

SUNSET ADVISORY COMMISSION

Office of State-Federal Relations

Staff Report
July 2006



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In 1977, the Texas Legislature created the Sunset Advisory Commission to identify and eliminate waste, duplication, and inefficiency in government agencies. The 12-member Commission is a legislative body that reviews the policies and programs of more than 150 government agencies every 12 years. The Commission questions the need for each agency, looks for potential duplication of other public services or programs, and considers new and innovative changes to improve each agency's operations and activities. The Commission seeks public input through hearings on every agency under Sunset review and recommends actions on each agency to the full Legislature. In most cases, agencies under Sunset review are automatically abolished unless legislation is enacted to continue them.

OFFICE OF STATE-FEDERAL RELATIONS

SUNSET STAFF REPORT

JULY 2006



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SUMMARY

Summary

The Office of State-Federal Relations (the State-Fed Office) acts as the State's advocate at the federal level, pursuing policy and funding decisions that benefit Texas. Within the context of the fast-paced political environment in Washington, DC, Texas competes with many different entities on both policy and funding issues – all of which are vying to get their message conveyed to Congress. The Office must also balance diverse and complex interests within Texas itself to shape a unified message for the State.

In approaching the review, Sunset staff focused on evaluating how well the agency represents Texas within DC's competitive environment, while being appropriately accountable to the State. To this end, staff first examined the need for the Office and determined that Texas benefits from maintaining a federal presence to help protect and promote its interests. The review then looked at the Office's unusual organizational structure as an independent agency directly accountable to both executive and legislative leadership. Sunset staff found that this structure results in unnecessary administrative burdens and inhibits the Office's ability to react quickly, diluting the strength of Texas' voice at the federal level. Staff concluded Texas would be better served by advocating its positions on federal issues from the Governor's Office.



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In addition, the Sunset review occurred amid an ongoing national debate regarding the significant role and influence of lobbyists on Capitol Hill. On the state level, this discussion led elected officials and the media to question the legality and advisability of the State-Fed Office's decision to contract with outside government relations consultants. While Sunset staff chose not to make a judgment about the appropriateness of the State's use of federal consultants, staff did assess the Office's procedures for hiring and monitoring consultants. While no problems were found, because of significant controversy and risks tied to contracting for such a unique service, Sunset staff concluded that the Office would benefit from clearer statutory authority and direction for contracting with such consultants.

The recommendations, as summarized on the following page, aim to improve the State-Fed Office's flexibility, while encouraging clearer and direct accountability to the State.

Issue and Recommendations

Issue 1

Texas Benefits From Having an Advocate in Washington, DC, but the State No Longer Needs a Separate State Agency to Help Promote Its Federal Interests.

Key Recommendations

- ◆ Abolish the Office of State-Federal Relations as an independent state agency and restructure it within the Office of the Governor.
- ◆ Authorize the Office to contract with federal-level government relations consultants and establish clear contracting guidelines in statute.

Fiscal Implication

None of the recommendations in this report would have a net fiscal impact to the State.

ISSUE

Texas Benefits From Having an Advocate in Washington, DC, but the State No Longer Needs a Separate State Agency to Help Promote Its Federal Interests.

Summary

Key Recommendations

- ◆ Abolish the Office of State-Federal Relations as an independent state agency and restructure it within the Office of the Governor.
- ◆ Authorize the Office to contract with federal-level government relations consultants and establish clear contracting guidelines in statute.

Key Findings

- ◆ The Office of State-Federal Relations acts as Texas' advocate in Washington, DC.
- ◆ Texas has a continuing need for a presence in Washington to protect and promote the State's interests.
- ◆ The Office's unusual structure diverts limited staff resources to administrative duties and dilutes the strength of its voice in Washington.
- ◆ The Office lacks specific authority and guidelines for contracting with government relations consultants on the federal level.

Conclusion

Amid the whirlwind of activities on Capitol Hill, the Office of State-Federal Relations acts as the voice of Texas, protecting and promoting Texas' interests in Washington, DC. Of equal importance, the Office serves as Texas' eyes and ears at the federal level, advising Texas officials on federal issues.

While concluding that Texas has an ongoing need for a presence in Washington, Sunset staff questioned the effectiveness of the agency's organizational structure. Staff found that Texas is the only state that organizes its advocacy office as an independent agency, responsive to both the executive and legislative branches. This structure results in unnecessary administrative burdens and can inhibit the Office's ability to quickly react to the ever-changing Washington environment. Restructuring the Office within the Governor's Office would boost the strength of Texas' voice at the federal level.

Sunset staff also evaluated the Office's use of government relations consultants to aid in influencing federal policy. Staff chose not to make a value judgment regarding whether the State should use consultants or not. This is the accepted practice in Washington, DC and was beyond the scope of this review. Sunset staff determined that legal prohibitions regarding state agency lobbying in Texas do not extend to the federal level. Clarifying the Office's ability to contract with government relations consultants and establishing contracting guidelines would protect the State and allow the Office the flexibility to choose the best method for influencing federal legislation.

Support

The Office of State-Federal Relations acts as Texas' advocate in Washington, DC.



The Office fosters a two-way flow of information between Texas and Washington, DC.

- ◆ Created in 1965, the Office of State-Federal Relations (the State-Fed Office) promotes communication and builds relationships between the state and federal governments in an effort to advance Texas' federal interests. The Office fosters a two-way flow of information by advocating for Texas' interests in Washington and by keeping state officials aware of federal initiatives that affect Texas. The State-Fed Office works with many entities, both in Texas and in Washington, to coordinate and communicate Texas' message.
- ◆ To perform these duties, the State-Fed Office spent about \$1 million in fiscal year 2005, mostly on salaries, contracting expenses, and building rent. The Office currently has seven employees, six of whom are located in DC and one who directs the agency's Austin office. Additionally, staff from five other state agencies currently collocate in the agency's Washington office. A three-member Advisory Policy Board, consisting of the Governor, Lieutenant Governor, and Speaker of the House, advises the agency by reviewing the Office's priorities at the beginning of each annual congressional session.
- ◆ In 2003, the Legislature reduced the number of authorized employee positions from 17 to seven and the Office began contracting with government relations consultants to supplement the efforts of its staff. The consultants help the Office develop and implement a clear and effective strategy for communicating Texas priorities to Congress. The State-Fed Office spent \$255,000 on such contracts in fiscal year 2005. The Office currently has two firms on retainer – the Federalist Group, which receives \$10,000 per month, and Cassidy & Associates, which receives \$15,000 per month.

