

1-1 By: Bell of Kaufman, et al. (Senate Sponsor - Parker) H.B. No. 12
1-2 (In the Senate - Received from the House April 9, 2025;
1-3 April 14, 2025, read first time and referred to Committee on
1-4 Business & Commerce; May 12, 2025, reported adversely, with
1-5 favorable Committee Substitute by the following vote: Yeas 11,
1-6 Nays 0; May 12, 2025, sent to printer.)

1-7	COMMITTEE VOTE				
1-8		Yea	Nay	Absent	PNV
1-9	Schwertner	X			
1-10	King	X			
1-11	Blanco	X			
1-12	Campbell	X			
1-13	Creighton	X			
1-14	Johnson	X			
1-15	Kolkhorst	X			
1-16	Menéndez	X			
1-17	Middleton	X			
1-18	Nichols	X			
1-19	Zaffirini	X			

1-20 COMMITTEE SUBSTITUTE FOR H.B. No. 12 By: King

1-21 A BILL TO BE ENTITLED
1-22 AN ACT

1-23 relating to the review and audit of certain state agency
1-24 operations.

1-25 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

1-26 SECTION 1. Section 325.002, Government Code, is amended by
1-27 adding Subdivision (4) to read as follows:

1-28 (4) "Regulatory agency" means a department,
1-29 commission, board, or other agency that:

1-30 (A) is created by the constitution or by statute;

1-31 (B) is in the executive branch of state
1-32 government;

1-33 (C) has statewide authority; and

1-34 (D) has authority to deny, grant, renew, revoke,
1-35 or suspend a license, certification, or other authorization to
1-36 engage in an activity.

1-37 SECTION 2. Section 325.008, Government Code, is amended by
1-38 adding Subsections (d), (e), and (f) to read as follows:

1-39 (d) The commission shall provide information on how the
1-40 public may participate in the commission's review of a state agency
1-41 and provide input on a state agency's performance. The commission
1-42 shall, to the extent practicable, solicit input from parties
1-43 interested in a state agency's operations.

1-44 (e) Each state agency being reviewed by the commission under
1-45 this chapter shall at the beginning of the review:

1-46 (1) post a notice on the state agency's Internet
1-47 website informing the public:

1-48 (A) that the state agency is being reviewed by
1-49 the commission; and

1-50 (B) how the public may participate in the
1-51 commission's review of the state agency and provide input on the
1-52 state agency's performance; and

1-53 (2) to the extent practicable, if the state agency
1-54 being reviewed is a regulatory agency:

1-55 (A) notify each person licensed, certified, or
1-56 otherwise authorized by the regulatory agency to engage in an
1-57 activity regulated by the agency of a public hearing under Section
1-58 325.009 at which the agency will be reviewed; and

1-59 (B) solicit input from persons provided notice
1-60 under Paragraph (A) regarding the regulatory agency's performance.

(f) Subsection (e)(2) does not apply to a river authority subject to review under this chapter.

SECTION 3. Section 325.010(b), Government Code, is amended to read as follows:

(b) In the report the commission shall include:

(1) its findings regarding the criteria prescribed by Section 325.011, except Section 325.011(14);

(2) its recommendations based on the matters prescribed by Section 325.012, except recommendations relating to criteria prescribed by Section 325.011(14); ~~and~~

(3) if the agency being reviewed is a regulatory agency, an analysis of the regulatory agency's performance during the preceding 10 years or since the last review of the agency under this chapter, whichever is longer, based on the agency's performance measures and related targets, including those listed in the General Appropriations Act;

(4) an evaluation of the agency's performance measures and related targets, including whether the targets are:

(A) aligned with the mission, goals, and objectives of the agency; and

(B) appropriate for assessing the agency's achievement of the goals listed; and

(5) other information the commission considers necessary for a complete review of the agency.

