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Privatization of Health and Human Services Eligibility Determination

Executive Summary

With a now defunct proposal to privatize its eligibility determination system for health and human services, Texas has been a national leader in the arena of social services privatization. Since 1995, Texas has been developing a plan to award a seven-year, \$2.8 billion (estimate) contract to a private company (or a public/private partnership) to operate the state's eligibility system. As one of the nation's boldest privatization experiments, this plan would have devolved responsibility for the "door" to the state's assistance programs to a private profit-making entity had a recent Clinton administration ruling not prevented it. Although many believe that this privatization plan was ill-conceived and are pleased with the Clinton decision, the mere fact that privatization has arisen as a serious policy consideration has spurred the state's primary eligibility agency into seeking its own creative solutions for eligibility determination in Texas.

Health and Human Services Eligibility Before Privatization was Explored

The Texas Department of Human Services (TDHS) has operated an integrated eligibility determination system for its largest public assistance programs—welfare (now called Temporary Assistance for Needy Families (TANF)), Medicaid and Food Stamps—since the early 1980s. TDHS also has separate eligibility staff who determine applicants' eligibility for long-term care services. In total, TDHS employs about 13,000 eligibility staff around the state. At an annual cost of about \$520 million, these systems deliver about \$8 billion in benefits¹. In addition to these two large eligibility determination systems, virtually all of the state's other health and human services programs include some eligibility determination component. However, there is great diversity among these programs' eligibility systems. For example, some programs require medical or nutritional screening as part of the determination process, while others only assess financial eligibility. In some programs, the determinations are done by local contractors, and in others, state employees.

A few simple paragraphs in Texas' major welfare reform legislation of 1995—HB 1863²—were construed as sufficient legislative authority to undertake the far-reaching privatization experiment. In August 1995, the Texas Health and Human Services Commission (HHSC), along with the state's Council on Competitive Government³, began implementing this portion of the legislation by designing a privatized eligibility determination system, called the Texas Integrated Enrollment Services (TIES) system. HHSC developed a Request for Offers (RFO) which called for

1. more integration of eligibility determination systems;
2. reengineering⁴ of the state's current eligibility determination systems;
3. improved automation of the systems; and
4. privatization of the workforce performing eligibility determination. Since two state agencies were among the potential bidders, the degree of privatization that would have actually occurred is uncertain.

Many public interest organizations, lawmakers and client advocates had concerns about wholesale privatization. These concerns included: the secrecy of the TIES proposal; Texas' officials eagerness to achieve savings without an equal level of concern for the impact on needy Texans seeking services; the uncertainty of the future financial arrangement with the successful vendor and whether private companies would be given a financial incentive to reduce access to services; the loss of accountability; and the lack of any testing or piloting of the project.

Before proceeding with the RFO, Texas needed federal approval. The recently-passed federal welfare legislation permitted the privatization of TANF eligibility staff without federal approval; however, Texas needed federal approval to privatize Food Stamps and Medicaid eligibility staff. Texas HHSC officials submitted the RFO to the federal government in the fall of 1996, and in May 1997, the Clinton administration rejected it explaining that privatization of Food Stamp and Medicaid eligibility was not allowable under federal law.

At about the same time as the federal administration's actions, the Texas Legislature finalized HB 2777 which reshaped the TIES project. It created a legislative

The Privatization Debate

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oversight committee to monitor the project, required more public input, and expanded the approval authority for the project's future plans to include the Legislative Budget Board.

The Future of Health and Human Services Eligibility

With the Clinton rejection and HB 2777's passage, Texas officials shelved the original RFO and decided to proceed with a more incremental approach. Instead of a contract which would have allowed for full-scale privatization, Texas HHSC officials recently signed a \$3.7 million, fifteen month consulting contract with Electronic Data Systems (EDS). This contract requires EDS to assist the state with the reengineering of its eligibility and service delivery systems and with the development of specifications for a new automation system. Meanwhile, the state will determine which programs will be added to the integrated eligibility system. Programs from TDHS, the Texas Workforce Commission (TWC) and the Texas Department of Health (TDH) are being considered.

