

**STAFF REPORT**

**TO THE**

**SUNSET ADVISORY COMMISSION**

**ON THE**



**OFFICE OF STATE-FEDERAL RELATIONS**

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# EXECUTIVE SUMMARY

## Approach

To understand the Sunset staff's approach to the review of the Texas Office of State-Federal Relations (OSFR), it's important to recognize three facts about the role of the federal government in the affairs of the State of Texas:

First, counting what the federal government pays for directly with federal tax dollars, together with the things federal law and federal agencies say the state must pay for, one half of the Texas state budget is written in Washington, D.C.

Second, for the first time, the single biggest source of funds in for the current state budget is federal revenue.

Third, not only do federal funds--and decisions in the nation's capital about those funds--loom largest for Texas taxpayers, but each Texan gets less than his or her fair share of this money.

The first two of these facts are relatively new developments, but the third has been widely recognized for several years.

Almost a decade ago, in 1987, then-Comptroller Bob Bullock asked his Economic Analysis Center to study this widely recog-

nized problem and find ways to solve it.

Bullock's staff took three years to identify the reasons why relatively few of the federal tax dollars from the taxpayer's pocket find their way back across the Red River to Texas.

In 1990, their findings and recommendations were published in a series of five reports titled *Dollars We Deserve*. This first major study of Texas federal funding concluded,

**"...Texas must make every effort to win every dollar it has coming from the federal government, before committing scarce state and local resources.**

**"Texans have already purchased this federal aid with their hard-earned tax dollars. Texas has a responsibility to make sure its citizens receive all the dollars they deserve."**

The *Dollars We Deserve* reports recommended that:

- the state's budget process should place more importance on federal funds as a source of revenue and provide incentives

One half the state budget is written in Washington, D.C.

The duty to review the Office of State-Federal Relations under Sunset, then, was not a question about whether the state should have such an office—all but two states do—but how it could be improved.

- and penalties related to agencies' performance;
- the state should work to change federal laws, regulations, and funding formulas to make it easier to get and use federal funds;
- the Comptroller and the Legislative Budget Board should report regularly on the impact of the federal budget on the state; and
- agencies should hire staff located in Washington, tied to the agencies' budget process, to work on federal funds and channel timely information back to Texas.

The Legislature responded by making many of the recommended changes.

- The Legislative Budget Board (LBB) received budget authority to encourage agencies to prioritize federal funds efforts.
- Today, agencies are required to include detail about sources and expected levels of federal funds in their legislative appropriations request.
- The LBB has created a Federal Funds Analysis Section.
- The Legislature expanded the mission of the Office of State-Federal Relations (OSFR) to include evaluation of state agencies' effectiveness at getting federal funds and

helping them to secure federal discretionary grants.

- The office OSFR now routinely identifies the impact of federal funding formulas and reports its findings to Texas Members of Congress.
- The State-Federal Office added specialized personnel hired by state agencies to work in the process of identifying opportunities and avoiding pitfalls for the state budget as results of federal action.

These changes have helped double the number of federal dollars flowing into Texas and marginally improved Texas' per capita ranking among the states.

Although Texas is today third among the states in the total amount of federal dollars we receive, we still are far behind the now-smaller State of New York and the larger State of California, the first two in line for federal money.

The duty to review the Office of State-Federal Relations under Sunset, then, was not a question about whether the state should have such an office—all but two states do—but how it could be improved.

Sunset staff looked for ways to continue the important developments that began with the *Dollars We Deserve* study, asking how the

State of Texas can become more effective in the competition for federal funds and the struggle to avoid unfunded federal mandates.

Some answers to this question lay with the two Senators and 30 elected Members of Congress Texans elect to represent their interests in Washington. Sunset staff interviewed Texas Members of Congress to gain their impressions and suggestions for the office (see Appendix 1, OSFR: The Congressional Perspective). In conducting this review, staff also:

- worked with the Legislative Budget Board on current efforts to link the state and federal budget processes and ways to make more improvements;
- interviewed OSFR staff in Austin and Washington;
- interviewed state agency representatives working in Washington;
- reviewed agency documents and reports, state statutes, legislative reports, previous legislation affecting the agency, and previous reports on federal funds issues;
- reviewed reports of previous agency evaluations by the LBB, the Comptroller's Texas Performance Review, and the Sunset Commission;
- talked with other states' state-federal offices; and
- coordinated with the House International and Cultural Relations Committee on its efforts as OSFR's oversight committee.

## Results

This review revealed that the current operations of OSFR are significantly more effective than in the past, and that further development is needed.

While the state devotes \$51 million a year to collecting sales taxes, the state's second largest revenue source, the budget of the OSFR is, by comparison, about \$1.5 million. While this budget doesn't represent all state spending to influence federal decisions, it is the largest single identifiable piece.

Thirteen agencies maintain representation with the Office on a largely voluntary, interagency contract basis. Fortunately, state agencies are becoming increasingly aware of the need to strengthen and better coordinate this crucial state effort. To these ends, the Sunset staff makes the following recommendations.

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## **Recommendations**

- 1. Strengthen the budget link between Austin and Washington.**
- 2. Increase coordination between OSFR and other state agencies affected by federal decisions.**
- 3. Bring Texas' state and federal-level leaders together face-to-face.**
- 4. Work to eliminate pay disparities among the state's staff in Washington.**
- 5. Continue the Office of State-Federal Relations for 12 years.**

## **Fiscal Impact**

The recommendations will have a positive fiscal impact. However, the increase in federal funds that will result from these changes cannot be estimated. These recommendations will also help minimize the loss of federal funds that might otherwise occur.



# ISSUE 1

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## INCREASE COORDINATION BETWEEN OSFR AND THE LEGISLATIVE BUDGET BOARD TO BETTER LINK THE STATE AND FEDERAL BUDGET PROCESSES.

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### BACKGROUND

Federal funds support many state programs that provide vital services to the citizens of the state. For fiscal year 1995, this amount is an estimated \$10 billion -- \$8 billion for human services, \$1 billion for education, and \$1 billion for highway construction.

To receive federal funding support, Texas is most often required to meet certain conditions and provide state funding at specified levels. The state budget also includes funding for many programs which must comply with various federal mandates.

The importance of federal funding to the state and the impact of federal mandates underscore the need for Texas to pay close attention to funding decisions made in Washington by Congress and federal executive agencies.

The Office of State-Federal Relations (OSFR) both monitors federal funding and policy decisions and activity attempts to influence these decisions. The Sunset review focused on ways to increase coordination between OSFR and the Legislative Budget

Board (LBB) -- the state's legislative budget agency so that more timely information is available to Congress in Washington and the Legislature in Texas for budget and policy decisions.

### FINDINGS

▼ **Each year federal funds comprise a larger percentage of the state's budget.**

► From 1990 to 1993, federal funds supporting the state budget rose from 19.6 percent to 26.9 percent.

► The Comptroller has estimated that, during fiscal year 1994, federal receipts have surpassed sales tax collections as the largest single source of revenue to the state.

▼ **State expenditures have risen primarily because of federal initiatives that account for an increasing portion of the state's budget.**

► The Legislative Budget Board, in its *Analysis of Federal Initiatives and State Expenditures*, reported that between the 1990-91 and

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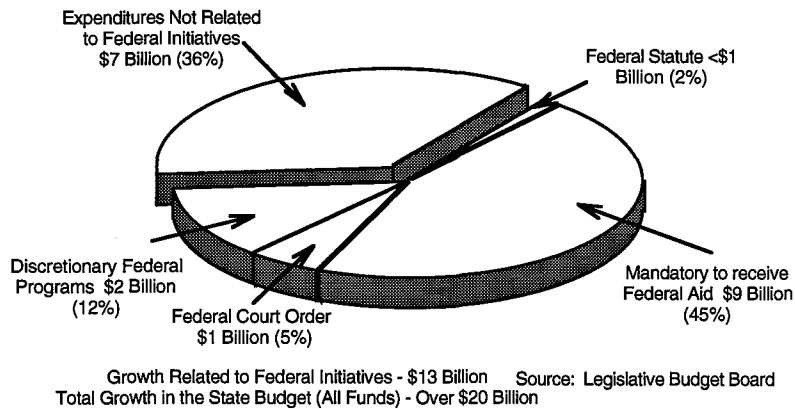
The importance of federal funding to the state underscores the need for Texas to pay close attention to decisions made in Washington.

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1994-95 biennia, total state expenditures grew by an estimated \$20 billion. About 65 percent of this increase, or \$13 billion, was related to federal initiatives due to federal statute or court orders, requirements to receive federal aid, or match discre-

tionary federal programs. The chart, *Total State Expenditures Required by Federal Initiative*, illustrates this growth.

**Total State Expenditures Required by Federal Initiative  
1990-91 to 1994-95**



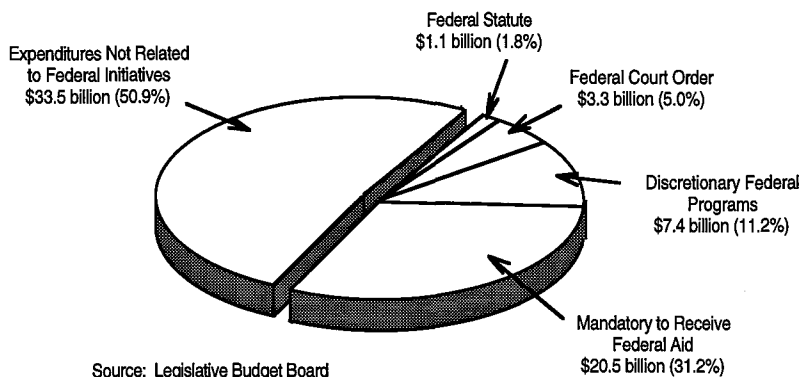
State expenditures related to federal mandates and initiatives, including state and federal funds, account for an increasing portion of the state budget, rising from 42 percent in fiscal year 1991 to an estimated 49 percent in fiscal year 1995.