Texas has a continuing need for a presence in Washington to protect and promote the State's interests.



The State-Fed Office coordinates many interests – acting as the glue that holds Texas' message together.

- ◆ To effectively advocate for Texas – a large and diverse state – the State needs a unified voice in Washington to coordinate the variety of entities that have an interest in federal funding and policy decisions. The Office balances the broad range of Texas' needs by working with the Governor, the Texas Legislature, state agencies, and other Texas governmental entities and businesses to shape Texas' message. Although the Texas congressional delegation includes 32 representatives and two senators, the delegation has many initiatives to balance, and the State-Fed Office functions as an entity that can coordinate potentially diverging interests – acting as the glue that holds Texas' message together. An example of the benefit of having an entity that can pursue policy that benefits Texas as a whole is shown in the textbox, *Pursuing the Sales Tax Deduction*, which describes the State-Fed Office's assistance to Congress on legislation that allows Texans to deduct their sales tax from federal income tax filings.

Pursuing the Sales Tax Deduction

In 2004, the Office, with the help of its outside consultants, recognized Congress' receptiveness to passing legislation providing for a sales tax deduction from federal tax filings. Over the next several years, in addition to working directly with members of Congress on this initiative, the Office coordinated with the Governor, Lieutenant Governor, and Speaker of the House to send a letter to congressional leadership supporting the legislation. The Office also worked with other states that do not have a state income tax to collect support for the sales tax deduction bill. Congress passed the sales tax deduction bill in 2004, authorizing the provision for years 2004 and 2005. The Office continues to focus on extending the deduction for 2006, as well as working to secure congressional approval of a permanent deduction.

The State also benefits from having an entity at the federal level that monitors federal activity, keeping state officials up-to-date on quickly changing issues that impact Texas, and providing a single point of contact in DC for those looking for information about Texas issues. Having a presence in Washington improves communication between the State and Congress and increases the State's ability to access and disseminate information, in turn enhancing Texas' influence on federal policy.

- ◆ Texas relies heavily on federal funding to support government activities across the state. As all states compete for a portion of funding from the same federal pool, maintaining a state advocate in Washington, DC continues to be vital to the State's economy. For fiscal years 2006-2007, the state budget includes \$48.3 billion in expected federal funds, accounting for nearly 35 percent of the State's total appropriations.¹

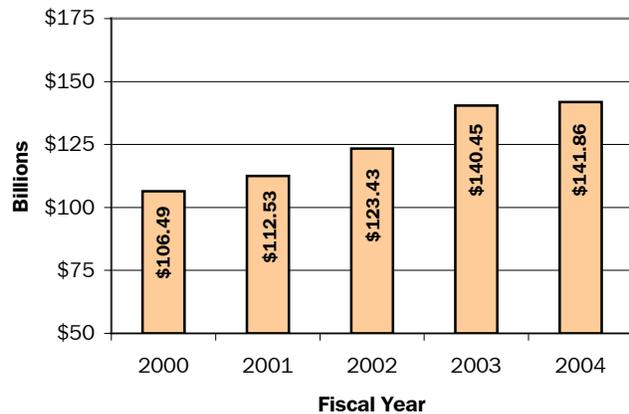
In addition to federal funds that go to support the state budget, a significant amount of federal funds also go directly to individuals for assistance, such as for social security. According to the most recent information available from the U.S. Census Bureau, Texas received almost \$142 billion in total federal funds in 2004.² That year, Texas received the second highest amount of total federal funding of the 15 most populous states, second only to California. The graph, *Federal Funds to Texas*, shows the total amount of federal funding Texas received over fiscal years 2000 – 2004.

This federal funding pays for almost 800 programs in Texas, including such key programs as highway planning and construction, research and education grants, Medicare, the State's Children's Health Insurance Program, Temporary Assistance for Needy Families, Unemployment Insurance, Veterans compensation, Social Security, public housing, and payroll for military employees.



All states compete for federal funding – which Texas relies heavily on – making Texas' presence in DC vital to the State's economy.

**Federal Funds to Texas
FY 2000 – 2004**



The Office’s unusual structure diverts limited staff resources to administrative duties and dilutes the strength of its voice in Washington.



Texas is the only state that organizes its state-federal relations office as an independent state agency.

- ◆ While Sunset staff recognized the benefits Texas receives from having a presence in Washington, the review found that Texas is the only state that organizes its state-federal relations office as an independent state agency. As shown in the chart, *State-Federal Office Structures*, 37 states have an office in Washington, DC to advocate on their behalf.³ Of those states, 34 have their DC offices structured as part of their governor’s office. Two other states use hired consultants as their only Washington-based representation. Texas is alone in having set up its office as an independent state agency.⁴

State-Federal Office Structures

Structure	Number of States	Examples
Governor’s Office	34	California, Florida, and New York
Contracted Consultants	2	Oklahoma and Vermont
Independent Agency	1	Texas

- ◆ Beyond the Office’s unique structure when compared to other states, Sunset staff did not find that the Office’s standing as an independent agency offered any particular benefits. In fact, the Office’s small staff must spend a significant amount of time and effort completing administrative tasks tied

State Agency Reporting Requirements

As a state agency, the State-Fed Office must periodically prepare more than 30 different reports, including:

- ◆ Annual financial reports;
- ◆ Strategic plans;
- ◆ Performance measure reports;
- ◆ Uniform Statewide Accounting System reconciliations;
- ◆ Open record request reports;
- ◆ Legislative appropriations requests; and
- ◆ Human resources reporting, such as Historically Underutilized Businesses and Equal Employment Opportunity statistics.

to its status as an independent state agency; the time and energy spent on these tasks take away from the staff’s focus on its primary mission.

For example, the Office must perform administrative duties such as agency human resources, payroll, and purchasing. As a state agency, the Office must also file many different reports with various executive or legislative bodies, as shown in the textbox, *State Agency Reporting Requirements*.⁵ With only seven employees, compliance with these requirements presents a daily challenge to the Office’s operations.