Privatization of the workforce is not included in the contract; however, it is also not precluded. Should Congress overturn the Clinton ruling, Texas' current plan could allow for full privatization.

Many of the opponents of the original TIES privatization proposal may come to support this new project because of its potential for improving clients' access to services. Reengineering could potentially result in significant improvements in the mechanics of eligibility determination. Investments for automation improvements will likely be made. Although the privatization debate has been a controversial one in Texas, innovative ideas for improving eligibility determination have arisen. As well, the political will has solidified for a radical change in eligibility and enrollment for state services. Privatization of these activities remains a popular concept and the next several years may yet see significant privatization of some—or all—of these state functions.

Privatization of Health and Human Services Eligibility Determination

Texas' efforts to privatize health and human service eligibility determination have spurred a national debate about the merits of privatization in social service programs. Virtually every major national newspaper has reported and/or editorialized about the state's plans. Congress has debated it, and the President has ruled on it. Texas' plan was to allow a private company (or a private/public partnership) to operate the state's eligibility system, potentially eliminating the state's current 13,000 eligibility staff and replacing them with private employees. The seven year contract⁵ would have been worth as much as \$2.8 billion. Although this was not the "welfare privatization" plan many in the press described, Texas' privatization plan was among the most far-reaching in the country and would have dramatically affected low-income and needy Texans' access to health and human services.

By May 1997, the Clinton administration had prevented this wholesale privatization of eligibility determination by ruling that federal law required Food Stamp and Medicaid eligibility determinations be completed by public employees. Following this ruling and the passage of recent state legislation, state health and human service officials have shelved this privatization plan. Instead, they have initiated a new contract with Electronic Data Systems (EDS) which focuses on "reengineering"⁶ eligibility determination and service delivery and securing a new computer system for the state.

Although the original privatization proposal raised serious concerns about client protections, the mere fact that Texas debated privatization may have positive outcomes for the state's service delivery system. Because of the

threat of losing its eligibility staff of 13,000, the Texas Department of Human Services (TDHS) chose to bid on the privatization contract along with EDS and Unisys. Together, this team devised some innovative solutions for reengineering eligibility determination in Texas. These recommendations were recently made public when Texas' plans for wholesale privatization were discarded, and preliminary testing has shown positive client response.

Under the new EDS contract, these recommendations will be the starting point for the state's reengineering efforts. The initial positive responses make many hopeful that reengineering could be beneficial for clients. However, many risks remain. Health and Human Services Commissioner McKinney has claimed that a significant—as much as one-third—reduction of eligibility employees may result from reengineering. As well, the TDHS/EDS/Unisys recommendations represent a serious departure from the current eligibility determination process. The unknowns of dramatic change remain, but so does a new potential for positive client outcomes.

About this Paper

This paper is solely about privatization of Texas' health and human services eligibility determination. Although the potential for privatization is arising in the area of workforce development and child care management, the eligibility determination privatization effort is Texas'—and the nation's—largest such plan. This paper will both describe the initial privatization proposal—because it may be revisited in the future—and the current more scaled-back reengineering project.

Chronology of Privatization in Texas

Texas'1995 Legislative Session: The Beginning of Privatization in Texas

Privatization of health and human services eligibility determination got its start with two pieces of legislation signed into law after the 74th Texas Legislative Session in 1995—SB 1675 and HB 1863, Texas' major welfare legislation. The bills contained similar language requiring the Texas Health and Human Services Commission (HHSC) to pursue integration of health and human services eligibility and allowing for privatization of the eligibility workforce. Both bills:

1. required integration. HHSC was required to integrate health and human services eligibility and service delivery systems at the local and regional levels. Both bills required HHSC to use one-stop or service center methods and to determine the feasibility of using hospitals, schools, mental health and mental retardation centers, health clinics, etc.;
2. required savings. Savings of at least one percent of the cost of providing administrative and other services were to be achieved from the integration efforts and were to be reinvested to health and human services programs;
3. allowed for, but did not require, privatization. The bills required HHSC, in coordination with the state's Council on Competitive Government,⁷ to make and implement recommendations on services or functions that could be provided more effectively through the use of competitive bidding. Although this sounds like a requirement to privatize, the bills hedged a bit, because they also said that the HHSC may automate the determination system by contracting with a private firm if this is determined to be effective; and
4. required the examination of cost-effective methods for addressing fraud and error rates in eligibility determination.