The chart, *Estimated 1994-1995 Federal Initiative Expenditures as a Percent of the State Total*, shows the breakdown of how the state will spend its money.

▼ **The state spends an increasing amount of state dollars on unfunded federal mandates.**

Of the \$11.4 billion in state funds spent on federal initiatives in the 1994-1995 biennium, \$3.5 billion will be spent to comply with unfunded federal mandates. This is a \$1.2 billion (52 percent) increase since FY 1991.

**Estimated 1994-95 Federal Initiative Expenditures  
as a Percent of the State Total**



▼ **Federal mandates limit the discretionary portion of the state's budget.**

The federally-driven part of the state budget has increased from 42 percent to 49 percent over the last six years.



▶ The Legislature is limited in the way it can shape state expenditures to meet the state's needs because half of the state budget is controlled by federal initiatives.

▼ **Federal funds are critical to the state's budget, so every effort must be made to maximize their receipt.**

▶ In 1993, Texas received \$8.54 billion in federal funds that went directly to fund state programs. The state ranked third in the country in grants to state and local governments.

▶ Even though it ranks third, Texas still falls far below the top two states, California and New York, which receive **almost twice** the amount that Texas does.

▶ On a per capita basis, Texas **did not** receive its fair share of federal funds. While Texas has improved its position steadily for the past three years, it still receives less than the U.S. average. For 1993, Texas received \$612 per capita in grants to state and local governments while the U.S. average was \$745. The chart, *Percent Share of Funding from Major Federal Funding Areas*, shows the percentage of the national total received by Texas in 15 major federal

funding areas compared to the state's population percentage.

▼ **Recently, OSFR and the Legislative Budget Board have taken steps to increase coordination and increase the state's receipt of federal funds.**

▶ OSFR and LBB have begun working more closely together to ensure greater sharing of information on budget issues and the impact of pending federal legislation. The two offices recently

Roughly one half of the state's budget is related to federal mandates and initiatives.

**PERCENT SHARE OF FUNDING FROM MAJOR FEDERAL FUNDING AREAS**

Federal Funding Area	Texas' Percent of Federal Funding
Child Nutrition	9.7
Education for Handicapped	7.0
<b>Texas Share of U.S. Population</b>	<b>6.991</b>
Social Services Block Grant	6.7
Highway Trust Fund	6.6
Comprehensive Education	6.6
Medicaid	6.3
Community Development	6.2
Children and Family Services	5.9
Job Training Partnership Act (JTPA)	4.7
Wastewater Treatment	4.6
Housing Assistance	4.4
Women, Infants and Children Program	4.2
Food Stamps	3.8
Federal Transportation Administration	3.4
Aid to Families with Dependent Children (AFDC)	3.3

Source: Office of State-Federal Relations 1993 Annual Report, *State Services and Federal Expenditures in Texas*

The Texas delegation expressed a need for additional information on state budget needs.

Improve the link between the state and federal budget processes by placing an LBB staff person in OSFR's Washington office.

shared timely information on health care reform and the crime bill that was communicated in Washington by OSFR and the LBB in Texas.

• In 1991, the LBB created a Federal Funds Analysis Section to research opportunities to increase federal funds. This section carries out the Medicaid Analysis and Cost Control function created in 1991 by the Legislature. Resulting recommendations have led to general revenue savings and additional federal revenues.

• The LBB now requires state agencies to submit greater detail on federal funds in their Legislative Appropriations Request.

• OSFR evaluates state agencies' efforts to apply for and success in receiving federal funds.

• While these efforts have proven beneficial, a stronger link between the agencies is needed for further improvements.

• The review also found that LBB needs additional information related to grants applications and waivers to more effectively monitor grant activity in the state.

▼ **A survey of the Texas Congressional delegation indicated that the Members need additional information on budget needs.**

• Several delegation Members mentioned the need for more timely information on the state's budget needs and the impact of proposed changes in federal programs.

• Specifically, unfunded mandates were mentioned as a critical area where the delegation could use timely information to protect the state's interests.

## CONCLUSION

Federal funds comprise an ever increasing percentage of the state's budget. Federal initiatives now control one-half of state expenditures. Because federal funds are so critical, the state must make every effort to maximize their receipt. A stronger connection between the state and federal budget processes is needed if the state is to increase its share of federal funds and lessen the impact of unfunded federal mandates.

## Recommendations

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### Changes in Statute

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- **Require the Legislative Budget Board (LBB) to locate an employee in OSFR's Washington office.**
- **Require that LBB receive, within 30 days, reports of all applications for federal grants by state agencies and institutions.**
- **Require that LBB within 30 days, receive, reports of all requests by state agencies and institutions for waivers from grant requirements.**

Placing an LBB staff person in the Washington office will serve as a conduit for early notices on budget needs from the state to Washington. This direct link between the state and federal budget processes will improve the ability to provide timely

information to the Texas Congressional delegation; track state agency requests in the federal budget process; obtain support for state funding priorities; cross-train the OSFR and LBB staff on the state budget; and train state budget directors on the federal budget process. This recommendation will also allow the LBB to receive timely information on state agency grant applications and requests for waivers from federal program funding requirements. LBB would determine the form and content of the required reports.

The LBB staff person assigned to the Washington office would coordinate activities with OSFR's Director but would be hired by, and ultimately report to, the LBB Director. This arrangement would be subject to the requirements for agency representatives included in Issue 2 of this report.

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### FISCAL IMPACT

Implementation of this recommendation would have a positive fiscal impact by increasing federal funds flowing to Texas but this impact cannot be estimated.



# ISSUE 2




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## **INCREASE COORDINATION BETWEEN OSFR AND OTHER STATE AGENCIES AND IMPROVE THE WORKING ARRANGEMENTS OF STATE AGENCY STAFF LOCATED IN OSFR'S WASHINGTON OFFICE.**

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### **BACKGROUND**

In 1991, the Legislature authorized OSFR to enter into inter-agency contracts with state agencies to locate staff in Washington, D.C. to work under the office's supervision. Currently, the following 13 state agencies contract with OSFR and locate an agency representative in Washington:

- Texas Department of Health;
- Texas Department of Human Services;
- Texas Education Agency;
- Texas Department of Housing and Community Affairs;
- Texas Department of Criminal Justice;
- Texas Department of Commerce;
- Texas Department of Transportation;
- Texas National Research Laboratory Commission;
- Texas Banking Department/ State Treasury (jointly);
- Comptroller of Public Accounts;
- General Land Office;
- Texas Natural Resources Conservation Commission; and
- Texas Department of Insurance.

The representative of the Department of Insurance works jointly for, and is paid by, the department and OSFR.

The agency representatives work with OSFR policy research staff in Washington. They concentrate on policy and funding issues that affect their respective agencies. They are assigned to one of three policy teams headed by an OSFR staff policy director who coordinates their work. Although they work under the supervision of the OSFR Director, they are paid by and ultimately responsible to the state agency they represent.

OSFR provides agency staff with office space, computers and other office equipment, supplies, and administrative support. Travel and other expenses are paid by the contracting agencies.

Some state agencies with significant funding or policy interests in Washington could improve coordination with OSFR.

The Sunset review focused on whether coordination between OSFR and other state agencies could be improved; how placing agency staff in Washington has improved OSFR's ability to do its job; whether state agencies have benefited from the staffing arrangement; and whether improvements are needed in the current working arrangement of the agency staff.

## FINDINGS

- ▼ **Coordinating Texas' activities in Washington is a clear legislative priority.**
  - ◆ The Legislature has recognized the importance of coordinating agency activities in Washington. An Article V rider in the current appropriations bill prohibits agencies from using appropriated funds to perform the functions authorized for OSFR. In addition, before traveling to Washington, all state agencies must report the timing and purpose of their visits to OSFR.
  - ◆ Interviews with the Texas Congressional delegation indicated that a coordinated state position on issues is important. A consensus position, whenever possible, avoids sending mixed signals to the members.
- ▼ **Some state agencies with significant funding or policy interests in Washington could improve coordination with OSFR.**
  - ◆ Lack of coordination can cause problems. When Texas' positions on issues are not coordinated through OSFR, those positions can work at cross purposes to the detriment of Texas. For example, if letters are sent to Washington by two agencies supporting opposite positions, OSFR is put in the position of doing damage control rather than assisting the delegation.
  - ◆ The review identified 45 state agencies that currently receive significant federal funding or whose operations are significantly affected by federal policy decisions. (See chart on next page)
  - ◆ Thirteen of these agencies have chosen to coordinate closely with OSFR by placing a staff person in the agency's Washington office.
  - ◆ Discussions with OSFR revealed that many state agencies work with the office to coordinate the flow of information, policy positions, and influence efforts. However, with other agencies, the office knows that an agency

**Agencies Receiving Significant Federal Funding or  
Affected by Federal Policy Decisions\***

State Agency Name	Amount Received	State Agency Name	Amount Received
Aging, Department on	\$55,214,106	Human Services, Department of	\$8,052,950,970
Agriculture, Department of	\$2,997,529	Insurance, Department of	**
Alcohol and Drug Abuse, Commission on	\$81,538,864	Jail Standards, Commission on	\$17,000
Animal Health Commission	\$3,436,294	Law Enforcement Officers Standards and Education, Commission on	\$183,610
Arts, Commission on the	\$871,445	Library and Archives Commission	\$6,811,169
Attorney General, Office of the	\$100,174,157	Mental Health and Mental Retardation, Department of	\$21,074,323
Banking, Department of	\$175,248	National Guard Armory Board	\$42,519
Blind and Visually Impaired, School for the	\$1,192,683	National Research Laboratory Commission, Texas	NA
Blind, Commission for the	\$29,489,083	Natural Resources and Conservation Commission, Texas	\$70,678,537
Commerce, Department of	\$234,828,819	Parks and Wildlife Department	\$32,206,627
Comptroller of Public Accounts	**	Protective and Regulatory Services, Department of	\$168,012,456
Coordinating Board, Higher Education	\$73,228,436	Public Safety, Department of	\$18,024,045
Criminal Justice, Department of	\$2,288,364	Public Utility Commission	**
Deaf, School for the	\$380,737	Railroad Commission	\$3,970,924
Education Agency, Texas	\$1,162,658,650	Rehabilitation Commission	\$197,598,587
Employment Commission, Texas	\$881,189,536	Soil and Water Conservation Board	\$178,304
General Land Office	\$393,318	State Treasury	**
Governor, Office of the	\$39,957,150	Structural Pest Control Board	\$192,452
Guaranteed Student Loan Corporation	\$6,043,205	Transportation, Department of	\$1,040,218,489
Health, Department of	\$437,841,880	Water Development Board	\$91,907,927
Historical Commission	\$763,944	Workers' Compensation Commission	\$1,520,425
Housing and Community Affairs, Department of	\$106,923,523	Youth Commission	\$3,746,686
Human Rights, Commission on	\$1,248,049	<b>Total</b>	\$12,495,397,132

\* Does not include institutions of higher learning.

