

**Exploring Implementation Issues with the 2006 Revised Franchise Tax: Financing
Texas Schools**

by

Joseph Scanio

An Applied Research Project
(Political Science 5397)
Submitted to the Department of Political Science
Texas State University
In Partial Fulfillment for the Requirements for the Degree of
Masters of Public Administration
May 2010

Faculty Approval:

Patricia Shields, PhD

Thomas Longoria, PhD

Aida Berduo Douglas, MPA

Acknowledgements

I would like to start by thanking my wife, Tennessee. Her ability to hold our house together while I worked was as important as anything in this process. I would also like to thank my parents. They have been extremely supportive in my efforts and continue to provide guidance.

I would also like to thank all of my professors throughout the program, especially Dr. Shields and Dr. Longoria. Their ability to see my vision before me and focus my scattered thoughts allowed this project to be possible.

I also need to thank the Comptroller employees who so graciously gave me their time and insights to complete my project.

Abstract

Purpose: In 2006, the Texas franchise tax was revised. Shortly after the first filing date, problems in the implementation process resulted in serious backlogs. This study uses three working hypotheses (effective strategy, external factors, and agency issues) to explore the implementation of the revised franchise tax. **Method:** This case study used structured interviews with Comptroller employees and document analysis to test the hypotheses. Eight employees, who worked closely with the implementation of the 2006 revised franchise tax, were interviewed. In addition, documents used to communicate policy change with taxpayers were examined. **Findings:** The results of the interviews showed limited support for each of the three working hypotheses. The implementation process suffered from a lack of clearly stated goals and employees did not receive enough training. One area where implementation flourished was in communication of tax changes to the taxpayer.

About the Author

Joseph M. Scanio is a Masters of Public Administration candidate at Texas State University – San Marcos. He received his bachelor's degree in History in 2004 from the University of Texas at Austin. He is currently employed by the Comptroller of Public Accounts. Mr. Scanio can be reached at jscanio2000@yahoo.com

The idea for the study stemmed from the extreme increase in work following the implementation of the revised franchise tax. The increased workload and the addition of numerous employees to handle the work brought about the need to explore the subject.

Table of Contents

Chapter I

Revised Franchise Tax.....	2
Implementation	3
Scenario: Taxpayer	4
Scenario: Comptroller Employee	6
Research Purpose.....	7
Chapter Summary.....	8

Chapter II: Texas Franchise Tax

Introduction.....	6
Texas Franchise Tax.....	6

Chapter III: Literature Review

Introduction.....	14
Policy Implementation Defined.....	14
Policy Implementation Success Defined.....	15
Top-Down Implementation.....	17
Bottom-Up.....	19
Factors Affecting Policy Implementation.....	21
Resources.....	21
Statute Clarity.....	21
Large Group Interaction Method.....	22
Institutional Knowledge.....	24
Size of Target Group.....	24
Interaction between Bureaucracy and Legislature.....	25
Politics.....	26
Technology.....	27
Negative External Factors and Influences.....	28
Taxpayer Participation.....	29
Bureaucratic Resistance.....	30
Legislature.....	31
Inter-organizational Cooperation.....	32
Enforcement.....	33

Chapter IV: Conceptual Framework

WH1: Effective Strategy	35
WH1a: Goals.....	36
WH1b: Communication	37
WH1c: Enforcement.....	38

WH2: External Factors.....	39
WH2a: Tractability.....	40
WH2b: Size.....	41
WH2c: Media.....	41
WH3: Agency Issues.....	42
WH3a: Institutional Knowledge.....	43
WH3b: Translating Policy into Procedure.....	44
WH3c: Training.....	45

Chapter V: Methodology

Research Technique.....	48
Interview.....	52
Sampling for Interviews.....	53
Interview Concerns.....	54
Document Analysis.....	55
Document Analysis: Sampling Issues.....	55
Criteria for Support.....	56
Human Subjects Protection.....	56

Chapter VI: Results

WH1a: Goals.....	57
WH1b: Communication.....	60
WH1c: Enforcement.....	63
WH1: Summary of Results.....	64
WH2a: Tractability.....	66
WH2b: Size.....	67
WH2c: Media.....	68
WH2: Summary of Results.....	69
WH3a: Institutional knowledge.....	71
WH3b: Translating Policy into Procedure.....	72
WH3c: Training.....	72
WH3: Summary of Results.....	74
Sample Characteristics and Recommendations.....	76

Chapter VII: Conclusion

Summary of Research.....	78
Recommendations.....	80
Future Research.....	85

References.....	87
------------------------	-----------

Appendices

Appendix A.....	91
Appendix B.....	94
Appendix C.....	97

Appendix D.....	99
Appendix E.....	102
Appendix F.....	104

Tables

Table 2.1: Revenue and Estimate.....	9
Table 4.1: Summary of Conceptual Framework.....	48
Table 5.1: Operationalization of Conceptual Framework.....	51
Table 5.2: Operationalization of Sampling Characteristics.....	55
Table 5.3: Documents Analyzed.....	58
Table 6.1: Working Hypothesis 1.....	65
Table 6.2: Working Hypothesis 2.....	70
Table 6.3: Working Hypothesis 3.....	77
Table 7.1: Summary of Findings.....	83

CHAPTER I: INTRODUCTION

According to the Texas constitution, “it shall be the duty of the legislature of the state to establish and make suitable provision for the support and maintenance of an efficient system of public free schools” (Constitution Article 7. Sec. 1). In Texas, local property taxes fund public schools by school district. Since local property taxes do not cover the total costs of a child’s education, the Texas legislature allocates sales tax revenue and the net proceeds of the Texas lottery to fund education.¹ Federal money covers the shortfall. Funding Texas public schools has long been a problem. Over the years, the legislature has addressed this issue many times.²

Beginning in 1993 the Texas legislature passed into law (Senate Bill 7) a system designed to equalize funding across school districts. This bill was designed to prevent wealthier school districts from providing services poorer school districts could not deliver. This statute was the result of *Edgewood Independent School District v. Kirby*. Since property tax assessment created a discrepancy in school district funds, the legislature passed a measure that gave excess tax revenue from the wealthy school districts to the poorer state districts. The court determined a discrepancy existed because of the disproportionate tax burden on poorer school districts. Since these districts taxed at a higher rate compared to income, it was a burden on the population. The system that transferred revenue between wealthy and poor school districts remained in place until 2005. At that time, the Texas Supreme Court ruled³ that this method of taxing was

¹ Comptroller of Public Accounts website. Fiscal notes March 2004, <http://www.window.state.tx.us/comptrol/fnotes/fn0403/pick.html>

² Beginning with the Gilmer-Aiken Act of 1949 through Senate Bill 7 (1993) and then *West Orange Cove v. Neeley* (2005)

³ *Shirley Neeley, Texas Commissioner of Education, et al. vs. West Orange-Cove Consolidated Independent School District, et al.* (aka West Orange-Cove case)

essentially an unconstitutional statewide property tax. The Texas Supreme Court ruled the legislature must correct the school finance situation or the courts would. In 2006, the legislature, during a special session, attempted to correct the situation, resulting in the revised franchise tax (House Bill 3 2006).

Revised Franchise Tax

The property tax cut created a revenue shortfall for public schools. The revised franchise tax solved the problem. In addition to creating more revenue, the legislature also sought to close loopholes from the previous taxation method. According to interviews conducted for this research, the franchise tax revision appeared to be a cut and dry situation. The tax added taxpayers and the method of computing the tax due changed. Unlike some new policies, the revised franchise tax should result in straight-forward implementation.

The 2006 revised franchise tax replaced revenue from property tax cuts. Because the revised franchise tax replaced revenue, a smooth implementation was required. Problems implementing the revised franchise tax could require the legislature to find revenue from another source.⁴ Any lack in funds could be problematic. There was also concern from small business owners that the tax burden would be overwhelming, forcing hiring cutbacks and creating higher prices for customers.⁵

One issue of concern in the implementation was the problem in processing the new franchise tax forms. In addition, the bill created numerous new taxpayers. Many of these had not filed franchise tax returns before. It was apparent by the processing error rate that something was not working as it should. This spurred the idea for the research.

⁴ <http://www.statesman.com/search/content/region/legislature/stories/06/26/0626margininstax.html>

⁵ http://blogs.chron.com/texaspolitics/archives/2008/05/grab_the_pitchf.html

According to an open records request,⁶ 887,078 documents processed correctly and 436,096 did not process correctly. Employees had to review the documents that did not process correctly. A document that did not process correctly was one page of a return. A 10 page return that did not process would have accounted for 10 documents and would not be 10 different taxpayers. This led to exploring the implementation process of the 2006 revised franchise tax.

Implementation

New legislation implementation issues typically occur on a large scale and often years after the fact. The larger the policy being implemented the more issues arise. Early studies on implementation focused on federal programs and the issues associated with effectively implementing federal policies (Pressman and Wildavsky 1973). Because federal legislation occurs on such a large scale, implementation may fail to meet legislative goals in a number of ways. Mazmanian and Sabatier (1983) have made a career of studying the implementation of large scale federal laws. The authors have examined bills such as the Urban Growth and New Community Development Act of 1970 and the 1970 Clean Air Amendments. Their studies developed a conceptual framework to examine the implementation process. The authors applied the framework to the cases and were able to explore implementation success or failure of implementation based on a program ability to meet authorizing legislation goals. It is important to look at these cases and discover what caused the failure or success in order to prevent future failures.

⁶ Appendix A

Implementation literature also examines where implementation should derive. Some argue⁷ the statute should drive the policy, meaning a clear, well written, easily understood policy will make the implementation process a success. Others⁸ argue that the implementation process should begin with those who will work on the implementation at the street level because these are the people with the advanced knowledge into the workings of the system.

This research explores implementation of the 2006 revised franchise tax (hereafter referred to as House Bill 3) through the lense of statute driven policy and street level bureaucracy. This study uses the insights and opinions of the Comptroller employees responsible for implemenation of the franchise tax reform.

Scenario: Taxpayer

To demonstrate the causes of processing delays for the 2006 franchise tax returns, three scenarios are presented. In each of these scenarios, companies and limited partnerships must file a new form for the revised tax. The 2006 revised franchise tax expanded the tax base and changed the method of computation. This resulted in more lengthy and complicated forms.

The **first scenario** involves a limited partnership-Smile, L.P. *Prior to 2008, limited partnerships were not subject to franchise tax. The 2008 franchise tax return is due June 16, 2008. Smiles, L.P. misread this deadline because they anticipated paying this tax along with their federal tax in early 2009. In November 2008, Smile, L.P. received a past due franchise tax estimate of \$1,112.00. This was an eye-opening experience. Smile, L.P. then called their accountant Bill Jones. Mr. Jones instantly*

⁷ See Mazmanian and Sabatier 1983.

⁸ See Hjern 1982.

placed a call to the Comptroller's office. Because of the large amounts of delinquent notices issued by the Comptroller's office, Bill Jones had a wait time of 45 minutes. When Mr. Jones was able to get through, he discovered the due date of the return. He was on the phone for twenty minutes.

The **second scenario** involves Happy, Inc., which is the reporting entity of their subsidiaries. *In 2007, each entity with a tax filing requirement filed individual returns. In 2008, the revised franchise tax added combined reporting where Happy, Inc files one return for all of the subsidiaries. Filing a combined return requires Happy, Inc list all of their affiliates on the affiliated schedule. One affiliate of Happy, Inc is Chair, Inc. Happy, Inc incorrectly left the taxpayer number off for Chair, Inc on the affiliate schedule. This error caused a notice of estimated tax be sent to Chair, Inc. Bill Jones, also the accountant for Chair, Inc, then contacted the Comptroller's office to determine the issue. Mr. Jones spent over half an hour on the phone, a regular occurrence.*

The **third scenario** once again involved Happy, Inc. *Happy, Inc has a calendar accounting year end. The 2008 franchise tax return covered January 1, 2007 through December 31, 2007. On the affiliate schedule, Mr. Jones included Unhappy, Inc. Unhappy, Inc has an accounting year of April 1 through March 31. When Mr. Jones filed the affiliate schedule including Unhappy, Inc and their accounting period, the affiliate schedule non-processed. Unhappy, Inc then received a notice informing them of using an incorrect accounting year. Mr. Jones was shortly calling up the Comptroller's office to address the problem.*

Scenario: Comptroller Employee

Smile, L.P. failed to timely file their 2008 franchise tax return (S-1). The Comptroller's office created an estimate and mailed a bill to the partnership. This resulted in a phone call from Bill Jones. Peter Smith, an examiner with the Comptroller's office, answered the phone. He explained that the 2008 franchise tax return was due June 16, 2008 and Smile, L.P. received an estimate of tax owed. The estimate informed Smile, L.P. that the Comptroller's office had not received the 2008 franchise tax return. The time Peter spent on the phone took time away from completing other processing assignments.

Happy, Inc incorrectly omitted the taxpayer number for Chair, Inc (S-2). Peter Smith received the phone call from Bill Jones. Mr. Jones explained Chair, Inc was included on the affiliate schedule of Happy, Inc. and therefore should not have received the notice. Peter then looked through every page of the the return Happy, Inc submitted to find the affiliate schedule that listed Chair, Inc. Once Peter came across this document, he was able to correct the situation. This was a time consuming problem for both Peter and Bill.

Bill Jones also called about Happy, Inc using an incorrect accounting period for Unhappy, Inc (S-3). Peter Smith also addressed this situation. Peter combed through the affiliate schedule once again to locate Unhappy, Inc. This was his only way of determining the mistake. After determining that Unhappy, Inc used incorrect accounting dates, Peter informed Mr. Jones that filing an amended affiliate schedule would complete the return. Not only did Peter need to inform Mr. Jones of the mistakes of 2008, he

needed to ensure these mistakes were not made in future years. Failure by Peter to correctly notify the taxpayer of all issues would result in further delays.

