create a Bill of Rights for businesses, and require agencies to report on their compliance with it in their biennial budget requests to the Legislature. (See RR 1, Volume II.)

2. Ensure that the Benefits of Regulations Outweigh the Costs

Texas lacks an independent process to review either its regulations or the associated agency cost-benefit analyses that sometimes are conducted, notably for environmental rules. The state has no way to obtain outside validation of decisions made by state agencies. An impartial eye is particularly important because agencies have a tendency to minimize the potential costs and maximize the estimated benefits of regulation.

ACTION: Designate an existing state agency to review the scope and impact of all proposed new and amended rules.

"The chief role of government in the economy is to create incentives for work, savings, and investment."

— Carole Keeton Rylander

Bill of Rights for Businesses

Easily accessible information and regulations in plain language

Prompt, accurate, and courteous responses to requests for information

A fair and timely system for receiving and resolving complaints

A commitment from state agencies to seek ways to streamline regulations and regulatory processes

A commitment from state agencies to welcome suggestions from businesses on how to improve the regulatory environment

The oversight agency should be required to validate the fiscal impact and cost-benefit statements published with proposed rules in the *Texas Register*. The entity also would be responsible for certifying that the rules do not violate the scope of authorizing statutes. (See RR 3, Volume II.)

3. Weed Out Unnecessary Regulations

While most states have a process to review proposed rules, it's rare for existing rules to be scrutinized. South Carolina and Michigan are among the exceptions. Since 1995, Michigan has eliminated more than 2,500 obsolete rules.

Texas has yet to take that route, prompting one Texas businessman to characterize long-standing regulations as "immortal" because they remain in place long after becoming obsolete. For example, state law still requires physicians to apply for a special permit to prescribe liquor for medicinal purposes. No one has applied for this permit in more than three decades. While there currently is a one-time requirement for each agency to review their rules by 2001, that process needs to be continued.

ACTION: Ensure that state regulations remain relevant to evolving business practices and conditions by creating a true Sunset process for state rules. Every administrative rule maintained by a state agency should be reviewed, updated, or eliminated at least every 12 years. (See RR 2, Volume II.)

4. Adopt Innovative Approaches to Environmental Regulation

In Texas, environmental regulations are promulgated by eight state agencies, including the General Land Office, Texas Department of Health, Texas Railroad Commission, Texas Department of Transportation, Texas Water Development Board, Texas Department of Agriculture, Structural Pest Control Board, and Texas Natural Resource Conservation Commis-

sion (TNRCC). Many Texans blame multiple regulators for making information requests, permitting, and calls for enforcement both cumbersome and undependable. In addition, because the environmental regulatory system is driven by a fine-and-punishment approach, state agencies and private businesses often are unnecessarily antagonistic toward each other.

In the past decade, several states have adopted less confrontational methods of issuing environmental permits and enforcing environmental laws. Agencies have learned that they can obtain cooperation and compliance by working in partnership with residents and businesses. The 1997 Legislature created the Regulatory Flexibility Program within TNRCC to encourage more partnerships with the private sector, but the program has not yet become as active as planned.

ACTION: Direct the Texas Natural Resource Conservation Commission to aggressively market its Regulatory Flexibility Program to reduce onerous restrictions on businesses while ensuring environmental protection. Participants should see measurable gains such as reduced turnaround times in permitting. (See RR 6, Volume II.)

Because the environmental regulatory system is driven by a fine-and-punishment approach, state agencies and private businesses often are unnecessarily antagonistic.

Common-Sense Regulation: TABC Partners With Retail Stores

Most regulatory agencies depend on voluntary compliance because they do not have the staff or funding needed to catch every potential infraction. Few regulatory agencies, however, make a concerted effort to help businesses and others comply. The Texas Alcoholic Beverage Commission (TABC) takes a number of steps to help bars, restaurants, and retailers that sell alcoholic beverages comply with appropriate regulations. TABC's "Cops in Shops" program places agents in retail stores to pose as employees. The participating agents help store employees identify false identification cards, minors attempting to purchase alcohol, and individuals who are intoxicated or attempting to purchase alcohol on behalf of a minor. The National Association of Governors' Highway Safety Representatives judged this program particularly effective in reducing violations by minors. The program's ultimate goal is to reduce alcohol-related traffic fatalities.

Introduce Competition into Texas Government

Competition is one of the most powerful agents of change. Vigorous competition has spurred dramatic cost reductions in the private sector. At the same time, it has produced substantial progress in the quality of products and services, ranging from computers to coffeehouses.

Competition can have equally dramatic effects in government.

In 1993, the Legislature created the Council on Competitive Government (CCG) in response to a growing interest in making government more efficient, cost-effective, and competitive. Through fiscal 1998, the council was credited with saving the state more than \$39 million.

Work started with several projects including the state's internal mail system, which had become a sprawling mess. In 1995, CCG contracted with a private company to provide automated presort and barcode mail services for 67 small state agencies, the Texas Department of Human Services, Texas Department of Public Safety, and Texas Department of Transportation. By 1999, more than 114 state agencies were employing a private vendor to presort mail. Since 1995, the state has saved more than \$7.7 million by turning these functions over to the private sector.

The benefits of competition are so overwhelming that the "Yellow Pages Test" should be applied throughout state government. If a service provided by government is advertised in the Yellow Pages, it should be opened up to competition from private firms. If a private firm can do the job better and at a lower cost than the state agency, that firm should be awarded the contract to provide that service.

In this spirit, the Comptroller recommends that the Legislature establish a performance measure calling for each agency to target an additional 5 percent of its services for competitive bidding in 2000 and 7 percent in 2001.

In the past, Texas government has operated on the assumption that there must be a compelling reason for the public sector not to provide a service. This attitude favors and encourages public monopolies without necessarily resulting in outstanding service at a reasonable cost. Certain roles may be unique to government, but jobs that can be performed best by the private sector are best assigned to private hands. Only through competition can public officials ensure that taxpayers receive the best value and highest-quality services for their money.

Some of the tasks performed by Texas government that should be opened to competition include:

1. Health Care

The challenge of competitive government goes beyond simply contracting with private firms. In some cases, including various Medicaid-related health services, the state already awards contracts to the private sector. But the contract process itself needs improvement.

Several states have found that bidding out contracts competitively, either regionally or statewide, produces significant savings over the more fixed "fee-for-service" approach as employed in Texas. Under a fee-for-service approach, the state pays a set amount per month to provider organizations for each client of Medicaid or a similar program. No opportunity or incentive exists for cutting costs or streamlining services.

The time is ripe to extend such opportunities to other health care services. Performance-based competitive bidding has the potential to reduce costs dramatically.

ACTION: Competitive bidding should be extended to a number of specialized health services, such as laboratory services, home health services, medical

"Government should do no job if there is a business in the Yellow Pages that can do that job better and at a lower cost."

