

- /SUBJECT: Requiring limited reviews and efficiency audits of certain state agencies
- COMMITTEE: Delivery of Government Efficiency — committee substitute recommended
- VOTE: 13 ayes – Capriglione, Bhojani, Alders, Bowers, Cain, Campos, Cook, Curry, L. Garcia, Olcott, Rodríguez Ramos, Tinderholt, Troxclair
0 nays
- WITNESSES: For – Rod Bordelon, Coalition for Regulatory Efficiency and Reform; Kileen Lindgren, Pacific Legal Foundation; Rahul Sreenivasan, Texas 2036; Sheila Hemphill, Texas Right To Know; Jordan Smelley (*Registered, but did not testify*: Kristi Antonick, Americans for Prosperity; Travis Krogman, Austin Chamber of Commerce; Nick James, Cicero Action; Steve Bresnen, Coalition for Regulatory Efficiency and Reform; Travis Reynolds, Dallas Regional Chamber; Carrie Simmons, FGA Action; Shera Eichler, Goldwater Institute; Kaitlyn Murphy, Greater Houston Partnership; Justin Keener, Texans for Free Enterprise; Lee Parsley, Texans for Lawsuit Reform; Brett Martin, M. Scott Norman, Jr., Texas Association of Builders; Kelly Rasti, Texas Association of School Boards; James Quintero, Texas Public Policy Foundation)

Against – None

On – (*Registered, but did not testify*: Eric Beverly, Sunset Advisory Commission)
- DIGEST: CSHB 12 would require limited reviews by the Sunset Advisory Commission for state regulatory agencies and efficiency audits by the state auditor or an external auditor for all state agencies.

Limited review. CSHB 12 would require the Sunset Advisory Commission to conduct a limited review of each regulatory agency’s rulemaking during the two-year period beginning on September 1 six years after the date the agency was last continued under the Texas Sunset

Act. Under the bill, a regulatory agency would mean a constitutionally or statutorily created executive agency that had statewide authority, including over licensing, certification, or authorization to engage in an activity. The limited review would address public participation in rulemaking, rules related to conflicts of interest, and the necessity and effectiveness of adopted rules. A regulatory agency would have to report information on these topics to the Sunset Advisory Commission by September 1 of the sixth year after the agency was continued. At the end of the two-year review period, the Commission would have to prepare a review report, which would be a public record.

Changes to regular Sunset review. CSHB 12 also would require the Sunset Advisory Commission to provide information on how the public could participate in its full review of a state agency and would require the Commission to solicit input from interested parties.

At the beginning of its Sunset review, a state agency would have to post a notice on its website informing the public that the agency was being reviewed and how the public could participate. If the agency was a regulatory agency, it would have to notify each person licensed, certified, or otherwise authorized by the agency to engage in a regulated activity of the public hearing at which the agency would be reviewed and solicit input from those persons.

The bill would add analysis of an agency's performance based on performance measure targets from the state budget to the items required to be included in the Commission's recommendations report for a regular Sunset review.

Efficiency audit. CSHB 12 would require each state agency, excluding river authorities, to undergo an efficiency audit during the two-year period beginning on September 1 four years before date the agency was scheduled to be abolished under the Texas Sunset Act. The bill would define "efficiency audit" to mean an evaluation of the economy, efficiency, and effectiveness of state agency operations, including:

- determining whether the agency was managing or using its resources economically and efficiently;
- identifying causes of inefficiencies or uneconomical practices;
- determining whether state agency reports contained useful data and were fairly presented;
- determining whether the objectives and intended benefits of the agency's programs were being achieved efficiently and effectively; and
- determining whether agency programs duplicated, overlapped, or conflicted with another state program.

The state auditor, subject to legislative audit committee approval, could determine whether the audit should be performed by the state auditor or an external auditor under the state auditor and the Legislative Budget Board's (LBB) oversight. A state agency would be required to pay the efficiency audit costs incurred by the state auditor.

CSHB 12 would require the state auditor, in cooperation with the LBB, to establish the scope of each efficiency audit. At a minimum, an efficiency audit would have to:

- determine whether state resources were used effectively and efficiently to achieve the desired outcome for program beneficiaries and were not used for other purposes;
- identify and make recommendations for cost savings and resource reallocation to improve program effectiveness; and
- identify opportunities for improving services through consolidation of functions, outsourcing, and elimination of duplicative efforts.

The bill would require the state auditor to submit a report including recommendations along with the complete audit by November 1 of the year of the audit to the Sunset Advisory Commission, the governor, the lieutenant governor, the speaker of the House of Representatives, the legislative audit committee, the chairs of the legislative committees with primary jurisdiction over the agency, and the agency. The report would have to be published on the agency's and state auditor's respective

websites.

Within 90 days of receiving the complete audit and recommendations, the head of the audited agency would have to deliver a plan for implementing the recommendations to the other report recipients, including a reasoned justification for any recommendation the agency declined to implement.

CSHB 12 would repeal statute authorizing the LBB to periodically review and analyze the state agency effectiveness and efficiency.

The bill would take effect September 1, 2025.

**SUPPORTERS
SAY:**

CSHB 12 would help ensure that state regulations provided necessary protections in the least restrictive and most efficient ways possible by requiring the Sunset Advisory Commission to review regulatory agency rulemaking between regular Sunset reviews and by requiring efficiency audits before state agencies underwent Sunset review. The bill also would enhance transparency and accountability in regulation by requiring the Sunset Advisory Commission to provide clear information on how the public can participate in the review process. By requiring the Commission to actively seek public input, especially from regulated entities, CSHB 12 would ensure that stakeholders directly impacted by regulation could help shape regulatory improvements.

The mid-cycle review of agency rules required by CSHB 12 would help agencies remain adaptable to Texans' evolving needs. The bill's requirement to include agency budgetary performance measures in Sunset reports would ensure that these metrics were aligned with agency objectives. Improved Sunset processes, along with the bill's efficiency audit requirements, would help create a more effective regulatory system, which in turn would expand opportunities for Texas residents, workers, and businesses.

The Sunset Advisory Commission, rather than the state auditor, would be the appropriate entity to carry out the limited review under CSHB 12. The agency already carries out limited-scope reviews of agencies when the

Legislature determines it is necessary, so the agency already has the necessary knowledge, processes, staffing, and resources to accomplish this task. The type of limited review required in the bill would be a departure from the state auditor's usual duties, so requiring them to perform the review would not be the best use of resources.

**CRITICS
SAY:**

CSHB 12 could be improved by requiring the state auditor, rather than the Sunset Advisory Commission, to carry out the limited reviews on regulatory agency rulemaking. This would allow Sunset to focus on its primary task of agency continuation and addressing overall efficiencies.

NOTES:

According to the Legislative Budget Board, the bill would have a negative impact of \$2,812,466 to general revenue related funds through the biennium.