Research Purpose

The general purpose of this research study is to explore the implementation process of the 2006 revised franchise tax (House Bill 3). The specific purpose of this research is to explore Texas State Comptroller implementation of House Bill 3. The research places special emphasis on the clarity of the statute and the barriers to implementation. This research gains insight from the Texas State Comptroller employees and documents and makes recommendations to improve the implementation of the 2006 franchise tax revisions (House Bill 3).

Furthermore, this research provides examples of how the implementation process could be improved. It is possible some of the research findings could provide helpful implementation procedures to the agency. Likewise, it is possible the findings could provide case-specific examples which might shed light on future implementation events.

The framework developed within this research can be used as a model for applied research to understand how states handle implementation and some strengths and weakness of that implementation. This research will to expand on the literature regarding implementation by examining a case at the state level in which implementation should not have been an issue.

Chapter Summary

This research project is divided into seven chapters. Chapter two reviews the franchise tax in the State of Texas⁹, describes the franchise tax prior to the implementation of the revisions, and examines the changes in the law and the situation faced by the implementers. Chapter three presents the scholarly literature regarding implementation and sets the foundation for the conceptual framework. Chapter four develops the conceptual framework from the literature review. Chapter five describes the methodology used to operationalize the conceptual framework into working hypotheses and presents interview questions and procedures. Chapter six presents the results and analyses the interviews. Finally, chapter seven uses the results to assess the implementation process of the 2006 revised franchise tax (House Bill 3 2006) and the procedure used by the Comptroller's office. Additionally, chapter seven provides recommendations for improving the process, as well as ideas for future research.

⁹ For more Texas State Applied Research Projects dealing with the State of Texas see Wilson (2009), Thompson (2009), Stewart (2009), Salinas (2009), or Stott (2009)

CHAPTER II: Texas Franchise Tax

Introduction

The purpose of this chapter is to provide information about the Texas franchise tax. Readers should better understand the implementation process with an understanding of the Texas franchise tax prior to House Bill the 2006 revisions and a summary of the changes.

Texas Franchise Tax

The franchise tax in the State of Texas is a tax on business. According to Black's Law Dictionary, franchise tax is "a tax on the franchise of a corporation, this, on the right and privilege of carrying on business in the character of a corporation, for the purposes for which it was created, and in the conditions which surround it." The Texas franchise tax has always applied to corporations with nexus in Texas. Nexus means an entity has a direct connection with the state. This connection could be a physical presence of employees or goods or property ownership in Texas. Entering into a contract in the state would also qualify as nexus. One example of nexus is a company located in Louisiana that sells products over the phone or the internet. If this company delivers those goods to Texas, then this company would have nexus. Another example would be if an entity from New York bought a hotel in Texas. This company would be subject to franchise tax because of the Texas property. The franchise tax means the privilege of doing business in Texas. Important to the definition of franchise tax is the concept of a privilege tax.

The franchise tax in the state of Texas is a privilege tax. On the franchise tax return, the taxpayer will identify the privilege period. A privilege tax means the taxpayer is paying a tax for the privilege of doing business. In the case of Texas franchise tax, the

taxpayer pays the tax for the privilege of doing business in Texas. The language of the statute and other examples around the country support this definition.

The state of Texas requires the taxpayer report for its privilege period on franchise tax returns. The privilege period is longer for an initial return than for an annual return. The initial franchise tax return privilege period covers the start date of the business through the end of the next calendar year. For example, if an entity begins doing business on March 1, 2008, then the initial privilege period would be March 1, 2008 through December 31, 2009. That taxpayer is paying taxes for the privilege of doing business in Texas during that period. An annual franchise tax return has a privilege period of January 1 through December 31 of the year in which the return is due. The 2006 revised franchise tax reduces some of the importance of the privilege period. Under the old method of computing the tax, the taxable capital component was at a rate of 0.25 percent per year of privilege.¹⁰ The 2006 revisions removed that component, thereby removing some of the importance of the privilege period.

Several other government entities use the term privilege tax in describing their taxing method. One of these entities is the city of Pittsburgh. The city imposes a tax on businesses that operate within the city limits. This city's definition of a privilege tax originates from who is subject to the tax. According to the city's frequently asked questions answering who is subject to taxation, the city states, "Any business, trade or profession carrying on an activity within the City of Pittsburgh. This does not apply to retail or wholesale vending of goods, wares or merchandise, employment for W-2 wages, or activities of a non-profit organization."¹¹ This definition shows that qualifying entities

¹⁰ Frequently Asked Questions - <http://www.window.state.tx.us/taxinfo/franchise/franfaq.html>

¹¹ http://www.city.pittsburgh.pa.us/finance/html/faq_business_wage_tax.html

are required to pay for their privilege of doing business in Pittsburgh. This is similar to the franchise tax of Texas, in that some entities are subject to the tax and others are not subject.

Another government entity that uses the term privilege is the State of Arizona. The State of Arizona collects a transaction privilege tax. This is Arizona's version of a sales tax. The Arizona department of revenue website states the privilege tax is a sales tax.¹² In the Arizona brochure summarizing taxes, the brochure states the transaction privilege tax is "a tax on the vendor for the privilege of doing business in Arizona."¹³

Franchise tax began in the State of Texas in 1893. The office of the Comptroller administers the franchise tax. Prior to 1992, the franchise tax only applied to taxable capital.¹⁴ Taxable capital is a corporation's stated capital and the corporation's surplus.¹⁵ In 1992, Texas added the earned surplus portion of the business conducted in the State. At this time, the legislature also eliminated the minimum tax due.¹⁶ From 1992 until 2007, the franchise tax remained unchanged. Two types of entities were subject to the tax, corporations and limited liability companies. Several entities such as limited partnerships and professional associations did not have to pay the franchise tax.

Under the old system, the tax derived from the greater of either a corporation's taxable capital or earned surplus. To determine the tax owed, the taxpayer would pay .25% per year of privilege period of net taxable capital and calculate 4.5% of the net taxable earned surplus. The higher of the two would be the tax owed.¹⁷

¹² <http://www.azcommerce.com/BusAsst/SmallBiz/SBS/F1/TransactionPrivilegeTax-TPT-Licensing.htm>

¹³ <http://www.azdor.gov/Portals/0/Brochure/010.pdf>

¹⁴ Form 05-149

¹⁵ http://www.window.state.tx.us/taxinfo/franchise/Chapter_171.pdf

¹⁶ House bill 845 64th legislation, article 12.07

¹⁷ <http://www.window.state.tx.us/taxinfo/franchise/changes.html>

While the process for implementing the revised franchise tax initially appeared a straight-forward process, the amount of money collected was significantly higher.

According to estimates published by the Comptroller's office, the new franchise tax should garner more than double the previous amount. Table 2.1¹⁸ shows the increase.

Table 2.1: Estimated and Actual Franchise Tax Revenue

Fiscal Year	Total Receipts
2006 – 2007	\$5.9 Billion (actual)
2008 – 2009	\$11.9 Billion (estimated)

The revenue for the 2006 – 2007 fiscal year was also higher than previous years due to strong corporate profits in the oil and gas industries. According to the revenue estimates, only \$6.1 billion of the \$11.9 billion applies to public school financing. This is the amount expected to offset the property tax cuts.

House Bill 3 (2006) completely revised the 1992 franchise tax. The bill eliminated the tax calculation of taxable capital and earned surplus and now uses an entity's total revenue. The entity then takes the greatest of the following three deductions: 70 percent of total revenue, total revenue less cost of goods sold, or total revenue less compensation. The tax rate is 1percent for most taxpayers with some, primarily retail or wholesale businesses qualifying for .5 percent.

The change in the franchise tax required a new form. Previously a taxpayer had the option of filing a “long form” or a “no tax due” form. To file the no tax due form, the taxpayer must make less than \$150,000 in taxable capital and earned surplus or zero

¹⁸ <http://www.window.state.tx.us/taxbud/cre0809/cre08.pdf>

gross receipts in Texas.¹⁹ The 2006 revised franchise tax change the “no tax due” form by raising the minimum revenue for filing it. As of January 1, 2008, a taxpayer could file a “no tax due” form if they earned less than \$300,000 in total revenue. A taxpayer earning less than \$10 million could file the new EZ form that derived from House Bill 3. The tax rate for the EZ form was 0.575%.

The revised franchise tax also subjected new entities to the tax. As previously stated, under the old law only corporations and limited liability companies were subject to franchise tax, meaning limited partnerships or professional associations could avoid paying the tax. House Bill 3 added, as taxable entities, partnerships (with exceptions), professional associations, joint ventures, business trusts, and other legal entities.²⁰ The only entities not subject to the tax are sole proprietors, general partnerships in which all partners are natural persons, passive entities (as defined by Texas law), estates, and escrow accounts.

The revisions changed the scope of the franchise tax base in two ways: the number and type of entities subject to the tax expanded and the mechanism to calculate the tax base changed. The Comptroller’s office needed to change the mechanism (form) that collects this data. The Comptroller’s office developed new forms and included the new group of taxable entities as well as ensure that the tax calculated was accurate and consistent with the legislative intent.

¹⁹ Form 05-141

²⁰ <http://www.window.state.tx.us/taxinfo/franchise/changes.html>

CHAPTER III: LITERATURE REVIEW

Introduction

This chapter examines the scholarly literature regarding policy implementation and the key factors that affect implementation. This research examines policies in terms of content and policy arrangement. Policy arrangement refers to the shaping of a policy domain based on the organization and substance of that domain. Policy arrangement allows for substance and organization analysis, as well as the analysis of policy making at different geographical and administrative levels. (Arts and Van Tatenhove 2004, 341)

The study of policy implementation gained momentum in the early 1970s. Since that time, policy implementation has transitioned through several models, providing an opportunity for study. Identifying factors that prevent successful implementation requires a definition of successful implementation. This literature will develop working hypotheses that identify areas of concern and areas for improvement relating to the implementation process of the revised franchise tax.

Policy Implementation Defined

Policy study is “the programmatic activities formulated in response to an authoritative decision” (Matland 1995, 154). One such activity is policy implementation. Implementation is the realization process of a policy. According to O’Toole (2000, 266) “policy implementation is what develops between the establishment of an apparent intention on the part of government to do something, or to stop doing something, and the ultimate impact in the world of action. Implementation is the gap between intention and impact.” Mazmanian and Sabatier (1983, 20) maintain “implementation is the carrying

out of a basic policy decision, usually incorporated in a statute but which can also take the form of important executive orders or court decisions.” The role of the implementer is to carry out the policy designed by an individual either elected by the people or appointed by someone elected by the people.

Some researchers see policy implementation²¹ as its own field of study, falling under public administration as opposed to political science. “Political science traditionally has been the analysis of how well the body politic links good representation of societal aspirations (politics) with their efficient and effective realization (administration).” (Hjern 1982, 302) However, successful policy implementation requires merging political science and public administration. The most effective method of studying policy implementation occurs within the policy implementation process. “The implementation process normally runs through a number of stages beginning with passage of basic statute, followed by the policy outputs (decisions) of the implementing agencies, the compliance of target groups with outputs, the *perceived* impacts of agency decisions, and, finally, important revisions in the basic statute” (Mazmanian and Sabatier 1981, 6). Each of these stages presents opportunities for confusion and misinterpretation.

Policy Implementation Success Defined

What is successful policy implementation? According to Matland, (1995, 154) “The failure to specify what is meant by successful implementation causes considerable confusion.” Policymakers may find the implementation process confusing. To ease this confusion, it is important to define success as this definition sets the stage for studying the outputs. An informal approach to studying policy implementation does not require

²¹ See Hjern 1982 and Pressman and Wildavsky 1973.

specific criteria to determine if the implementation was a success. “The actual impacts of the policy outputs of implementing agencies are often very difficult to measure in comprehensive and systematic fashion”, (Mazmanian and Sabatier 1983, 38) making specific criteria difficult to identify.

Mazmanian and Sabatier (1981, 10) identify factors essential to successful implementation. Implementation should be successful if there is (1) a clear understanding of the statute, (2) available financial resources, (3) understanding of hierarchical integration among implementing agencies, (4) a causal theory between statute and decisions of the implementing agency, (5) a commitment of officials, and (6) external participation. Subsequent studies follow Mazmanian and Sabatier’s approach. Studies such as Ingram and Schneider (1990) are consistent with Mazmanian and Sabatier’s approach. Subsequent studies identify additional factors that contribute to successful implementation including “(1) agencies comply with the directives of the statutes; (2) agencies are held accountable for reaching specific indicators of success; (3) goals of the statute are achieved; (4) local goals are achieved, or (5) there is an improvement in the political climate around the program” (Matland 1995, 154).

Elmore (1982, 20-21) questions Mazmanian and Sabatier’s assumption that “explicit policy directives, clear statements of administrative responsibilities, and well-defined outcomes will necessarily increase the likelihood that policies will be successfully implemented”.

Other areas policymakers should consider for successful implementation include “(1) general public support, (2) support from upper-level political leaders, (3) resources

and support from relevant constituency groups, and (4) the commitment of implementing officials” (Matland 1995, 154).

According to Chackerian and Mavima (2001, 354), “much can be learned about administrative change and implementation if the interactions – more specifically the synergy, tradeoff, or avoidance among reform proposals – are examined.” The authors’ “argument is that these interactions...are an important element in reform implementation success or failure”. Ripley and Franklin (1982, 200) stipulate “successful implementation leads to desired performance and impacts on the part of the programs.”

The literature identifies two approaches to implementation - the top-down and bottom-up implementation models. These models derive from contrary assumptions about implementation success and the role of key players – policy designers (top-down) or street level bureaucrats (bottom-up).