\*\* Does not receive money directly from federal sources, but has a stake in federal policy decisions.

Source: *Comptroller's 1993 Comprehensive Annual Financial Report.*

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Placing agency staff in Washington has benefited OSFR and the agencies involved.

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person is in Washington only because the agency is required to report the trip to OSFR.

► The state's interests would be better served if other state agencies coordinated more closely with OSFR when communicating policy positions and attempting to influence federal decisions. In many cases, closest coordination could be achieved by placing an agency staff person in OSFR's Washington office.

► The review also found that the Legislative Budget Board and OSFR should coordinate more closely. The state budget process needs a better link with the federal funding process. This need is addressed in Issue 1 in this report.

▼ **Placing agency staff in OSFR's Washington office has proven beneficial.**

► OSFR has six employees on its policy staff in Washington. The addition of 13 staff has allowed the office to increase its coverage of issues and assistance to Members of the Texas Congressional delegation.

► Interviews with Texas delegation Members found the agency representatives provided expertise and assistance

during deliberation on funding and policy issues.

► Agencies with staff in the Washington office have also benefited. The agency staff receive support for their efforts from OSFR and are able to use their connection with the office to gain access to Congressional offices and committees.

▼ **Improvements are needed in the current structure of the agency representatives' working arrangements.**

► The line of reporting authority for the agency representatives varies within their respective agencies. Six report directly to their agency's director or presiding officer while seven answer to a director of legislative/government affairs or public information. The review indicated agency staff sometimes need quick communication with their agency head on policy direction and positions. This works better if the agency representative works directly with the agency head.

► The agency representatives are not formally linked to their respective agencies' budget and planning processes. Interaction with the agency's budget staff would allow the



agency representative to relay budget needs in Washington.

► OSFR's Director does not have any formal input in the performance appraisals of the agency representatives. These staff work under the Director's supervision in Washington. Providing input would allow the Director to make suggestions as needed to improve the staff person's effectiveness and the inter-agency relationship.

► Pay levels for the agency representatives also vary. Annual pay ranges from \$36,108 to \$68,700. Total compensation, including cost-of-living allowances and other expense reimbursements, ranges from \$39,782 to \$87,708. While pay is not directly correlated with an employee's level of expertise, it can be used as an indicator of the experience and qualifications of the staff person placed in Washington to represent the various agencies.

► During interviews, Members of the Texas delegation expressed concern about the uneven level of expertise or federal experience among the interagency representatives.

► Other benefits also vary among the agency representa-

tives. Five of the thirteen agency staff receive a cost-of-living salary adjustment. This disparity is addressed in Issue 4 of this report.

▼ **The review of OSFR's Washington office indicated that support provided to the agency representatives was generally adequate; however, administrative support could be improved.**

## CONCLUSION

Placement of agency staff in Washington has proved beneficial to OSFR and the state agencies involved and has helped coordinate Texas' activities in Washington. However, some state agencies with significant interest in federal decisions could improve coordination with OSFR. In addition, improvements are needed to standardize the current working arrangements of those staff that have been placed in OSFR's Washington office.

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Certain state agencies should be required to develop plans for coordination and study the benefits of placing staff in Washington.

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Working arrangements of the agency representatives should be standardized and strengthened.

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## Recommendations

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### Changes in Statute

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- **Require state agencies to coordinate with OSFR when providing information or communicating policy positions to federal agencies or the U.S. Congress.**
- **Require state agencies, identified by the Legislative Budget Board as receiving significant federal funding or affected by federal policy decisions, to develop a coordination plan, study the benefits of placing a staff person in OSFR's Washington office, and submit the plan and benefit study to OSFR and the LBB.**
- **Require that OSFR's policy advisory board review and approve all contracts involving agency staff placement in the Washington office.**
- **Establish a standard approach for working arrangements of agency representatives working in the Washington office as follows:**
  - **Require that the agency representatives report directly to their agency's director, commissioner, or board chair;**
  - **require that the agency representatives have a formal link to their agency's budget planning process;**
  - **require that the agency representatives provide periodic updates of activities at their agency's board or commission meetings;**
  - **require the State Auditor's Office Classification Division to conduct a salary review to establish a standardized pay scale for the agency representatives that establishes pay levels based on expertise and federal experience and includes a standard allowance for the increased cost of living in Washington; and**
  - **require agencies placing staff in Washington to adhere to the established pay scale.**

### Management Action

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- **OSFR should ensure that the agency representatives working in the Washington office are provided adequate administrative support.**

This recommendation will ensure that state agencies increase coordination with OSFR when working on funding and policy issues in Washington. The LBB would identify each agency that will be required to establish a plan to work with OSFR and study the possibility of locating a staff person in OSFR's Washington office. OSFR and LBB will receive the plan and the study results.

The use of agency staff in Washington began as a voluntary pilot project. Based on the favorable results, the approach should be expanded to the extent appropriate. Although all state agencies may not need to place staff in Washington, they will be required at least to increase coordination with OSFR.

This recommendation also sets up a framework to standardize the working arrangements for agency representatives and establishes a consistent pay scale that will include an allowance for the higher cost of living in Washington. These steps will improve the use of agency staff placed in the Washington office.

In conducting the salary review, the State Auditor should consult with OSFR to gain insight on appropriate pay levels for staff working in Wash-

ington. The review should include comparison with salaries for legislative analysts that work for congressional committees.

Regarding the management recommendation, OSFR indicated it has taken steps to improve the administrative support provided to the agency representatives working in its Washington office. The Director has dedicated an administrative staff person to provide needed support.

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## FISCAL IMPACT

This recommendation could have a fiscal impact resulting from the potential increase in the number of agency representatives placed in Washington and use of the revised pay scale established. As contracts are renewed with the agencies that currently have staff in Washington, some agencies' costs may increase while others decrease. As mentioned previously, the current pay for the agency representatives varies as does payment of a cost-of-living allowance.



# ISSUE 3




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## REQUIRE OSFR TO ARRANGE A STATE PRIORITIES MEETING BETWEEN THE TEXAS CONGRESSIONAL DELEGATION AND THE EXECUTIVE AND LEGISLATIVE LEADERSHIP.

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### BACKGROUND

Federal funding and policy decisions drive a significant portion of the state budget. Receipt of federal funds often requires compliance with certain conditions. Funding of state programs must be kept at specified levels. In addition, the state is required to provide funding for programs and services to comply with various federal initiatives and mandates. Federal initiatives currently dictate about one-half of the state's budget.

Approximately 27 percent of the state's budget is supported by federal funds and federal dollars have surpassed sales tax collections as the largest single source of revenue for the state.

Although the fiscal impact of federal decisions cannot be overstated, non-fiscal federal policy decisions, from telecommunications to U.S. Postal Service procedures, often have a profound effect on the lives of Texans. The days when Austin could pay little attention to Washington have clearly passed.

OSFR is the state's agency in Washington charged with influencing the funding and policy decisions that ultimately affect the state's budget decisions. OSFR works with Members of the Texas Congressional delegation, the Governor, the Legislature, and state agencies to ensure that timely information and, when possible, a coordinated Texas position are understood and supported by decision makers in Washington.

The Sunset review looked at ways to increase communication of state priorities and policy positions between the Texas Congressional delegation and the state's Executive and Legislative leadership. A survey of the Texas Congressional delegation was instrumental in developing this issue.

### FINDINGS

- ▼ **Efforts of the Texas Congressional delegation are critical to protecting the state's interests in Washington.**
- ▶ Texas' relative power in Washington has eroded from the days when Texans occu-

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The days when Austin could pay little attention to Washington have clearly passed.

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Delegation Members felt a meeting with state leaders would allow direct communication on priorities and strategies to benefit the state.

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plied the White House, presided over the U.S. House, and chaired major Senate committees. This erosion is due to continue with the retirement of two senior Texas Members who sit on the powerful House Ways and Means Committee.

▶ With the shift of power in Washington, protection of the state's interests has shifted more to the delegation as a whole.

▼ **The Texas delegation has worked together to influence many decisions on issues that affect the state.**

▶ The delegation, with the help of OSFR, has organized and communicated a united Texas position on many issues in Washington.

▶ Recent efforts related to the Superconducting Supercollider and the Space Station Freedom point to coordination by the delegation.

▶ This effort has contributed to the widespread perception in the U.S. Capitol that the Texas delegation is among the most united of the major states.

▼ **A survey of the delegation Members found that, to be effective on statewide issues,**

**they need credible, timely information on how the issues will affect Texas.**

▶ Members stressed that they must concentrate their office resources on local district needs and committee concerns. They must rely on help, such as that provided by OSFR, to gain statewide perspective on issues.

▶ Members stressed the need for timely information on state budgetary needs and the impact of proposed changes in federal programs, particularly unfunded mandates.

▼ **The Texas delegation indicated that a periodic meeting with the Texas Executive and Legislative leadership would be beneficial.**

▶ Several delegation Members suggested that an annual or biennial face-to-face meeting with the Texas leadership would strengthen delegation unity on statewide issues.