The plan for integration was to be developed and substantially implemented by September 1, 1996. In addition, HB 1863 required the Council on Competitive Government to study the cost and benefits of contracting

with private entities to perform certain functions of TDHS' financial assistance programs.

It should be noted that the planning for wholesale privatization that ensued following the passage of these bills surprised many lawmakers. Many had not anticipated that HB 1863 and SB 1675 would give HHSC the authority to pursue such sweeping privatization plans; and, many lawmakers believed HHSC misconstrued the bills' intentions. It was widely believed that the Governor's interest in privatization and lobbying by private vendors combined to build pressure for such far-reaching plans.

Development of TIES

Council on Competitive Government Becomes Involved

This is Not Welfare Privatization"

Welfare privatization—the phrase often used by the press to describe Texas' privatization projects— is an oversimplification of the states efforts. "Welfare" was never going to be privatized; eligibility determination and enrollment of certain health and human service programs were. Texas was not proposing to allow a private company to set the monthly grant levels for cash assistance. Instead, Texas' efforts were focused on hiring a private company to determine eligibility and enroll eligible applicants in several assistance programs, including welfare (now TANF cash assistance), Food Stamps and Medicaid. This would nevertheless be a very significant step because it would have given control of the "door" to these programs to a private entity. Many public interest groups were concerned about the lack of public accountability with this approach and the potential for creating an incentive to deny benefits to needy applicants.

After the 1995 Legislative Session, HHSC began work on the Texas Integrated Enrollment Services (TIES), the plan for redesign of health and human services eligibility determination. In August 1995, HHSC made a presentation on TIES to the Council on Competitive Government, and the Council subsequently directed its staff to determine if the private sector could provide current (or improved) levels of services at lower costs. That vote was followed by a solicitation for a consultant to assist the state in making that determination and reviewing

health and human service programs. Deloitte & Touche received this contract and began working with the state.

State Agencies Initiate Partnerships with Private Companies

Shortly thereafter, in October 1995, TDHS announced its intention to bid on the project because of the extensive eligibility expertise within the agency and the fact that their entire eligibility staff of 13,000 potentially could be laid off if a private contractor won the bid. Realizing they would need additional automation expertise to prepare a winning bid, TDHS developed a bidding partnership with Electronic Data Systems (EDS) and Unisys. By March of 1996, another state agency, the Texas Workforce Commission (TWC), announced its intention to bid along with its partners, Lockheed Martin and IBM. The development of these private/public partnerships was

significant for two reasons: 1) because HHSC had to treat the agencies as potential bidders, and therefore could not rely upon the extensive expertise of these agencies' staff in designing TIES and developing the Request for Offers (RFO); and 2) because a competitive relationship between TDHS and TWC was created at the very time they needed to be cooperating to implement the new federal welfare law.

Additionally, because such private/public partnerships were unprecedented, questions arose about the legality of these arrangements, the state's ownership of products resulting from the partnerships, and the potential for preferential treatment for such partnerships over bidders with no public partner.

The Request for Offers (RFO)

At the March 1996 meeting of the Council on Competitive Government, Deloitte & Touche released their recommendations. They found a compelling business case for proceeding with integrated enrollment and for competitively procuring the development and operation of such a system. They believed that achieving a 10 percent savings within the first five years was necessary to justify contracting. Several representatives on the Council indicated that since 10 percent savings was the "break-even" point, the savings threshold would need to be even greater for the state to decide to go forward. At that meeting, the Council voted to proceed with the letting of an RFO, seeking proposals from vendors.

In April 1996, Texas HHSC released a draft RFO. Comments were received from vendors, public interest organizations, employees' unions, federal and state agency staff and others. Because the comments indicated the need for serious changes to the RFO, HHSC began revising the RFO and sought a new consultant, International Computer Negotiations, Inc. (ICN), to assist in this re-drafting. In July, after the revisions began, Texas officials met with federal government representatives to discuss issues around federal approval. A draft RFO was submitted to the federal government for review.