SECTION 4. Section 325.012(a), Government Code, is amended to read as follows:

(a) In its report on a state agency, the commission shall:

(1) make recommendations on the abolition, continuation, or reorganization of each affected state agency and its advisory committees and on the need for the performance of the functions of the agency and its advisory committees;

(2) make recommendations on the consolidation, transfer, or reorganization of programs within state agencies not under review when the programs duplicate functions performed in agencies under review;

(3) make recommendations to improve the operations of the agency, its policy body, and its advisory committees, including management recommendations that do not require a change in the agency's enabling statute; ~~and~~

(4) make recommendations on the continuation or abolition of each reporting requirement imposed on the agency by law; and

(5) after consulting the Legislative Budget Board, make recommendations to improve the agency's key performance measures through the addition, amendment, or removal of the performance measures and related targets, including those listed in the General Appropriations Act.

SECTION 5. Chapter 325, Government Code, is amended by adding Section 325.016 to read as follows:

Sec. 325.016. LIMITED REVIEW OF CERTAIN REGULATORY AGENCIES. (a) In the commission's recommendations to the legislature under Section 325.012, the commission may recommend that a limited review of a regulatory agency be conducted prior to the regulatory agency's next sunset review.

(b) If the commission's recommendations to the legislature under Section 325.012 include any identified deficiencies or recommendations for improvement in the regulatory agency's rulemaking process, the commission shall recommend that a limited review of a regulatory agency be conducted prior to the next sunset review.

(c) For the commission's recommendation for a limited review to take effect, the legislature must include the recommendation in its legislation to continue the regulatory agency. Such review shall be limited to:

(1) an assessment of the regulatory agency's rulemaking process and the extent to which the regulatory agency has encouraged participation by the public in making its rules and decisions and the extent to which the public participation has resulted in rules that benefit the public;

(2) the extent to which the regulatory agency adopts and enforces rules relating to potential conflicts of interest of its employees;

(3) an assessment of the regulatory agency's efforts to identify rules that are unnecessary, ineffective, or inefficient; and

(4) any commission recommendations under Section 325.012(a)(3) that the legislature adopted in the legislation to continue the regulatory agency.

(d) Unless otherwise specified by the legislature in the legislation to continue the regulatory agency, not later than September 1 of the sixth year after the date a regulatory agency was last continued under Section 325.015, the regulatory agency shall report to the commission its progress on addressing the commission's recommendations described in Subsection (a) that the legislature adopted in its most recent legislation to continue the regulatory agency.

(e) Not later than September 1 of the year that is two years after the date the review under this section begins, the commission shall prepare a written report on the commission's review under this section.

(f) The report prepared by the commission under this section is a public record.

SECTION 6. Subtitle C, Title 3, Government Code, is amended by adding Chapter 327 to read as follows:

CHAPTER 327. EFFICIENCY AUDITS OF STATE AGENCIES

Sec. 327.001. DEFINITIONS. In this chapter:

(1) "Audit plan" has the meaning assigned by Section 321.001.

(2) "Commission" means the Sunset Advisory Commission.

(3) "Efficiency audit" means an evaluation of the economy, efficiency, and effectiveness of state agency operations, including:

(A) determining whether the state agency is managing or using its resources, including state money, personnel, property, equipment, and space, in an economical and efficient manner;

(B) identifying causes of inefficiencies or uneconomical practices, including inadequacies in management information systems, internal and administrative procedures, organizational structure, use of resources, allocation of personnel, purchasing, agency policies, and equipment;

(C) determining whether financial, program, and statistical reports of the state agency contain useful data and are fairly presented;

(D) determining whether the objectives and intended benefits of the agency's program are being achieved efficiently and effectively, according to:

(i) established or designated:

(a) program objectives;

(b) responsibilities or duties;

(c) program performance criteria; or

(d) program evaluation standards; or

(ii) statutes and rules; and

(E) determining whether the agency's program duplicates, overlaps, or conflicts with another state program.

(4) "External auditor" means a private entity selected by the state auditor to conduct an efficiency audit of a state agency.