— Carole Keeton Rylander

supplies, and eyeglass services, all currently purchased via a state-established fee schedule. (See HHS 3, Volume II.)

No private company other than a pharmaceutical firm would ever take on the task of processing prescription drug claims for its employees. The private sector can certainly take on such responsibilities.

ACTION: Texas should contract for the processing of Medicaid prescription drug claims, now performed in-house by the Texas Department of Health. (See HHS 8, Volume II.)

2. Fleet Maintenance

About 140 agencies own more than 29,000 vehicles ranging from sedans to heavy equipment such as tractors and bulldozers. Agency fleets vary in size from less than 10 to more than 9,000 vehicles. Most are cars and light trucks.

Agencies operate their vehicle fleets independently. While the General Services Commission (GSC) maintains an auto-

mated reporting system to help agencies manage their fleets, it does not recommend or direct purchases. Nevertheless, in periodic reports GSC has found the state's fleet to be poorly managed and in need of centralization or consolidation. The State Auditor's Office also has urged fleet consolidation. One more step would be even more innovative: GSC should explore the possibility of opening the maintenance of the state's vehicle fleet to competition.

ACTION: Require the General Services Commission to submit a fleet management plan to the 2001 Legislature. Opportunities should be sought to privatize fleet maintenance. (See CG 5, Volume II.)

3. Benefits Overpayment Collections

For benefits that have been overpaid by the state, either due to fraud or simple error, the Department of Human Services (DHS) contracts with a private firm to collect delinquent accounts more than one year old that have gone through the

Competition can ensure that taxpayers receive the best value and highest-quality services for their money.

FISCAL IMPACT FROM COMPETITION PROPOSALS: ALL FUNDS

(Millions of Dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000-2004	Volume 2 Reference
Improve Access to Government Through a Single State Information Number	cbe	cbe	cbe	cbe	cbe	cbe	CG3
Improve Management of the State's Vehicle Fleet	cbe	cbe	cbe	cbe	cbe	cbe	CG5
Privatize Payment Collection Functions	0.7	0.7	0.7	0.7	0.7	3.5	GG7
Expand the Use of Private Adoption Agencies	0.1	0.1	0.1	0.1	0.1	0.4	GG9
Improve Efforts to Find Parents and Increase Child Support Collections on Foster Care Cases	0.1	0.2	0.2	0.2	0.2	0.9	GG11
Competitive Purchasing of Medicaid Services	14.3	24.7	34.6	54.7	60.3	188.6	HHS3 (part)
Selective Contracting	4.2	15.9	19.4	18.8	18.8	77.1	HHS3 (part)
Total: Competition Proposals	\$ 19.4	\$ 41.6	\$ 55.0	\$ 74.5	\$ 80.1	\$ 270.4	
Biennial Total, FY 2000-2001		\$ 60.9					

cbe - Cannot be estimated.

Note: Totals presented may not add due to rounding.

agency's normal collection process and still remain unpaid. Thanks to this performance-based contract, the state has received an additional \$65,000 for its part of the contract and \$276,000 from collections already made. Without this contract, most of these amounts would have gone uncollected.

ACTION: Drawing on the success of the DHS contract, the Texas Workforce Commission, which provides monetary assistance to eligible unemployed workers, should issue a request for proposals for the collection of benefit overpayments now deemed uncollectable. (See GG 7, Volume II.)

Make Government More Responsive to the Taxpayer

Although the issue of taxpayer fairness and accessibility has been bandied about for two decades, taxpayers continue to struggle through the bureaucratic maze. State agencies have frequently claimed customer service as a priority, but all too often, reality falls short of promises.

The emphasis within state agencies should be on achieving results. Taxpayers still have difficulty accessing and locating the many valuable services and useful information available to them from the state.

Efforts to improve state government should include the following:

1. Require Agencies to Publish Basic Service Guarantees

The issue of customer service is too complex to be dealt with in a single report or legislative session. Comptroller Rylander envisions an ongoing effort, starting with a requirement that agencies publish service standards that make them accountable to their customers.

ACTION: Adopt customer service standards and principles for all of state government. These standards should touch on such issues as turnaround times for correspondence, the availability of information and complaint procedures, and ways to recognize superior customer service by state agencies and their employees. (See CG 2, Volume II.)

2. Make the Auditing Process More Taxpayer-Friendly

In focus groups and surveys, taxpayers have complained to the Comptroller's office that due to onerous record-keeping re-

quirements, the audit process can be overly long and overly burdensome. For large companies, for example, an audit can take anywhere from six months to several years. This can be extremely disrupting to a firm's operations.

Claiming tax refunds for overpayments can be cumbersome as well, since current procedures require businesses seeking refunds to review all affected invoices. Yet the Comptroller's office often uses a far more convenient sampling of taxpayer records to assess taxes due.

ACTION: Amend the state tax code to allow for managed self-audits, which allow businesses to sample invoices selected by the Comptroller's office, assess their tax responsibilities based on that sample, and receive waivers of penalties or interest for participating. The Tax Code also should be amended to allow for percentage-based reporting, which allows a business to review and sample a percentage of invoices to calculate their tax liability for reporting purposes. Lastly, businesses should be allowed to substantiate their case for a tax refund using sampling methods. (See GG 1, Volume II.)

3. Provide Easier Access to State Government

Telephone runarounds were cited repeatedly as a vexing problem during the Comptroller's customer service survey. Callers often did not receive information they needed even after being transferred as many as five times. State employees and legislative aides also said constituents complain most frequently about being unable to reach the appropriate person on the phone.

"Treating Texas taxpayers as second-class citizens will come to a screeching halt."

— Carole Keeton Rylander

Surprisingly, most state agencies have no established standards for handling phone calls. For instance, agencies maintain more than 600 toll-free hotlines, but the numbers are not readily available to the public. Even when they are published, it is not easy to reach an agency operator. At least a dozen agencies in Austin maintain call centers staffed by as few as 15 and as many as 190 employees. Collectively, the centers field about 40,000 calls a day. But these centers operate independently, both from one another and from a poorly publicized, centralized state telephone center staffed by five operators.

Comptroller Rylander believes the Legislature should create an AccessTexas Information Center to assist citizens seeking government information or services. It is a simple idea, and one that should be appreciated by anyone who has been left on hold or forwarded to a half-dozen voice mailboxes in search of an answer.

The telephone problem is not an unsolvable dilemma. The AccessTexas center, when coordinated with existing call centers, could transfer callers to the correct agency or service or, when possible, provide the information directly over the phone, by fax or e-mail.

Although most state agencies operate Internet websites, the quality and volume of the available information varies dramatically. The Information Center also should develop electronic databases and Internet websites to provide the public with standard materials about all state agencies.

ACTION: Establish a toll-free, 24-hour AccessTexas Information Center operated by the private sector. In addition, state agencies should be required to provide the public with electronic access to information on their rules and regulations. (See CG 3, Volume II.)

