

SENATE BILL REPORT

SB 5737

As of March 5, 2015

Title: An act relating to government performance and accountability.

Brief Description: Concerning government performance and accountability.

Sponsors: Senators Miloscia and Chase.

Brief History:

Committee Activity: Accountability & Reform: 2/04/15.

SENATE COMMITTEE ON ACCOUNTABILITY & REFORM

Staff: Sam Thompson (786-7413)

Background: Lean Performance Management. Approximately ten states, including Washington, have established central offices to promote Lean performance management principles and programs in state agencies. Originally developed by Japanese corporations, Lean principles seek to increase efficiency and eliminate waste and inefficiency in operations, based upon continuous assessment and improvement.

Washington's office, Results Washington, was created by Governor Jay Inslee in a 2013 Executive Order, and operates within the Governor's Office. Results Washington is headed by an appointed director and includes 12 full-time employees. An additional five employees from other agencies participate in year-long fellowships in which they learn Lean principles that may be applied in their agencies.

Baldrige Performance Assessments. A 1987 act established a federal program to evaluate management quality of U.S. businesses. Both the Baldrige Performance Excellence Program and the Malcolm Baldrige National Quality Award are administered by the National Institute of Standards and Technology, within the U.S. Department of Commerce. The program currently publishes performance excellence frameworks used by trained examiners to evaluate management in both for-profit and nonprofit organizations, including government entities. Following an assessment, an examiner scores an organization's management quality.

International Organization for Standardization (ISO) Quality Management Standards. The ISO is a nongovernmental organization based in Switzerland that develops voluntary

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international standards for products, services, and systems, including quality management systems in organizations.

Summary of Bill: The bill as referred to committee not considered.

Summary of Bill (Proposed Substitute): Intent. The Legislature intends that an office of performance management should be established in statute. Several other intent provisions are specified.

Office of Performance Management (OPM) Created. OPM is created in the Governor's Office and granted administrative authority over state executive branch Lean performance management programs. OPM is headed by a director appointed by the Governor with the consent of the Senate, who serves at the pleasure of the Governor. The director may employ personnel necessary to administer OPM.

OPM Duties. OPM must:

- adopt and implement a state Lean performance management plan (state plan);
- assist agencies in developing agency Lean performance management plans (agency plans) and review and approve or disapprove agency plans;
- coordinate Baldrige assessments of agencies and of contracting local governments and major private vendors, defined as private entities providing services or goods and annually receiving at least \$3 million pursuant to contract;
- partner with the Baldrige Performance Excellence Program and private organizations to ensure that a sufficient number of trained examiners are available to conduct Baldrige assessments;
- annually certify to the Office of Financial Management (OFM) whether agencies have made adequate progress in implementing agency plans and in responding to audits and Baldrige assessments;
- annually report to the Legislature regarding state and agency plans, Baldrige assessments, and recommended changes in policy, and solicit input;
- in order to implement a fully developed Lean performance management system, collaborate with agencies to develop a financial data system and an employee training system; and
- adopt necessary administrative rules.

Agency Duties. Each agency must:

- report quarterly to OPM regarding implementation of its agency plan;
- report annually to the Legislature regarding its agency plan, Baldrige assessments, and other matters;
- coordinate with OPM for biannual Baldrige assessments of its operations and operations of contracting local governments and major private vendors, and send assessments to OPM; and
- strive to reduce agency costs by 1 percent annually within two years of adopting its agency plan and 2 percent annually within four years of adopting its agency plan.

Baldrige Assessments. An agency's Baldrige assessment score is its measure of performance, and includes performance of contracting local governments and major private vendors. Each agency's goal is to achieve a 60 percent score within six years of the first assessment. An

agency achieving the goal need not conduct a biannual assessment, but must conduct an assessment at least every three years. An agency failing to achieve the goal must achieve certification under an internationally recognized quality management system, such as ISO 9001, or its equivalent, within seven years of the first Baldrige assessment.

Cost Savings. In a proposed operating budget, OFM must redirect cost savings realized from implementation of an agency plan as follows:

- 10 percent to the agency's other critical operations if OPM certifies that the agency is making adequate progress in implementing its agency plan and in responding to audits and Baldrige assessments;
- 10 percent to the agency to improve performance under its agency plan; and
- 10 percent to OPM to improve performance under the state plan.

Remaining savings must be redirected to reduce the agency's operating budget, but agency personnel may not be terminated to comply with this requirement.

State Auditor. The State Auditor must conduct performance audits of the state plan and assess state and agency plans. The State Auditor must consult with OPM and the Joint Legislative Audit and Review Committee to develop audit criteria.

Judiciary. The Board for Judicial Administration is encouraged to consider state and agency plans and to submit judicial performance information to the Legislature.

Legislature. The Senate Facilities and Operations Committee and the House Executive Rules Committee are encouraged to cooperate with OPM, adopt performance management plans, and conduct Baldrige assessments of operations.

Other. Several conforming amendments: require agencies to adopt agency plans; include current mandates in agency plans; and transfer performance management authority from OFM to OPM.

The act may be known and cited as the Performance Management Act.

Appropriation: None.

Fiscal Note: Requested on February 3, 2015.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony: PRO: Washington should have a performance management system that is superior to Boeing's system. This bill is intended to establish Results Washington in statute. Washington has a long history of efforts to improve agency performance. Lean principles, developed at Toyota and involving efforts to reduce waste based on input by front-line staff, should be promoted in government. The King County Assessor's Office was the first Washington local government entity to apply for a Baldrige award, and won a state-level award in 2012. The King County Assessor's Office strives to

implement Lean principles to provide better service to the customers: taxpayers. Employees like the bottoms-up collaborative process. Training to implement Lean principles is important. Employees should not be penalized for making minor errors when they seek to improve operations. Sometimes more valuable lessons can be learned from mistakes than from successes.

OTHER: Results Washington supports rigor in measuring performance. The office is making significant progress in implementing Lean programs, and agencies are improving performance. The office is neutral on this bill, with concerns regarding the scale of mandates applying to more than 100 agencies and many local governments and private vendors. The fiscal impact will be significant. Efforts to reduce agency costs should take increasing state and federal mandates into account. Lean management involves more than reducing costs and increasing productivity; improving quality, safety, and other elements are also important. Use of Shingo assessments, developed by the Shingo Institute at Utah State University and used by the University of Washington, should be considered. Current demand for training is greater than capacity, and Results Washington is currently working at maximum capacity on five priorities.

Persons Testifying: PRO: Senator Miloscia, prime sponsor; Lloyd Hara, King County Assessor.

OTHER: Wendy Korthuis-Smith, Rich Roesler, Results WA.