Federal Response on TIES

TANF Privatization allowed; but not Privatization of Food Stamps and Medicaid

Under the guise of devolution, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 gave states the authority to contract with private entities for the administration of Temporary Assistance for Needy Families (TANF) cash assistance (formerly Aid to Families with Dependent Children (AFDC)). Therefore, Texas did not need federal approval to privatize any aspect of its TANF cash assistance program. However, Texas did need federal approval to privatize eligibility determination in its Food Stamps and Medicaid programs. The two other large federal programs included in Texas' current integrated eligibility system because the federal government is the major funding source for both programs.

Currently, federal law prohibits privatizing Food Stamps and Medicaid administration. Food Stamp law states that state agency personnel utilized in undertaking certification shall be employed in accordance with the current standards for a Merit System of Personnel Administration. Meanwhile, Medicaid law states that the determination of eligibility for medical assistance shall be made by the State or local agency administering the State plan."

Officials at the US Department of Health and Human Services and the US Department of Agriculture spent many months reviewing Texas' submission. In late February 1997, after several months of waiting, HHSC Commissioner McKinney threatened to release the RFO and go forward without federal approval. However, the risk of losing federal matching funds for the project was too great, so the state did not act.

Finally, in May, 1997, the Clinton administration rejected Texas' RFO. Federal officials told Texas that the state could proceed with "some plans to work with the private sector but that only

state employees can be charged with the task of determining who is eligible for Medicaid and Food Stamps." In their written response to Texas, the administration made two key points:

1. Federal law and regulations prohibit privatizing Food Stamp administration because they require that most activities included in the eligibility determination process be performed by public agencies. These laws and regulations specifically prevent non-public employees from taking actions involving discretion or value judgments.
2. Texas had submitted the RFO for review only. The state had not submitted an actual proposal to privatize state functions. Nor had the state sought waivers of Food Stamp or Medicaid law to allow the state to privatize, or to implement a demonstration project. Texas had not even submitted an implementation "Advance Planning Document," which is required for large scale automation projects. This is significant given the fact that the state had threatened going forward without federal approval; Texas issued such threats even though it had not followed federal protocols for such requests.

Texas' 1997 Legislative Session

While federal officials were still considering Texas' RFO, the Texas Legislature convened for its 75th Session in January 1997. The Clinton administration ruling on privatization did not occur until May 1997, the last month of the session. While Texas waited for the federal response, many Texas legislators began to express

concerns about the TIES project, including Sen. Gonzalo Barrientos, Sen. Mike Moncrief, Rep. Garnet Coleman, Rep. Elliott Naishtat, and Rep. Glenn Maxey. Sen. Barrientos and Rep. Naishtat both filed bills dealing with TIES, as did House Appropriations Chairman Robert Junell (along with Senate Finance Chair Bill Ratliff as the Senate sponsor). Rep. Junell's bill—HB 2777—incorporated the content of both of the other bills and was eventually passed and signed by the Governor.

HB 2777 made significant changes to the future TIES project.

1. It focused the project on quality of service by requiring that improved access—not just cost savings—be achieved by this project.

2. It expanded the approval authority by requiring that any proposed plan be approved by the Governor and the Legislative Budget Board, rather than only HHSC and the Council on Competitive Government.

3. It created a special TIES Legislative Oversight Committee—composed of three state senators, three state representatives (appointed by the Lt. Governor and Speaker of the House respectively)—and empowered them to hold public hearings.

4. It limited the project's scope by specifying criteria that must be met before any privatization contract could be awarded. It required a cost-benefit analysis to demonstrate whether the project would result in improved access for clients. It stipulated that priority for contracting be given to upgrading the computer software and hardware. It also required that Texas receive any necessary federal approval before proceeding with privatization plans. Given the administration's current ruling on privatization, this provision effectively prevents wholesale privatization of eligibility at this time.

5. It also expanded the project's scope by 1) including TWC services in the project, and 2) requiring that service delivery be reengineered along with eligibility determination.