- ◆ Texas is also the only state that directs its Washington office through an advisory policy board comprised of the Governor, Lieutenant Governor, and Speaker of the House. Unlike Texas, most other states do not directly interact with their state legislatures to formulate their federal agendas. In a 2002 survey of state-federal offices in Washington, DC, only one of the states that responded to the survey – Texas – identified the state legislature as a primary client.⁶

In balancing the positions of Governor, Lieutenant Governor, and Speaker of the House, the Office can encounter difficulties in getting consensus regarding agency priorities. For example, at the beginning of every congressional session, the Office works with each member of the Advisory Policy Board to develop, approve, and publish its priority document. The 109th Congress, Second Session, started January 31, 2006, but the Policy Board had not yet approved the priority list at the time of the publication of this report. This can put the Office at a disadvantage when pursuing Texas' needs, since the lack of clear priorities can significantly impact the Office's ability to influence federal action. Attempting to directly involve both the executive and legislative branches prevents the Office from having a clear chain of command and dilutes the Office's ability to have one voice representing Texas in Washington.

- ◆ By tradition and practice, the Governor is the spokesperson for the State, acting as the Chief Executive Officer, and responsible for state business.⁷ This role carries through to Washington, where people perceive the Governor as the point person for developing Texas' policy positions. Often, members of Congress or federal officials ask the Office what Texas' position is on a certain issue; these are usually requests for the Governor's position on the issue, as is standard with other states.
- ◆ As the head of the executive branch in the State, the Governor is responsible for all state agencies, including those agencies collocated with the State-Fed Office in Washington: the Texas Education Agency, Texas Health and Human Services Commission, Texas Department of Housing and Community Affairs, Texas Department of Transportation, and Texas Workforce Commission. These five agencies have a significant interest in the amount of federal funding made available to their programs and are responsive to the Governor, who is in the best position to ensure these agencies' diverse interests are coordinated into one agenda.

The Office lacks specific authority and guidelines for contracting with government relations consultants on the federal level.

- ◆ Many people, including elected officials and the media, have questioned the role government relations consultants, or lobbyists, play in the federal arena. The conduct of some consultants has led to a national discussion about the influence and power lobbyists have on Capitol Hill. Fueled by this debate, the legality of the State-Fed Office's practice of hiring outside consultants to help lobby Congress on the State's behalf, as well as the way in which the Office acquires and manages these contracts, has also been called into question.
- ◆ Sunset staff examined the Office's authority to enter into such contracts and found that, while not specifically authorized, nothing in Texas law prohibits the Office from contracting with consultants to lobby Congress. Texas law does prohibit state agencies from lobbying the Texas Legislature or hiring a person required to register within the state as a lobbyist.⁸ By



By tradition and practice, the Governor is the spokesperson for the State.



Nothing in Texas law prohibits the State-Fed Office from contracting with consultants to lobby Congress.

law, individuals must register in Texas as lobbyists if they intend to lobby the state legislative or executive branch to influence policy.⁹ However, the State-Fed Office contracts with consultants to influence legislation on the federal level, not the state level, and therefore does not violate existing state law. Additionally, the Office ensures that its contracted consultants are not registered to lobby in Texas by requesting that all potential consultants disclose this information during the contract procurement process.



When hiring outside consultants, the State-Fed Office has followed typical contracting procedures.

- ◆ Sunset staff also reviewed the State-Fed Office’s contracting process, and found that the Office followed generally accepted procedures. For example, the State-Fed Office hired both firms using a typical request-for-proposal process that evaluated each bid for ability and competitive price. The contracts require each firm to submit monthly activity sheets, which monitor the consultants’ actions in pursuing Texas’ agenda, and to disclose any potential conflicts of interest involving representation of other clients. The contracts also contain a clause that allows either party, the Office or the consultants, to cancel the contract with 30-days notice.
- ◆ In reviewing the State-Fed Office’s use of hiring outside consultants to lobby Congress, Sunset staff found it to be a common practice for various governmental entities in DC. For example, several Texas cities, counties, and governmental entities hire consultants to represent their interests at the federal level, as listed in the textbox, *Use of DC Consultants by Other Texas Governmental Entities*.¹⁰

Use of DC Consultants by Other Texas Governmental Entities		
Cities	Counties	Other Entities
Abilene	Dallas	Texas Department of Transportation
Austin	Houston	Lower Colorado River Authority
Beaumont		DFW Airport
Corpus Christi		Port of Houston
Dallas		University of Texas System
Houston		Texas A&M System
Lubbock		Texas Tech University
San Antonio		

Also, of the 37 states that have a Washington, DC-based office, 13 supplement their staff by using outside consultants to assist in lobbying Congress, and two states use consultants as their only representation. The chart, *Use of DC Consultants by State-Fed Offices*, lists the states that use contracted consultants in DC.

- ◆ Sunset staff also examined the relationship between governmental entities and hired consultants, and found that contracting with consultants at the

federal level can be beneficial. For example, outside consultants can provide the State-Fed Office with a strategic advantage when navigating the Capitol Hill arena. As a state agency, the Office has a limited ability to hire

Use of DC Consultants by State-Fed Offices

Supplementing Staff (13)	Consultants Only (2)
Alaska, California, Florida, Georgia, Illinois, Iowa, Louisiana, New Jersey, New Mexico, New York, North Dakota, Pennsylvania, Texas	Oklahoma Vermont

staff who can provide the same level of congressional access and Hill-related experience that outside consultants may offer. Similarly, hired consultants generally do not have the same level of Texas-related policy experience as the State-Fed Office’s own staff. By pairing its policy experts with outside consultants, the Office can take advantage of the best resources available to advocate on Texas’ behalf.

- ◆ Changing the culture of Washington, and the ever-increasing role lobbyists play on Capitol Hill, was clearly outside the scope of the Sunset review of the Office of State-Federal Relations. Also, while Sunset staff recognized that a multitude of entities – both private and public – use consultants to influence federal policy, determining the appropriateness of the Office’s use of political consultants was not staff’s role.

However, after analyzing state law, Sunset staff determined that if consultants are used, the Office would benefit from clear statutory authority. Sunset Staff also reviewed the Office’s contracting procedures and concluded that, while the Office already adheres to many contracting standards, it would benefit from having contracting guidelines in law. Contracting with private parties for such a unique service in state government – congressional access – entails certain risks. Such contracting relationships require clear guidelines to protect the State’s interest and to avoid potential abuse. The chart, *Best Practices for Contracting with Consultants*, outlines common contracting parameters designed to ensure contracts are appropriately awarded and monitored.¹¹



Determining the appropriateness of contracting for such a unique service – congressional access – was outside the scope of the Sunset staff review.

