

# SENATE BILL REPORT

## SB 5737

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As of February 24, 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, 2/18/15 [DPS-WM, DNP].  
Ways & Means: 2/23/15.

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### 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)

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### SENATE COMMITTEE ON WAYS & MEANS

**Staff:** Steve Jones (786-7440)

**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.

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*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.*

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 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 (Recommended 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 Lean performance management programs in state executive branch 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:

- adopt, by 2016, and implement a state strategic plan and state Lean performance management plan (state 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 Performance Excellence Program and private organizations to conduct Baldrige assessments of agencies, provide for modified assessments of small 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 the state Lean plan and agency 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 two years; and
- strive to implement real-time web-based tracking and reporting of agency activities.

Baldrige Assessments. Each agency's goal is to achieve a 60 percent Baldrige assessment 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.

Cost Savings. 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 state 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.

The Caseload Forecast Council's forecast must include estimated savings from the state plan and agency plans, and the Governor's proposed budget must incorporate these savings.

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

Judiciary. The judiciary is encouraged 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 Lean plans, and conduct Baldrige assessments.

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

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

**EFFECT OF CHANGES MADE BY ACCOUNTABILITY & REFORM COMMITTEE (Recommended Substitute):** New mandates regarding a state strategic plan, agency ethics plans, and workforce training systems are specified. Mandates for Baldrige assessments of contracting local governments and major private vendors are changed to instead encourage

Baldrige assessments, which will be considered in awarding contracts and grants. Agency Lean plans must include activities necessary to reduce agency costs by 1 percent annually within two years of adoption and 2 percent annually within four years of adoption. The Department of Enterprise Services must partner with the Federal Baldrige Performance Excellence Program and private organizations to develop workforce training modules, which must be completed and approved by OPM by Sept. 1, 2015. Provision is made for modified Baldrige assessments for small agencies with fewer than 20 employees. The Caseload Forecast Council's forecast must include estimated savings from the state Lean plan and agency Lean plans, and the Governor's budget must incorporate these savings. Language encouraging the judicial branch to consider adopting Lean plans is deleted. Language encouraging the Legislature to adopt Lean plans and conduct Baldrige assessments is added.

**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 (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.