Top-Down Implementation

According to Matland (1995, 146) “Top-down models see implementation as concern with the degree to which the actions of implementing officials and target groups coincide with the goals embodied in an authoritative decision.” Top-down models highlight the importance of a clearly written statute. In a top-down model, the key to successful implementation is a well written policy that is void of ambiguity. According to Mazmanian and Sabatier (1983, 21), there are three broad categories which influence top-down implementation. These are: (1) the tractability of the problem, (2) the ability of the statute to structure favorably the implementation process, and (3) the effects of political variables and support for the law’s objectives. The central organizing theme of

the top-down model requires these categories be the driving force for policy implementation.

A main component of the top-down implementation process is the role of the legislature as the voice of the people. Since the people directly elect legislators, the people indirectly shape policy.

Although civil servants are responsible for implementation, the top-down method asserts the civil servants' role be administrative only. The legislature designs the policy, but public administrators carry out the design and vision and in that way make the policy work. Mazmanian and Sabatier (1983, 43), two leaders in the field of top-down implementation, feel "in a democracy the policy decisions should be made by those elected and not by civil servants." This theme is common in the literature. According to Matland (1995, 149) "the normative criticism is that, in a democratic system, policy control should be exercised by actors whose power derives from their accountability to sovereign voters through their elected representatives."

Mazmanian and Sabatier (1983, 41) offer six criteria for implementation, laying the groundwork for top-down implementation. These criteria derive from previous implementation studies. After developing these criteria, the authors support their findings through case studies (e.g., federal air pollution policy). The first criterion is that policymakers create legislation that contains a clear and consistent objective. The second criterion requires the statute incorporate a theory that identifies causal linkage and gives implementers jurisdiction and authority to meet desired goals. Third, the statute's structure should maximize the probability that implementing officials and target groups will perform as desired. The fourth criterion addresses the need for leaders of the

implementing agency to have managerial and political skills to complete the implementation. The fifth criterion requires the support of constituency groups and key legislators. The sixth criterion addresses the need for prioritizing of statutory objectives without conflicting policies during the implementation.

Mazmanian and Sabatier (1983, 48) acknowledge, “it is unlikely that all six conditions will be met initially if the program is seeking substantial behavioral change.” In addition to these, time can be an issue. In order to address the implementation issues fully a matter of years must have gone by.

Some scholars argue that the top-down model is limited in scope or best applied under certain circumstances. “Top-down perspectives are more appropriate in the early planning stages, but a bottom-up view is more appropriate in later evaluation stages” (Matland 1995, 152). “The national perspective looks at data from the top-down: in the aggregate, collected at the agency level, and over time. The local perspective stresses the bottom-up: the proximate, the conditional, the case, and the choices of bureaucrats.” (Whitford 2007, 19)

Bottom-Up

Bottom-up implementation starts with the street level bureaucrats. “Bottom-uppers argue that the goals, strategies, activities, and contacts of the actors involved in the microimplementation process must be understood in order to understand implementation” (Matland 1995, 149). Supporters of this position argue that legislators are not equipped to determine the best way to handle implementation whereas street-level bureaucrats are in a better position. Those with a working knowledge of the policy best understand implementation. Matland (1995, 167) maintains, “the bottom-up description

of the policy implementation process is superior to the top-down in describing conditions.” Often the conditions created by implementation lead to failure of the law. Examining these conditions may shed light on issues that cause implementation failure. A well conceived policy can still have implementation issues if the street-level bureaucrats do not address the issues designed in the statute. DeLeon and deLeon (2002, 477-78) argue that bottom-up implementation is more reasonable and practical because “bottom-up implementation is a reflection of communal interest”. In addition, the bottom-up model places “more emphasis on what...factors have caused difficulty in reaching stated goals” (Matland 1995, 149).

It is possible to combine a study of the two types of models. Some scholars²² argue the need of only one method while others argue²³ to combine the methods. Further “some authors²⁴ prefer to discuss when a model is appropriately applied rather than to try to build a combined model” (Matland 1995, 152).

This discussion of top-down versus bottom-up is important because it establishes two different ways to conceptualize implementation. Interviews of officials involved in the implementation process require examining how their idea of the source of implementation problems will affect the actual implementation problems (top-down; bottom-up). Examining both top-down and bottom-up theories allows for a complete view of the implementation process.

House Bill 3 is a combination of the two methods. The statute focuses on the goals of the legislature, and therefore qualifies as a top-down implementation. Once the

²² See Sabatier 1988.

²³ See Elmore 1982 and Goggin, Bowman, Lester, O’Toole 1990.

²⁴ See Dunsire 1978 and Saetren 1983.

legislature established the goals, the bottom-up method allowed for implementation that relied on subject matter experts to convert the goals into a working policy.

Factors Affecting Policy Implementation

Regardless of the method, common factors affect the implementation process. These factors range from the cost of the implementation to the external factors. These factors can have both positive and negative affects on implementation.

Resources

Appropriate resources for implementation are a major issue. Implementation costs include the cost to the taxpayer and cost to the implementing agency. Inadequate funding for implementing a policy contributes to failure. Successful implementation requires the implementing agency and/or the legislature provide appropriate resources. Failure to do so shows lack of support for the policy. Because of the complex nature of implementation, it is difficult to estimate the appropriate allocation of resources. Resource allocation must be an ongoing step. A policy may require more funds than anticipated. The legislature and agency heads must be willing to provide these funds to contribute to successful implementation.

Another resource is personnel. Meier (1997, 195) stresses the importance of personnel resources to implementing agencies for successful implementation. His examples include immigration control and regulating consumer products. Often both money and personnel are lacking for what is required to do an adequate job.

Statute Clarity

Statute clarity is important because, “statutory objectives must be translated into substantive regulations (and) standard operating procedures” (Mazmanian and Sabatier

1981, 21). Failure by policymakers to clearly outline the goals and the procedures to reach the goals can steer the implementation process to failure. Lack of statute clarity is an excuse often used by bureaucrats when there is a problem with implementation.

Poorly specified policy goals contribute to statute clarity problems. “When a policy does not have explicitly stated goals, the choice of a standard becomes more difficult, and more general societal norms and values come into play.” (Matland 1995, 155) Matland uses his study regarding the ambiguity conflict model to show this effect. Because bureaucrats must interpret vague statutes, often the implementing agencies face difficulties. “Statutory mandates often are exceedingly vague. They do not incorporate specific goals and they fail to provide reasonable yardsticks with which to measure policy results.” (Matland 1995, 155) Policy ambiguity is often the result of political compromise or lack of knowledge about a policy by the legislative sponsor. It is important to note that policy ambiguity can be a double-edged sword. Ambiguity puts more responsibility for implementation on the responsible agencies, but may have helped the legislature pass the authorizing statute.

Large Group Interaction Method

Institutional knowledge is key to successful implementation. When implementers incorporate institutional knowledge, the implementing agency’s feedback directs the policy implementation process. An option for collecting this knowledge is through the large group interaction method. Bryson and Anderson (2000, 143) identify “large-group interaction method (LGIM)” as a useful tool in harvesting institutional knowledge. The authors advocate gathering employees in groups from eight to as many as 2000. A key

element to making the LGIM useful is to invite all of the employees who might have input to participate.

The primary goal of the LGIM is for large numbers of people to: “1) enhance the amount of relevant information brought to bear on a problem; 2) build commitment to problem definitions and solutions; 3) fuse planning and implementation; 4) shorten the amount of time needed to conceive and execute major policies, programs, services, or projects” (Bryson and Anderson 2000, 143). These practices allow staff with a vested interest in the success of the implementation to present ideas to a group of other well informed employees. An example of a LGIM that is available in the implementation process is that of the search conference. A search conference is a group of 15 to 60 people who spend two to three days examining the past, present, and future of the topic. After discussing where the group has been and where the group currently is, the group has the opportunity to discuss issues and ideas about where the topic discussion needs to head. (Bryson and Anderson 2000, 148) This type of discussion allows an agency to harness institutional knowledge. The authors developed many of these ideas through their work as community organizers, and then put these ideas into practice.

An analyst examining implementation should determine whether the implementing agency has gone through the large group method. Failure to capture institutional knowledge increases the likelihood of encountering preventable problems during implementation. “The methods do not work if leaders are unwilling to share power and listen seriously to participants’ views.” (Bryson and Anderson 2000, 144) Ignoring participant ideas defeats the entire exercise. Often agency heads lack thorough policy knowledge to make appropriate decisions without feedback from their employees.

LGIM can also be problematic if the group is “not focused or (is) focused on the wrong issues or problems” and they are “not effective when (the) wrong people are involved.” (Bryson and Anderson 2000, 144) In addition “events must be well planned, managed, and facilitated, or they will not work” and they can be “expensive in terms of participants’ time” (Bryson and Anderson 2000, 144).

Institutional Knowledge

An important reason to harness institutional knowledge is that street-level bureaucrats have knowledge that greatly aids translating policy into a working procedure. “What a policy comes to mean for implementing agents depends to a great extent on their repertoire of existing knowledge and experience.” (Spillane et al 2002, 393) The ability to turn a policy into a procedure can greatly affect implementation success.

The revised franchise tax’s goal was to raise money to offset the cuts in property tax. To ensure the success of implementing House Bill 3 the Comptroller’s office used institutional knowledge to address all aspects of the implementation. Institutional knowledge was needed in statute interpretation, system analysis, and processing.

Size of Target Group

The target group of this research is the taxpayers affected by the new statute. The size of the target group plays a key role in implementation success. A policy with a large target group is more prone to implementation problems. The size of the target group can also cause tractability problems described by Mazmanian and Sabatier (1983). When a large target group combines with a drastic change in policy, implementation becomes an even more difficult task. “Size of target area plays a role in success because of being able to get people behind it (Mazmanian and Sabatier 1983, 24)”. The statute should address

the number of the citizens affected. Any uncertainty about the target group size within the statute may lead to confusion and implementation difficulty. Allowing an agency to determine inclusion may result in implementation problems, because an implementing agency will usually err on the side of caution and include anyone who remotely meets the criteria of the statute.

The target group includes taxable entities and not citizens in regard to House Bill 3. House Bill 3 dramatically increased the tax base with the additional taxable entities. Some of the new taxable entities were not legally formed entities and therefore were difficult to identify for taxation purposes.

Interaction between Bureaucracy and Legislature

No discussion of policy implementation is complete without considering the relationship between the legislature and the bureaucracy. This relationship is important because once the legislature enacts a policy; it then turns over the policy to the bureaucracy for implementation. In theory, the more concise the policy, the more straight-forward the implementation. A concise policy, however, does not guarantee a smooth transition. Since the legislature develops the budget for the state “the appropriations process also serves as an important indicator of the degree of legislation and executive support for a program.” (Mazmanian and Sabatier 1983, 26)

Another key to successful implementation is the continued support from the legislature during the implementation process. In discussing implementation, Walker (1983, 93) found “a fundamental reason for implementation failure in this environment was that the analyst and policymaker interacted only at the very beginning and very end of most projects”. Walker based his findings on an examination of the Canadian criminal

courts. Implementation requires oversight from the elected body; therefore, a good working relationship between the two parties must exist. Just as the bureaucracy relies on the legislature to initiate the implementation process, the legislature relies on the bureaucracy to put ideas into action. “Time constraints and lack of expertise in particular policy areas cause political actors to give bureaucratic organizations the authority to translate public policies into functioning programs” (Bhote and Meier 2000, 173).

In order to cut property taxes in the State of Texas, Gov. Perry needed to make up the revenue shortfall. In order to do so, he created the Texas Tax Reform Commission and asked the members to revise the franchise tax.²⁵ The commission did not consult with the Comptroller’s office while writing the bill. However, because a legislative session occurred between the passage of House Bill 3 and the implementation date, the Comptroller’s office was able to make suggestions that passed in House Bill 3928.

Politics

Politics plays a decisive role in policy implementation. Because elected officials answer to constituents, they may hold firm beliefs about policy implementation. “Whether members of electoral institutions have goals of reflection or of policy, there will be greater tension between the institution and its members than in a bureaucracy” (Meier 1997, 195). Compromise is necessary to pass a statute. Often these compromises can result in vague statute language. “One of the ways to limit conflict is through ambiguity.” (Matland 1995, 158) Ambiguity allows legislators to vote for policies to which some constituents might object. Officials might also be passionate about another policy but need the support of fellow legislators for that policy to pass. In addition, a

²⁵ http://governor.state.tx.us/priorities/economy/tax_regulatory_reform/business_tax_reform/

highly effective policy put into place quickly and without problems may potentially hurt legislators who vote for it. Meier uses the healthcare debate in Congress in 1993 as a prime example. Meier (1997, 196) points out that often “good policy would make bad politics in the short run.”

Technology

Technology can present opportunities or create roadblocks for implementation. Some policies require advances in technology that are either cutting edge or have not yet fully developed. Knowing whether a cutting-edge technology implements successfully may be difficult. In addition, the agency responsible for implementation may be ill-equipped to handle the task. Difficulties might include processing paperwork or issuing documents to the taxpayer. According to Meredith (1981, 71) there are three key elements integrating technology in policy implementation. These elements are:

1. “Technical – Those factors related primarily to the mechanics of the implementation procedure. Included here are such items as data accuracy, ability of the project team, adequacy of training, relevance of the software, and so on.
2. Process – Those factors concerned with system initiation and use. Examples here are user participation, top management support, and the role of the system advocate,
3. Inner-Environmental – Two primary underlying factors were identified here that are related to the organization’s internal environment. One was the real and current importance of the system to the organization, and the other was the willingness of the organization to change.”

In addition, policy makers should evaluate software relevancy. Often agencies develop software internally. Agencies must test updates before the system goes live to ensure everything is in working order. It is “much more desirable to have the system fail in the implementation stage.” (Meredith 1981, 71) Technology also works as a management tool to monitor implementation progress. “Although the adoption of user friendly electronic management support systems will not necessarily guarantee policy and

service delivery success, it is assumed that these aids will increase the potential for success if they are applied appropriately.” (Cloete 2003, 277)

Technology played a critical role in the implementation of House Bill 3 due to new form processing issues. The Comptroller’s office adopted a new system to process the increase in franchise tax returns. In addition to having to rewrite the franchise tax, the Comptroller’s office also chose to upgrade their system in order to more effectively process the returns.