Best Practices for Contracting with Consultants

Standards	Explanation
General Guidelines	Agencies should have clear, written guidelines for effective contract management, that are in compliance with the Texas Building and Procurement Commission’s contracting guidelines, as appropriate. ¹²
Requests for Proposal	Agencies should use formal, documented procedures to assess prospective contractors’ strengths and weaknesses. Also, contractors should be selected through a competitive procurement process to provide the maximum value to the agency and the State.
Conflicts of Interest	Agencies should ensure that no conflicts of interest exist between the contractor and other parties that may jeopardize the State’s interests. Additionally, contracts should require that any potential conflicts of interest that arise during the term of the contract be formally disclosed to the agency.
Goals and Expectations	Contracts should establish clear goals and require that contractors establish boundaries that ensure contractors adhere to the highest level of professionalism in meeting the intended goals.
Performance Measures	Contracts should contain clearly defined performance standards and measurable outcomes, including statements of how the contractor will be evaluated.
Termination Clause	Contracts should contain sanctions sufficient to hold contractors responsible for failing to meet intended objectives.
Subject to Audit Review	Contracts should include specific audit clauses that allow the funding agency and other oversight entities to audit the contract and access necessary documents if needed.

Recommendations

Change in Statute

1.1 Abolish the Office of State-Federal Relations as an independent state agency and restructure it within the Office of the Governor.

This recommendation would abolish the Office as an independent agency and establish the Office of State-Federal Relations as a trustee program within the Office of the Governor. As part of this recommendation, the three-member Advisory Policy Board would be abolished. An Executive Director, appointed by the Governor, would administer and oversee the Office's operations. The Executive Director would be accountable to the Governor, who would be responsible for providing guidance in directing the Office's activities. The recommendation would remove the Sunset date from the Office's statute, as well as administrative provisions in statute unnecessary for administering a program within the Governor's Office.

As the State's entity charged with communicating and building relationships between the state and federal governments, the Office would advocate for Texas' interests in Washington and respond to information requests from Texas and federal officials. The Office's main responsibilities would include:

- ◆ Preparing an annual priority document to be approved by the Governor in consultation with legislative leadership;
- ◆ Providing updates on federal activities to the Governor and legislative leadership and updating the Texas congressional delegation on state activities;
- ◆ Responding to information requests from the Legislature, congressional offices, and federal agencies; and
- ◆ Coordinating with the Legislative Budget Board on how federal funding affects the state budget.

Restructuring the State-Fed Office within the Office of the Governor would allow Texas to have a stronger voice in Washington while encouraging more direct accountability at the state level. The Office would continue to work with the Texas Legislature and state agencies, as well as federal officials, but would have a more streamlined chain of command.

1.2 Authorize the Office to contract with federal-level government relations consultants and establish clear contracting guidelines in statute.

This recommendation would clarify the Office's authority to hire outside consultants to lobby at the federal level, and provide the Office with a clear set of instructions regarding contract procurement and management. Under this recommendation, statute would authorize, but not require, the Office to contract with federal consultants. Under the new organizational structure, as the person responsible for overseeing the Office's activities, the Governor would approve all contracts. Clarifying the Office's authority to contract with federal-level consultants would help to resolve confusion about the State's ability to do so.

Establishing contracting provisions in statute would give the Office clear contract requirements to protect the State's interests and ensure that the Office continues to meet such standards. As part of the recommendation, the statute would lay out the State-Fed Office's responsibilities regarding submitting a request for proposal and drafting a contract when hiring outside consultants. Statute would reflect the best-practices detailed in the chart, *Best Practices for Contracting with Consultants*.

In addition to the practices specified in the chart, because of the unique nature of the contracts, the statute would require that potential consultants show a demonstrated ability to work with all members of Congress and effectively advocate on behalf of the State. Also, statute would require that, during the contract procurement process, the Office assign a value to a prospective firm's ability to provide services at a reasonable price and level of experience in the consulting field. Finally, to help ensure the contractors meet outlined goals, the statute would require the final contract include targeted performance measures that both the Office and contractor agree upon.

Fiscal Implication

The recommendation to transfer the agency's functions to the Governor's Office would remove a portion of agency support activities, resulting in some administrative savings. However, the additional staff resources available should be used to support the Office's core function of representing Texas at the federal level; consequently, no net fiscal impact would be realized. Additionally, the recommendation clarifying the Office's ability to contract and setting guidelines would not have a net fiscal impact to the State. If the Office chooses to contract for consultants, any costs would be paid for by appropriations to the Office of the Governor.

¹ Legislative Budget Board, *Top 100 Federal Funding Sources in the Texas State Budget* (Austin, Texas, April 2006), p. 2.

² U.S. Department of Commerce, Economics and Statistics Administration, U.S. Census Bureau, *Consolidated Federal Funds, Report for Fiscal Year 2004* (Washington, DC, December 2005), pp. 26-27. The amount of total federal funds includes direct payments to Texans, such as retirement and disability, as well as grants, procurement, and salaries and wages paid to the State.

³ Sunset staff reviewed the *Government Affairs Yellow Book*, documents from the National Governors Association, and other states' websites to research the structure of other states' offices in Washington.

⁴ In the 13 remaining states that lack DC representation, the state's governor generally is responsible for formulating federal policy. Some states also rely on associations, such as the National Governors Association, to help communicate their position on the federal level.

⁵ Small State Agency Task Force, <http://www.tx.net/ssatf/asp/requiredreports.asp>. Accessed: June 9, 2006.

⁶ National Governors Association, Office of Management Consulting and Training, *Management Note: The Governor's Washington, DC, Office* (Washington, DC, January 2003), p. 9.

⁷ Texas Government Code, sec. 772.002 defines the Governor as the chief planning officer for the State.

⁸ Texas Government Code, secs. 556.005-006.

⁹ Texas Government Code, sec. 305.003.

¹⁰ Sunset staff used a variety of resources to research which governmental entities hire political consultants to lobby the federal government, including the 2006 edition of the *Government Affairs Yellow Book*. While this list indicates some of the entities that hire political consultants, it may not be a complete list. Additionally, because of the fluid nature of federal-level policy work, some of these entities may hire full-time consultants on retainer, like Texas, and some may only hire consultants for specific issues on an as-needed basis.