Improve Government Performance and Accountability

Public school teachers and administrators know about accountability, because they are increasingly pressed to take responsibility for student Texas Assessment of Academic Skills (TAAS) test scores. Since 1984, state lawmakers have retooled the public education system and raised everyone's expectations. The main engine of change has been a nationally recognized system that rates schools on numerous factors including student attendance, graduation rates, and performance on the mandatory TAAS test. Annual school ratings—ranging from “exemplary” to “low performing”—generate intense public discussion about the quality of individual schools and help to improve their performance.

Similar initiatives can be put in place in other areas of government. This report unveils a series of recommendations that would increase the performance and accountability of state government agencies and higher education institutions.

1. Enforce Child Support Orders

The Texas Office of the Attorney General (OAG) enforces all child support cases involving welfare and Medicaid recipients, as well as those of other parents who request assistance. In fiscal 1997, OAG handled 915,000 cases and collected more than \$700 million in child support.

Thirty-six special court masters across the state hear child support cases involving welfare and Medicaid recipients, but unless the OAG initiates enforcement actions, their judicial orders often are ignored. Noncustodial parents under court order are not monitored or supervised after the initial hearing, even if they have been specifically ordered to seek work and report their efforts to the court.

ACTION: Create monitors for each of the state's court masters to track court orders and identify parents who fail to comply with them. In addition, the Texas Workforce Commission should be required to conduct job training and referral programs for noncustodial parents ordered to seek work. (See GG 10, Volume II.)

2. Improve Family Searches

Texas children who have been abused, neglected, or otherwise placed at risk are taken into protective custody by the state's Department of Regulatory and Protective Services (DPRS). To move children out of foster care and into permanent homes as quickly as possible, DPRS tries to contact noncustodial parents and other relatives who may be able to care for the children. DPRS caseworkers, clerks, and adminis-

Pioneering Performance Accountability in Houston

In January 1997, Houston Independent School District Superintendent Rod Paige negotiated a contract with Community Education Partners, a private firm, to work with 450 at-risk students. Tough performance requirements were written into the contract. Unless students succeeded in moving up by at least two grade levels a year, Community Education Partners agreed to continue working with the students through the next school year without pay. At the end of the first year, all of the students who met the contract criteria progressed by two or more grade levels.

The agreement illustrated the clear accountability state government should demand—and the performance improvements that can result.

The contract is saving the school district a considerable amount of money. The district spends about \$10,000 a year to educate each at-risk student, but Community Education Partners charges only \$8,500 per student, a savings of \$1,500 each. The contract has won the support of the three major teacher unions.

trative technicians conduct so-called “diligent searches,” often without access to modern computer technology. Such efforts often are inconsistent and inefficient. In some areas of the state, it takes DPRS caseworkers an average of five months to locate a relative.

ACTION: Allocate sufficient funds to create a Diligent Search Division within the Department of Protective and Regulatory Services (DPRS), staffed by personnel trained in search techniques. Workers should be located throughout the state. Whenever possible, volunteers should be recruited to help with the effort. DPRS should study whether this function could be outsourced through a performance-based contract. (See GG 11, Volume II.)

3. Fund Only Those Programs that Work

The statistics are sketchy, but recent surveys indicate that drug use among Texas school-aged children may be on the rise. In 1997, Texas spent more than \$78 million on drug abuse awareness programs run largely at the community level. But little in the way of data or objective crite-

ria exist to determine whether these programs actually deter drug use.

ACTION: Require state agencies providing drug prevention grants to develop uniform criteria, based on proven success factors, to evaluate programs they fund to ensure that drug education money is well spent. (See PS 5, Volume II.)

4. Make Remedial College Educational Funding Performance-Based

In response to findings that nearly a third of Texas students entering college were not prepared for college-level work, the 1987 Legislature instituted the Texas Academic Skills Program (TASP). Students at Texas colleges and universities must pass all three sections of the TASP test before they can take junior- and senior-level classes.

Largely as a result of TASP testing, state funding for remedial education has increased by more than 300 percent over the last decade. Yet independent evaluations have found college and university remedial programs to be disappointing. The problems are a lack of clear goals and

FISCAL IMPACT FROM PERFORMANCE/ACCOUNTABILITY PROPOSALS: ALL FUNDS

(Millions of Dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000-2004	Volume 2 Reference
Increase School District Financial Accountability	\$ (0.6)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (0.1)	\$ (1.1)	ED4
Increase Accountability for Higher Education Funds	6.1	24.7	0.0	0.0	0.0	30.8	ED11
Make Remedial Education Funding Performance-Based	25.3	20.7	14.3	9.6	9.3	79.2	ED12
Increase Child Support Payments with Enhanced Court Oversight	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.3)	GG10
Total: Performance/Accountability Proposals	\$ 30.7	\$ 45.2	\$ 14.1	\$ 9.4	\$ 9.1	\$ 108.6	
Biennial Total, FY 2000-2001		\$ 75.9					

Note: Totals presented may not add due to rounding.

of trained remedial faculty and staff, as well as inadequate attention to the needs of individual students.

ACTION: Direct the Texas Higher Education Coordinating Board to use student performance to determine annual remedial education funding for individual colleges. Each institution's funding should be based, in part, on the number of students who successfully completed remedial education in the previous year. (See ED 12, Volume II.)

5. Increase School District Financial Accountability

Reports of the financial condition and management of school districts from external auditors or other sources are rarely analyzed or disseminated to the public or statewide policymakers. Furthermore, taxpayers have little recourse in obtaining investigations of incidents of alleged financial improprieties or criminal activities within a school district if local prosecutors are not willing to become involved.

ACTION: Require the Texas Education Agency (TEA), with the assistance of the Comptroller's office, to create a school district financial accountability rating system based on districts' audited financial reports and other data already collected by TEA, to more effectively hold school districts accountable for their spending. (See ED 4, Volume II.)

6. Link Pay with Clear Performance Goals

Accountability improves at state agencies when management rewards employees for superior performance and penalizes inadequate work. State pay patterns tend to favor longevity over performance and generally fail to meet the private-sector standards needed to keep the most talented and productive employees. Too often, numerous employees have received merit

increases despite the lack of any discernible measure of improved performance.

ACTION: Direct state agencies to ensure that employees receiving merit pay have exceeded objective and measurable performance goals linked to agency performance measures. (See SE 2, Volume II.)

7. Introduce Innovative Financing Options to Speed up Highway Projects

Texas can speed up backlogged highway construction projects at the border and throughout the state by utilizing an innovative new federal financing option called Grant Anticipation Revenue Vehicles (GARVEES). GARVEES are highway construction bonds that are backed by future obligations of federal highway funds. They would allow Texas to issue bonds against future federal highway funds. The proceeds of these bonds would enable the state to jump-start border construction projects currently on hold and ensure a fair flow of federal funds to Texas.