Congressional Involvement

While the Clinton administration was still deciding if it would approve Texas' RFO, members of Texas' Congressional delegation were interested in pursuing legislative changes to allow Texas to privatize. Sen. Kay Bailey Hutchison unsuccessfully attempted to introduce an amendment to the 1997 supplemental appropriations bill which would have granted approval for Texas' request to privatize Food Stamps and Medicaid eligibility.

In late May 1997, the Welfare Flexibility Act of 1997 was filed in both houses, which would allow non-governmental personnel to determine eligibility for Food Stamps, WIC

and Medicaid. Somewhat similar language was included in both the House and Senate budget bills. The language was struck from the Senate bill, because of objections that it was not germane to the budget. Efforts were made to make the House language more palatable to opponents. There was a proposal to limit privatization to Texas alone and then allow for privatization of services to only one-half of the caseload. But Governor George Bush rejected this more limited proposal out of a concern that it would cause the creation of two systems. In the end, all the privatization provisions were removed from the final budget bill.

In all likelihood, the removal of this language from the budget bill means the Clinton administration ruling will not be overturned by this Congress. However, several members of the Texas congressional delegation remain interested in pursuing legislation in the future.

Re-Thinking Privatization in Texas

A More Incremental Approach

With the passage of HB 2777 and the Clinton administration's negative response, Texas HHSC chose to abandon the TIES RFO and start anew. The private/public partnerships between TDHS/EDS/Unisys and TWC/Lockheed Martin/IBM are being dissolved. A new project with a more incremental approach—referred to as the "Son of TIES"—is now underway. With this approach, the state seems to be viewing the redesign of eligibility determination and service delivery as a multi-step process, including integration, reengineering, automation, and—possibly—privatization. HHSC has undertaken the first steps of this process by contracting with EDS to assist the state in reengineering and in procuring a new automation system. Proceeding with the final step—privatizing the workforce—is not currently under consideration; however, it clearly is still a possibility should Congress overturn the Clinton ruling.

Increased Oversight in the Future of Privatization

Regardless of the scope or direction of future privatization efforts, there will definitely be more oversight of the process. The recently enacted HB 2777 requires the Lt. Governor and Speaker to appoint a Legislative Oversight Committee, which is charged with advising HHSC in the development of the project's plan, monitoring the implementation and efficiency of the project, and holding public hearings concerning the development of the plan. The Governor and Legislative Budget Board also will have a role in determining the future of the project, because both are now required to approve the project's plans.

What Could the Redesign of Human Services in Texas Entail?

This section describes the original TIES RFO—although it has been discarded—because Texas might return to this plan if the Clinton administration ruling is overturned. It then describes the current contract with EDS and its prospects for future work. Finally, it includes a brief explanation of recommendations for reengineering that were developed by the TDHS/EDS/Unisys partnership as a part of their bid response to the original RFO. Under its new contract, EDS will be reviewing these recommendations as a starting point for the state's reengineering work.

The Original Texas Integrated Enrollment Services (TIES)

TIES was a plan to integrate, reengineer, automate, and privatize health and human services eligibility determination and enrollment services in Texas. Until recently, little was known about this plan, because the RFO—which not only sought bidders for the project but also described its design—was kept secret. HHSC officials had feared lawsuits if information had been released in an inequitable manner to potential bidders, and therefore, chose not to release the RFO at all. However, after the RFO received an unfavorable review from the Clinton administration, HHSC made the document public. That RFO, which is described in this section, has been set aside and the TIES project is proceeding along a more narrow course.

Components of TIES

Briefly, the RFO sought the following changes:

1. Integration: TDHS has had an integrated eligibility determination system for TANF (formerly AFDC), Food Stamps and Medicaid—the largest public assistance programs—since the early 1980s. The RFO would have added eligibility determination for some programs—like the Women Infants and Children (WIC) program and long-term care services—to this integrated system. This new system would have required data sharing among many health and human service programs; however, it would not have produced “one-stop” shopping eligibility centers.

2. Reengineering: The RFO called for the successful bidder to “reengineer” current business processes by removing inefficiencies in the system and developing effective “work-flows” to support the streamlined processes. One example would be creating a mechanism for TDHS to download birth certificate information directly from the Texas Department of Health (TDH), rather than requiring clients to go to TDH to purchase a certified birth certificate. This would save the client money and the state time.