¹¹ Sunset staff researched contracting best practices by using various sources, including reference materials distributed by the General Accounting Office, the Comptroller of Public Accounts, and the State Auditors Office. Due to the nature of the State-Fed Office's contract with outside consultants, only some of the best practices compiled applied to this particular contracting process.

¹² Texas Building and Procurement Commission, *Contract Management Guide*, <http://www.tbpc.state.tx.us/stpurch/cmng/contractguide.html>. Accessed May 25, 2006.

AGENCY INFORMATION

Agency Information

Agency at a Glance

The Office of State-Federal Relations (the State-Fed Office) acts as the State's advocate in Washington, DC to help promote and protect the interests of Texas at the federal level. Initially, the Legislature created the Division of State-Federal Relations in 1965 as a program within the Governor's Office, and later established the Office as an independent state agency in 1971. The Office's mission is to promote communication and build relationships between the state and federal governments to advance the interests of Texas. To accomplish its mission, the Office:

- ◆ prioritizes a federal agenda for Texas;
- ◆ advocates for federal funding and policy decisions favorable to Texas; and
- ◆ communicates information about Texas issues at the state and federal levels.

Key Facts

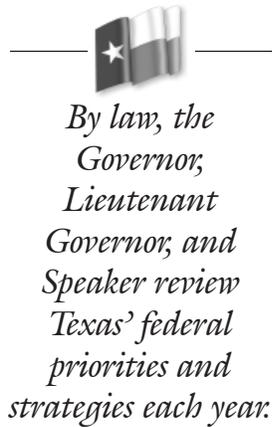
- ◆ **Funding.** The State-Fed Office operates with an annual appropriation of \$1.2 million, most of which comes from General Revenue. The Office's largest expenditures include salaries, consultant fees, and building rent.
- ◆ **Staff.** The Office has seven staff, with six located in Washington and one in Austin. In addition, six staff from five other Texas state agencies currently collocate in the agency's Washington, DC office.
- ◆ **Consultants.** The State-Fed Office contracts with two government relations consulting firms in Washington, DC to assist the Office in securing support from Congress on the State's federal agenda. In fiscal year 2005, the Office spent \$255,000 for these services.
- ◆ **Priorities.** On an annual basis, the Office identifies and prioritizes the State's federal policy agenda. The Office's most recent priorities are within the areas of health and human services, transportation, defense and homeland security, federal appropriations, and federal tax issues.



*The Office advocates
for federal funding and
policies favorable to Texas.*

Major Events in Agency History

- 1965 The Legislature creates the Division of State-Federal Relations in the Office of the Governor to coordinate state and federal programs and to inform the Governor and the Legislature of federal initiatives that affect the State.



- 1971 The Legislature establishes the Office of State-Federal Relations as an independent agency, with a Governor-appointed Executive Director, to carry out the duties of the Division of State-Federal Relations.
- 1991 The Legislature passes a bill that creates the Advisory Policy Board, consisting of the Governor, Lieutenant Governor, and Speaker of the House, to direct the Office's efforts. The bill also expands the agency's duties by making the Office responsible for securing increased federal discretionary grants.
- 1995 The Legislature transfers the Office's discretionary grant functions to the Office of the Governor and requires increased coordination between the State-Fed Office and the Advisory Policy Board, other Texas state agencies, and the Legislative Budget Board.
- 2003 Through the appropriations process, the Legislature reduces the number of authorized employee positions at the agency from 17 to seven.

Organization

Policy Body

An Advisory Policy Board consisting of the Governor, the Lieutenant Governor, and the Speaker of the House directs the State-Fed Office's activities. The Policy Board's key role is to review the State's federal priorities and strategies every year. The chart, *Office of State-Federal Relations Advisory Policy Board*, shows the current members and when they began their service on the Advisory Board.

Office of State-Federal Relations Advisory Policy Board

Member	Qualification	First Year of Service
Rick Perry	Governor	2000
David Dewhurst	Lieutenant Governor	2003
Tom Craddick	Speaker of the House	2003

Every week, the State-Fed Office coordinates its activities with the Advisory Board members' staff via conference call. The other state agency representatives collocated with the State-Fed Office and the Office's outside consultants also participate in the conference call.

Staff

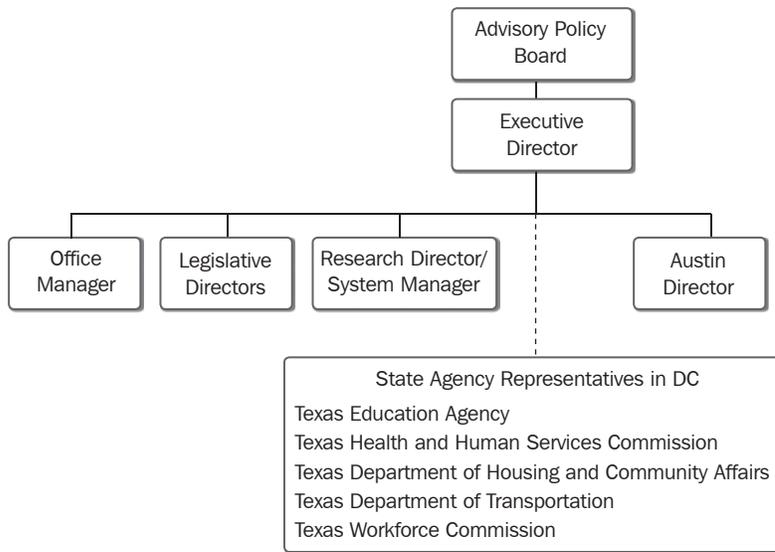
The Governor appoints the State-Fed Office's Executive Director, with the advice and consent of the Senate. The Executive Director acts as the main point of contact for outside communication and supervises the Office's advocacy activities. The Executive Director hires agency staff, oversees the agency's budget, and coordinates with the Office's outside consultants. The Office currently has seven staff, six of whom are located in Washington, DC. The Office also employs one person to serve as the agency's Austin Director.

By appropriative rider, other state agencies that choose to have employees in Washington must locate their staff with the State-Fed Office. Currently, five state agencies have interagency contracts with the State-Fed Office to house staff within the DC office. These additional agency staff work independently of the Office, lobbying Congress for their respective agency's interests and reporting back to their home agencies in Texas. However, the agency representatives coordinate their activities with the State-Fed Office. State law authorizes the Office to contract with these agencies to provide for office space and associated services and supplies. By appropriations rider, the Office may not charge more than \$1,000 per month, per agency for these services.¹


Five other state agencies house staff in the agency's Washington, DC office.