▶ Such meetings would allow direct sharing of information on state and federal issues, leading to clearer priorities both in Texas and Washington and discussion of strategies to benefit the state.

▶ While supporting the idea of meetings, several Members mentioned significant partisan and logistical barriers that would need to be overcome.

▶ These meetings would improve communications between the State Capitol and Washington. Delegation Members expressed a need to communicate directly with state leaders on issues developing in Washington that require state responses. By expressing concerns about these emerging issues, the Members hope they can give the state enough lead time to anticipate federal actions and be ready when the Members must cast their votes.

▼ **OSFR may have difficulty arranging such a meeting. The office has organized a meeting of the Texas delegation in the past but with mixed results.**

▶ In 1991, OSFR arranged meetings of the Texas Delegation to coincide with a trip to Washington by the Governor and on one subsequent occa-

sion. These meetings proved useful but somewhat difficult to orchestrate. However, face-to-face meetings of elected officials have no substitute.

▶ Texas Democrats and Republicans meet together on a weekly basis. The whole delegation doesn't meet regularly and hasn't since Bruce Alger, the first Republican Member from Texas, was elected to Congress in the 1950's.

## CONCLUSION

Federal funding and policy decisions often directly affect Texas and its budget. Efforts of the Texas Congressional delegation are critical to protecting the state's interests when federal decisions are made. A periodic meeting between the delegation and the Texas leadership would provide the delegation Members with the state's perspective and the information they need to fight for Texas in Washington.

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OSFR should arrange a periodic face-to-face meeting of the Texas delegation and state leaders.

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## Recommendation

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### Management Action

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- **Require OSFR to arrange an annual or biennial meeting between the Texas Congressional delegation and the Executive and Legislative leadership to discuss state priorities and strategies to protect and promote the state's interests in Washington.**

This recommendation would require OSFR to organize and conduct an annual or biennial meeting between the Texas Congressional delegation and state leaders. Obviously, the meetings will only occur if the parties agree to participate. Partisanship and the demanding schedules of the participants will need to be overcome. Delegation Members suggested early December in even-numbered years, perhaps preceding the January convening of both the U.S. Congress and the

Texas Legislature, as the most opportune time. Briefings from state agency heads and legislative staff would help Congressional staff understand issues and form working relationships with their state-level counterparts. This would serve the state's interests and facilitate a better flow of crucial, timely information needed for quick decision making.

The Texas leadership should include the Governor, the Lieutenant Governor, the Speaker of the House, and the chairs of the substantive House and Senate committees. OSFR's policy advisory board should assist in determining the participants and arrangement of the meeting. Possible meeting approaches could include discussions of pre-arranged topics or an array of subjects that could be chosen from for discussion at the meetings.

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### FISCAL IMPACT

This recommendation would not have a significant fiscal impact. OSFR and the meeting's participants would incur the cost of travel to and from the meeting. The costs were not estimated for this report. Depending on the success of the meetings, the resulting impact on Texas in terms of increased federal funds and avoided cost of federal mandates could be significant.





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# ISSUE 4

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## **ADJUST THE SALARIES FOR STAFF WORKING IN OSFR'S WASHINGTON OFFICE TO REFLECT HIGHER COSTS OF LIVING AND OTHER EXPENSES.**

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### **BACKGROUND**

OSFR's goal is to influence federal funding and policy decisions to benefit Texas. OSFR's Director works primarily out of the Washington office. This allows the Director to stay informed about the status of issues and directly communicate with members of the Texas Congressional delegation regarding state priorities.

In 1971, the Legislature initially authorized a per diem allowance of up to \$25 for the Director in addition to salary and expenses. The per diem was intended as a salary supplement to offset the higher cost of living in Washington.

As authorized by an appropriations bill rider, the Director now receives the \$40 per diem 365 days a year. This results in a salary supplement of \$14,600 per year. The Director's current salary is \$82,500. With the per diem salary supplement, total compensation is \$97,100 plus expenses.

The Washington office also houses agency policy staff who assist the Director. Thirteen other state

agencies have also placed staff in the Washington office to represent their interests. OSFR staff in Washington currently receive no housing allowances or cost-of-living salary supplement. Five of the 13 agency representatives receive a housing allowance to compensate for the increased cost of living in Washington.

The Sunset review focused on the necessity of a housing allowance or other cost-of-living adjustment for staff working in OSFR's Washington office and recent confusion regarding the purpose and appropriateness of the per diem allowance paid to the Director.

### **FINDINGS**

▼ **The Legislature established the per diem allowance paid to the Director as a cost-of-living salary supplement.**

► When the Legislature initiated the per diem in 1971, it was defined as a supplement in addition to a salary and reimbursement for other expenses. Although never explicitly defined as a cost-of-living salary supplement, the per diem payments have

A cost-of-living salary adjustment is justified based on the increased expenses associated with working in Washington.

traditionally been treated as such.

◆ In 1979, the Legislature removed the per diem dollar amount and replaced it with authorization for per diem dollar as set by the appropriations bill. The \$25 was continued until 1981 when the Legislature raised it to \$40.

◆ The statutory authorization for the per diem was removed in 1991 when the agency's statute was reorganized and expanded. The appropriations bill rider authorizing a \$40 per diem remains part of the agency's appropriations for the 1994-95 biennium.

◆ The per diem allowance is paid every day of the year, regardless of whether the Director is performing official duties or not.

▼ **The use of the term "per diem" for the salary supplement has caused confusion.**

◆ The term "per diem" is often used to describe payments to members of state boards and commissions as compensation for each day spent conducting official state business.

◆ The Director's per diem can be confused with such board members' payments.

However, per diem for board members is limited to those days involving state business. As shown previously, the Director's per diem covers every day of the year.

◆ Recently, the Director's per diem allowance came under scrutiny. Questions were raised about the Director's expenses and political activities. Those raising concern questioned payment of per diem on days when the Director was on annual leave. This was based on the belief that the per diem was only authorized when the Director was conducting state business.

◆ The House Committee on International and Cultural Relations, in its oversight role over OSFR, reviewed the Director's expenses. The investigation, led by the committee's chair, Representative Bob Hunter (R-Abilene), concluded that the Director broke no state laws or regulations by collecting the per diem allowance.

◆ The per diem payment policy has not been questioned by any of the state's other oversight agencies - the State Auditor's Office, the Legislative Budget Board, or the Comptroller's Office.

▼ **Disparities exist among the cost-of-living allowances provided other staff working in the Washington office.**

▮ As discussed previously, none of OSFR staff in the Washington office receive a salary supplement to offset the cost of working in Washington.

▮ OSFR has experienced difficulty attracting and keeping qualified staff, particularly in administrative positions, because salaries based on the state's pay scale do not reflect the cost of living in Washington.

▮ The agency representatives that work in the Washington office do not receive a uniform cost-of-living allowance. Only five of the 13 agency representatives receive a salary supplement, ranging from \$900 to \$2,000 per month.

▼ **A cost-of-living salary adjustment is justified based on the increased expenses associated with living in Washington.**

▮ According to the Consumer Price Index (CPI) of the U.S. Department of Commerce, the cost of living in Washington is 14 percent higher than in Austin.

▮ Since the agency Director has traditionally been selected from Texas, the Director incurs the increased cost of living when relocating to Washington. Similarly, other staff experience the same costs by working in Washington, particularly those who move from Texas to take positions in the Washington office.

## CONCLUSION

The per diem allowance provided to the Director serves the unique purpose of a salary supplement for the increased costs of living in Washington. Use of the term "per diem" has caused confusion and led to concerns about whether the Director has improperly received payments.

Disparities exist among the salary supplements provided to other staff working in Washington. None of the OSFR staff receives a cost-of-living salary adjustment. Only five of the thirteen agency representatives in the office receive a supplement. Those provided an adjustment do not receive a consistent amount.

Establishing a uniform salary adjustment for all staff in Washington will eliminate confusion and provide justified compensation to cover the increased cost of living in Washington.

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Washington salaries should include an adjustment for the increased cost of living and other expenses.

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## Recommendations

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### Change in Statute

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- **Authorize the Director and other staff working in Washington to receive housing or cost-of-living salary adjustments.**

### Management Action

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- **OSFR should adjust its pay levels for policy staff in Washington using the standardized pay scale recommended in Issue 2.**

This recommendation would discontinue the current appropriations bill rider authorizing a per diem allowance of \$40 for the Director. This provision would be replaced with a rider authorizing a salary adjustment for all staff located in Washington.

The salary adjustments would be included in the salaries authorized by the Legislature through the appropriations bill. The adjusted salaries would be paid by OSFR for its employees and by each of the respective agencies that have staff located in Washington. Each agency's appropriations bill

pattern would need to include funds to provide the supplement. Based on the amount currently received by the Director and those agency representatives currently receiving a cost-of-living expense allowance, the adjustment would average \$1,200 per month.

The salary adjustment is included in Issue 2 as part of the recommendation to establish a standard pay scale for agency representatives working in Washington. OSFR is directed by the Management Recommendation in this issue to use this pay scale to adjust the salaries for its policy staff in Washington.

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### FISCAL IMPACT

Conversion of the Director's per diem payments to a salary supplement would have no fiscal impact. Although adjustment of other salaries in the office could result in a fiscal impact, it cannot be estimated until completion of the salary schedule recommended in Issue 2.




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# ISSUE 5

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## CONTINUE THE OFFICE OF STATE-FEDERAL RELATIONS FOR 12 YEARS.

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### BACKGROUND

In 1965, the 59th Legislature created a division of state and federal relations within the Governor's Office.

The enabling legislation gave the Governor the responsibility of appointing a Director with the advice and consent of the Senate. The Director was responsible for:

- coordinating all state and federal programs;
- informing the Legislature and the Governor of federal programs that will, or may be, carried out in the state, or that affect state programs;
- providing federal agencies and Congress with information concerning state policy and about conditions in the state;
- providing useful information to the Legislature that measures the impact and effect of federal actions on state and local programs; and
- providing the Legislature with an annual report detailing the division's operations and recommendations.