In addition, Texas should consider using performance-based pavement warranties. Instead of specifying construction processes and materials to be used, road contractors guarantee a useable roadway over a predetermined warranty period and use whatever design and construction approach they prefer.

Pavement warranties have been allowed in the U.S. since 1995. Since then, nine states have used some form of warranty contracts on road construction projects.

ACTION: Texas should utilize GARVEE bonds to speed-up highway projects. Also, the Texas Department of Transportation should explore the benefits of performance-based pavement warranties. (See GG 2, Volume II.)

Accountability improves at state agencies when management rewards employees for superior performance and penalizes inadequate work.

8. Activity-Based Costing

One of the biggest obstacles to competition for government services is the simple fact that most agencies do not know the true costs of the services they provide. Without such basic knowledge, it is impossible to accurately compare private- and public-sector costs.

One solution is activity-based costing (ABC), which can accurately reflect the cost of activities and services. ABC systems give government managers a detailed portrait of the true relationships between services and costs, often shedding light on wasteful activities.

Ten state agencies already have experimented with ABC and found it extremely helpful in controlling costs, increasing productivity, and determining the actual cost of services.

ACTION: State law should require nine additional state agencies to implement activity-based costing by the year 2001. Software and training assistance should be provided to the participating agencies. (See CG 1, Volume II.)

Return Control to Communities and Individuals

Over the past 30 years, too much government power has become concentrated in state and federal bureaucracies. And, as power has been taken from them, our communities have been weakened. It is time to shift away from an Austin-knows-best mentality to one that puts more faith in Texas's diverse, multifaceted communities.

Whenever possible, resources and responsibilities should be shifted to local communities, to the intricate networks of families, friends, schools, and businesses that are the real strengths of our democratic system. Local residents know their own problems and opportunities better than anyone else, and nine times out of 10, they can craft better solutions locally than programs created in Washington—or Austin.

1. Help Seniors Stay in their Homes

More than 65,000 Texans live in nursing homes. Many elderly Texans are forced to enter these facilities simply because they cannot afford adequate housing in their own communities; Medicaid will cover their expenses in nursing homes but not in their own homes. By some estimates, as many as 25 percent of all Texans in nursing homes could live in less restrictive environments.

A program that gives subsidies to low-income elderly Texans who live in apartments that provide service coordination and transportation would allow them to stay in their homes. Eligibility limits would ensure that the program assists only low-income seniors and that subsidies remain limited.

ACTION: Pilot a Facility-Based Rental Assistance program to be administered by the Texas Department of Human Ser-

vices and Texas Department of Housing and Community Affairs to allow seniors to enjoy more productive lives while producing substantial savings in state and federal Medicaid spending. The average rent subsidy would be smaller than the average room and board charged by a nursing home. (See HOU 1, Volume II.)

2. Give People with Disabilities More Options

Advocates for people with disabilities say that to be truly independent, persons with disabilities should be responsible for as many aspects of their lives as possible. At the moment, Texans with disabilities generally have little control over the service providers assigned to them. The state makes almost all of these decisions for them.

ACTION: The Health and Human Services Commission should create a voucher system allowing individuals with disabilities to select their own providers for services such as personal and technology assistance and durable

“Texas government has a one-size-fits-all mentality and that must change.”

— Carole Keeton Rylander

Turning Over Control in Workforce Development

One recent success story is the state's reorganization of its previously chaotic and largely ineffective array of workforce development offices, which employed 9,000 state workers in 15 state agencies and operated about 30 individual programs. The 1995 Legislature restructured this bureaucracy into a single agency that offers customized training opportunities to all Texans through a network of local public/private partnerships called workforce development boards.

medical equipment. Similar approaches have worked well in California, Pennsylvania, Missouri, Maine, and Virginia. (See HHS 4, Volume II.)

3. Shift Control of Child Welfare Programs to Community-Based Groups

The Texas Department of Protective and Regulatory Services (DPRS) provides foster care for children whose homes have become dangerous, and seeks permanent placements for children who cannot return home. Finding and arranging for adoptive homes, however, takes too long—an average of more than 16 months. The state's failure to act more swiftly has serious consequences for society as a whole. Children who reach the age of 18 in foster care are far more likely than their peers to live a life of crime, welfare dependency, and homelessness.

ACTION: Direct the Department of Protective and Regulatory Services (DPRS) to expand its use of community-based private adoption agencies to speed up adoptions and related processes such as family background checks. In addition, DPRS should centralize the money it spends on private adoption agencies. These funds now are spread among separate regions, making it difficult to place a child from one region with a qualified family in another region. (See GG 9, Volume II.)

4. Increase Community and Parental Control over Children's Mental Health Services

The state's Health and Human Services Commission (HHSC) has estimated that as many as two-thirds of Texas children with severe mental and emotional problems are not receiving the help they need. This is due largely to the way in which the services that could help them are fragmented among different agencies, programs, and funding sources.

This situation is aggravated by the fact that troubled children often benefit most from a variety of treatments, rather than from the narrowly focused services that tend to be available from any one agency or program. The most successful recent initiatives in children's mental health care involve flexible, "wraparound" approaches that pool state and local funds. Such arrangements—as practiced in Franklin County, Ohio, Marion County, Indiana, and Milwaukee County, Wisconsin—allow families to choose the services they need, with funding allowed to "follow" the patient rather than being tied to rigid categories. HHSC has piloted a Texas Integrated Funding Initiative similar to the Wisconsin program, but more can be done.

ACTION: Expand the Texas Integrated Funding Initiative effort statewide with grants to local communities to fund customized services and programs. (See HHS 10, Volume II.)

It is time to shift away from an Austin-knows-best mentality to one that puts more faith in Texas' diverse, multifaceted communities.

Make Texas Schools and Communities Safer

Thanks to tougher sentencing laws, more prisons, and increased community involvement in crime prevention, Texas is safer than it was at the beginning of the decade. Nevertheless, too many Texans still feel unsafe.

This report provides a series of recommendations designed to safeguard the lives and property of Texans, ease the difficulties faced by crime victims, improve the safety of our roads, and whenever possible, control the costs of criminal justice.

1. Stand Up for Crime Victims

Since the late 1970s, Texas has been in the vanguard of a national movement to provide greater legal protection and assistance to crime victims and their families. In 1997, Texas voters capped 20 years of legislative action by passing a constitutional amendment that dedicates the state's Crime Victim's Compensation Fund to such assistance. Even so, victim's advocates complain that excessive paperwork, red tape, and other administrative burdens delay and often prevent the money from reaching those who need it.

ACTION: Provide state grants to local communities to provide services to victims of crime. By channeling dollars directly to local law enforcement and prosecutors' offices, the state could ensure more services reach individuals who need assistance more quickly. (See PS 1, Volume II.)