Negative External Factors and Influences

During implementation, agencies may encounter external factors that create implementation difficulties. Because external influences change, it is the role of the implementing agency and its employees to address problematic external factors. Agency implementation analysts should “a) be fully aware of the characteristics of the society within which the implementation takes place; b) know the range of access points where formulators and implementers can influence the course of events; c) recognize which overarching social and institutional factors in a specific implementation effort cannot easily be affected through present action.” (Mazmanian and Sabatier 1983, 19) Hence, it is important for an implementing agency to be aware of these societal issues and address them when they arise.

Additionally, policy makers should consider public support for a policy and the availability of technology to the taxpayer. Policy makers may address lack of public support via press releases and mass mailings from agency heads or legislators. Getting the word out about why a policy is important can often ease minds and/or excite the masses about a policy. The media often shapes implementation. (Mazmanian and

Sabatier 1981) If the media deems a statute ineffective, the negative exposure can hurt the implementation process. When citizen interaction with technology is part of implementation, agencies should take into account citizen access to technology. For example, if the policy requires taxpayers to file information online, alternative methods should be available to taxpayers without access to a computer.

Other areas of concern regarding implementation include taxpayers, interorganizational cooperation, and enforcement. Hill (2003, 267) notes, "Implementation may be affected by conditions within the implementation environment." Most of the media attention focused on the effect of the revised franchise tax on small business,²⁶ causing much concern about the economic impact on these businesses.

Taxpayer Participation

Since a statute ultimately affects the taxpayer, policy makers should solicit constituent feedback during the implementation stage. "Statutes which permit citizens to participate as formal interveners in agency proceedings are more likely to have their objectives obtained." (Mazmanian and Sabatier, 1983, 29) Taxpayer participation can be very beneficial, because it allows the agency to gauge resistance in advance. Public participation also allows a different point of view. An implementing agency should understand citizens might not be as knowledgeable as those implementing the policy. In these cases, an agency may believe it has implemented the policy successfully, only to realize a lack of prior knowledge on the part of the taxpayers. This type of miscommunication can lead to noncompliance by the taxpayers and implementation failure.

²⁶ http://www.dallasnews.com/sharedcontent/dws/news/texasouthwest/legislature/stories/DN-franchisetax_07bus.ART.State.Edition1.4c186ca.html

When the Texas Tax Reform Commission set out to revise the franchise tax the members of the commission met with taxpayers and taxpayer groups from around the state.²⁷ The TTRC used this opportunity to address taxpayer concerns and garner support from numerous associations with an interest in the bill.

Bureaucratic Resistance

Once legislators pass a policy and ask an agency to implement the policy, the ensuing bureaucracy can block success. Some issues that may arise include the implementing agents' lack of knowledge of the policy or the agents' failure to turn the policy into practical procedures. To prevent these issues from happening, the implementing agency must communicate to the agents management directives. In their study of the Economic Development Administration implementation of programs in Oakland, Pressman and Wildavsky (1973, 132) found that successful implementation requires participants be on the same page. The authors argue the bureaucracy should provide this, indicating the importance of getting the information into the hands of those who will be using it.

Often a policy will address a completely new idea. When this is the case, "implementers may also lack information about a content area implicated by (the) policy." (Hill 2000, 270) Another key issue is the agency's ability to turn the policy into practical procedure. "Bureaucracies both shape their environments and respond to it. Bureaucracies are fairly responsive institutions as long as the environment's demand of them is consistent with their mission, their capabilities, and the norms of democratic policy making." (Meier 1997, 195) Without the ability to adapt, agencies are likely to

²⁷ http://governor.state.tx.us/priorities/economy/tax_regulatory_reform/business_tax_reform/

produce an inadequate procedure for implementation. An agency's ability to enact an appropriate procedure relies on the ability of the implementing agent. Matland (1995, 148) notes, "if local level implementers are not given the freedom to adapt the program to local conditions it is likely to fail." Some scholars feel that implementing agents will have to use their reasoning ability in order for implementation to succeed. According to Spillane et al (2002, 391) "by assuming that implementing agents understand what policymakers are asking them to do, most conventional theories fail to take into account the complexity of human sense-making."

Because House Bill 3 was a revision and not a completely new tax, the Comptroller's office already employed a group of employees to work on the franchise tax. Training was an issue, however, because the changes were so dramatic that many agency employees did not comprehend the tax changes. This put pressure on those who did have tax knowledge, because these employees would be in charge of many areas, such as developing forms and training.

Legislature

Once the legislature decides to change a policy, the legislature control the situation. "Policies are made for a variety of reasons – among them, to signal concern about emerging political problems to key constituents, to demonstrate influence by elected officials over government agencies, to cause changes in behavior of agencies and individuals, and to produce socially desirable outcomes." (Elmore 1987, 174) The legislature possesses the power to assign an agency or agencies to enact a policy. The legislature allocates funds for implementation. Using these two tools, legislators can drastically shape policy implementation. The legislature can also "affect policies pursued

by implementing agencies through both informal oversight and formal changes in the agency's legal and financial resources.” (Mazmanian and Sabatier 1983, 33) Through the oversight and ability to change the agency, the legislature can participate as much or as little in the process as it chooses.

Interorganizational Cooperation

Interorganizational cooperation is necessary when a policy implementation requires two or more agencies to work together. This situation arises when local government implements federal policy. When more than one implementing agency exists, it is important the agencies work together toward a common goal. O'Toole (2000) uses the idea of pooled operating independence to explain the need for agency cooperation. It is imperative that the statute, at minimum, assign roles to each agency; otherwise, the implementation process may waste time, duplicate effort, and fail to complete essential tasks. In their analysis of the Clean Air Act of 1970, O'Toole and Montjoy (1984, 492) found that, “the probability of implementation (problems) increases with the number of units when the type of interdependence requires little coordination at the initial, or formative, stage.” This statement suggests that two or more agencies involved during early aspects of implementation will hurt the process. In the “Clean Air” case, the Environmental Protection Agency created mandates for state governments to enforce. Another example the authors used was the Modern Cities program which, headed by HUD, failed to complete its goals. As for the sharing of implementation work, O'Toole and Montjoy (1984, 492) stress the importance of “authority (cooperation deriving from a sense of duty), common interest (cooperation because each participant

values the goal), and exchange (cooperation to receive in return something other than achievement of the goal).”

The only interorganizational cooperation required during the implementation of House Bill 3 was between the Comptroller’s office and the Secretary of State. The Secretary of State is the agency with which taxable entities register. A corporation does not become a corporation until it registers with the Secretary of State. The main interaction between the two agencies was in determining which taxpayers in Texas would now be subject to franchise tax. Limited partnerships and professional associations must register with the Secretary of State. Cooperation between the agencies allowed the Comptroller to identify a large portion of the newly taxable entities.

Enforcement

The enforcement of a policy means an agency must force compliance. An example might be the ability of a police force to ticket a home that creates excess noise. On a larger scale, an example might be the ability of an agency to charge penalties and interest for the entity’s failure to file a report. To successfully enforce a policy, an agency must possess adequate resources. Also, those in charge of enforcement must be knowledgeable about the policy. When the legislature or the implementing agency determines penalties for non-compliance, these organizations must keep the target group in mind. “The decision to comply is a function of a) the probability that noncompliance will be detected and successfully prosecuted; b) the sanctions available to penalize noncompliance; c) target group attitudes concerning the fundamental legitimacy of the rules; and d) the cost to target groups of compliance.” (Mazmanian and Sabatier 1983, 37) As is often the case, many individuals in the target group may choose not to comply.

Mazmanian and Sabatier use the case studies in their book to support evidence of non-compliance, such as the discussion of desegregating schools in the south and the school districts' attempts to circumvent the law. An effective enforcement policy is essential to implementation success.

The literature illustrates areas of concern in the implementation process. Not all of these areas will play a role in all cases, but these areas of concern provide checkpoints to explore during implementation. The concerns above create a conceptual framework to address the case of House Bill 3, the revised franchise tax.

Chapter IV: Conceptual Framework

This research uses working hypotheses developed from the literature to analyze changes to the Texas franchise tax law. These hypotheses explore the factors that could account for House Bill 3 implementation problems such as the document backlog.

Effective Strategy (WH1)

Policy implementation dramatically affects policy ambiguity because ambiguity prevents effective strategy construction. “The lack of specification in the policy, the lack of clear expectations for outcomes, and the lack of clearly-identified sources of support and opposition would” present an agency with difficulties in successfully implementing a policy. (Elmore 1987, 183) A statute’s design does not address every implementation issue, but the more information provided the fewer questions the implementing agency must address. According to Matland (1995), ambiguity and the level of political conflict with the legislation affect implementation success. Conflict is low when the legislative intent is clear and agencies may address ambiguities through a clear legislative intent. When there is significant conflict at the political level, ambiguous language masks the conflict. If legislative intent is unclear and agencies are not able to translate the ambiguities into coherent policy, implementation is difficult. It is important not to confuse legislative intent and ambiguity. “One implicit concern underlying this model is that ambiguity should not be seen as a flaw in policy.” (Matland, 1995 p. 171) Ambiguity allows the agency in charge of implementation to structure the policy. It is in this case that the legislature allows those most knowledgeable to implement the policy. If House Bill 3 were effectively implemented, the bill would contain an implementation

strategy. An effective strategy should contain clearly stated goals, communicate to the target group, and enforce the policy.

House Bill 3 passed during a special session in the summer of 2006. Since the bill rewrote an existing tax, the implementation responsibility fell to the Comptroller's office. The bill included a new list of taxable entities. Some of these entities had clear definitions. These included limited partnerships and professional associations. Other entities not clearly defined included real estate investment trusts. An effective strategy for implementing the new bill included the development of new forms to collect appropriate data and informing taxpayers of the new changes.

Thus, this study expects to find the following:

Working Hypothesis 1:

House Bill 3 formulated a clear strategy for implementation.

Goals (WH1a)

Defining the goals of a policy is vital for successful implementation.

Policymakers must clearly define the goals. Since it is their democratic duty to enact policy, policymakers bear the responsibility of determining and clearly defining the goals and outputs of these policies. If a policymaker lacks the necessary knowledge to construct an effective implementation process, the policy can still have a successful implementation if it has clearly stated goals. "Lack of clear guidance for street-level bureaucrats might lead to expectations of decreased implementation of the bill's central directives." (Hill 2003, 266) Furthermore, these goals measure implementation success. Matland (1995, 158) notes, "the position of top-downers is quite explicit – policies should be pushed in the direction of greater goal clarity." Without clearly defined goals, it is virtually impossible to measure the success of policy implementation.

The goal of House Bill 3 is to collect money through a revision of the franchise tax designed to offset the property tax cut. The bill changed the method of calculating the tax. Prior to January 1, 2008, franchise tax was the greater of either .25 percent per year of privilege period of net taxable capital or 4.5 percent of net taxable earned surplus. The statute clearly states the new tax formula. The statute also extends the tax responsibility to a greater number of entities. Instead of only including corporations and limited liability corporations, the tax base now includes limited partnerships, professional associations, and joint ventures.

Thus, successful implementation of the revised franchise tax should mean:

Working Hypothesis 1a (WH1a):

The objective of the 2006 revised franchise tax was clearly established.

Communication (WH1b)

The communication of information to target audiences is a key component of policy cooperation. Any time the legislature enacts a statute, policy success depends on important information reaching the target group. Communication failure to the target group often leads to non-compliance. In Mazmanian and Sabatier's (1983, 37) discussion of target group compliance, the authors note as a key component "the cost to target groups of compliance." If the policy requires active participation from taxpayers then it is important that policymakers address the target group responsibility. This responsibility includes the cost to the taxpayers, as well as informing them of their new responsibilities. Scholz (1991, 117) emphasizes the "importance of considering strategic interactions between the government agency and (the) target population." Failure to consider these actions puts stress on the implementation process.

Gov. Rick Perry signed House Bill 3 on May 19, 2006. Because of the drastic changes to the existing law, the legislature made the effective date of January 1, 2008. This gave the Comptroller's office approximately eighteen months to inform the target group of the changes.

Thus, this study expects to find the following:

Working Hypothesis 1b (WH1b):

The implementation of House Bill 3 addressed the communication of information to taxpayers.

Enforcement (WH1c)

Another consideration influencing the success of implementation efforts is whether the benefits outweigh the cost to the taxpayers. If the policy provides a service to taxpayers, the policy benefits must outweigh the costs, or the policy will never be a success. In the case of a tax policy, the cost always outweighs the benefits. Since the benefits do not outweigh the costs, it is important implementation address the ability of a statute to be enforced. Scholz (1991, 117) states, "the government agency attempts to achieve policy goals by inducing the desired behavior for the target population within its jurisdiction through positive incentives or through enforcement." Mazmanian and Sabatier (1983) also stress the importance of enforcement because of the probability of noncompliance. The ability to enforce a statute plays a direct role in implementation.

Due to the additional taxable entities added by House Bill 3, the Comptroller's office faced the job of enforcing the tax on a new group of taxpayers. Because the legislation revised an existing tax, there should have been an existing policy in place to

address enforcement. If the revision resulted in new areas of enforcement then the statute should address these areas.

Thus, this study expects to find the following:

Working Hypothesis 1c (WH1c)

House Bill 3 addressed the technique for enforcing the 2006 franchise tax revisions.

External Factors (WH2)

An external factor is one that occurs outside the implementing agency over which the agency has no control. Even when policymakers define guidelines and when implementing agencies turn the statute into a practical procedure, implementation may still face external obstacles to success. Several factors may come into play. If the policy design calls for a long implementation process then “variation over time and among governmental jurisdictions in social, economic, and technological conditions affecting the attainability of statutory objectives” must be taken into account (Mazmanian and Sabatier 1981, 15). Another external factor is the change in administration of the implementing agency. External factors may include the tractability of the statute, the size of the target group, and the media influence.