The division began primarily as a monitor of federal funding and policy decisions. Over time, the office became more active as a provider of information to the Texas Congressional delegation in Washington, and state officials and agencies in Texas.

In 1971, the Legislature made the division of the Governor's Office into an independent agency, the Office of State-Federal Relations (OSFR). In 1991, its duties were expanded to:

- produce an annual report on the state's effectiveness at getting federal funds;
- evaluate individual state agencies' application for, and receipt of, federal funds; and
- establish a grants team to assist in bringing more discretionary federal funds to Texas.

The Legislature also created an advisory board comprised of the Governor, Lt. Governor and the Speaker of the House of Representatives to assist the agency with policy direction. The Governor retained the responsibility of appointing the agency Director,

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In 1971, the Legislature created OSFR as an independent agency to handle state-federal relations.

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Today, OSFR works to convey the state's needs in Washington and attempts to influence federal funding and policy decisions.

with the advice and consent of the Senate.

Today, OSFR works to convey the state's needs in Washington and attempts to influence federal funding and policy decisions. The office assists the Texas delegation with its efforts on behalf of the state, responds to the needs of the Governor and the Texas Legislature, and coordinates with state agencies that have a stake in the decisions made at the federal level.

To justify the continuation of an agency's functions, certain conditions should exist. The state should have a current and continuing need for the state to provide the functions or services; the functions should not duplicate those currently provided by any other state agency; and the benefits of maintaining a separate agency must outweigh any advantages of transferring the agency's functions or services to another state agency.

**FINDINGS**

▼ **Federal funds are an increasing percentage of the money used to fund the state's budget.**

► According to the 1993 *Comprehensive Annual Financial Report* published by the Comptroller of Public Ac-

counts, federal funds totaled \$8.54 billion, or 27 percent of the state's budget. In the 1994-95 *Biennial Revenue Estimate*, the Comptroller estimated that federal funds will surpass sales tax collections as the largest single source of revenue for the state.

► Each year, federal funds comprise a larger percentage of the state's budget.

► Texas relies on federal funds as a source of revenue for areas that are vital to the state's interests. For fiscal year 1995, these areas include: human services (\$8 billion); education (\$1 billion); and highway construction (\$1 billion).

Fiscal Year	Total Amount (in millions)	Percent of Total
1990	\$4,503.9	19.6
1991	\$5,306.4	21.0
1992	\$7,224.3	25.0
1993	\$8,538.8	26.9
1994	\$9,819.6*	28.6*
1995	\$12,091.8*	31.4*

\*Projected based on historical trends  
Source: 1990-1993 Comprehensive Annual Financial Reports  
Comptroller of Public Accounts

▼ **The state must take a proactive role to ensure that more federal dollars flow to Texas.**

► In 1993, Texas ranked third in grants to state and local governments and in the top four in all other categories of

federal spending. However, Texas received roughly half of the amount received by the top two states, California and New York.

▶ In 1993, Texas ranked 37th among the states in per capita funding. By comparison Texas ranked 38th in 1992.

▶ Texas had approximately seven percent of the total U.S. population in 1993. However, in 13 of 15 major federal funding programs, the state received less than this percentage of the funding.

▼ **OSFR's main goal is to help influence federal action to preserve or increase federal funding to Texas.**

▶ Current agency efforts focus on working in Washington to increase the amount of federal funds coming to Texas and helping to protect the state's interest as policy decisions are made.

▶ In Austin, OSFR works with state agencies to improve their ability to secure discretionary federal grants and report to state officials in Austin on Texas' efforts in Washington.

▼ **Every state, except Georgia and Washington, has a state office in Washington, D.C. to communicate state needs**

**and influence funding and policy decisions.**

▼ **Elimination of OSFR would place Texas at a disadvantage in Washington.**

▶ Texas has two U.S. Senators and U.S. Members of Congress in Washington. The 30 House Members must first represent their respective districts and then the state as a whole.

▶ A survey of the Texas Congressional delegation found that OSFR acts as focal point for the delegation on many issues. Many Members felt the state's interests would suffer if OSFR was not available to provide support.

▼ **OSFR's functions could not be combined with another agency and achieve any substantial cost savings or other tangible benefits.**

▶ No other state agency has the functions of identifying available federal funds; ensuring that state and local entities are aware of the availability of federal funding opportunities; assisting those entities in obtaining federal funds; and working to increase federal funds coming to Texas.

▶ Maintaining the Office of State-Federal Relations as a separate agency allows it to

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Elimination of OSFR would place Texas at a disadvantage in Washington.

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OSFR should be continued as a separate agency focused on influencing federal decisions to benefit Texas.

focus on influencing federal funding and policy decisions to benefit Texas.

### CONCLUSION

The functions currently assigned to OSFR are appropriately placed in the agency as currently structured. The state's interests would

suffer without an agency in Washington to support the efforts of the Texas Congressional delegation. No local or state agencies were identified that could assume OSFR's functions with added benefits to the state or reduced costs.

## Recommendation

### Change in Statute

#### ■ Continue the Office of State-Federal Relations for 12 years.

Continuing the Office of State-Federal Relations would help to ensure that an equitable level of federal funds flow to Texas; information is communicated in Washington regarding important funding

issues that could impact the state; coordination continues with state agencies attempting to maximize federal funds; and the Texas delegation in Washington continues to receive needed information.

### FISCAL IMPACT

If the Legislature continues the current functions of OSFR using the existing organizational structure, its annual appropriations of \$1.09 million would continue to be required. These funds would continue to be received from general revenue and through contracts with other state agencies.



<b>Office of State-Federal Relations</b>	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>A. GENERAL</b>
Not Applicable	1. Require at least one-third public membership on state agency policymaking bodies.
Not Applicable	2. Require specific provisions relating to conflicts of interest.
Already in Statute	3. Prohibit persons required to register as a lobbyist from acting as general counsel to the agency or policymaking body or serving as a member of the policymaking body.
Not Applicable	4. Require that appointment to the policymaking body be made without regard to the appointee's race, color, disability, sex, religion, age, or national origin.
Not Applicable	5. Specify grounds for removal of a member of the policymaking body.
Apply	6. Require agencies to prepare an annual financial report that meets the reporting requirements in the appropriations act.
Update	7. Require the agency to establish career ladders.
Update	8. Require a system of merit pay based on documented employee performance.
Update/Modify	9. Provide for notification and information to the public concerning agency activities.
Apply	10. Require that all agency funds be placed in the treasury to ensure legislative review of agency expenditures through the appropriations process.
Update	11. Require information to be maintained on complaints.
Update	12. Require that all parties to written complaints be periodically informed in writing as to the status of the complaint.
Apply	13. Require development of an E.E.O. policy.
Apply	14. Require that information on standards of conduct be provided to members of policymaking bodies and agency employees.
Not Applicable	15. Provide for public testimony at meetings of the policymaking body.
Not Applicable	16. Require the agency's policymaking body to develop and implement policies that clearly separate the functions of the policymaking body and the agency staff.
Apply	17. Require development of an accessibility plan and compliance with state and federal accessibility laws.
Not Applicable	18. Provide for the Governor to designate the presiding officer of a state agency's policymaking body.
Apply	19. Require the agency to comply with the state's open meetings law and administrative procedures law.
Not Applicable	20. Require training for members of policymaking bodies.

<b>Office of State-Federal Relations</b> (cont.)	
<b>Recommendations</b>	<b>Across-the-Board Provisions</b>
	<b>B. LICENSING</b>
Not Applicable	1. Require standard time frames for licensees who are delinquent in renewal of licenses.
Not Applicable	2. Provide for notice to a person taking an examination of the results of the examination within a reasonable time of the testing date.
Not Applicable	3. Provide an analysis, on request, to individuals failing the examination.
Not Applicable	4. Authorize agencies to establish a procedure for licensing applicants who hold a license issued by another state.
Not Applicable	5. Authorize agencies to issue provisional licenses to license applicants who hold a current license in another state.
Not Applicable	6. Authorize the staggered renewal of licenses.
Not Applicable	7. Authorize agencies to use a full range of penalties.
Not Applicable	8. Specify disciplinary hearing requirements.
Not Applicable	9. Revise restrictive rules or statutes to allow advertising and competitive bidding practices that are not deceptive or misleading.
Not Applicable	10. Require the policymaking body to adopt a system of continuing education.



# BACKGROUND

## CREATION AND POWERS

The Office of State-Federal Relations (OSFR) is the state's advocate in Washington, D.C. OSFR began in 1965 as a division of the Governor's Office and primarily reported on federal actions that affected Texas. In 1971, the Legislature established OSFR as a separate agency. Over time its role has changed from monitoring federal funding and policy development to actively attempting to influence those decisions.

In 1991, the duties of OSFR changed dramatically. The Legislature merged a division of the Governor's Office, the Central Office of Federal Funds Management into OSFR and created the Office of State-Federal Relations Advisory Board to provide policy guidance to the agency. The expanded agency was given the following additional authority and responsibilities:

- produce an annual report on the state's effectiveness at getting federal funds to Texas;
- evaluate individual state agencies' application for and receipt of federal funds; and
- establish a grants team to assist in bringing more discretionary

federal funds to Texas.

In 1993, the Legislature appropriated \$10 million to OSFR for a State Match Pool pilot program. The state funds are used to match federal discretionary grants that will lead to the creation of jobs in Texas.

Today, OSFR works with members of the U.S. Congress, particularly those from Texas; the Governor; the Texas Legislature; and Texas state agencies to communicate Texas' needs to the federal government. This effort is aimed at increasing the state's share of federal funds and influencing federal decisions for the benefit of Texas.

### Status of Federal Funds to Texas

In 1993, Texas received about \$75.3 billion from the federal government. This figure represents the total coming to Texas. The box, *Major Categories of Federal Funding*, describes the four main categories of federal funding and shows how much Texas received in each category in fiscal year 1993.