2. Make Our Streets Safer

Texas has one of the nation's worst records on drunk driving, and led the nation in alcohol-related traffic fatalities in

1997, with nearly 1,800 alcohol-related deaths. A drunk driver kills someone in Texas every seven hours and causes an injury every 17 minutes. This carnage entails staggering costs for health care and rehabilitation, police and judicial services, lost wages and productivity, and insurance payments.

Legislators have tightened restrictions on teenage drivers who have consumed alcohol and have revoked the licenses of drivers who fail or refuse to take chemical tests to measure their alcohol consumption. But the bar can and should be set higher.

ACTION: Deploy sobriety checkpoints, lower the blood alcohol legal limit to .08, and institute a one-year driver's license suspension for repeat DWI offenders. (See PS 2, Volume II.)

3. Create a Database to Track Juvenile Gangs

The state's Office of the Attorney General estimates that Texas may have as many as 145,000 youth gang members. Studies have shown that these gangs are closely associated with violent and criminal activity. Particularly disturbing is the fact that gangs are spilling over into Texas public schools, where nearly 9,000 incidents of gang-related violence were reported in the 1997 school year.

ACTION: Authorize the Texas Department of Public Safety to create a state-wide electronic database on known gang members to be used by local police forces. This database also would allow Texas to participate in the federal government's National Crime Information Database and share information on

"One of the most important goals of any government—perhaps the most important—is to ensure the safety and well-being of our citizens."

— Carole Keeton Rylander

convicted criminals with other law enforcement agencies around the nation. (See PS 4, Volume II.)

4. Toughen Penalties for Spousal Abuse

National studies have found that persons who repeatedly assault their spouses seldom go to jail. Texas is no exception to this pattern. In fact, the state is particularly lenient toward spousal violence. Unlike many other states, Texas does not even require minimum jail time for repeat offenders.

ACTION: Require first-time offenders of spousal abuse to take part in a battering intervention program; subsequent violations should result in mandatory jail time. (See PS 6, Volume II.)

5. Enhance Penalties for Sex Offenders

Sex offenders are considered to be among the most dangerous of all criminals because they are particularly likely to repeat their crimes. Surprisingly often, sex

offenders in Texas receive deferred adjudication and continue to live in their communities. Even more shocking is the fact that they are more likely to receive deferred adjudication if their victim is a child, despite the public horror over such acts.³

ACTION: Enhance penalties for offenders who repeatedly commit misdemeanor sex offenses or who “graduate” to felony offenses after a previous history of misdemeanors. These enhancements would increase the gravity of felony charges and upgrade a third misdemeanor offense to a state jail felony, thus moving predators off our streets and away from our children. (See PS 7, Volume II.)

State law also should require regular treatment and monitoring for any sex offender placed on deferred adjudication. In the case of the most hardened and sexually violent criminals, Texas should follow the lead of recent Kansas legislation by creating a civil commitment procedure by which felons can be monitored after their sentences are completed, until they no longer represent a threat to society. (See PS 8, Volume II.)

Victim’s advocates complain that excessive paperwork, red tape, and other administrative burdens delay and often prevent the money from reaching those who need it.

Reduce the Size of Government

"I am committed to lean, efficient government and to the recognition that government cannot and should not be all things to all people."

— Carole Keeton Rylander

Despite a host of efforts to limit state expenditures, the cost of Texas government has more than doubled since the 1988-89 biennium, growing by a whopping \$49 billion. Even in good economic times, policymakers should remember whose money they are spending, and make every effort to reduce the size, cost, and burden of government.

1. Adjust Agency Budgets

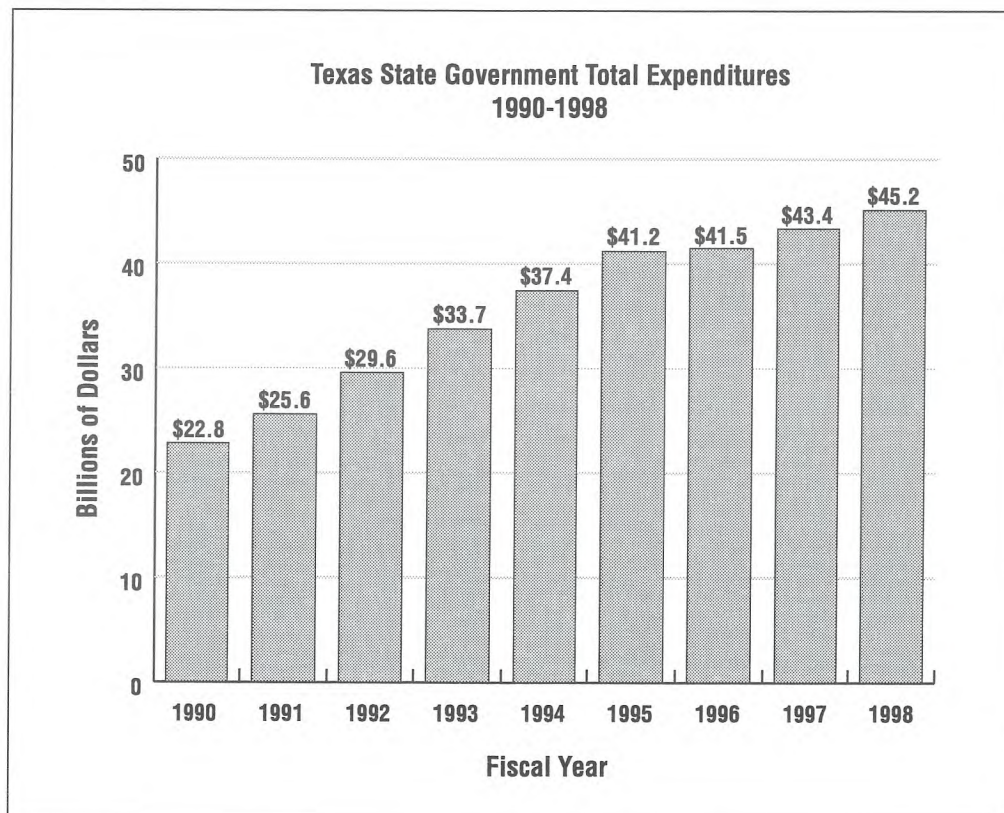
Previous efforts to rein in state spending have ranged from early retirement provisions for state employees to various

constitutional limits on spending. Yet state spending continues to spiral upward. A more direct approach that reduces agency budget appropriations may be required.

At the same time, if the Legislature asks state agencies to tighten their belts, it also should grant them greater budgetary and financial management flexibility so that they have the freedom to economize and develop innovative strategies that will help them do more with less. Finally, each state agency should be encouraged to cut spending further by placing a greater share of its services up for competitive bid.