The chart, *Office of State-Federal Relations Organizational Chart*, depicts the agency's structure, including the other state agency representation in Washington, DC. Because of the small staff size, no analysis was prepared comparing the agency's workforce composition to the overall civilian labor force.

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



By appropriative rider, the Office, and any state agency that has DC-based staff, may supplement an employee's monthly salary with \$1,200 to account for additional costs associated with working and living in Washington, DC. These employees are also eligible for health insurance benefits through the Employee Retirement System, but must pay Out-of-Area costs for medical services received in the Washington, DC area.


The Office contracts with two government relations consulting firms to support its functions.

In addition to the State-Fed Office staff and other state agency representatives, the agency also contracts for outside assistance to support many of its functions. Currently, the Office contracts with two government relations consulting firms in Washington – the Federalist Group and Cassidy & Associates. The consultants assist the State-Fed Office in crafting workable federal priorities, based on their congressional experience and knowledge, and in lobbying

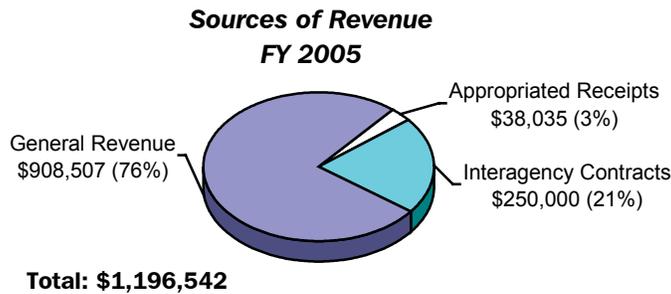
Congress on behalf of Texas, particularly helping to provide access to members outside the Texas delegation.

Funding

Revenues

In fiscal year 2005, the State-Fed Office received almost \$1.2 million in funding. As shown in the pie chart, *Sources of Revenue*, the largest percentage of the agency's revenue, 76 percent, came from General Revenue. Additionally, 21 percent of the Office's revenue came from interagency contracts. Of the \$250,000 from interagency contracts, \$84,000 was payment for rent

and additional costs associated with collocated state agency staff. The remaining \$166,000 was payment from a variety of state agencies to help offset the Office's costs for contracting with outside consultants. The agencies involved in supporting the outside consultants include: the Texas Department of Criminal Justice, Texas Education Agency, Texas Commission on Environmental



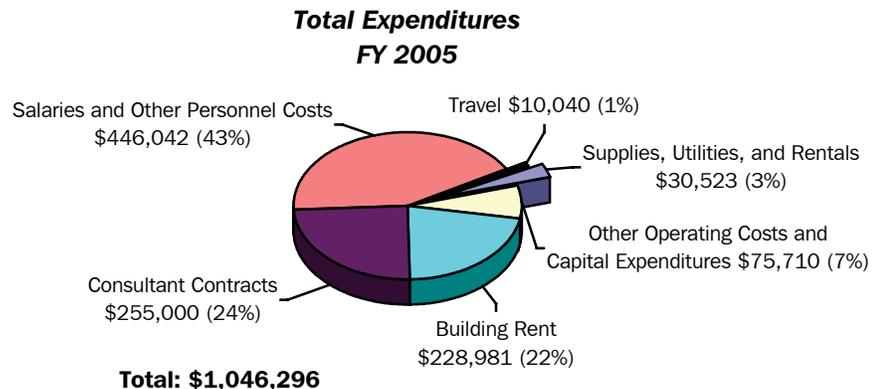
Quality, General Land Office, Texas Health and Human Services Commission, Texas Department of Transportation, and Texas Water Development Board. Finally, the Office brought in about \$38,000 in appropriated receipts from subleasing a portion of its Washington, DC office space.

Expenditures

The Office spent about \$1 million in fiscal year 2005. The pie chart, *Total Expenditures*, shows the agency's expenditures, divided by expenditure category. The largest expenditure was for salaries and other personnel costs, comprising 43 percent of total expenditures. Two other categories involved major expenditure: consultant contracts and building rent.



Seven state agencies help offset the Office's costs for contracting with outside consultants.



Appendix A describes the Office's use of Historically Underutilized Businesses (HUBs) in purchasing goods and services for fiscal years 2002 to 2005. Over the last four years, the agency generally fell short of the statewide goals for the special trade, other services, and commodities categories, but exceeded the goal for professional services in 2003, the last year in which the agency had expenditures in that category.

Agency Operations

To help ensure coordination between Texas and the federal government, the State-Fed Office performs three main functions: prioritizing Texas' federal agenda, advocating for Texas, and communicating at the state and federal level.

Prioritizing Texas' Federal Agenda

The State-Fed Office plays an integral role in helping to develop Texas' federal agenda by annually compiling and prioritizing a list of policy and funding issues with the most significant impact on, and concern to, Texas. The Office aims to capture initiatives that are in step with congressional priorities; a tactic that helps to ensure that items on the State's agenda are heard by Congress. State agency representatives help in identifying key priorities by providing subject-matter expertise and expressing their respective agencies' needs. The Office's outside consultants also assist by helping the staff to strategically narrow priorities to fit with the proposed congressional agenda.

Once the priorities are compiled, staff forward the draft priorities to the Advisory Policy Board members for review and approval. In 2005, the Office focused on five broad subject areas, with several specific initiatives within each area, as shown in the textbox on the following page, *Texas' 2005 Priorities*. The 2006 priorities are currently being reviewed by the Advisory Policy Board.

As the priority list shows, one of the State-Fed Office's overarching goals is to ensure that Texas' needs are clearly and fairly represented in Congress' allocation of federal funds. The Office typically works to ensure that changes to legislation, such as modifications to funding formulas, are made in Texas' favor. For example, last year Congress reviewed the federal Transportation Reauthorization Bill. The State-Fed Office, working with Texas Department of Transportation staff and the Office's outside consultants, identified this legislation as one of its key priorities and pursued an increase in the rate of return of gas-tax contributions. Congress passed a final version of the bill that will increase the rate of return from 90.5 cents to 92 cents on the dollar by 2008, resulting in a more than \$8 billion improvement in the distribution of funds to Texas.



The Office targets issues of concern to Texas and in step with Congress' priorities.