Like all laws, House Bill 3 was subject to external factors. The literature fails to adequately address the changing of agency heads during the implementation process. House bill 3 passed under one administration, but approximately six months later a new comptroller took office. Change in leadership may influence implementation.

Thus, this study expects to find the following:

Working Hypothesis 2 (WH2):

External factors influenced the implementation of the 2006 revised franchise tax.

Tractability (WH2a)

Tractability is the ease of reaching a solution to a problem. An easily solved problem would classify as highly tractable. Tractability greatly affects policy implementation. Some policies produce fewer problems and have easy solutions, while others might apply to the entire nation and break new ground. Policymakers should plan for both the size of the area and the change in target group when addressing tractability. Policies with either of these attributes will be much more difficult to implement. Determining the tractability of a policy is important and may be difficult. A large part of determining the tractability is determining the amount of change involved. This difficulty occurs because “the greater the amount of behavioral change, the more problematic successful implementation.” (Mazmanian and Sabatier 1981, 9) The environment of the implementation also plays a role in the tractability. Hill (2003) stresses the effects of environment on the implementation process.

The tractability of House Bill 3 was based on major changes in the franchise tax. The Comptroller’s office addressed issues regarding unitary filing for the first time. Unitary filing requires a parent entity to report for all subsidiaries on a single return if the reporting entity owns at least 51 percent of the subsidiary and they both conducted similar business. The tax revisions also address tiered partnerships. These entities pass money between each other. Both of these provisions differ significantly from the previous tax system.

Thus, this study expects to find the following:

Working Hypothesis 2a (WH2a):

The tractability of the 2006 revised franchise tax affected implementation.

Size (WH2b)

The size of the target population is an external factor affecting successful policy implementation. Implementers may have difficulty determining tractability because of behavioral change required with a new policy. Tractability may also be an issue, depending on the size of the target population. The combination of size and behavioral change forces implementing agencies to re-examine procedures to ensure the entire target group can handle the change. At the same time, the target population should be large enough for a successful implementation. The “size of [the] target area plays a role in success because of [the ability to be] able to get people behind it.” (Mazmanian and Sabatier 1983, 24)

House Bill 3 subjects additional entities to franchise tax as of January 1, 2008. The limited partnerships, professional associations, and joint ventures increase the tax base to approximately 300,000 taxpayers. Some of these entities were previously subject to other taxes such as sales tax and were in the comptroller’s system. Others required a set-up. The increase in size of the tax base resulted in many more processed returns.

Thus, this study expects to find the following:

Working Hypothesis 2b (WH2b):

The additional taxable entities included in the 2006 revised franchise tax affected implementation.

Media (WH2c)

Media attention can greatly affect implementation of a controversial policy. Media attention often leads to policymakers creating a vague policy that requires substantial work on the part of the implementing agency. Ring and Perry (1985, 279)

note because of the media, “governmental policymaking is a more open process.” It is important this research address the influence of the media. Mazmanian and Sabatier (1981, 15) claim “the amount and continuity of media attention to the problem addressed by a statute” are a non-statutory variable that affects policy implementation.

The media attention surrounding the revised franchise tax often focused on the need to offset property taxes to pay for public education.²⁸ As the bill began to make its way through the legislature, the media attention focused on the impact of the tax on small businesses.²⁹ The media attention to House Bill 3 was often negative, even though the goal was to offset property taxes.

Thus, this study expects to find the following:

Working Hypothesis 2c (WH2c):

The media attention surrounding the 2006 revised franchise tax affected implementation.

Agency Issues (WH3)

Once an agency receives the task of implementing a new policy, the agency must determine the best way to begin the implementation process. Some statutes allow for more implementation time than others. Depending on how quickly a bill passes, the implementing agency might not have the correct personnel in place to complete the implementation. Meier (1997) points out the importance of adequate implementation resources. There is also the possibility that technology will not be in place during implementation. Meredith (1981) stresses the positive aspects of technology in implementation but warns about the timely ability to test new technology. Cloete (2003)

²⁸ Austin American Statesman March 23, 2006 by Jason Embry

²⁹ Austin American Statesman April 30, 2006 by Corrie MacLaggan and Jason Embry

argues for the use of technology when possible because of its ability to aid the implementation process.

Thus, this study expects to find the following:

Working Hypothesis 3 (WH3):
Internal agency factors influenced implementation

Institutional Knowledge (WH3a)

Institutional knowledge is crucial to the implementation process. Because so many issues may arise in implementing a policy, institutional knowledge can be a great advantage. “The first and more traditional focus of implementation studies is on problems of organizational management.” (Cline 2000, 552) Organizational management evaluates who is best able to consolidate the knowledge of the institution and how to use that knowledge. “One argues from a normative perspective that local service deliverers have expertise and knowledge of the true problem.” (Matland 1995, 148) This knowledge is vital in implementing policy.

The Comptroller’s office has been in charge of collecting franchise tax since 1959. Through the years, there have been several changes to the tax such as the institution of the minimum tax due³⁰ and the eventual repeal of the minimum tax. The comptroller’s office has people familiar with franchise tax. Some of these employees have worked on franchise tax for more than 20 years.³¹

Thus, this study expects to find the following:

³⁰ House bill 845 64th legislation, article 12.07

³¹ Interview information

Working Hypothesis 3a (WH3a):
The Comptroller of Public Accounts has a system in place to address implementation through institutional knowledge.

Translating Policy into Procedure (WH3b)

“For many policies the goals are agreed upon and known, yet the means of reaching these goals is unknown.” (Matland 1995, 167) The ultimate task faced by an implementing agency is translating the policy provided by the legislature into a workable procedure for implementing agents to follow. “At the macroimplementation level, centrally located actors devise a government program; at the microimplementation level, local organizations react to the macro level plans, develop their own programs, and implement them.” (Matland 1995 p 148) This freedom should allow the implementing agency to implement the policy into something manageable. If the implementing agency fails to develop practical procedures, then implementation success is at risk. Spillane et al (2002) identify institutional knowledge as key in translating policy into practice.

Once the Comptroller’s office received House Bill 3, the office translated the rules into practical procedures. The Comptroller’s office converted House Bill 3 into rules 3.581 through 3.597³². This conversion allowed the Comptroller’s office to share with the taxpayers interpretations of the statute. The Comptroller’s office also provided instructions for filling out the franchise tax forms based on the statute and interpretation of the rules.

Thus, this study expects to find the following:

Working Hypothesis 3b (WH3b):
The agency was able to translate the 2006 revised franchise tax into practical procedures.

³² [http://info.sos.state.tx.us/pls/pub/readtac\\$ext.ViewTAC?tac_view=5&ti=34&pt=1&ch=3&sch=V&rl=Y](http://info.sos.state.tx.us/pls/pub/readtac$ext.ViewTAC?tac_view=5&ti=34&pt=1&ch=3&sch=V&rl=Y)

Training (WH3c)

Institutional knowledge helps form the implementation process, as well as helps train others in the agency. The ability of the subject matter experts to train other agents is an important step in implementation. “Individual implementers and/or the organizations in which they work may rely on internal expertise to construct meaning, relying on in-house statutory interpretation, training, and experience to decide what policy means and how to do it.” (Hill 2003, 273) Part of training is distributing information. It is important for the implementing agency to have in place a system for informing those who work on the project. Hill identifies, “learning as a critical ingredient in street-level change.” (2003, 266) Pressman and Wildavsky (1973) stipulate that to keep the implementing agency on the same page increases implementation success.

Training people to implement a new policy is important in implementation. Not only is it important to train the personnel handling the day-to-day operations of the implementation, but also whenever possible it is important to train the target group. In providing training to the taxpayers, the Comptroller’s office offered webinars on their website to inform taxpayers of the changes to the law.³³ These webinars were also available to the comptroller employees for training purposes.

Thus, this study expects to find the following:

Working Hypothesis 3c (WH3c):

The agency provided enough training to implement the 2006 revised franchise tax.

³³ <http://www.window.state.tx.us/taxinfo/franchise/webinars.html>

The literature review has formulated a set of working hypotheses. These working hypotheses are the conceptual framework of the research.

Table 4.1 summarizes the working hypotheses and identifies the sources used in forming each hypothesis.

Table 4.1 – Summary of Conceptual Framework Linked to the Literature

Working Hypotheses	Sources
WH1: House Bill 3 formulated a clear strategy for implementation	Elmore (1987), Matland (1995),
WH1a: The objective of the 2006 revised franchise tax was clearly established.	Hill (2003), Matland (1995),
WH1b: The implementation of House Bill 3 addressed the communication of information to taxpayers.	Mazmanian and Sabatier (1983), Scholz (1991)
WH1c: House Bill 3 addressed the technique for enforcing the 2006 franchise tax revisions.	Mazmanian and Sabatier (1983), Scholz (1991)
WH2: External factors influenced the implementation of the 2006 revised franchise tax.	Mazmanian and Sabatier (1981)
WH2a: The tractability of the 2006 revised franchise tax affected implementation.	Mazmanian and Sabatier (1981), Hill (2003)
WH2b: The additional taxable entities included in the 2006 revised franchise tax affected implementation.	Mazmanian and Sabatier (1983)
WH2c: The media attention surrounding the 2006 revised franchise tax affected implementation.	Mazmanian and Sabatier (1981), Ring and Perry (1985)
WH3: Internal agency factors influenced implementation.	Cloete (2003), Meier (1997), Meredith (1981)
WH3a: The Comptroller of Public Accounts has a system in place to address implementation through institutional knowledge.	Cline (2000), Matland (1995)
WH3b: The agency was able to translate the 2006 revised franchise tax into practical procedures.	Matland (1995), Spillane, Reiser, and Reimer (2002)
WH3c: The agency provided enough training to implement the 2006 revised franchise tax.	Hill (2003), Pressman and Wildavsky (1973)

Chapter V: Methodology

Chapter Purpose

This chapter describes the methods used to explore the implementation process of House Bill 3 as implemented by the Comptroller of Public Account's office. The working hypotheses developed through the literature about implementation draw insights from comptroller employees regarding the implementation of House Bill 3.

Research Technique

This research utilizes a structured interview as the major research technique because this technique enables in-depth analysis of the implementation process. This research also used an exploration study due to the lack of research about the revised franchise tax.

The focused interview is the most appropriate method of data collection for this research because implementation often relies on institutional knowledge. Hence, it is important to query those individuals responsible for implementation when determining the issues that arise during implementation. Participants in the implementation process have a unique insight into the process. "Individual implementers and/or the organizations in which they work may rely on internal expertise to construct meaning, relying on in-house statutory interpretation, training, and experience to decide what policy means and how to do it." (Hill 2003, 273) Because of the stature of many of these individuals, it would be difficult to have them all meet for a focus group. Also, a benefit of an interview over a survey is that the multiple levels of implementation can lead to further questions or more detailed answers than a survey alone can provide.

Table 5.1 summarizes the connection between the conceptual framework, the method of inquiry (interviews and document analysis), and the operationalization of the working hypotheses. The interviews occurred in October 2009 in person with the interviewees. Eight employees participated. These employees held positions ranging from project manager to system analyst to tax policy specialist.

The conceptual framework developed focused interview questions. The questions in the interview determined the employee's assessment of the quality of the implementation of House Bill 3. The literature review provided insight into a number of ways that implementation can fail. The questions originated from these ideas. For example, the interview questions looked into training during implementation because the literature stresses the importance of training in the implementation process.

Table 5.1: Operationalization of the Conceptual Framework

	Working Hypotheses	Type of Evidence	Operationalization Question
WH1	The clarity of House Bill 3 formulated an effective strategy for implementation.		
WH1a	The objective of the 2006 revised franchise tax was clearly established.	Interview	How did the wording of House Bill 3 establish the goals of the legislation?
			Were there issues within the statute that led to more problems than others? If yes, why?
WH1b	The implementation of House Bill 3 addressed the communication of information to taxpayers.	Interview Document Analysis	What was used to determine the method for informing the taxpayers about the changes? Frequently Asked Questions http://www.window.state.tx.us/taxinfo/franchise/faq_questions.html

WH1c	House Bill 3 addressed the technique for enforcing the revised franchise tax.	Interview	Did the statute address how to handle the enforcement of the policy? If no, did it allow for a number of ways to address the problem? And if yes, what were these steps?
WH2	External Factors influenced the implementation of the 2006 revised franchise tax.		
WH2a	The tractability of the 2006 revised franchise tax affected implementation.	Interview	What role did the difficulty of determining solutions to HB3 have on implementation?
WH2b	The additional taxable entities included in the 2006 revised franchise tax affected implementation.	Interview	How did the addition of limited partnerships, professional associations, and trusts affect the implementation process?
			How were these additions addressed?
WH2c	The media attention surrounding the 2006 revised franchise tax affected implementation.	Interview	What role did media attention play in the implementation of HB3?
WH3	Internal agency factors influenced implementation.		
WH3a	The Comptroller of Public Accounts has a system in place to address implementation through institutional knowledge.	Interview	Explain any system in place where subject matter experts were allowed to contribute to the implementation process?
			How was implementation guidelines distributed throughout the agency? Is this an effective manner?