In 1993, Texas ranked third in overall grants to state and local governments (after California and

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The Office of State-Federal Relations is the state's advocate in Washington, D.C.

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**Major Categories of Federal Funding**  
*(in Billions of Dollars)*  
**Fiscal Year 1993**

	<u>Amount</u>	<u>National Rank</u>
<b>Direct Payments</b>	<b>\$38.653</b>	<b>4</b>
Pass through of payments to individuals for Social Security, Medicare, Supplemental Security Income, federal retirement, disability-military and civilian, housing assistance, Pell grants, student loans, and workers compensation.		
<b>Federal Government Procurement Contracts</b>	<b>\$12.755</b>	<b>2</b>
Contractual actions for construction, purchase of equipment, and other purchases of tangible items; purchase of utilities, building leases and other services entered into via contractual agreement.		
<b>Grants to State and Local Government</b>	<b>\$11.035</b>	<b>3</b>
Direct cash grants to State or local government units; payments for grants-in-kind (purchases of commodities distributed to State or local government institutions such as school programs); payments for research and development that is an integral part of public services; and payments to regional commissions and organizations that are redistributed to State or local governments.		
<b>Federal Salaries</b>	<b>\$9.887</b>	<b>3</b>
Payment of salaries of federal employees such as at the Departments of Defense (military payroll), Transportation (US Coast Guard), FBI, and U.S. Office of Personnel Management.		
<b>Other</b>	<b>\$2.938</b>	<b>2</b>
Federal agencies and federally supported entities such as National Science Foundation, NASA, National Endowment for the Arts, and National Endowment for the Humanities.		
<b>TOTAL</b>	<b>\$75.3</b>	<b>3</b>

New York) and in the top four in each of the other major categories of federal spending. However, Texas did not receive its share of funding on a per capita basis. Texas' overall rank among the states in receipt of federal funds on a per capita basis is 37th for 1993. This compares to 38th for 1992. Texas had almost seven percent of the total U.S. population in 1993 but received that percentage of funding in only two of 15 major federal programs.

Of the \$11.035 billion that Texas received in grants to state and local

governments, \$8.54 billion went directly to fund programs of state agencies. This represented 27 percent of the total state budget in 1993. In the *1994-95 Biennial Revenue Estimate*, the Comptroller estimates that federal funds will surpass sales tax collections as the largest single source of revenue for the state.

Texas' share of grants to state and local governments has increased steadily for the past three years, due at least partly to efforts of OSFR. As stated earlier, Texas received \$11.035 billion in 1993.

By comparison, Texas received \$9.645 billion in 1992 and \$7.837 billion in 1991.

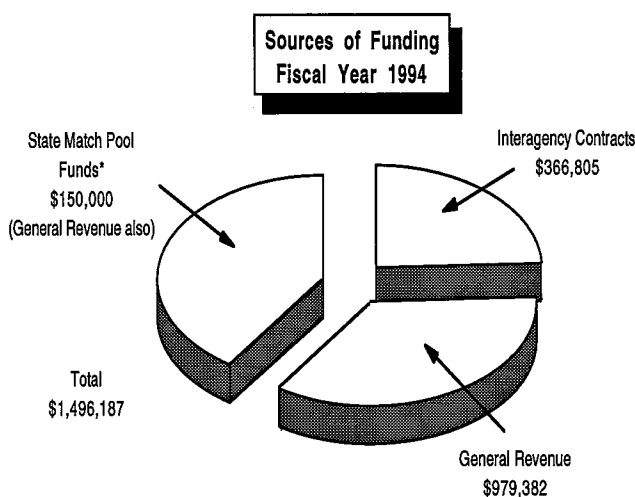
While Texas has increased its share of grants to state and local governments, the per capita share of funds remains low. In 1993, Texas ranked 45th among the states on a per capita basis. Texas ranked 46th in 1992 and 47th in 1991.

### POLICYMAKING STRUCTURE

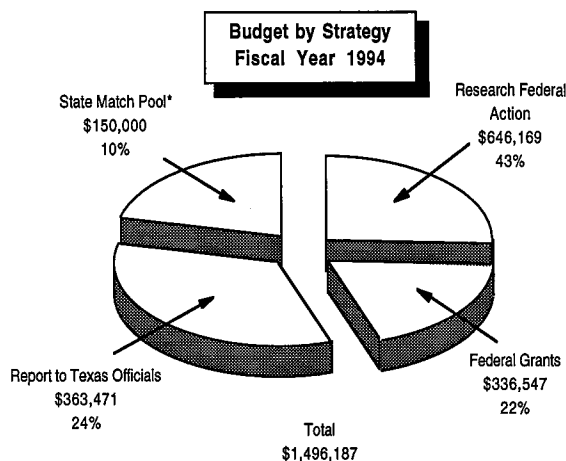
OSFR is overseen by a Director who is appointed by the Governor and confirmed by the Senate. The Director is guided in setting policy direction and agency priorities by the Office of State-Federal Relations Advisory Policy Board. Comprised of the Governor, Lieutenant Governor and the Speaker of the House or their designees, the advisory board reviews the agency's annual plan of priority issues. The board is required to meet before each Congressional session and help OSFR decide on the policy areas where it should concentrate its effort. The board met once formally in 1994 and had several work sessions to help establish the framework of the State Match Pool.

### FUNDING AND ORGANIZATION

OSFR is funded primarily by general revenue and interagency contracts. The graph, *Sources of Funding-Fiscal Year 1994* pro-



\*Does not include \$9.7 million for grant awards



vides the percentages from each source. In 1994, OSFR operated with a budget of \$1,496,187 which was allocated among three major strategies and the State Match Pool Program. The graph, *Budget by Strategy, Fiscal Year 1994* shows the breakdown of expenditures by strategy.

In fiscal year 1994, OSFR employed 24 full time equivalent

The Director is guided in policy direction by an advisory board consisting of the Governor, Lieutenant Governor, and the Speaker.

employees in two offices, one in Austin and one in Washington, D.C. The Director and agency's policy research staff work in the Washington office. A staff person from each of 13 state agencies also work out of this office. These include representatives of:

- Texas Department of Health;
- Texas Department of Human Services;
- Texas Education Agency;
- Texas Department of Housing and Community Affairs;
- Texas Department of Criminal Justice;
- Texas Department of Commerce;
- Texas Department of Transportation;
- Texas National Research Laboratory Commission;
- Texas Banking Department/ State Treasury (jointly);

- Comptroller of Public Accounts;
- General Land Office;
- Texas Natural Resources Conservation Commission; and
- Texas Department of Insurance

These state agencies contract with OSFR for office space and administrative support and work with the agency's policy research staff.

The Austin office staff manages the grants assistance, the Texas Review and Comment System (TRACS), the State Match Pool, and reports to Texas state officials. The Austin office director reports directly to the agency Director in Washington.

The agency's organizational structure and allocation of staff between the two offices are illustrated in the chart, *Office of State-Federal Relations Organizational Chart*. A comparison of the agency's work force composition to the state's minority work force goals is shown in the chart, *Office of State-Federal Relations Equal Employment Opportunity Statistics*. The box, *Purchases from HUBs - Fiscal Year 1993* shows participation of historically underutilized businesses in OSFR's contracts for goods and services in 1993.

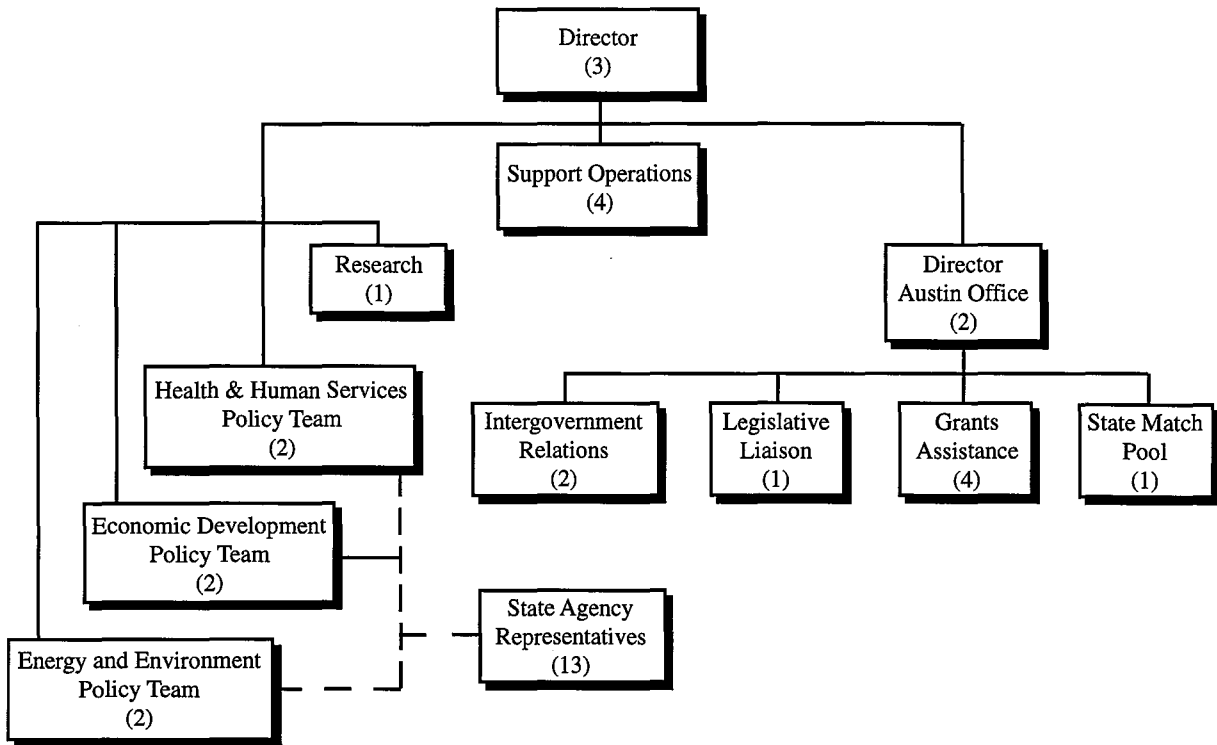
### Office of State-Federal Relations Equal Employment Opportunity Statistics - 1994

Job Category	Total Positions	Minority Workforce Percentages					
		Black		Hispanic		Female	
		Agency	State Goal	Agency	State Goal	Agency	State Goal
	24						
Officials/Administration	2	0%	5%	0%	8%	100%	26%
Professional	15	20%	7%	13%	7%	40%	44%
Technical	0	NA	13%	NA	14%	NA	41%
Protective Services	0	NA	13%	NA	18%	NA	15%
Para-Professionals	0	NA	25%	NA	30%	NA	55%
Administrative Support	7	14%	16%	86%	17%	100%	84%
Skilled Craft	0	NA	11%	NA	20%	NA	8%
Service/Maintenance	0	NA	19%	NA	32%	NA	27%

### STRATEGIC PLANNING

The Office of State-Federal Relation's mission is to "help state

**Office of State-Federal Relations  
Organizational Chart**



officials get the federal government to do what Texans need." In 1991, Texas incorporated a strategic planning and budgeting system into the legislative appropriations process. The Legislature intended to use strategic planning to encourage long-term goal setting instead of short-term crisis intervention. Texas legislators also hoped to allocate funds by priority and improve agency accountability.