(5) "Legislative audit committee" means the committee described by Section 321.002.

(6) "State agency" means an entity expressly made subject to Chapter 325 (Texas Sunset Act).

Sec. 327.002. REQUIRED EFFICIENCY AUDIT. (a) Each state agency shall undergo an efficiency audit in accordance with this chapter.

(b) The state auditor, subject to the legislative audit committee's approval, shall adopt a schedule for conducting the

efficiency audits required by this chapter and include the annual portion of the schedule in the audit plan under Section 321.013. The schedule must provide for each state agency to be audited during the two-year period beginning on September 1 four years before the date the state agency is scheduled to be abolished under Chapter 325 (Texas Sunset Act).

(c) A state agency required by law to perform an internal efficiency audit is not required to perform the audit in any year the state agency is audited under this chapter.

(d) A state agency shall pay the costs incurred by the state auditor relating to an efficiency audit required by this chapter. The state auditor shall determine the costs of the audit and the state agency shall pay the amount of those costs promptly on receipt of a statement from the state auditor regarding those costs.

(e) The state auditor, subject to the legislative audit committee's approval, may determine, in the interests of efficiency, whether the audit should be performed by the state auditor or an external auditor.

Sec. 327.003. SELECTION AND SUPERVISION OF AUDITOR. (a) Not later than March 1 of the year in which an efficiency audit of a state agency is scheduled under this chapter, the state auditor may contract with an external auditor to conduct the audit.

(b) The state auditor, in cooperation with the Legislative Budget Board, shall oversee the external auditor and ensure that the efficiency audit is conducted in accordance with the requirements of this chapter and the scope of the audit established under this chapter.

(c) The external auditor is not subject to direction from the state agency being audited.

Sec. 327.004. SCOPE OF AUDIT. (a) The state auditor, in cooperation with the Legislative Budget Board, shall establish the scope of each efficiency audit conducted under this chapter.

(b) At a minimum, an efficiency audit must:

(1) examine state resources, including financial resources, staff, personal property, real property, and technology, to determine whether those resources:

(A) are used effectively and efficiently to achieve the desired outcome for a state agency's program beneficiaries; and

(B) are used for purposes other than the intended goals of the audited programs;

(2) identify and make recommendations for cost savings and reallocation of resources to improve the effectiveness of audited programs; and

(3) identify opportunities for improving services through consolidation of functions, outsourcing, and elimination of duplicative efforts.

Sec. 327.005. REPORT TO LEGISLATURE. (a) Not later than November 1 of the year an efficiency audit is conducted under this chapter, the state auditor, in cooperation with the Legislative Budget Board and in consultation with any external auditor contracted to perform the audit, shall:

(1) prepare a report of the audit with the recommendations; and

(2) submit the report, recommendations, and complete audit to the commission, the governor, the lieutenant governor, the speaker of the house of representatives, the legislative audit committee, the chairs of the standing committees of each house of the legislature with primary jurisdiction over the audited state agency, and the audited state agency.

(b) The state auditor and the audited state agency shall publish the report, recommendations, and complete efficiency audit on the entity's Internet website.

Sec. 327.006. REQUIRED IMPLEMENTATION PLAN. Not later than the 90th day after the date of receiving the complete audit and recommendations, the administrative head of the audited state agency shall deliver a plan for implementing the recommendations to the commission, the governor, the lieutenant governor, the speaker of the house of representatives, the legislative audit committee,

5-1 and the chairs of the standing committees of each house of the
5-2 legislature with primary jurisdiction over the audited state
5-3 agency. The implementation plan must include a reasoned
5-4 justification for any recommendation the audited state agency
5-5 declines to implement.

5-6 SECTION 7. Not later than January 1, 2026, the state auditor
5-7 shall adopt the schedule required by Section 327.002, Government
5-8 Code, as added by this Act, for conducting efficiency audits of each
5-9 state agency subject to that section.

5-10 SECTION 8. This Act takes effect September 1, 2025.

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