3. Automation: The RFO called for the successful bidder to design, develop and implement an automated eligibility determination and case maintenance information system. This new automated system was to operate a new eligibility determination and enrollment system, provide for self and assisted screening and referrals to programs, exchange information among programs, receive information from outside systems, and assist in management reporting.

4. Privatization: The RFO stated that the benefits of integrating eligibility determination and enrollment of functions could best be maximized by contracting out certain functions. As a result, this RFO would have given the successful bidder full operational responsibility for “locations, equipment, employees, information technology requirements, and system development.” Clearly, this RFO allowed for full-scale privatization of the eligibility system and the replacement of the 13,000 current state employees conducting eligibility determination at TDHS. How much of the system would have actually been privatized would have depended greatly upon which bidder won the contract, since one of the likely bidding partnerships employed the state's current eligibility staff and the others did not.

Contract Award

The price for this contract would have depended upon the bids the state received. The speculation was that this would have been a multi-billion dollar contract. The state's cost for determining eligibility for TANF, Food Stamps, Medicaid and long-term care services was approximately \$520 million in FY 1996. Based on estimates from potential bidders, HHSC assumed \$120 million could be saved annually under a privatized system. With this savings estimate, a seven year contract⁸ would have been worth \$2.8 billion. (Given the source for the savings estimates, it is not certain that the state could have actually achieved these savings and therefore the contract may have been even larger.)

Improvements to TIES Compared to the Draft RFO

The RFO had some notable improvements over the draft RFO released in April 1996. It did a better job of identifying certain activities as state responsibilities, such as: conducting fair hearings, state policy-making, eligibility certification, and quality control. It also established “path back” provisions to protect the state in the event of premature termination of the contract by ensuring transition of responsibility back to the state or a successor. It divided the project into phases and required “Go/No Go” assessments before proceeding to the next phase, which would have allowed the state to cancel the

contract should the vendor's performance be unacceptable. It also included a provision allowing the state to hire an independent consultant to verify and validate the vendor's work.

Concerns about TIES

Many public interest organizations, advocacy groups, lawmakers, and employee organizations were concerned about the TIES project on several fronts. The secrecy surrounding the project made it impossible to know if their concerns might have actually been addressed in the state's plan. Lacking such knowledge, these groups and individuals were concerned about:

- **The secrecy of the TIES proposal.** If TIES had been undertaken it would have been one of the state's largest privatization efforts, but there was virtually no public input into the design of the project.
- **The lack of focus on clients.** There was little evidence that the TIES project was being designed to improve services for clients. In fact, there were indications that some clients would have to go through more steps to apply for benefits under TIES than under the current system. Additionally, there was no evidence that clients' rights would be adequately protected under the new system.
- **The focus on savings.** HHSC officials claimed they anticipated saving between 25 and 40 percent of the current administrative costs for the program. They indicated that these savings would be achieved by closing eligibility offices and laying off eligibility staff. Many advocates and lawmakers feared that clients' access to services would be greatly reduced to meet these savings targets. In particular, they feared employees would be replaced by telephone response systems with little or no human contact or ATM-like kiosks.
- **The uncertainty of the financial arrangement with the successful vendor.** Many advocates and lawmakers were concerned that the successful vendor would be allowed to share in program savings if benefit rolls were reduced. In fact, one potential vendor indicated its interest in this. Such an arrangement would have given the successful vendor the incentive to reduce clients' access to services.
- **The loss of accountability.** Many were uncertain how Texas would hold the successful vendor accountable if data about the vendor's work was not publicly available.
- **The lack of any testing of the project.** It appeared that there would be no pilot to test the privatization concept before the state's entire eligibility system was replaced.

The Future Design of Health and Human Services Eligibility Determination

As was discussed above (see *Re-thinking Privatization in Texas*), the state has discarded the original TIES RFO and is now instead contracting with EDS for more limited work. There are several differences between the original RFO and this current contract with EDS, but the primary difference is one of scope. The original called for integration, reengineering, automation and privatization; this contract excludes privatization and deals only with integration, reengineering and automation. The difference in scope is borne out by the difference in contract costs. While the first contract could have cost approximately \$2.8 billion for seven years, the contract with EDS cost only \$3.7 million for fifteen months.