WH3b	The agency was able to translate the 2006 revised franchise tax into practical procedures.	Interview Document Analysis	Explain HB3's role in the development of new forms. Notice to taxpayers on Reports and Payments http://www.window.state.tx.us/taxinfo/franchise/reports.pdf Franchise tax forms
WH3c	The agency provided enough training to implement the 2006 revised franchise tax.	Interview Document Analysis	Did the agency provide adequate training to implement HB3? 2008 webinar overview http://www.window.state.tx.us/taxinfo/franchise/May2008overview.pdf

Interview

This research uses focused interviews to assess Comptroller employee insights regarding the implementation of House Bill 3. The focused interview questions address several factors in the methodology. Yin (2008, 107) addresses the fact that a focused interview allows for open ended questions while also utilizing a set of questions derived from the situation. This focus allows the interviewee to talk freely while still following a structured guideline set forth by the interviewer. Another important factor while conducting interviews is the ability to compare answers from different interviewees in order to better understand the opinions of those being interviewed. This strategy allows the researcher to find common themes in the answers. Babbie (2007) stresses the importance of recording responses exactly as they are given. His reason is based on the fact the interviewers are often not the researchers; however, it is also important to determine the true meaning of what the respondent is saying. (2007, 266) An added benefit of conducting the structured interview over a survey is the ability to probe for

responses. The questions are frequently open ended questions. When a respondent gives an unclear or vague answer, the interviewer may probe for a better response and greatly improve the research.

In discussing interviews, Yin describes the benefit and happenings of the interview. He mentions the ability to “ask the interviewee to propose her or his own insights into certain occurrences and may use such propositions as the basis for further inquiry.” (2008, 107) Yin writes that a major reason for interviews is to corroborate certain facts that you have already established. The goal of the interviews in this research is to test the working hypotheses against the knowledge of those involved in the implementation process.

Sampling for interviews

The unit of analysis for this research is employees with a direct hand in the implementation of House Bill 3. Because this research is exploratory, it benefits from the use of informants. An informant is “someone who is well versed in the social phenomenon that you wish to study and who is willing to tell you what he or she knows about it.” (Babbie 186) Since this research utilizes informants and their information on implementation, the size applicable interviewees are limited. The informants are those in positions of power in the areas affected by the implementation of House Bill 3. This research utilizes a snowball sampling to ensure the correct individuals participated. This research uses nonprobability sampling. Those in charge of the day-to-day processing of House Bill 3 provided insight and advice as to the appropriate sample. On the advice of management, a list emerged of those who implemented the revised franchise tax. During some of the early interviews, other interviewees emerged with knowledge on a particular

part of implementation. A total of eight employees participated. Ten employees were contacted for interviews. Participants worked with franchise tax between eight and twenty-eight years. The interviews lasted between forty-five minutes and ninety minutes. Table 5.2 is the operationalization of the sampling characteristic questions.

Table 5.2: Operationalization of Sampling Characteristics and Recommendations

Q1	What was your role in the implementation of House Bill 3?	Role
Q2	What were some of the implementation issues addressed in your position?	Cause
Q3	How long have you worked on franchise tax?	Work Experience
Q4	What was the one issue through the implementation process that caused the biggest problem and why?	Cause
Q5	What are your recommendations for improving the implementation process?	Solution

Table 5.2 shows the interview sampling characteristic and recommendation questions. These questions are included in the interview as a possible method to analyze the information. These questions allow for conflicting information in interviews to be categorized by characteristics, which might show cause. The answers to these questions might give future researchers a good place to start or another area on which to concentrate.

Interview Concerns

Conducting research using interviews may be problematic. One concern is the influence of bias among the interviewees. Yin (2008, 107) suggests combating this bias by comparing on other sources of evidence with the information from the interviews, searching for contrary evidence. To address this potential problem, the research uses document analysis as a comparison on WH1b, as well as the final two sub-working hypotheses (WH3b and WH3c). Another area of concern in interview research is

converting the working hypotheses into interview questions without leading the interviewee. Yin (2008, 106) writes about the difference between addressing a “why” question and a “how” question and how to prevent putting the interviewee on the defensive. This research applies this strategy. It is important to “exercise caution when different interviewees appear to be echoing the same thoughts” as they could be corroborating each other with bias. (Yin 2008, 107) The interviewer can address this bias by interviewing people with known differences in perspectives. While this research did not have the advanced knowledge of interviewees’ perspectives, it did conduct interviews with people who could examine different parts of the implementation process.

Although it is preferable to have multiple sources of data through all of the working hypotheses, lack of time and resources prevented a more in depth study. Since exploratory research is preliminary in nature, it is important to point out that these working hypotheses are not proven, but supported by empirical evidence. (Shields and Tajalli 2005, 14) The goal of the study is to discover employee insights into the implementation of House Bill 3.

Document Analysis

This research used document analysis as the second research method. The strength of document analysis is it corroborates other evidence. Yin (2009, 103) points out a benefit of document analysis is the ability to infer information from the documents. Another benefit of the document analysis is the research can evaluate documents multiple times, allowing subsequent studies to address prior findings with the same information.

While document analysis allows for corroborating information, it is not always available or appropriate. In this research, there are not always documents available for

analysis. Document analysis assesses three of the sub-working hypothesis. For example, the agency uses the web to communicate with taxpayers (WH1b). Hence, the research analyzes a frequently asked question section on the Comptroller's website. During the interviews, interviewees frequently mentioned the benefit of frequently asked questions as a way of communicating with taxpayers. One problem with the use of document analysis may be the researchers' ability to retrieve some documents.³⁴ In supporting working hypothesis 3b, the research evaluates a web document detailing how to file the franchise tax return online. This analysis is important because it shows the ability of the comptroller's office to put the law into practice. Document analysis is also helpful in confirming the ability of the comptroller's office to train both internal participants as well as taxpayers about the new tax. The document analysis will look at the 2008 webinar provided as a training tool. When the webinar originally aired, it was interactive with anyone who signed up. However, after the initial presentation the webinar converted to a PowerPoint PDF. This research analyzes this document as it appeared on the web in 2008 as an overview of the changes in the tax.

Document Analysis: Sampling Issues

The documents are relevant because of their ability to represent the working hypotheses. There were a limited number of documents available as support. The documents in this research support the claims of the comptroller employees. The documents analyzed were the 2008 webinar PDF overview, the web document showing how to file electronically, and the frequently asked questions on franchise tax.

³⁴ Yin (2009, 102)

Table 5.3 provides a list of the documents analyzed.

Table 5.3: Documents Analyzed in the Research

- | |
|--|
| <ul style="list-style-type: none">• Franchise tax frequently asked questions³⁵• Franchise tax webinar on reports and payments³⁶• Franchise tax webinar overview³⁷ |
|--|

Criteria for Support

The information collected through the interviews determined the employee's attitude toward the topic. The working hypotheses either supported or did not support. If there was not a consensus of either support or not support then the working hypothesis was deemed N/A.

Human Subjects Protection

This applied research project was submitted to the Texas State Institutional Review Board for review. As expected, it received an exemption.³⁸ The exemption number is 2009I8610. All of the interviews were on a voluntary basis with each interviewee giving written consent to the interview.³⁹ All identifying information from the interviewee including name and position were withheld.

³⁵ http://www.window.state.tx.us/taxinfo/franchise/faq_questions.html

³⁶ <http://www.window.state.tx.us/taxinfo/franchise/reports.pdf>

³⁷ <http://www.window.state.tx.us/taxinfo/franchise/May2008overview.pdf>

³⁸ See appendix E

³⁹ See appendix F

CHAPTER VI: RESULTS

Chapter Purpose

The purpose of this research is to evaluate the House Bill 3 implementation process by examining comptroller employee insights using interviews and document analysis. This research purpose accomplished the goal by testing three working hypotheses. This chapter analyzes the structured interviews and assesses support for the working hypotheses.

Effective Strategy: WH1

The 2006 revised franchise tax implementation developed its strategy from the statute. The problems with processing the franchise tax returns led to examining the implementation process from the beginning to determine possible issues.

WH1a: Goals

Structured Interview

About half of the interviewees indicated the legislature clearly established the goals. The often mentioned goals were the collection of more tax revenue to offset property tax relief and closing the tax loopholes for entities operating in Texas. The statute addressed increasing tax revenue by adding additional taxable entities and closed loopholes used by taxpayers to avoid the franchise tax.

The other interviewees found the objectives unclear and the statute confusing. These interviewees felt that the statute convoluted the implementation process. This

group of interviewees failed to mention the legislature closing loopholes. The inconsistent results from the interviews did not provide evidence to support WH1a.

Additionally, this second group of interviewees described implementation problems emanating from the statute. Two issues mentioned were “passive entities” and “combined reporting”. A passive entity must receive 90 percent of its federal gross income from passive activity.⁴⁰ Passive entities are partnerships that would normally be taxable. Since revenue is from a passive source, these entities are not subject to the Texas franchise tax. This concept caused much confusion. The combined report concept caused problems because it was new to Texas and was not widely understood throughout the agency. The issues of “passive entities” and “combined reporting” were changes from the previous franchise tax and were not commonly understood practices. Another issue interviewees mentioned was the fact that IRS references ties to the IRS code as of January 1, 2007. Texas will not recognize any updates to the IRS tax code. This causes confusion for taxpayers and leads to problems within the comptroller’s office. This is an anticipated problem stemming from the statute.

Communication: WH1b

Structured Interview

All of the interviewees provided evidence that demonstrated the taxpayer received the provisions of House Bill 3. All interviewees provided a long list of the different ways in which the Comptroller’s office informed the taxpayers. Not only did the Comptroller’s office inform the entities about the changes, the office also sent messages to inform constituents about updates.

⁴⁰ Rule 3.582

The interviewees indicated the first way of informing taxpayers is via a letter sent out to the new taxable entities. This letter stated that the entity might now be subject to the tax and more information was available on the website. The letter provided the website address. This method allows the comptroller's office to update information as it becomes available. The comptroller's office found other ways of communicating through the web effective. The office conducted webinars about the updates to the franchise tax, which allowed anyone with computer access to watch the presentation and present questions.

Taxpayers who might not have computer access could take advantage of a ten city tour of Texas, in which employees of the tax policy division gave presentations on the changes in the law. The employees were there to answer any questions the public might have.

Another frequently mentioned method of communicating information to taxpayers was through the frequently asked questions section of the website. This section allows taxpayers to address common questions about the changes to the tax and address how they are affected. The comptroller's office also met with certified public accountant associations. These associations are important because of their involvement in tax preparation. It was the unanimous opinion of the comptroller employees that every possible method of keeping the taxpayers informed was utilized.

Document Analysis

To corroborate the information given by the employees, the research examined "the frequently asked questions" section on the comptroller's website to determine if this section is an adequate method of informing the taxpayer of the changes in the law. The

frequently asked questions consist of 209 questions covering a wide range of topics regarding franchise tax. The first sets of questions cover electronic reporting and the adobe reader. These questions are important to taxpayers because, even with technological advances in computers it can still be difficult to complete returns if there are system problems. These questions cover the basic issues that might arise and give suggestions to correct those situations.

The next set of questions covers the topic of taxable entities and passive entities. In the previous working hypothesis, one of the statute's confusing issues regarded passive entities. It is important that the frequently asked questions not only address the topic but also do so thoroughly. With the statute creating confusion on the topic, the comptroller's office does a good job of explaining the law in an easier to understand format. The first question under the passive entities section is simply "what is a passive entity?" Not only does the comptroller's office provide an answer to this question, they also give the statute location of the law for further examination.

Next, the frequently asked questions provide a series of questions on the subject of combined reports. This area was one of the multiple listed areas of concern about the statute appearing in the interviews. Two questions are important because they deal with defining an affiliate group and defining the meaning of a unitary group. In the interviews, any time interviewees mentioned combined reporting, the individuals explained that Texas had never dealt with a combined reporting situation. Providing a written explanation on the website for taxpayers shows a beneficial use of web communication. Since this was a confusing issue internally, it would certainly be an issue for some taxpayers.

The interviewees agreed the use of the frequently asked questions is an effective way of communicating information to taxpayers. The research indicates the comptroller's office had an effective method for informing the taxpayers about House Bill 3.

Enforcement: WH1c

Structured Interview

Regarding how House Bill 3 addressed enforcing the policy, the interviewee responses expressed two primary ideas. The first of these ideas was that the statute retained the enforcement procedure from the previous law, found under subchapter H of the tax code. Interviewees were quick to point out that the statute does in fact address provisions for enforcement. The enforcement allows for a 5 percent penalty of the tax due if the tax is not paid by the due date. If the payment is more than 30 days late, an additional penalty of 5 percent is imposed.⁴¹

Another provision of enforcement included in the statute is the ability of the comptroller's office to forfeit an entity's charter. This power is significant because the entity loses all of the protection provided by a corporation or partnership. If an entity forfeits their charter then it loses the right to sue or defend themselves in a court of law.⁴² This vulnerability can make owners, officers, and directors personally financially responsible during litigation.

The second idea about enforcement brought up by the interviewees was a lack of clarity on enforcement concerning combined reporting. The interviewees explained the confusion surrounding combined reporting as the imposition of the tax on the affiliate

⁴¹ Sec. 171.362 of the Tax Code

⁴² Sec. 171.252 of the Tax Code

entities. The interviewees explained that if a reporting entity, the head entity, did not pay the tax, the comptroller's office could try to recover the tax from the affiliate or subsidiary entities. House Bill 3 did not address this situation.

The statute should have clearly addressed whether penalties can be taken against affiliate groups. This was an issue that the statute should have addressed in order to clearly establish the enforcement options of the policy.

Summary of Results: Effective Strategy

The results of the interview provide limited support for the idea that the clarity of the statute provided an effective strategy for implementation. The greatest area of support came from the communication to the taxpayer. The interviewees addressed this as a strength in implementation.