In Texas, each state agency's strategic plan outlines its mission, goals, objectives, and strategies.

The agency's strategies describe how the agency will achieve its goals. Strategies are also used in the performance-based budgeting process. Agencies request and receive appropriations based on

<b>Purchases from HUBs Fiscal Year 1993*</b>	
Contracts for goods and services	\$18,925
Percentage of contracts awarded to HUBs	12.29%
State Goal for FY 1994 - Minimum percentage of agency contracts to be awarded to HUBs	30%
<i>*FY 94 goal - only FY 93 figures were available</i>	

Policy influence includes communicating the position of the Texas delegation and actual lobbying for the state by the Director.

their past performance and application of those strategies. Performance measures monitor each agency's progress toward achieving its goals and objectives by comparing the agency's projected performance with its actual performance.

As stated in the agency's appropriations bill pattern, OSFR's goal is to increase Texas state officials' influence over federal funds to Texas, to identify actions necessary to increase or preserve federal funding, and communicate these needed actions. OSFR uses three strategies to achieve this goal:

- research federal action;
- provide federal grant assistance; and
- report to Texas officials.

These three stated strategies translate into the way the agency is organized to operate. The state Match Pool Program is an activity of OSFR but was created by rider and was not included in the agency's appropriation bill strategies. The following description details the agency's major functions.

## AGENCY FUNCTIONS

### Policy Influence

OSFR, with the guidance of its advisory board, sets an annual agenda of federal policies and funding issues on which to concentrate its efforts. The agency's three

Washington-based policy teams divide the work into the areas of Economic Development, Health and Human Services, and Energy and Environment. A policy director heading each team works with the agency Director to plan the efforts needed to influence decisions made on these broad issues. Efforts include: monitoring Congressional action; conducting research; working with members of Congress, particularly with the members of the Texas delegation and their staffs helping the Texas delegation organize and communicate its position on issues, primarily through letters signed by the delegation members; lining up testimony; working with Texas state and local officials; and actual lobbying for the state by the agency Director.

The state agency representatives located in OSFR's Washington office work with the respective policy teams on those issues that can affect their respective agency areas of responsibility or funding. In addition, OSFR has a federal funds specialist to assist the policy teams with formula funding changes that may affect Texas' share of federal funds.

In fiscal year 1994, the policy teams developed policy priority plans for 67 separate issues. The box, *Selected Priority Policy Issues for 1994* provides examples of the issues OSFR has worked on



**Selected Priority Policy Issues for 1994**

- |                             |  |
|-----------------------------|--|
| • NAFTA Implementation      | • Border Transportation Infrastructure |
| • Telecommunications        | • Indian Gaming                        |
| • Space Station             | • Defense Base Closure                 |
| • Supercollider             | • National Health Care Reform          |
| • Defense Appropriations    | • Medicaid                             |
| • Welfare Reform            | • Medicaid Formula Change              |
| • Migrant Worker Assistance | • Undocumented Immigration             |
| • Border Environment        | • Crime Bill                           |
| • Safe Drinking Water Act   | • Colonias                             |
| • Clean Air Act             | • Clean Water Act Reauthorization      |
| • Gulf of Mexico Commission | • Superfund Reauthorization            |
| • USDA Reorganization       | • Coastal Management Program           |

during 1994. Appendix 2 contains a complete list of priority issues developed in consultation with the OSFR advisory board. Additional issues may be added during the year as needed such as recent efforts by the office related to changes in the IRS Code to protect public pension systems.

In addition, OSFR developed 30 formula plans to influence federal funding formulas up for reauthorization by Congress. The policy influence function had 11 FTEs for fiscal year 1994 and a budget of \$646,169.

**Grants Assistance**

OSFR provides grant application assistance to state agencies, Texas legislators, local governments, and non-profit organizations. Efforts include research on available discretionary federal funds, proposal writing and review, and grant writing seminars. A twice-weekly *Grants Alert* bulletin distributes timely information on

funds availability to approximately 750 agencies, public and private organizations, and private individuals.

In fiscal year 1994, the Grants team assisted applicants on 36 proposals. Four of the applications resulted in \$1.9 million in federal awards. Another 19 applications are pending notification of an award. Staff responded to 1,043 information requests and trained 338 public employees on grant writing. Grants assistance has four FTEs and a budget of \$336,547.

**Intergovernmental Coordination (TRACS)**

Texas has chosen to participate in a federal process that provides for state and local government review of all applications for federal funds in Texas. Each state designates a single point of contact in the state (SPOC). In Texas, this SPOC is an employee of OSFR. The SPOC coordinates the review of certain applications using the Texas

OSFR distributes a twice-weekly *Grants Alert* bulletin that contains timely information on available federal funds.

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OSFR is required to report annually to the Legislature on the effectiveness of an agency's efforts to secure federal funds and instances where they have not tried.

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Review and Comments System (TRACS). State agencies and regional councils of governments are allowed to provide input to federal agencies on proposed federal grant applications, and environmental impact statements before projects are approved or funded. TRACS provides a coordinated way to receive these comments and forward them to the federal agency proposing the project or offering funding. In fiscal year 1994, TRACS participants reviewed 444 proposals. An additional 238 applications were screened and waived from review.

The SPOC is also responsible for coordinating the Statewide Cost Allocation Plan. This plan is submitted to the U.S. Department of Health and Human Services and provides the basis for Texas state agencies to recover indirect costs associated with administering federally funded programs.

The SPOC, TRACS, and the allocation plan are funded through an interagency contract with the Governor's office out of state planning and assistance grants. In fiscal year 1994, this amounted to \$100,000.

#### **Reporting to Texas Officials**

OSFR has primary responsibility among state agencies to report on the state's efforts to secure Texas's share of federal funds. The agency reports annually on the effectiveness of state agencies' efforts to

pursue federal funds and instances where they have not tried and why not, and Texas' position among the states in the receipt of federal funds. OSFR also makes recommendations to eliminate barriers to federal funds coming to Texas.

Other reporting efforts include a weekly newsletter, *News from Washington*, published every week Congress is in session. OSFR distributes this newsletter to more than 2,000 state officials and individuals. The publication provides current information on the status of key issues under consideration in Congress.

To further assist members of the Legislature and other Texas Officials, OSFR has a designated Legislative liaison responsible for responding to requests for information and assistance from Texas officials as well as state agencies and the general public.

The reporting and liaison activities involve most of OSFR's staff. OSFR spent an estimated \$363,471 on these efforts in fiscal year 1994.

#### **State Match Pool**

The Legislature created the State Match Pool in 1993 as a pilot program through a rider to OSFR's appropriation. The Legislature wanted to provide a way for state agencies to participate in creative projects supported by the federal government. OSFR received \$10

million to award to state agencies for use as a state match when applying for federal funds.

Applications for funding must include realistic projections of economic growth in state. In addition, the agency applying for matching funds must certify that it does not have the required match money in its existing budget.

The State Match program began in March 1994. To date, \$8,644,530 has been awarded to 11 agencies. OSFR expects the participants to apply for \$9,404,060 in funding with 75 percent of the proposals receiving actual federal funding.

One and a half percent of the \$10 million, or \$150,000, is allowed for administration each year of the biennium. Two full time employees currently operate the program.

#### **Support Operations**

Budget, personnel, purchasing, and accounting functions that support the agency are located in both the Washington and Austin offices.

Computer support and legal support are purchased as needed from the Governor's Office. Eight FTEs performed these functions in fiscal year 1994 at a cost of \$508,009.

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The Legislature created the State Match Pool to allow agencies to participate in creative projects supported by the federal government.

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# APPENDIX 1

## OFFICE OF STATE-FEDERAL RELATIONS: THE CONGRESSIONAL PERSPECTIVE

To discover what Texas' elected representatives in Washington think of the Office of State Federal Relations, Sunset Advisory Commission member State Representative Patricia Gray of Galveston, and staffers John Moore and Joey Longley personally interviewed Members or staff of 29 of the 32-member Texas Congressional delegation while Congress was in session in late September 1994.

The staff of U.S. Representative Craig Washington expressed a willingness to discuss OSFR, but attempts to do so were unsuccessful as of the writing of this report. Staff spokesman for two Members, U.S. Senator Phil Gramm and U.S. Representative Dick Arme, refused for the record to discuss the office with the Sunset Commission.

The Sunset team asked Members and their staff to describe their relationship with the office, their impressions of its effectiveness in supporting state budgetary and policy needs in federal legislation, and their suggestions for improvements. The team also asked

whether the office effectively balances partisanship in pursuing its role as the state's federal lobbyist.