The Basics of the EDS Contract

The new contract with EDS is to last from August 1997 to November 1998. EDS will be working with a team of representatives from TWC, TDH and TDHS—the three agencies whose eligibility functions are to be integrated. HHSC will be working with these agencies to determine the scope of the integration efforts.

The end products of the EDS contract are to be:

- 1) "quick fix" ideas for improving eligibility determination and service delivery which can be implemented during the contract period;
- 2) a plan for reengineering eligibility determination and service delivery; and
- 3) specifications for a new computer system and procurement of a new system.

As HB 2777 requires, any plans for reengineering or development of a new automation system will have to be approved by the Legislative Budget Board and the Governor's office. Upon the conclusion of this contract, it is likely that the state will implement the reengineering recommendations and proceed with the acquisition of a new computer system. The FY 1998-1999 General Appropriations Act includes \$70 million in state-funded bonding authority for this.

Prospects for Reengineering

Though this contract is much more limited than the original RFO, the reengineering efforts it requires could still dramatically change the state's eligibility determination and service delivery systems. Certainly, Texas' current eligibility determination and service delivery systems are not without their flaws. There could be very substantial benefits from the state undergoing a process of identifying the inefficiencies and ineffective processes in the current system and correcting these inadequacies in the most logical way possible. (See *The TDHS/EDS/Unisys Solution: A Hint of What is Ahead* for examples of this.)

Another significant change resulting from reengineering could be the reduction of the eligibility workforce. According to HHSC Commissioner McKinney, reengineering could result in a significant—maybe as much as one-third—reduction in the eligibility workforce.

Prospects for Privatization

This contract could create a foundation for future privatization. It allows the state to take the first steps outlined in the original RFO—integration, reengineering, and procuring a new computer system—leaving privatization as a possibility at the end of this contract.

At this time, HHSC is not publicly considering privatization. Although privatization was the original engine behind the redesign of health and human services eligibility determination, the state is now taking a more methodical approach in this restructuring. Rather than simply adopting wholesale privatization, the state is assessing how eligibility determination and service delivery should be restructured to both improve services to clients and produce savings. Should privatization be a part of this new design, it will not be undertaken immediately and certainly not without considerable public debate. HB 2777 requires a public process. Not only does it require approval of the Governor and the Legislative Budget Board, it also mandates that the Legislative Oversight Committee hold public hearings on the plan. Public awareness was heightened greatly during the original TIES project when public interest groups—both in Texas and in Washington DC—worked together to inform lawmakers and the media of the risks of privatization. These groups will continue their joint efforts should the privatization debate arise again.

Clearly, there are still private corporations interested in taking over Texas' eligibility systems, the Governor apparently remains interested in privatization, and several members of the Texas congressional delegation are pursuing legislative approval for privatization. However, whether privatization will ever occur remains an open question.

The Concerns of Public Interest Organization and Client Advocates

Although public interest organizations, several lawmakers, client advocates, and employee organizations were adamantly opposed to wholesale privatization, the recommendations developed under this new contract might gain the support of some privatization opponents. Clearly, whenever achieving significant savings is a goal, there is the risk that clients' access to services may be compromised. Certainly, large scale change of any system presents dangers. Even though public interest organizations and other privatization opponents remain cautious about the future of this project, they also may

become optimistic about its potential. The prospects for reengineering are hopeful. The early work done by the TDHS/EDS/Unisys partnership demonstrates that potentially, some very significant improvements could be made without sacrificing access and quality services.

The TDHS/EDS/Unisys Solution: A Hint of What is Ahead

When HHSC discarded the original TIES RFO, the bidding partnerships that had formed to bid upon the project dissolved as well. TDHS, subsequently, chose to release an outline of the reengineering recommendations they developed with their partners, EDS and Unisys. Since these recommendations will be the starting point for EDS' future reengineering efforts, it is instructive to look at them.