Table 6.1: Effective Strategy Results

Hypothesis	Data Source and Support	Evidence
WH1a: The objective of the 2006 revised franchise tax was clearly established.	Interview No Support	Numerous interviews indicated combined reporting and passive entities as major stumbling blocks which were not clearly explained in the statute.
WH1b: The implementation of House Bill 3 addressed the communication of information to taxpayers.	Interview - Support Document Analysis - Support	All of the interviewees mentioned the same five methods of informing the taxpayers. These methods were: letters, webinars, the tour of Texas, frequently asked questions, and press releases. The document analysis of the frequently asked questions showed that the concerns from WH1a were addressed and readily available to taxpayers.
WH1c: House Bill 3 addressed the technique for enforcing the 2006 franchise tax revisions.	Interview – Limited Support	All of the interviewees mentioned that the statute include the same enforcement provisions as the old law, which includes the assessment of penalties and the forfeiture of the charter. A few interviewees also mentioned the inability of the statute to address the enforcement of combined reporting.
WH1: House Bill 3 formulated a clear strategy for implementation.	Limited Support	

External Factors: WH 2

The implementation process is subject to external factors. These influences can cause problems in implementation from unexpected sources. The problem of the document backlog could be a result of external factors.

Tractability: WH2a

Structured Interview

All of the responses supported the issue of determining solutions to implement House Bill 3 and these problems played a major role in the implementation. While all showed responses strongly supported this statement, there were three responses mentioned more than the others.

The first concern interviewees mentioned was the technology component of implementation. One reason was the agency took on too much new technology. Since there would be many more taxpayers and more forms coming in with the franchise tax returns, it was important to create a system that would process these returns. In order to achieve this processing, a new system went into place using Adobe forms. The interviewees stated that the system contained flaws that prevented documents from processing correctly. This created more work. It also allowed the possibility of sending out incorrect information to taxpayers about their accounts. The other technology issue was the system had to go through an estimated 90 percent software rewrite. This time consuming task used a lot of resources.

The next issue mentioned frequently regarded combined reporting. This issue resulted from the system rewrite. With all of the other taxes administered by the Comptroller's office, nothing resembled combined reporting. It was difficult to

determine exactly how all of the entities connected to each other. Interviewees mentioned that the whole concept was difficult to grasp.

The last issue mentioned was a change in the implementation process. When House Bill 3 passed, it was under a Comptroller who would only hold the office for another six months. In January of 2007, a new administration took over and brought agency changes. One of these changes was that information technology was the driving force behind implementation. This differed from the way the agency previously worked. Since IT was in the driver's seat regarding implementation, that department made decisions about issues with which they were unfamiliar. This was a difficult adjustment for some of the interviewees. The prevailing mind set was that the law is a tax law and implementation should involve people with experience in the tax. Under previous administrations, IT supported the business side.

Size: WH2b

Structured Interview

Almost all of the interviewees felt that the addition of the new taxable entities affected the implementation. There were two areas of concern mentioned during the interviews.

The first issue addressed by the interviewees was the confusion over which entities were taxable. The statute states corporations are taxable, but real estate investment trusts are not. This would be a clear stipulation except that a real estate investment trust is typically set up as a corporation. Interviewees maintain that it took time to work through these situations during implementation. The comptroller's office was responsible for making these determinations.

The other issue with adding the new entities was a system issue. The new entities identified several ways. The most effective way was through a file sent by the Secretary of State that included all of the entities with legal registrations in Texas not already subject to the tax. This included limited partnerships and professional associations. Another method for adding these new taxable entities to the tax system was through an internal system scan to identify entities that might be subject to another tax already. These processes were effective according to the interviewees, but there were a few problems. In some cases, these entities were set up for sales tax and, because the organization type was unknown, the entity would identify as an association. However, that entity might actually be a limited partnership registered with the Secretary of State. When the electronic file came over from the Secretary of State, it might create a second account, suggesting duplicate taxpayers for the same tax. Issues like these only allowed for limited support of the working hypothesis.

Media: WH2c

Structured Interview

Most of the interviewees felt that the media did not play a role in the implementation of House Bill 3. Some individuals were actually surprised by the lack of media attention once the bill passed.

Interviewees did indicate that the public was unhappy with the bill. The goal was to close the loophole for large taxpayers operating as limited partnerships however; it also included small business partnerships. The interviewees acknowledged that there was some media attention from unhappy taxpayers prior to the passage of the bill but that it did not have any affect on the implementation process.

Summary of Results: External Factors

Another issue arising during the interviews was the influence of professional groups of certified public accountants. Several interviewees felt that CPAs had more of an effect than the media. The Comptroller's office made a point to reach out to these groups, as previously mentioned, to discuss getting information to taxpayers.

The results of the interview provide limited support that external factors caused problems with the implementation. The greatest area of support came from the tractability of the problem. The interviewees addressed that having IT lead the implementation process caused problems in implementation. All of the interviewees also agreed the media did not play a role in implementation.

Table 6.2: External Factors Results

Hypothesis	Data Source and Support	Evidence
WH2a: The tractability of the 2006 revised franchise tax affected implementation.	Interview – Support for implementation problem	The evidence provided through the interviews was based on three issues. These issues were the new technology, the combined reporting and system rewrite, and having IT lead the implementation. These were the sources of problems.
WH2b: The additional taxable entities included in the 2006 revised franchise tax affected implementation.	Interview – Limited Support	The evidence for limited support was based on the creation of duplicate entities from the Secretary of State. The other evidence pertained to unregistered entities.
WH2c: The media attention surrounding the 2006 revised franchise tax affected implementation.	Interview – no support	The majority of those interviewed felt that even though there was some bad publicity over the bill it did not affect the implementation. Since this was a new tax bill, it was expected there would be some bad publicity.
WH2: External Factors influenced the implementation of the 2006 revised franchise tax.	Limited Support	

Agency Issues: WH3

The implementation process is subject to internal factors. These include the passage of knowledge throughout the agency about the subject, the ability to translate the bill into procedure, and providing enough training to implement the policy. Failure in one of these areas can be a reason for the document backlog. These areas can also cause further problems in the implementation process.

Institutional Knowledge: WH3a

Structured Interview

The interviews showed there were more people who supported the working hypothesis than those who did not support the working hypothesis. The interviewees who did not support the working hypothesis based this on the separation between the business group and the IT group. Those who supported the working hypothesis cited the project management team and the ability to pass implementation information through the agency.

The interviewees that did not support the hypothesis determined the issue was rooted in the separation between the two groups. The group's reasoning was that any change had to go through management to the project manager before relaying the information to IT. The interviewees deemed this ineffective.

The interviewees based their opinion on the fact that management would indicate the needs of the implementation team. It was management's goal to get the knowledgeable street level employees to help with implementation. The knowledgeable employee's role might be as large as working on the project team to something smaller such as testing the system as it was implemented. The interviewees that supported the

hypothesis determined this was an effective way of using institutional knowledge. Those who did not support the hypothesis determined there should have been more concentration on institutional knowledge on the business side.

Translating Policy into Procedure: WH3b

Structured Interview

The interviewees unanimously agreed that the statute addressed the information needed on the forms, but there was an issue that became problematic.

The interviewees pointed out that the tax policy section made the rulings on the statute. At that point, the section would draw preliminary examples of what the form would look like. As the process progressed, the forms changed to accommodate updates to the rules as well as to fit into the existing system. The statute was clear that there would be three franchise tax returns. Because of combined reporting, there would need to be an affiliate schedule to include all of the affiliates. The requirement for tiered entities to file returns created the need for additional forms. While the interviewees felt the statute directed the forms, many issues arose.

One of these issues concerned the additional entities and the new way of computing the tax, requiring the revision of all of the forms. This included the franchise tax forms and the registration forms.⁴³ The new entities also required the development of an information report.

The biggest and most often mentioned problem was the involvement of third party vendors. Third party vendors are software companies that make tax software. Because the target group had grown so large and because there were so many possible forms to fill

⁴³ When a foreign entity begins doing business in Texas it is asked to complete a Texas Nexus Questionnaire.

out, the Comptroller's office would no longer send out preprinted forms and instructions. Because of the new system for processing returns, third party vendors became heavily involved in the implementation process. The third party vendors created tax software. If the Comptroller's office determined there should be a change to a form, it had to be done with enough time for the third party vendors to make changes to the software. Many interviewees felt that this had an affect on implementation and the vendors should cater to the Comptroller's office and not the other way around.

Document Analysis

In corroborating the ability of Comptroller's office to provide practical procedures in implementing House Bill 3, the research examined the webinar for instructions regarding filing reports and payments. This webinar was appropriate because it showed the taxpayer how to complete the forms.

The webinar begins by informing the taxpayers they will no longer receive preprinted forms but will now receive a letter containing a webfile number. With technology advancing, it was important the Comptroller's office address the taxpayers' desire to file electronically. After that explanation, the webinar goes through a step-by-step procedure describing how to file online. The webinar includes a page-by-page layout of what the taxpayer can expect to find and what information the taxpayer will need to enter. The webinar is an example of how the Comptroller's office was able to turn the policy into practice.

After going over the step-by-step process of filing a franchise tax form online, the webinar then talks about the relevant forms and includes a list of frequently asked questions about the forms. This section is an example of the Comptroller's office putting

policy into practice. The frequently asked questions allow the Comptroller's office to explain concerns to taxpayers while also explaining reasoning behind the policies.

Training: WH3c

Structured Interview

A majority of interviewees felt implementation contained adequate training. The interviewees supported this position with webinars. These webinars were available to taxpayers and used internally for training purposes.

Interviewees agreed training time outside of the webinars was inadequate. Since the system needed constant modification, little time was available for proper training. No formal procedures existed. This made training difficult.

Another issue interviewers mentioned several times was that the people who conducted the training were also the people who fixed the system. Because of the workload, this was a hindrance to effective training. Another issue that hindered training was that a legislative session occurred in the middle of implementation. One interviewee pointed out that agency changes during a session places training on the back burner during that time.

The biggest positive to training mentioned was praise for the training of the taxpayers. This training received mention several times during the interviews. From the answers given, it would appear that most of the time spent on training was spent training the target group.

Webinar Analysis

The webinar reviewed gave an overview of the tax changes. This information was available to taxpayers as well as to Comptroller employees. The webinar provided a

training opportunity without tying up an employee whose time was valuable completing implementation elsewhere.

The webinar begins with two important pages. These two pages address the fundamental changes in the law. The first page is a comparison table between the old law and the new law. This is an effective manner of training for anyone with any prior knowledge of the franchise tax. Someone who understands the left side of the page can then use it as a point of reference to understand the right side of the page. The second page explains the taxable entities. This information is important because it affects so many taxpayers. This information benefited everyone and clarified those affected.

The webinar then talks about more changes in the law that might cause confusion. The first element addressed is passive entities. The webinar gives a detailed description of the definition of passive. After that, the webinar talks about the .5 percent tax rate and the qualifications.

The next part informs viewers about the new forms. This section gives valuable information about who can file a “no tax due” return and the benefit of filing an EZ form. In discussing annualized revenue, the webinar gives an example. The rest of the webinar talks about filing the long form. The webinar does a good job of showing how most of the information needed to file Texas franchise tax is on the federal tax return.

The webinar concludes by giving case scenarios. This is an effective way of providing an example to someone in training. The last page provides contact information that allows anyone needing additional assistance the ability to get that help.

Summary of Results: Internal Factors

The interviews found limited support for the affect of internal factors on implementation. The use of institutional knowledge showed limited support. Part of this was because of the separation between the business side of implementation and information technology. The involvement of third party vendors negatively affected the implementation process. Webinars helped implementation as a training tool both internally and with taxpayers.

Table 6.3: Agency Issues Results

Hypothesis	Data Source and Support	Evidence
WH3a: The Comptroller of Public Accounts has a system in place to address implementation through institutional knowledge.	Interview – Limited Support	The evidence provided through the interviews was the subject matter experts' contribution to the process. It also addressed how the separation of IT and the business side of implementation had a negative affect.
WH3b: The agency was able to translate the 2006 revised franchise tax into practical Procedures.	Interview – Limited Support Document Analysis – Supported	The evidence from the interviews was that the statute did direct the development of the forms but the 3 rd party vendors had a negative role. The document analysis looked at the ability of the Comptroller's office to turn the statute into manageable procedures for filing the franchise tax. The webinar exhibited this ability.
WH3c: The agency provided enough training to implement the 2006 revised franchise tax.	Interview – Limited Support Document Analysis – Supported	The evidence from the interviews indicated that training occurred when possible. Webinars were made available because implementation and the legislative session prevented adequate training resources. The document analysis showed how a webinar can be a useful tool in training by providing examples of the information.
WH3: Internal agency factors influenced implementation.	Limited Support	

Sample Characteristics and Recommendations

The interviewees were asked to explain their work role, work experience, and view of implementation. Sample characteristics can be useful in future research as well as in the recommendations. The recommendations can also be useful for future implementation situations.

Role

The role of the employees interviewed varied. The interviewees held positions in several areas of the implementation pipeline. Two people worked for the maintenance group, three people for tax policy, and three people were system analysts. All of these people added a different element to the study.

Work Experience

Work experience measured time working with franchise tax and not general work experience. Work experience ranged from eight years to over twenty-five years. Half of the people interviewed had worked ten years or less on franchise tax with the others having worked more than fifteen years. Employees exhibit a wide range of time and experiences.

Cause

The interviewees suggested several different reasons for implementation problems of House Bill 3. One was combined reporting, which was something the agency had a hard time grasping. Two other issues received mention on several occasions. The first of these was the issue regarding technology. The new scanner to process the new forms had some problems, which led to problems with implementation. The implementation process might have run more smoothly if the scanner did not require extra time and

resources. The other issue mentioned several times was the change in administration. With the old administration only in place for six months, the employees knew that nothing they did towards implementing the bill would remain with the new administration. One interviewee spoke of spinning his wheels. Had the same administration been in place throughout, then perhaps the implementation would have been more of a success.

CHAPTER VII: CONCLUSION

Chapter Purpose

The purpose of this chapter is to provide a summary of the research findings of the employee attitudes regarding the implementation of House Bill 3. Comptroller of Public Accounts employees gave their opinions about this implementation. The research findings are based on the analysis of the interviews, document analysis, and a review of the literature. This chapter provides recommendations for improving the implementation process as well as providing direction for possible future research.

