

SENATE BILL REPORT

E2SSB 5737

As Passed Senate, March 9, 2015

Title: An act relating to government performance and accountability.

Brief Description: Concerning government performance and accountability.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Miloscia and Chase).

Brief History:

Committee Activity: Accountability & Reform: 2/04/15, 2/18/15 [DPS-WM, DNP].
Ways & Means: 2/23/15, 2/26/15 [DP2S, DNP, w/oRec].
Passed Senate: 3/09/15, 36-13.

SENATE COMMITTEE ON ACCOUNTABILITY & REFORM

Majority Report: That Substitute Senate Bill No. 5737 be substituted therefor, and the substitute bill do pass and be referred to Committee on Ways & Means.
Signed by Senators Miloscia, Chair; Padden, Vice Chair; Dandel.

Minority Report: Do not pass.
Signed by Senators Jayapal, Ranking Minority Member; Fraser.

Staff: Sam Thompson (786-7413)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Second Substitute Senate Bill No. 5737 be substituted therefor, and the second substitute bill do pass.
Signed by Senators Hill, Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Bailey, Becker, Brown, Hewitt, O'Ban, Padden, Parlette, Rolfes, Schoesler and Warnick.

Minority Report: Do not pass.
Signed by Senators Hargrove, Ranking Member; Ranker, Ranking Minority Member, Operating; Conway, Fraser, Hasegawa, Hatfield and Kohl-Welles.

Minority Report: That it be referred without recommendation.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

Signed by Senators Braun, Vice Chair; Keiser, Assistant Ranking Member on the Capital Budget; Billig.

Staff: Steve Jones (786-7440)

Background: Lean Performance Management. Washington and several other states have established central offices to promote Lean performance management in state agencies. Originally developed by Japanese corporations, Lean principles seek to increase efficiency and eliminate waste and inefficiency in operations, with input from front-line employees. Washington's office, Results Washington, was created by Governor Jay Inslee in a 2013 Executive Order and operates within the Governor's Office. It 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.

Quality Management Assessments and Awards. In 1987 Congress established a federal program to promote quality management in U.S. businesses. The Baldrige Performance Excellence Program (Baldrige Program) in the U.S. Department of Commerce currently publishes frameworks used by trained examiners to score management quality in both for-profit and nonprofit organizations that seek assessments. Malcolm Baldrige National Quality Awards are annually presented to high-scoring organizations, including government entities.

In 1994 the Washington Legislature established a state program to promote quality management in Washington industries, businesses, and organizations. The program is managed by the Washington State Quality Award (WSQA), a private nonprofit corporation. WSQA-trained examiners use Baldrige-based criteria to score management quality in organizations that seek assessments. State agencies, certain housing assistance organizations, and certain local governments must periodically apply for WSQA assessments. WSQA awards are annually presented to high-scoring organizations, including government entities.

The International Organization for Standardization (ISO), a nongovernmental organization based in Switzerland, developed separate systems for assessing quality management.

Caseload Forecast Council. The Caseload Forecast Council periodically issues official caseload forecasts for state-administered entitlement programs. Forecasts are incorporated in operating budgets proposed by the Governor and in legislative appropriation acts.

Summary of Engrossed Second Substitute Bill: Intent and Name. The Legislature intends that an office of performance management should be established in statute. Several other intent provisions are specified. The act may be known and cited as the Performance Management Act.

Office of Performance Management (OPM) Created. OPM is created in the Governor's Office and granted administrative authority over Lean performance management programs in state agencies, including institutions of higher education. 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:

- beginning July 1, 2015, inventory and review agency performance management plans, including experience with Baldrige or similar frameworks, strategic planning, leadership capacity, and Lean culture maturity to determine readiness and capacity of each agency to comply with the act and, by April 1, 2016, report to the Legislature and Governor evaluating results and identifying agencies' strengths, weaknesses, opportunities, and threats;
- promote sharing of information between agencies, allowing agencies that have successfully deployed performance assessment and implemented a performance management plan to serve as a resource to agencies in the process of doing so;
- annually select multiagency programs or processes for Lean performance analysis to identify cross-jurisdictional efficiencies and performance improvements, with results included in annual reports to the Legislature;
- adopt, by 2016, and implement a state strategic plan and state Lean performance management plan (statewide Lean plan), delegating authority, as necessary, to other agencies;
- assist agencies in developing agency strategic plans, agency ethics plans, workforce systems, and agency Lean performance management plans (agency Lean plans), and review and approve or disapprove the plans;
- partner with the Baldrige Program, WSQA, and another organization to conduct Baldrige assessments of agencies, provide for modified assessments of agencies with fewer than 20 employees, and encourage Baldrige assessments of local governments and major private partners of agencies, which will be considered in awarding contracts and grants;
- annually certify to the Office of Financial Management (OFM) whether agencies have adequately implemented agency Lean plans and responded to audits and Baldrige assessments;
- annually report to the Legislature regarding implementation of Lean plans, Baldrige assessments, and recommended changes in policy, and solicit input;
- collaborate with agencies to develop a financial data system and workforce training system to implement a fully developed Lean system; and
- adopt necessary administrative rules.

Agency Duties. Each agency must:

- adopt an agency strategic plan, as required under current law restated in a new provision, and an agency ethics plan, workforce training system, and agency Lean plan;
- periodically report to OPM and the Legislature regarding implementation of agency Lean plans, Baldrige assessments, and other matters;
- coordinate with OPM for Baldrige assessments of its operations every three years;
- strive to implement real-time web-based tracking and reporting of agency activities; and
- conduct agency performance management efforts within the fiscal resources currently allocated to performance management.

Reporting and Baldrige assessment requirements vary based on agency size:

- large agencies with 500 or more full-time equivalent staff (FTEs) must provide quarterly reports to OPM, annual reports to the Legislature, and Baldrige assessments every three years;

- medium agencies with 100 to 499 FTEs must provide annual reports to OPM, biennial reports to the Legislature, and Baldrige assessments every three years, starting in 2019; and
- small agencies with under 100 FTEs must provide biennial reports to OPM and the Legislature, and Baldrige assessments every three years, starting in 2021.

Quality Management Assessments. Each agency's goal is to achieve a 60 percent Baldrige score within seven years of its first assessment. An agency achieving the goal must apply for a Malcolm Baldrige National Quality Award, and may conduct less-frequent Baldrige assessments. 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.

Savings. The Caseload Forecast Council's forecasts must include estimated savings from Lean plans. For nonforecasted programs, OPM must provide annual reports to the Council detailing estimated savings. The Council must annually report to the Governor and Legislature on savings achieved and future projected savings. In a proposed operating budget, the Governor must incorporate estimated savings from the Council's most recent forecast.

In a proposed operating budget, OFM must redirect cost savings realized from implementation of an agency Lean 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 Lean plan and in responding to audits and Baldrige assessments;
- 10 percent to the agency to improve performance under its agency Lean plan; and
- 10 percent to OPM to improve performance under the statewide Lean 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.

Training. The Department of Enterprise Services must partner with the Baldrige Program, WSQA, and another organization to develop training modules regarding mandates in the act. The modules must be completed and approved by OPM by September 1, 2015.

Other. The State Auditor must conduct performance audits of Lean plans and consult with OPM and the Joint Legislative Audit and Review Committee to develop audit criteria. The judiciary is encouraged to submit judicial performance information to the Legislature. The Senate and House of Representatives are encouraged to cooperate with OPM, adopt Lean plans, and conduct Baldrige assessments. Several conforming amendments transfer authority from OFM to OPM and require agencies to incorporate current performance mandates in Lean plans.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

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

Staff Summary of Public Testimony on Proposed Substitute as Heard in Committee (Accountability & Reform): 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 (Accountability & Reform): PRO: Senator Miloscia, prime sponsor; Lloyd Hara, King County Assessor.

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

Staff Summary of Public Testimony on Substitute as Passed by Accountability & Reform (Ways & Means): 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 (Ways & Means): OTHER: Wendy Korthuis-Smith.