ACTION: The Legislature should reduce general revenue appropriations made by the General Appropriations Act to each agency with 100 or more employees by 1.25 percent. State agencies should be allowed greater budget flexibility by increasing the allowable level of transferability between appropriation items from

The cost of Texas government has more than doubled since the 1988-89 biennium, growing by a whopping \$49 billion.



the present 25 percent to 30 percent in fiscal 2000 and 35 percent in 2001, and allowing the transfer of up to 10 percent of the funds within a budget strategy from one fiscal year of a biennium to the next. (See SE 1, Volume II.)

2. Sell or Lease Surplus Lands

State agencies and institutions own 873,000 acres of Texas land estimated to be worth \$1.6 billion. According to the General Land Office (GLO), about 14 percent of these properties—some 126,000 acres—are substantially underused. These lands, including some in prime development areas, are vacant or falling far short of their revenue potential. Yet agencies are under no obligation to sell, lease, or otherwise dispose of underused holdings.

Since 1987, when GLO began reporting to the Legislature on the location and status of underused lands, only 11 properties have been sold or leased.

ACTION: Designate the General Land Office (GLO) as the managing authority for all state lands other than those that contribute to state trust funds, to provide taxpayers with the best return on their long-term investments. GLO should be

required to target for sale 5 percent of all underused land each year. (See GG 6, Volume II.)

3. Eliminate Overlapping Agencies and Duplicative Functions

Health and human service programs account for nearly 30 percent of the state budget and cost Texas \$25 billion a year, including \$15 billion in federal aid. These dollars flow through 13 human service agencies, 11 of which are coordinated by the state's Health and Human Services Commission (HHSC).

Despite repeated attempts to streamline this network of agencies and programs, Texas clients continue to contend with a confusing delivery system offering many similar or related services through separate agencies.

ACTION: By January 2001, HHSC's commissioner should submit a plan for the reorganization of program functions to the Governor and Legislature. The plan should outline ways to streamline, shed, and move programs, in order to keep these functions competitive and accountable. (See HHS 1, Volume II.)

FISCAL IMPACT FROM GOVERNMENT REFORM PROPOSALS: ALL FUNDS

(Millions of Dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000-2004	Volume 2 Reference
Consolidate Regulation of Certain Child Nutrition Programs	\$ 1.9	\$ 1.9	\$ 1.9	\$ 1.9	\$ 1.9	\$ 9.5	RR11
Lease or Sell All Underused State Lands	1.8	13.8	13.1	12.5	11.9	53.1	GG6
Manage Growth in State Government Expenditures	94.0	94.0	0.0	0.0	0.0	188.0	SE1
Strengthen Health and Human Services Commission	cbe	cbe	cbe	cbe	cbe	cbe	HHS1
Total: Government Reform Proposals	\$ 97.7	\$ 109.7	\$ 15.0	\$ 14.4	\$ 13.8	\$ 250.6	
Biennial Total, FY 2000-2001		\$ 207.4					

cbe - Cannot be estimated.

Note: Totals presented may not add due to rounding.

Use Technology to Cut Costs and Increase Quality

The high-tech revolution in the Texas economy has been nothing less than extraordinary. More Texas workers now rely on core high-tech industries than the oil patch for their paychecks. As of 1996, one out of every 10 Texas workers was employed by a high-tech industry. More than half these Texans were employed in five core industries—semiconductors and computers, communications manufacturing and services, other electrical and electronics manufacturing, defense technology, and biotechnology.

Texas employment in these five industries is expected to grow by nearly 80,000 jobs to 531,000 positions by 2000, an average annual increase of nearly 5 percent.

But the dramatic reach of technology extends far beyond the information-based economies emerging in the Austin area and the Dallas-Fort Worth Metroplex and Houston. Computers and easy access to the Internet are vital tools in workplaces from the banks in Laredo to automobile repair shops in Austin. State government has worked to keep pace, too. The Depart-

ment of Information Resources proclaims itself a “catalyst” for technological improvements.

In adopting an electronic “Lone Star” card to replace paper food stamps, and using artificial intelligence to fight welfare fraud, Texas lawmakers have recognized the importance of cutting-edge technology in saving taxpayer dollars and improving government efficiency. The wise application of technology is a hallmark of successful private enterprise, and it should be a priority for Texas state government. Information technology, appropriately applied, can reduce government’s cost and increase its efficiency. This report contains a series of measures designed to do just that.

1. Enhance Distance Learning Opportunities

Modern telecommunications technology provides a practically limitless potential for distance learning and training opportunities, and one useful application

“Technology has changed almost every aspect of the private economy. Government is still behind the curve and we must catch up.”

— Carole Keeton Rylander

Neural Networks: Technology that Combats Fraud

Most state agencies investigating fraud depend on tips and referrals to identify violators. Texas’ Health and Human Services Commission (HHSC), however, got a boost in its fraud detection and prevention efforts when the 1997 Legislature passed a law requiring the agency to use neural network technology to detect and deter fraud in the state’s Medicaid program.

The Medicaid Fraud and Abuse Detection System (MFADS) is designed to identify fraudulent patterns from mountains of medical claims and patient and provider history data. The system is capable of learning; once it has identified a potentially fraudulent behavior pattern in the data, it learns to generalize that information to locate similar situations. Since establishing the system in January 1998, HHSC has recovered more than \$5 million in inappropriately paid medical claims.

is the provision of specialized training for local officials, particularly those in isolated and rural areas who find it difficult to obtain adequate classes.

ACTION: Contract with a community organization or nonprofit group to create a pilot "virtual university" for officials in rural areas, using existing distance learning facilities available through colleges, universities, and state and federal agencies. Training offered in this way could include topics such as financial management, personnel law, and governmental accounting. (See GG 12, Volume II.)

sultations. Even so, telemedicine now accounts for only about 10 percent of Texas prisoners' specialized medical appointments, despite expert opinion that as many as half of them could be handled via video.

ACTION: The state's telemedicine program should be expanded substantially. The state's investment could be leveraged by allowing the University of Texas and Texas Tech University medical facilities to use the prisons' telemedicine resources for rural health care initiatives and distance learning. (See PS 3, Volume II.)

The wise application of technology is a hallmark of successful private enterprise, and it should be a priority for Texas state government.