Summary of Research

The purpose of this research is to explore the implementation process of House Bill 3 and the directly involved employees' insights regarding the implementation. In order to provide a better understanding of some of the issues of implementation, the research began with a short review of franchise tax in Texas.

Using the literature as a guide, the research developed several areas of concern regarding implementation. These areas led to the development of a set of working hypotheses and interview questions. The first working hypothesis addressed the need for statute clarity in implementation. The hypothesis was broken down into three sub-hypotheses for further research. The sub-hypothesis under working hypothesis one addressed the objectives of the legislation, the communication of information to taxpayers, and the enforcement of the policy. The second working hypothesis examined the external factors affecting implementation. The sub-hypotheses under this section examined the tractability of the problem, the size of the target group, and the media's

affect on implementation. The final working hypothesis addressed the internal agency factors that influenced implementation. Under this hypothesis was the use of institutional knowledge in implementation, the ability to translate policy into practice, and the ability of the agency to train for implementation.

Some of the results of the research were unexpected. Working hypothesis one addresses the clarity of the statute. During the interviews, it was common to hear interviewees express their displeasure with some of the confusing aspects of House Bill 3. At the same time, the interviewees did not provide supporting arguments to suggest that the bill was problematic. The sub-hypotheses of the research determined that parts of the bill actually did a good job in providing the guidance needed to implement the bill. The strongest case against this is that the employees did not agree that the objectives were clearly stated.

Another surprising finding was that under working hypothesis two, even though there was agreement that external factors played a role in implementation, the media did not. Not only did the media not play a significant role in the implementation, but also the findings show that the employees disagree that the media had any affect. The employees believe that the media was a non-factor.

The third working hypothesis supported, with some agreement, that internal agency factors affected implementation. This area of the research was more open to bias than other areas. If someone considering himself or herself a subject matter expert was not in a role in which they felt they would be of use, then that person might feel the system is not conducive to allowing subject matter experts to contribute. Likewise, if

someone was directly involved in training others in the implementation of House Bill 3, then that person's attitude might show favorably on implementation.

Recommendations

The recommendations for improving the implementation process derive from an analysis of the interviews as well as recommendations given directly by those interviewed. Table 7.1 summarizes the results of the employee attitudes regarding implementation and provides recommendations.

Table 7.1: Summary of Findings and Recommendations

Working Hypotheses	Level of Support	Recommendation
WH1a: The objective of the 2006 revised franchise tax was clearly established.	No Support	Improving statute clarity would allow Comptroller employee's to take an active part in the bill development. This participation allows the Comptroller's office to have input into the bill and gives the agency advanced notice. Another recommendation is to address tying the franchise tax to the IRS code. If the code changes the legislature should address it.
WH1b: The implementation of House Bill 3 addressed the communication of information to taxpayers.	Strong Support	No Recommendation
WH1c: House Bill 3 addressed the technique for enforcing the 2006 franchise tax revisions.	Limited Support	Improvement in enforcement is would require the statute to correctly define any unidentified entities.
WH2a: The tractability of the 2006 revised franchise tax affected implementation.	Strong Support	Implementation should concentrate on the meaning of the bill. The interviews suggested new technology hindered tractability of implementation.
WH2b: The additional taxable entities included in the 2006 revised franchise tax affected implementation.	Limited Support	A way to improve implementing a large target group would be to start with converting the entities in the Comptroller's system before importing any new entities. This would allow for some system clean up prior to flooding the system with new entities.
WH2c: The media attention surrounding the 2006 revised franchise tax affected implementation.	No Support	No recommendation.
WH3a: The Comptroller of Public Accounts has a system in place to address	Limited Support	An employee suggested that a Comptroller employee who is a subject matter expert should lead the implementation.

implementation through institutional knowledge.		
WH3b: The agency was able to translate the 2006 revised franchise tax into practical procedures.	Limited Support	Remove third party vendors from the picture.
WH3c: The agency provided enough training to implement the 2006 revised franchise tax.	Limited Support	Implementation should allocate more resources to training. This will allow more people to work on the project while others focus on training.

Employee Recommendations

The interviewees provided several recommendations. One recommendation is that management should make firm decisions in a timely manner. These employees believed that prolonged decisions caused lost valuable time. Another interviewee felt that communication was an issue. The interviewee thought the IT group and the business group did not have enough direct communication. Another recommendation was to start with a small group comprised of one representative from each of the main divisions affected by the implementation. This group would then create an outline to present to other divisions.

The other two recommendations for improving the implementation of House bill 3 were to reorganize the implementation structure and provide more resources. The idea to reorganize the implementation structure derived from the way implementation worked under the old administration. Historically tax policy led implementation with IT being a support group. When the new administration took over, it decided to allow IT to run the implementation. This decision put people in charge who knew a lot about the system and nothing about the tax. The other issue was IT resources. One interviewee's experience

showed that it was counter productive to have a programmer work on a program for a few weeks and when it was complete, move to a new project. If that program needed work, another programmer would arrive instead of the one who had previously worked on the problem. Also, with the intense rewrite, the Comptroller's office needed more programmers exclusively for House Bill 3.

Future Research

This research assessed Comptroller employees' insights on the implementation of House Bill 3. Because the bill passed in 2006 and implementation did not begin until January 1, 2008, little data exists to evaluate the problem quantitatively. It would be appropriate for future research to examine the costs associated with the implementation and compare those costs to the findings from this research.

This research focused on the revised franchise tax in Texas. A recurring issue among employees was that of combined reporting. Only a few states use combined reporting. An interesting study would evaluate the implementation process for the next state to introduce combined reporting. It would appear that as more states go through the implementation process, the easier that process would be.

Another area for future research would be to expand the number of employees used in the study. This study lacked executive level employees and any leaders from IT. It would also be interesting to find out the attitudes of the legislators who sponsored the bill.

The last area of future research that might be helpful would be to do a study examining implementation as directed by IT and compare it with implementation lead by

the business group. The researcher could find out how the two implementation processes differ.

In closing, the implementation of House Bill 3 was a heavy burden for the Comptroller's office to bear. It was a necessary revision to bring in more tax. The legislature achieved its goal of closing the loopholes while raising franchise tax to offset property tax. The agency dealt with revised taxes before and probably approached this revision as it had previous revisions. This bill created new issues and problems with implementation. The initial implementation of House Bill 3 is complete; however, the legislature has now made a few minor changes, which will go into effect January 1, 2010, showing that the implementation is not completely over.

REFERENCES

- Arts, Bas, and Jan Van Tatenhove. 2004. Policy and power: A conceptual framework between the 'old' and 'new' policy idioms. *Policy Sciences* 37, (3/4) (Dec.): 339-56.
- Babbi, Earl. 2007. *The practice of social research*. United States of America: Thomson Wadsworth.
- Black's Law Dictionary* 5th ed. s. v. "Franchise Tax"
- Bohte, John, and Kenneth J. Meier. 2000. Goal displacement: Assessing the motivation for organizational cheating. *Public Administration Review* 60, (2) (Mar. - Apr.): 173-82.
- Bryson, John M., and Sharon R. Anderson. 2000. Applying large-group interaction methods in the planning and implementation of major change efforts. *Public Administration Review* 60, (2) (Mar. - Apr.): 143-62.
- Chackerian, Richard, and Paul Mavima. 2001. Comprehensive administrative reform implementation: Moving beyond single issue implementation research. *Journal of Public Administration Research and Theory: J-PART* 11, (3) (Jul.): 353-77.
- Cline, Kurt D. 2000. Defining the implementation problem: Organizational management versus cooperation. *Journal of Public Administration Research and Theory: J-PART* 10, (3) (Jul.): 551-71.
- Cloete, Fanie. 2003. Assessing governance with electronic policy management tools. *Public Performance & Management Review* 26, (3) (Mar.): 276-90.
- City of Pittsburgh, General Information, Business Privilege Tax: FAQ.
http://www.city.pittsburgh.pa.us/finance/html/faq_business_wage_tax.html
- Comptroller of Public Accounts, Texas Administrative Code. Rule 3.586: Margin: Nexus.
[http://info.sos.state.tx.us/pls/pub/readtac\\$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=34&pt=1&ch=3&rl=586](http://info.sos.state.tx.us/pls/pub/readtac$ext.TacPage?sl=R&app=9&p_dir=&p_rloc=&p_tloc=&p_ploc=&pg=1&p_tac=&ti=34&pt=1&ch=3&rl=586)
- Comptroller of Public Accounts, Texas Franchise Tax: Frequently Asked Questions.
<http://www.window.state.tx.us/taxinfo/franchise/franfaq.html>

Comptroller of Public Accounts, Texas Franchise Tax Revisions: What Changed?

<http://www.window.state.tx.us/taxinfo/franchise/changes.html>

Comptroller of Public Accounts, Revenue Estimate to Governor and Legislature

<http://www.window.state.tx.us/taxbud/cre0809/cre08.pdf>

deLeon, Peter, and Linda deLeon. 2002. What ever happened to policy implementation? an alternative approach. *Journal of Public Administration Research and Theory: J-PART* 12, (4) (Oct.): 467-92.

Elnore, Richard F. 1987. Instruments and strategy in public policy. *Policy Studies Review* 7, (1) (08): 174-86.

Hill, Heather C. 2003. Understanding implementation: Street-level bureaucrats' resources for reform. *Journal of Public Administration Research and Theory: J-PART* 13, (3) (Jul.): 265-82.

Hjern, Benny. 1982. Review: Implementation research: The link gone missing. *Journal of Public Policy* 2, (3) (Aug.): 301-8.

Ingram, Helen, and Anne Schneider. 1990. Improving implementation through framing smarter statutes. *Journal of Public Policy* 10, (1) (Jan. - Mar.): 67-88.

Matland, Richard E. 1995. Synthesizing the implementation literature: The ambiguity-conflict model of policy implementation. *Journal of Public Administration Research and Theory: J-PART* 5, (2) (Apr.): 145-74.

Mazmanian, Daniel A., and Paul A. Sabatier. 1983. *Implementation and public policy*. Printed in United States: Scott, Foresman and Company.

———. 1981. *Effective policy implementation*. The United States of America: D.C. Health and Company.

Meier, Kenneth J. 1997. Bureaucracy and democracy: The case for more bureaucracy and less democracy. *Public Administration Review* 57, (3) (May - Jun.): 193-9.

Meredith, Jack R. 1981. The importance of impediments to implementation. *Interfaces* 11, (4) (Aug.): 71-4.

O'Toole, Laurence J., Jr. 2000. Research on policy implementation: Assessment and prospects. *Journal of Public Administration Research and Theory*: 263-288.

- O'Toole, Laurence J., Jr., and Robert S. Montjoy. 1984. Interorganizational policy implementation: A theoretical perspective. *Public Administration Review* 44, (6) (Nov. - Dec.): 491-503.
- Pressman, Jeffrey L. and Wildavsky, Aaron. 1973. *Implementation: How great expectations in Washington are dashed in Oakland*. London, England: University of Los Angeles Press.
- Ring, Peter Smith, and James L. Perry. 1985. Strategic management in public and private organizations: Implications of distinctive contexts and constraints. *The Academy of Management Review* 10, (2) (Apr.): 276-86.
- Ripley, Randall B., and Grace A. Franklin. 1982. *Bureaucracy and policy implementation*. The United States of America: The Dorsey Press.
- Sabatier, Paul A. 1988. An advocacy coalition framework of policy change and the role of policy-oriented learning therein. *Policy Sciences* 21, (2/3, Policy Change and Policy-Oriented Learning: Exploring an Advocacy Coalition Framework): 129-68.
- Shields, Patricia M. and Tajalli, Hassan, "Theory: The Missing Link in Successful Student Scholarship" (2005). *Faculty Publications-Political Science*. Paper 7.
- Scholz, John T. 1991. Cooperative regulatory enforcement and the politics of administrative effectiveness. *The American Political Science Review* 85, (1) (Mar.): 115-36.
- Schultz, Randall L., Dennis P. Slevin, and Jeffrey K. Pinto. 1987. Strategy and tactics in a process model of project implementation. *Interfaces* 17, (3, Implementation) (May - Jun.): 34-46.
- Spillane, James P., Brian J. Reiser, and Todd Reimer. 2002. Policy implementation and cognition: Reframing and refocusing implementation research. *Review of Educational Research* 72, (3, Standards-Based Reforms and Accountability) (Autumn): 387-431.
- State of Arizona, Licensing and Taxes, STATE TRANSACTION PRIVILEGE TAX (TPT)/LICENSE.
<http://www.azcommerce.com/BusAsst/SmallBiz/SBS/F1/TransactionPrivilegeTax-TPT-Licensing.htm>
- State of Arizona, Summary of Arizona Taxes, Arizona Privilege Tax.
<http://www.azdor.gov/Portals/0/Brochure/010.pdf>
- State of Texas, Tax Code, Chapter 171: Franchise Tax.
http://www.window.state.tx.us/taxinfo/franchise/Chapter_171.pdf

The Texas Constitution 1876. . Vol. Article 7.

Walker, Warren E. 1982. Models in the policy process: Past, present, and future. *Interfaces* 12, (5) (Oct.): 91-100.

Whitford, Andrew B. 2007. Decentralized policy implementation. *Political Research Quarterly* 60, (1) (Mar.): 17-30.

Williams, Walter, Richard F. Elmore, John Stuart Hall, Richard Jung, Michael Kirst, Susan MacManus, Betty Jane Narver, Richard P. Nathan, and Robert K. Yin. 1982. *Studying implementation: Methodological and administrative issues*. New Jersey: Chatham House Publishers, Inc.

Wilson, Carter A. 2000. Policy regimes and policy change. *Journal of Public Policy* 20, (3) (Sep. - Dec.): 247-74.

Yin, Robert K. 2009. *Case study research: Designs and methods*. United States: SAGE publications Inc.