The TDHS/EDS/Unisys partnership's recommendations represent a serious departure from the current process, but early responses from clients have been positive. The recommendations are based on an innovative strategy of re-ordering the eligibility process. A few examples of the changes proposed include:

- Multiple access points to the eligibility system. Under this plan, it is envisioned that applicants would be able to access the eligibility office by phone from hospitals, Career Development Centers, local service providers' offices, or nursing homes or over the Internet. This would allow an applicant to apply with the assistance of their hospital social worker or their church pastor. Additionally, this would reduce the amount of time and money many applicants spend to get to eligibility offices.
- This approach certainly has risks. The less face-to-face contact there is for applicants, the greater the potential for applicants falling through the cracks and never getting access to the system. The proposed plan attempts to address this by identifying during the initial contact which applicants will require a home visit or other assistance. Clearly, this will be an area where client advocates need to be diligent to ensure safeguards are in place.
- Starting the application process with the applicant's initial contact with the agency. Doing this activates the state's timeliness "clock" for completing the application process. (e.g. Texas must complete welfare applications within 45 days of receipt of an application.) Under the current system, the application process and the state's timeliness "clock" do not start until the applicant comes in for her/his appointment and signs the application. As a result, several days may elapse between an applicant's original contact with the state and the beginning of their application process. Starting the timeliness "clock" early should mean that clients get benefits more quickly.

- Reordering the process so applicants do not come into the eligibility office until the final enrollment meeting. Under this plan, the eligibility office will initially communicate with the applicant by phone or home visit, if necessary, to gather needed information. When all the information is gathered and eligibility determined, an applicant would come in for his/her enrollment meeting. At this meeting, the state would be able to provide him/her with a "statement of facts" which explains how his/her benefits were calculated. Under the current system, because applicants come to the office at the beginning of the process, the state does not have the complete information to explain this to applicants.

These limited examples of the recommendations illustrate that the reengineered processes could reduce

the amount of time an application requires, give applicants multiple entry points into the system, and provide them with a better understanding of their benefit calculation. The TDHS staff who presented these reengineering recommendations are optimistic that clients will get better customer service under this system because of the efficiency of the system, the elimination of long waits in TDHS lobbies and bus rides across town, etc. In fact, preliminary testing of portions of their recommendations has received positive client responses. Further analysis of this proposal needs to be undertaken before it can be better evaluated.

Conclusion

Following the passage of authorizing legislation in 1995, privatization of Texas' health and human services eligibility determination system seemed inevitable. However, by May 1997, the Clinton administration's unfavorable review of the state's RFO and passage of state legislation caused HHSC to redirect its privatization efforts. By August 1997, the state had rejected privatization and entered into a much more limited contract to redesign eligibility determination, streamline service delivery and acquire a new computer system.

Although the risks of wholesale privatization were great, from the privatization debate has arisen a logical plan for improving eligibility determination and service delivery in Texas. Now, the state will begin by determining which programs it believes need to be integrated. At the same time, EDS will assist the state in reengineering its eligibility determination and service delivery systems. After the state has implemented these reengineering recommendations, Texas will acquire a new automation system for eligibility determination. Then, if Congress overturns the Clinton ruling, the state may or may not consider the question of who can best operate its eligibility system.

Potentially, Texas will gain a more efficient and more effective eligibility determination process. Wholesale privatization, as it was originally envisioned, may have been ill-conceived, but it is very possible it has provided the catalyst for a better eligibility determination system in Texas.

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¹ These figures represent FY 96 costs and benefits.

² The majority of the privatization provisions in this bill were also included in SB 1675, which also passed in the 1995 Session.

³ The Council on Competitive Government is made up of the Governor, the Lt. Governor, the Comptroller, the Speaker of the House, the General Services Commission presiding officer and the Texas Workforce Commissioner who represents labor. The Council's procurements are exempted from the requirements of state purchasing laws and are designed to ensure competition among services providers.

⁴ Reengineering is a process of identifying inefficiencies and ineffective processes in an organization and redesigning the processes to correct these inadequacies.

⁵ The contract would have been awarded for an initial term of up to two years and a base term of five years with an option to renew for a single two year period.

⁶ Reengineering is a process of identifying inefficiencies and ineffective processes in an organization and radically redesigning the processes the correct these inadequacies.

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