2. Reducing Prison Health Costs

Telemedicine, the delivery of medical information and even doctor's consultations via sophisticated two-way video systems, is an economical and efficient way to deliver health services. When used in the state prison system, telemedicine cuts costs substantially. One recent study even indicated that two-thirds of the inmates prefer the arrangement to face-to-face con-

3. Coordinate Electronic Benefits Transfer programs

Texas has led the nation in the introduction of electronic benefits transfer (EBT), the payment of welfare and food stamp benefits through electronic funds transfers. This technology has greatly curbed fraud and abuse in the Food Stamps program and makes it easy to detect and eliminate duplicate accounts and redundant information from state databases. Texas'

FISCAL IMPACT FROM TECHNOLOGY PROPOSALS: ALL FUNDS

(Millions of Dollars)

	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2000-2004	Volume 2 Reference
Improve Software Management	\$ 2.5	\$ 9.8	\$ 9.8	\$ 9.8	\$ 9.8	\$ 41.9	CG7
Standardize Electronic Processing of Health Care Data	cbe	cbe	cbe	cbe	cbe	0.0	HHS12
Require Use of the Texas EBT Strategic Guidelines	cbe	cbe	cbe	cbe	cbe	0.0	HHS13
Improve Medicaid and TANF Collections Process	0.0	0.1	0.1	0.1	0.1	0.3	HHS14
Expand the Use of Telemedicine to Reduce Inmate Health Care Costs	0.0	0.0	1.0	1.0	1.0	3.0	PS3
Total: Technology Proposals	\$ 2.5	\$ 9.9	\$ 10.9	\$ 10.9	\$ 10.9	\$ 45.2	
Biennial Total, FY 2000-20011		\$ 12.5					

cbe – Cannot be estimated.

Note: Totals presented may not add due to rounding.

Interagency Task Force on EBT, created by the 1995 Legislature, is spearheading the expanded use of EBT throughout state government; as part of this duty, it has developed detailed strategic guidelines for the statewide coordination of EBT issues. These guidelines outline agency actions to be taken in converting to EBT payments, as well as technical considerations and other issues. But the guidelines do not carry the force of law, and agencies are not even required to work with the task force.

ACTION: Develop a coordinated electronic benefits transfer strategy for state government that would pay dividends in efficiency and help the state avoid incompatible systems and other costly errors. All state agencies should be required to follow procedures outlined in the strategic guidelines. (See HHS 13, Volume II.)

4. Improve Management of State Software

Between fiscal 1994 and 1997, state government spent an astonishing \$346 million on software and software licenses, yet the state has devoted relatively little attention to how its purchases and licensing agreements are constructed. Industry experts estimate that appropriate software portfolio management—involving the auditing of licenses, the development of appropriate vendor and contract procurement policies, the establishment of a vendor negotiation process, and contract management and review—can shave 10 to 30 percent from an organization's software expenditures.

ACTION: Authorize the Comptroller's office to work with the Department of Information Resources, General Services Commission, and State Auditor's Office to develop and adopt software portfolio management throughout state government. (See CG 7, Volume II.)

Conclusion

"I am pro growth, pro jobs, pro unleashing the creative abilities of the private sector . . ."

— Carole Keeton Rylander

This report opens a new era in the work of the Comptroller's office. Fittingly, it comes on the cusp of a new century, one that promises to offer our state an exhilarating array of challenges and opportunities.

The state economy is lagging in some sectors, but all in all it is more diverse, more resilient, and more vibrant than ever before. State government too has improved; the budget crises and short-term fixes of the eighties are fading into his-

tory, while dozens of large and small improvements have begun to chip away at the entrenched bureaucracies of earlier days.

Yet we cannot allow complacency to dampen our progress or forestall further innovations. Texas is now linked to a world economy that is experiencing unprecedented flux. The times will call for flexible and responsive state government institutions that not only react to change but anticipate it, that continuously challenge the status quo to find better ways to provide services to Texans at a reasonable price. Comptroller Rylander and her staff are proud to be a part of Texas' efforts to meet this challenge.

Endnotes

¹ Joint Economic Committee of Congress, "State and Local Taxation and Economic Growth: Lessons for Federal Tax Reform," by Richard K. Vedder (Washington, D.C., December 1995). This is true whether growth is measured by income, jobs, movement of capital, or population movement.

² The following San Antonio schools have been reconstituted: Louis William Fox Academic and Technical High School, Thomas Jefferson High School, David

Burnet Elementary School, Sam Houston Gates Elementary School, Martin Luther King Middle School, and Frederick Douglas Intermediate School.

³ According to 1997 Office of Court Administration data, sex offenders whose victims were adults received deferred adjudication in 29 percent of all cases, while those who victimized children were granted deferred adjudication in 38 percent of all cases.

Fiscal Impact

Issue #	Recommendation	2000-2001				Change in FTEs
		General Revenue	Other Dedicated Accounts or Funds	Federal	Local	
Annual Total		<u>\$ 429,594,000</u>	<u>\$ 659,806,000</u>	<u>\$ 160,475,000</u>	<u>\$ 32,340,000</u>	<u>(3,039.2)</u>
All Funds Total				<u>\$ 1,249,875,000</u>		
Education						
ED 1	Provide Bonuses for Teachers	\$ (4,296,000)	\$	\$	\$	0.0
ED 2	Provide Incentives for Businesses To Promote Education	(6,300,000)				0.0
ED 3	Raise the Standards for Student Performance in Texas Public Schools					0.0
ED 4	Increase School District Financial Accountability	(758,000)				2.0
ED 5	Help School Districts Move More Dollars Into the Classroom					0.0
ED 6	Restaff "Low-Performing" Public Schools					0.0
ED 7	Make Classrooms Safer Through Parent-Teacher Involvement					0.0
ED 8	Create a Texas Plan for Serving Children from Birth to Age Three		(1,000,000)	(1,068,000)		0.0
ED 9	Require Higher Education Institutions to Make Surplus Property Available to School Districts				cbe	0.0
ED 10	Generate Higher Earnings for the Higher Education Fund					0.0
ED 11	Increase Accountability for Higher Education Funds	30,800,000				0.0
ED 12	Make Remedial Education Funding Performance-Based	46,000,000				0.0
ED 13	Reduce Higher Education Deferred Maintenance					0.0
Subtotal: Education		<u>65,446,000</u>	<u>(1,000,000)</u>	<u>(1,068,000)</u>	<u>0</u>	<u>2.0</u>
Regulatory Reform						
RR 1	Create a Bill of Rights for Business	cbe	cbe	cbe		0.0
RR 2	Add Agency Regulation Review to the Sunset Process					0.0
RR 3	Create a Regulatory Impact Review Process					0.0
RR 4	Eliminate Physician and Medical Liquor Permits					0.0
RR 5	Provide Better On-Line Access to Regulatory Information					0.0
RR 6	Emphasize Environmental Goals with Regulatory Flexibility					0.0
RR 7	Eliminate Tasting and Market Research Permits for Package Stores					0.0
RR 8	Simplify Licensing Requirements for Businesses Modifying Motor Vehicles for Disabled Drivers					0.0
RR 9	Improve Wholesale License Revenue Processing at the Texas Department of Health	68,000				(1.2)
RR 10	Streamline Policies Connected with Intermediate Care Facilities for the Mentally Retarded					0.0