Texas' 2005 Priorities

In 2005, the State-Fed Office's Advisory Policy Board reviewed the following set of priorities for the 109th Congress, 1st Session.

Health and Human Services Funding and Innovation

- ◆ Medicaid and Children's Health Insurance Program (CHIP) – Enable additional state discretion in administering Medicaid and CHIP, improve Texas' share of federal funding, and protect against cost shifts.
- ◆ Temporary Assistance for Needy Families (TANF) – Support continuation (or increase) of the supplemental grant and ensure that the TANF program provides adequate funds and sufficient flexibility to provide low-income Texans with the tools to become self-sufficient.

Transportation

- ◆ Ensure a 95-cent Rate of Return from Texas' contributions to the Highway Trust Fund.
- ◆ Separate and formalize the Border and Corridor programs, reform the programs to direct funding to border states, and promote and facilitate trade across U.S. borders.
- ◆ Continue the availability of existing innovative funding tools and consider the creation of additional tools.
- ◆ Authorize flexibility for rail improvements and relocation.
- ◆ Allow for more flexible and efficient processes, such as design/build and environmental review.
- ◆ Authorize states to implement interstate tolling options and expand the flexibility for use of revenues from such a toll facility.
- ◆ Permit the issuance of tax-exempt private activity bonds to finance a broad range of surface transportation projects.
- ◆ Improve the toll credit calculation to better reflect Texas' growing investment in toll projects and transit.

Defense and Homeland Security

- ◆ Protect and enhance Texas' defense community, including contractors and military bases.
- ◆ Secure additional federal funds to assist Texas with vital homeland security operations.
- ◆ Improve border security without burdening legitimate trade and travel.

Increased Federal Appropriations

- ◆ Pursue federal funding for key areas of the state budget including:
 - Reimbursement of state and local costs for incarcerating criminal aliens;
 - Development of water and wastewater infrastructure;
 - Health-care programs targeted to areas with the greatest need;
 - Primary and secondary education programs; and
 - Research at state institutions of higher education.

Federal Tax Issues

- ◆ Permanently extend the sales tax deduction that was temporarily restored for tax years 2004 and 2005.
- ◆ Reform the Unemployment Insurance system to return excess Trust Fund payments to Texas taxpayers.
- ◆ Exempt the value of loans forgiven through the B-On-Time program from graduates' taxable income.

Advocating for Texas

The State-Fed Office advocates on behalf of the State by coordinating policy priorities and funding issues with the Texas congressional delegation, actively lobbying Congress as a whole, and working with federal agencies on policy implementation. The State-Fed Office staff routinely provide the Texas delegation, and other members of Congress, with information and assistance on policy issues. The Office also relies on the assistance of state agency representatives to offer subject-matter expertise and the hired consultants to provide strategy in conveying the State's agenda. Additionally, when other Texans travel to DC, such as government officials, state agency employees, and businesses representatives, to advocate for an issue, the Office provides them with assistance in navigating Capitol Hill, even though the State-Fed Office may not be actively pursuing the same issue.

The State-Fed Office staff employ a variety of actions to influence federal action, depending on the specific issue. The textbox, *How the Office Advocates for Texas*, lists some examples of what the Office may do and the types of interaction the State-Fed Office may have to influence Congress on any given issue. The textbox, *Hurricane Response*, highlights the Office's role in coordinating and communicating Texas' federal-level position on an unexpected issue that affected Texas greatly – hurricanes Katrina and Rita.

How the Office Advocates for Texas

To advance Texas' agenda, the Office may engage in many activities, including, but not limited to:

- ◆ providing information to and visiting with members of the Texas delegation;
- ◆ visiting with members of Congress to advocate for Texas;
- ◆ working with the Governor's Office, Texas legislators, and Texas congressional delegates to issue letters of support for specific initiatives;
- ◆ building coalitions with other states or associations to get broad support for an issue;
- ◆ arranging meetings and testimony for state officials before Congress; and
- ◆ working with federal agencies through the rulemaking process to ensure implementation that benefits Texas.

Hurricane Response

During hurricanes Katrina and Rita, State-Fed Office staff maintained direct contact with state agency representatives in Texas and officials from the Governor's Emergency Management Council. The State-Fed Office helped convey this emergency-response information to federal agency and Administration officials and members of Congress, acting as the Texas point of contact in Washington, DC.

Once the storms subsided and Congress began working to create a federal reimbursement package for states affected by the storms, the Office continued its coordination role by organizing congressional testimony and office visits from Governor Perry and other state officials. The Office also worked with Congress to ensure that Texas' needs were considered in determining federal reimbursement for storm damage from Hurricane Rita and the significant costs that Texas incurred in receiving evacuees after Hurricane Katrina's devastation. The President has signed two Emergency Supplemental Appropriation bills that provide funding for Texas to recover some of its costs associated with these disasters.

Communicating at the State and Federal Level

The State-Fed Office provides information to a wide range of entities, at both the state and federal level, that are interested in Texas issues. Each week that Congress is in session, the Office distributes a newsletter, *News*



The Office acts as an information resource on Texas-related issues at both the state and federal level.

From Washington, which provides a summary of congressional action and related events impacting Texas, including a list of Texans testifying on Capitol Hill. This newsletter contains links to copies of legislation, bill summaries, press releases, and other types of legislative analysis. On request, the Office sends about 1,100 electronic copies of the newsletter to members of the Texas Legislature, the Governor's Office, state agencies, Texas cities and municipalities, members of Congress, and federal officials, as well as other entities such as Texas businesses.

The Office also maintains an Austin-based office to provide a point of contact in Texas to members of the Legislature and state agencies. The State-Fed Office periodically provides members of the Texas Legislature with briefings, describing the State's federal goals and giving a status report on these issues. Conversely, at the federal level, the DC Office provides Congress and congressional staff, primarily members of the Texas delegation, with Texas-related updates. The Office also responds to information requests, acting as an information resource on Texas-related issues at both the state and federal level. For example, the Office routinely responds to information requests from the Governor, members of the Texas Legislature, Congress, state and federal agencies, elected officials, Presidential Administration staff, and businesses.

¹ Each of the state agencies that are housed with the Office has one employee stationed in Washington, with the exception of the Texas Department of Transportation, which has two DC-based staff.