Without exception, Members said the OSFR should continue in its vital role of providing factual information supporting the Texas perspective on federal issues. Several called the office a "superb resource" for the state and praised the professional work of the Director and staff.

That said, several themes emerged, revealing opportunities for improvement in the way OSFR operates. This report attempts to identify both the strengths reported by the Congressional Members and their staffs and opportunities for improvement.

Although questions of partisanship generally have no place in Sunset Advisory Commission reviews, they were appropriate in the case of OSFR because of the differences in operations between the Texas Legislature and the U.S. Congress.

While Texas state lawmakers function in a bipartisan manner, the organization and operations of

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"Abolish the State-Federal Office and 49 other states will sing your praises, because they will get more money."

U.S. Representative  
Jack Brooks, Dean  
of the Texas  
Congressional  
Delegation

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Several Members suggested periodic meetings between the delegation and state leaders to allow face-to-face sharing of information and priorities.

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the U.S. Congress are highly partisan. Since the Director of OSFR is appointed by the sitting Texas Governor, this Director is not always identified with the political party that controls either House of Congress or the Presidency.

Since OSFR has evolved from a largely ceremonial role to actively seeking to influence federal legislation in favor of the state, its ability to operate and assist the delegation without a perception of partisanship is vital to the state's larger interests. The Members recognize the current efforts of the office as an appropriate response to the erosion of relative Texas power in Washington from the days when Texans occupied the White House, presided over the U.S. House and chaired major Senate committees.

As one Member put it, Texas occupied a position of great power on the federal scene for decades, but, "the pendulum is swinging against us now." This erosion is due to continue with the retirement of two Texas Members from the powerful House Ways and Means Committee, creating an ever greater need for a highly professional Office of State-Federal Relations.

Members were nearly unanimous in reporting the current office administration as highly responsive to all Texas U.S. Representatives, without favoritism for either party.

Indeed, more than one Member reported that, while delegation Members of each major political party regularly meet separately, the Members of both parties seldom, if ever, meet as the entire delegation together. However, the regular sharing of information by OSFR has helped to unite the Texas delegation on issues affecting the entire state and has contributed to a widespread perception in the U.S. Capitol that the Texas delegation is among the most united of the major states.

To strengthen this unity, several Members suggested holding annual or biennial meetings between the Texas Congressional delegation and the Executive and Legislative leadership of Texas. These meetings could help leaders directly share information on state and federal issues, leading to clearer priorities in both Austin and Washington and stronger strategies for responding to problems brought on by shrinking federal discretionary funds and the resultant proliferation of unfunded federal mandates.

While supporting the idea of such a meeting, several Members mentioned significant partisan and logistical barriers that would need to be overcome. This report offers a recommendation for these meetings in Issue 3.

The Office of State-Federal Relations is unique among the

states in that it is an independent state agency rather than an arm of the Governor's Office. Although the Director is selected by the Governor, the legislative priorities of the Office are set by an Advisory Board that also includes the Lieutenant Governor and Speaker of the House. Members of Congress are generally satisfied with this approach but recognized the need to have the input from the other state leadership. Again, the annual or biennial face-to face meetings was suggested to ensure that this occurs.

Members of Congress agree that developing and providing them credible, objective information on issues affecting all Texans is the most important function of the office. They demand that this information be timely, factual, quantitative where at all possible, and never biased in nature. Members do not like to be told how to vote and seem to agree that the office should seek to influence the their votes on federal legislation only when the interests of the whole state are at stake.

The office must be ever mindful that interests of a particular region of the state or Congressional district remain the exclusive province of its elected representatives. When these interests are in conflict, the office must either clearly demonstrate that the state's interests lie with one side or

another or scrupulously avoid taking sides.

For example, when competing Texas business interests located in different congressional districts seek funding for federal projects or procurements, the office needs to avoid involving itself unless it can prove the number of Texas jobs to be created in one of the districts is markedly greater for one of the competitors.

Such competition among regions of the state, a daily occurrence, leaves the OSFR Director with the challenge, in the words of one Congressman, of "walking on eggshells...being highly visible and invisible at the same time." Members said the office's current administration has met this challenge appropriately in most instances, but should remain acutely aware that the elected Members of Congress, and not the office, are ultimately responsible for decisions affecting their districts.

Paradoxically, this fact of U.S. Congressional life—that each of the 30 Texas Members is solely entrusted with the welfare of his or her district and shares this trust on the federal level only with the state's two U.S. Senators—creates the need recognized by every state for a reliable conduit of factual information about the needs of the entire state to each member of the

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Competition for federal benefits between Congressional districts leaves the Director "walking on eggshells... being highly visible and invisible at the same time."

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delegation. While each of the 30 Texas Members of the U.S. House of Representatives represents his or her Congressional district, each needs to know how their vote affects the state as a whole.

Limitations on the budgets and staff resources of individual Members of Congress, together with the necessary attention each must devote to local district and Congressional committee concerns, mean that most Members must turn to the OSFR for necessary information from a statewide perspective.

In federal issues affecting the state as a whole, particularly in the battles over funding for the Superconducting Supercollider and the Space Station Freedom, the office has earned high marks for providing timely factual information to inform Congressional debate and guide decision making by the Texas members.

Members also appreciated OSFR's role in producing position papers and letters on common statewide issues that all Texas Members could sign. Such letters have been persuasive in gaining support from other states' representatives on issues of Texas concern, and Members seemed confident that the office plays an appropriate role in the use of this tool.

Using interagency contracts with affected state agencies, the office's

current administration has strengthened its ability to provide factual state information far beyond any of its predecessors.

Today, representatives of 13 state agencies are located with the OSFR staff in Washington, working to support the state's efforts in molding federal actions to benefit the state. Although individual Members of Congress serving on committees with direct impact on Texas state agencies have traditionally dealt directly with those agencies' Austin offices, and continue to do so, the Members seemed to uniformly recognize the value of day-to-day contact and a steady flow of information from these agency representatives in Washington.

Several Members mentioned this improvement, praising the pivotal role that the objective information provided by several agency staff members have played in the resolution of statewide issues. However, some criticized either the coordination of these agency representatives' activities or mentioned an uneven level of professional expertise and federal experience among them. Congressional staffers cited a concern with turnover among OSFR and agency staff members and voiced a need for more stability and a higher level of federal government experience to support a more consistent flow of reliable infor-

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Several Members approved of OSFR's recent effort of adding state agency representatives to its Washington staff.

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mation to members' offices. Since responsibility for the designation, compensation and reporting of these agency representatives now resides with the contracting agencies, Sunset staff has offered recommendations in Issue 2 to address these concerns.

Several Members mentioned a need for more timely factual information on state budgetary needs and the state impact of proposed changes in federal programs.

OSFR also mentioned these factors in its Sunset Self Evaluation report, observing, "For Texas to get its fair share of federal funds each year, state government must create a culture where working (to influence) federal decisions is an institutionalized process."

In response to the concerns of Texas members and this point raised by the agency, the Sunset staff makes recommendations in Issue 1.

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"For Texas to get its fair share of federal fund each year, state government must create a culture where working (to influence) federal decisions is an institutionalized process." - OSFR

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# APPENDIX 2

## Complete Listing of OSFR Priority Policy Issues for 1994

### Economic Development

NAFTA Implementation

Telecommunications

Space Station

Superconducting Super Collider

Defense Appropriations

- V-22 Osprey Tiltrotor Aircraft
- F-16 Falcon Jet Fighter
- C-17 Airlift Transport
- OH-58D Kiowa Warrior, formerly AHIP
- F-22 Advanced Technical Fighter
- ERINT Missiles
- Mobile Offshore Bases/Landing ship Quay/Causeway
- Joint Primary Aircraft Training System (JPATS)
- T-45 Goshawk Navy Trainer
- B-2 Stealth Bomber

Pantex

Worker Dislocation

- New federal job training legislation
- Job Training Partnership Act (JTPA)
- Defense conversion workforce and community development programs
- NAFTA and other trade-related issues

National Highway System

Border Transportation Infrastructure

Bridge Planning and Construction

Equitable Escheatment Act

Consolidation of Federal Banking Agencies

Empowerment Zones and Enterprise Communities Program

Colonias Housing Program

Indian Gaming

Texas Manufacturing Assistance Center Network

Defense Base Closure Round '95

### Health and Human Services

National Health Care Reform

- Fiscal impact on state budget
- Core public health functions/infrastructure
- Uncompensated care

Medicaid

- Medicaid frail elderly option
- Medicaid estate recovery
- Entitlement caps

Formulas

- Medicaid formula change
- Intercensal adjustment
- Low Income Home Energy Assistance Program (LIHEAP)

Border Plan

- Border Health and Environment Commission
- EPA/CDC/FDA Service Laboratory
- Wastewater treatment
- Hispanic health issues (diabetes)

Migrant Form Workers' Assistance

Welfare Reform

Workforce Development

Undocumented Immigration

Chapter 1 Formula and Census

Education Reform

Border Education

Higher Education

- Federal Direct Loan Program
- National Community Service Program

Criminal Justice and the Crime Bill

- Substance abuse treatment
- Prison construction
- Juvenile justice
- Undocumented criminals
- Flexibility in community policing grants

Operation Safe Home

Edward Byrne Block Grant Appropriations

Community Policing Grants

### Environment and Energy

Border Environment

- Water/waste water grants for colonias
- Border Environment Coordinating Commission
- International air quality district in El Paso/Juarez
- Carbon II Power Plant

Environment

- Edwards Aquifer: Federal Clearance of Texas Legislation
- Safe Drinking Water Act
- Clean Water Act reauthorization
- Low-level Radioactive Waste Compact
- Clean Air Act implementation
- Superfund reauthorization

Gulf of Mexico

- Gulf of Mexico Commission
- Coastal Management Program

Energy

- Alternative fuels
- Promotion of sustainable and renewable energy development
- Department of Energy/Pantex facility
- Marginal or stripper well production

Agriculture

- USDA reorganization



**OFFICE OF STATE-FEDERAL RELATIONS**

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