**Texas Performance Review
Fiscal Impact (continued)**

			2000-2001				
Issue #	Recommendation	General Revenue	Other Dedicated Accounts or Funds	Federal	Local	Change in FTEs	
Regulatory Reform (continued)							
RR 11	Consolidate Regulation of Certain Child Nutrition Programs	\$	\$	\$ 3,836,000	\$	0.0	
RR 12	Coordinate Expiration Dates on Alcoholic Beverage Secondary Permits					0.0	
RR 13	Consolidate Aquaculture Licenses and Exotic Species Permits					0.0	
	Subtotal: Regulatory Reform	68,000	0	3,836,000	0	(1.2)	
Cross Government							
CG 1	Implement Activity-Based Costing in Selected Agencies	(2,200,000)				0.0	
CG 2	Set Customer Service Standards for Texas State Government					0.0	
CG 3	Improve Access to Government Through a Single State Information Number					0.0	
CG 4	Permit Agencies to Include Employee Benefits When Contracting					0.0	
CG 5	Improve Management of the State's Vehicle Fleet	8,369,000	11,911,000			0.0	
CG 6	Reduce State Equipment Repair and Maintenance Costs	cbe	cbe			0.0	
CG 7	Improve Software Management	9,910,000	2,400,000			0.0	
CG 8	Continue Recovery of State Housing Costs	3,950,000				0.0	
	Subtotal: Cross Government	20,029,000	14,311,000	0	0	0.0	
General Government							
GG 1	Streamline the Tax Reporting and Auditing Process for Texas Businesses	51,250,000				0.0	
GG 2	Increase Use of Innovative Highway Construction Financing Options		652,511,000			0.0	
GG 3	Lease Rights-of-Way Along Texas Highways		7,410,000			0.0	
GG 4	Improve Marketing of Special License Plates	(56,000)	313,000			0.0	
GG 5	Remove Brush to Conserve Water	(600,000)				0.0	
GG 6	Lease or Sell Underused State Lands	5,281,000	10,363,000			0.0	
GG 7	Privatize Overpayment Collections Function		1,400,000			0.0	
GG 8	Reduce Lottery Reserve to Save Taxpayer Dollars	15,000,000				0.0	
GG 9	Expand the Use of Private Adoption Agencies	262,000		(126,000)		0.0	
GG 10	Increase Child Support Payments with Enhanced Court Oversight		(102,000)			0.0	
GG 11	Improve Efforts to Find Parents and Increase Child Support Collections on Foster Care Cases	305,000				0.0	
GG 12	Create a "Virtual University" for Local Officials in Rural Areas					0.0	
GG 13	Improve Internet Access in Rural Communities				cbe	0.0	
GG 14	Permit College Students in the Military An Alternative to State Exams					0.0	
GG 15	Expand the Use of Desalination to Provide Water for Texans					0.0	
	Subtotal: General Government	71,442,000	671,895,000	(126,000)	0	0.0	

Texas Performance Review
Fiscal Impact (continued)

			2000-2001				
Issue #	Recommendation	General Revenue	Other Dedicated Accounts or Funds	Federal	Local	Change in FTEs	
State Employment							
SE 1	Manage Growth in State Government Expenditures	\$ 188,000,000	\$	\$	\$	0.0	
SE 2	Link Employee Pay to Performance					0.0	
SE 3	Enhance Teacher Retirement Benefits					0.0	
SE 4	Authorize Optional Lump-Sum Retirement Payments					0.0	
SE 5	Streamline Refunds of Retirement Contributions		(7,400,000)			0.0	
	Subtotal: State Employment	188,000,000	(7,400,000)	0	0	0.0	
Health and Human Services							
HHS 1	Strengthen Health and Human Services Commission	cbe	cbe	cbe		cbe	
HHS 2	Reduce Department of Human Services' Costs	53,721,000		74,380,000		(3042.0)	
HHS 3	Improve Purchasing of Medicaid Services	22,408,000		36,765,000		0.0	
HHS 4	Give Texans with Disabilities More Service Choices					0.0	
HHS 5	Improve Services for Adults with Disabilities					0.0	
HHS 6	Improve Access to Federal Disability Benefits	cbe	cbe	cbe		cbe	
HHS 7	Provide Hearing Tests for All Texas Newborns	(1,800,000)		2,900,000	(660,000)	0.0	
HHS 8	Enhance Vendor Drug Program By Competitively Bidding Claims Processing					0.0	
HHS 9	Improve Mental Health Treatment for the Mentally Ill	cbe				0.0	
HHS 10	Increase Local Control of Spending for Children's Mental Health Services					0.0	
HHS 11	Develop a Department of Mental Health and Mental Retardation Facilities Master Plan					0.0	
HHS 12	Standardize Electronic Processing of Health Care Data	cbe	cbe	cbe		0.0	
HHS 13	Require Use of the Texas EBT Strategic Guidelines	cbe	cbe	cbe		0.0	
HHS 14	Improve Medicaid and TANF Collections Process	50,000		56,000		0.0	
HHS 15	Enhance Medicaid Third-Party Recoveries	5,320,000		8,680,000		0.0	
HHS 16	Maximize Federal Reimbursements to Counties				33,000,000	0.0	
	Subtotal: Health and Human Services	79,699,000	0	122,781,000	32,340,000	(3042.0)	
Public Safety							
PS 1	Improve Services and Increase Funding for Victims of Crime		(18,000,000)			0.0	
PS 2	Strengthen Traffic Safety in Texas			26,452,000	cbe	0.0	
PS 3	Expand the Use of Telemedicine to Reduce Inmate Health Care Costs					0.0	
PS 4	Help Texas Cities Fight Gang Activity	(90,000)				2.0	
PS 5	Evaluate State-Funded Drug Prevention Programs					0.0	
PS 6	Increase Penalties for Domestic Violence and Strengthen Protective Orders				cbe	0.0	
PS 7	Increase Penalties for Sex Crimes Against Children					0.0	
PS 8	Implement a Civil Commitment Procedure for Sexually Violent Predators	cbe				0.0	
	Subtotal: Public Safety	(90,000)	(18,000,000)	26,452,000	0	2.0	

Texas Performance Review
Fiscal Impact (concluded)

		2000-2001				
Issue #	Recommendation	General Revenue	Other Dedicated Accounts or Funds	Federal	Local	Change in FTEs
Housing						
HOU 1	Expand Housing Options for Older Texans	\$ 5,000,000	\$	\$ 8,600,000	\$	0.0
HOU 2	Restructure Texas' Housing and Community Development Programs					0.0
HOU 3	Allocate Federal Low-Income Housing Tax Credits on a Regional Basis					0.0
HOU 4	Provide a Loan Guarantee Fund for Contract for Deed Conversions					0.0
HOU 5	Create an Owner-Builder Loan Program				cbe	0.0
HOU 6	Provide Builder Incentives for Low-Cost Housing					0.0
HOU 7	Recapture and Recycle Bond Cap Allocations					0.0
HOU 8	Recapture and Recycle Down-Payment Assistance Funds					0.0
Subtotal: Housing		5,000,000	0	8,600,000	0	0.0

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