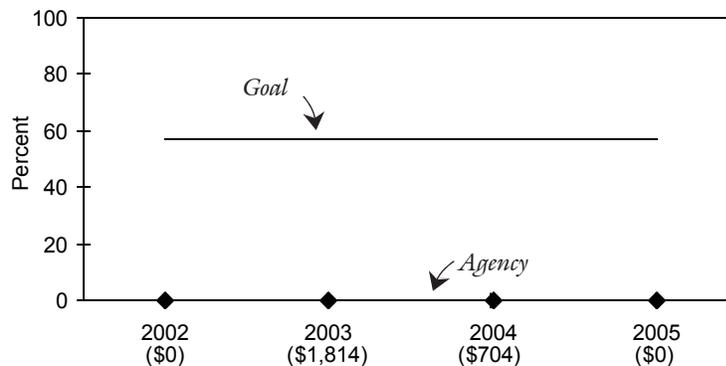
APPENDICES

Historically Underutilized Businesses Statistics 2002 to 2005

The Legislature has encouraged state agencies to increase their use of Historically Underutilized Businesses (HUBs) to promote full and equal opportunities for all businesses in state procurement. The Legislature also requires the Sunset Commission to consider agencies' compliance with laws and rules regarding HUB use in its reviews.¹

The following material shows trend information for the Office of State-Federal Relations' (Office) use of HUBs in purchasing goods and services. The agency maintains and reports this information under guidelines in the Texas Building and Procurement Commission's statute.² In the charts, the flat lines represent the goal for HUB purchasing in each category, as established by the Texas Building and Procurement Commission. The diamond lines represent the percentage of agency spending with HUBs in each purchasing category from 2002 to 2005. Finally, the number in parentheses under each year shows the total amount the agency spent in each purchasing category. Generally, the Office has had difficulty in achieving some goals because of the scarcity of DC-based companies that are approved as HUB vendors by TBPC. Overall, the Office has failed to meet goals in the special trade and other services categories. However, the agency exceeded the goal in the professional services category in 2003, and met or exceeded the goal in the commodities category for the last three years.

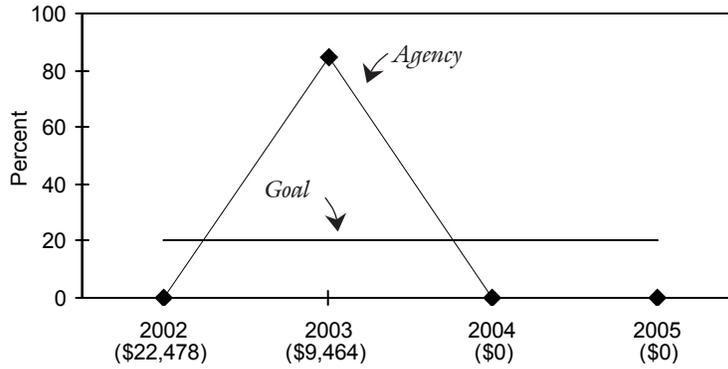
Special Trade



In 2003 and 2004, the Office failed to meet goals in this category, but made no expenditures in other years.

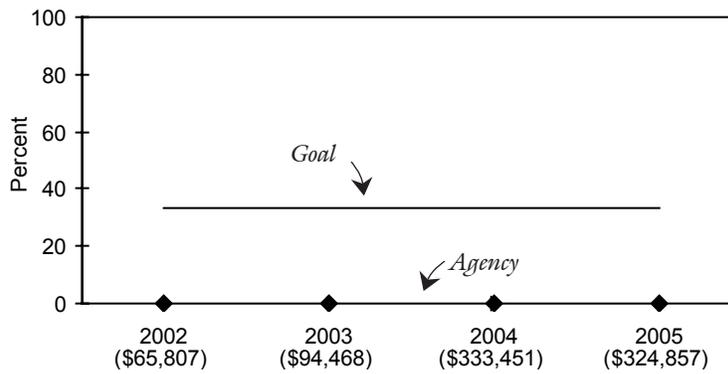
Appendix A

Professional Services



The Office exceeded the goal in this category in 2003, the last year it made an expenditure in this category.

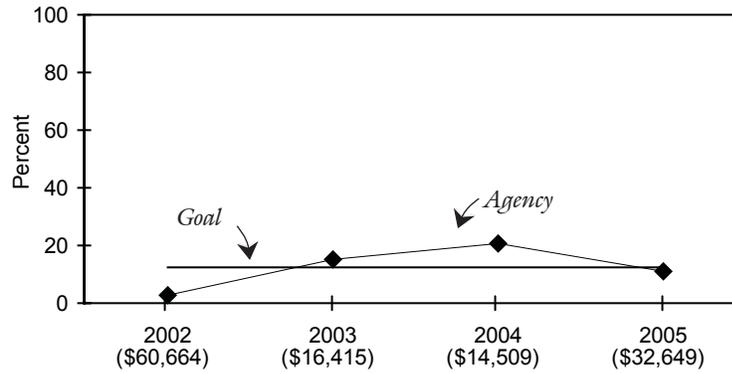
Other Services



The Office has failed to meet the goals in this category.

Appendix A

Commodities



The Office has met or exceeded the goal for commodities over the last three years.

¹ Texas Government Code, sec. 325.011(9)(B).

² Texas Government Code, ch. 2161.

Staff Review Activities

During the review of the Office of State-Federal Relations, Sunset staff engaged in the following activities that are standard to all Sunset reviews. Sunset staff worked extensively with agency personnel; met with staff from key legislative offices; conducted interviews and solicited written comments from interest groups and the public; reviewed agency documents and reports, state statutes, legislative reports, previous legislation, and literature; researched the organization and functions of similar state agencies in other states; and performed background and comparative research using the Internet.

In addition, Sunset staff also performed the following activities unique to this review.

- ◆ Traveled to Washington, DC to work with agency staff and meet with representatives of other state agencies collocated with the agency's Washington office.
- ◆ Solicited comments from representatives of the Office's Advisory Policy Board.
- ◆ Solicited input from all members of the Texas congressional delegation and visited with a number of their staff in Washington, DC.
- ◆ Surveyed all members of the Texas Legislature about their interaction with the Office.
- ◆ Surveyed Texas state agencies about their level of federal interaction and relationship with the Office.
- ◆ Met with the Office's contracted government relations consultants in Washington, DC.
- ◆ Conducted interviews with other states' state-federal relations offices and the National Governors Association.

**SUNSET REVIEW OF THE
OFFICE OF STATE-FEDERAL RELATIONS**

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