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PERFORMANCE-BASED ORGANIZATIONS

Issues for the Saint Lawrence Seaway Development Corporation Proposal

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The Honorable Ted Stevens, Chairman
The Honorable Robert Byrd
Ranking Minority Member
Committee on Appropriations
United States Senate

The Honorable John McCain, Chairman
The Honorable Ernest Hollings
Ranking Minority Member
Committee on Commerce, Science and Transportation
United States Senate

The Honorable Bob Livingston, Chairman
The Honorable David Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

The Honorable Bud Shuster, Chairman
The Honorable James Oberstar
Ranking Minority Member
Committee on Transportation and Infrastructure
House of Representatives

Congress and the administration have introduced various approaches in recent years to make federal agencies more results oriented and federal managers more accountable for results. One approach proposed by the administration is the performance-based organization (PBO) concept, inspired by the Next Steps program that the British government introduced in the late 1980s.

As directed by the House conference report on fiscal year 1997 appropriations for the Department of Transportation (DOT) and Related Agencies dated September 16, 1996, and on the basis of our discussions with your offices, this report (1) compares the characteristics of the Next Steps program and the PBO concept and (2) describes the changes and effects the PBO concept potentially could have on the Saint Lawrence Seaway Development Corporation (SLSDC). More specifically, we examined how PBO status would potentially affect SLSDC's financing mechanism, management structure, accountability for performance, including safety and regional economic impact, and congressional oversight.

Because the PBO concept was still in the proposal stage, the PBO information in our comparisons and discussions is largely based on PBO concept papers and proposals; template legislation; policy papers written by officials at the National Performance Review (NPR), Office of Management and Budget (OMB), DOT, and SLSDC; and our interviews with many of these individuals. Information on the Next Steps program is from relevant literature, including assessments made by both the public and private sectors in the United Kingdom.

Results in Brief

The administration has proposed the creation of PBOs modeled after the British Next Steps program, which reportedly has contributed to the significant improvement in performance and reduction in costs in British agencies during the 1990s. The Next Steps program and the PBO concept share certain characteristics, including the relationship of the Next Steps agency or PBO agency to its parent department. For example, both are intended to separate the delivery of services (the agency's role) from policy functions (the department's role) and to hold agencies more accountable for results. However, important differences exist between the Next Steps program and PBO concept. For example, according to NPR officials, one of the primary goals of the Next Steps program has been to reduce costs, although that is not a major goal of the PBO concept.

While the U.S. government has been developing the PBO concept, the British government has continued to grapple with certain issues related to the Next Steps program that may be of particular interest to Congress and the administration as they consider the PBO concept. These issues include the (1) lack of clarity in relationships between agencies and their parent departments, (2) difficulty in developing and setting performance goals, and (3) uncertainty concerning who is accountable for performance.

SLSDC is one of the administration's initial candidates for PBO status. According to SLSDC officials, it is seeking PBO status for several reasons: (1) a more predictable and stable funding mechanism, (2) an accountable senior management structure working under a performance contract with clear incentives to improve efficiency and service, and (3) increased autonomy from day-to-day DOT activities and reporting requirements.

SLSDC's primary funding mechanism would change under the administration's proposed legislation from annual congressional appropriations to mandatory, formula-based payments based in large measure on the tonnage moved through the Seaway. SLSDC officials said they needed stable funding to develop a more aggressive maintenance program and to increase the capital reserve fund, which has been used in recent years to help finance multiyear maintenance programs. SLSDC officials estimated that, under the proposed formula, annual payments would increase from an estimated $11.2 million in fiscal year 1998 to $12.8 million in fiscal year 2002. However, the formula-based payment is not without some risk to SLSDC—if tonnage does not increase as estimated, annual payments would fall short of SLSDC's projections and could decline.

The proposed mandatory funding mechanism would change the relationship between Congress and SLSDC. Under the SLSDC PBO proposal, Congress' role would be reduced in setting SLSDC's funding levels and determining how those funds should be used once the formula has been enacted. Further, this mandatory funding would reduce Congress' ability to adjust program priorities and to allocate resources for other purposes. Considering the relatively small size of SLSDC's budget, the dollar effect of this change would not be great. However, the shift from a discretionary account to mandatory funding raises an issue of precedence in budget policy that Congress may view as a greater concern.

Moreover, the harbor maintenance tax which is paid into the Harbor Maintenance Trust Fund, the source of current appropriations for SLSDC and the source for the proposed mandatory payments, has been ruled unconstitutional by the U.S. Court of International Trade, and the ruling has been appealed.[1] This legal challenge further complicates the decision on whether to have SLSDC become a PBO under the proposed mandatory payment mechanism because, while the ruling would affect the source of funding, the ruling would not affect the mandatory funding formula.

SLSDC's PBO proposal presents several changes in the area of accountability. For example, as a PBO, the leadership of SLSDC would change from a presidentially appointed and congressionally confirmed administrator to a chief operating officer, competitively selected by and accountable to the Secretary of Transportation, with pay and job security tied to the achievement of detailed performance goals. The chief operating officer could be more easily removed for inadequate performance than a presidentially appointed administrator. However, Congress would no longer have a formal role in selecting the chief operating officer, as it now does in approving nominees for administrator through the Senate confirmation process.

[1] United States Shoe Corp. v. U.S., 907 F. Supp. 408 (1995).

SLSDC officials also want changes to SLSDC's management structure which are to provide greater autonomy from DOT activities and requirements to free up staff for SLSDC's primary mission of ensuring safe and reliable navigation through the Saint Lawrence Seaway System and the Great Lakes. As a PBO, SLSDC expects to gain greater independence from DOT, such as freedom from participating in DOT committees and reporting requirements. Because DOT imposed many of the requirements from which SLSDC is seeking relief, the department has the authority to grant SLSDC relief without PBO status. However, department officials are reluctant to do so.

PBOs in general are to result in improved organizational performance; however, there are no clear indications of how PBO status would improve SLSDC's performance. Although general performance goals, objectives, and measures have been drafted for SLSDC's four performance areas (safety, long- and short-term reliability of the Seaway system, trade development, and customer service and fiscal performance), performance improvement targets for those goals have generally not been established and would need to be negotiated by the leadership of the PBO and the department. However, SLSDC officials expect PBO status to result in a more efficient operation by eliminating programs and cost areas that do not fully support performance goals. We do not expect major changes in regional economic impacts since the changes expected to occur as a PBO would not directly influence the factors that affect regional impact.

Background

In 1988, the British government assessed the progress of its ongoing public management reform initiatives and decided to expand its reform efforts. The expanded reforms, commonly referred to as the Next Steps program, were initiated in response to the government's desire to transform the public sector into one in which services are provided through markets or market-like arrangements and managed by people with the resources and authority to provide the services for which they are accountable. The reforms also were in response to the government's desire to streamline the central government, which was found to be burdened by high operating costs and a workforce that was too big and insufficiently focused on results.

The Next Steps Program Development and Evaluation

The aim of the Next Steps program is to improve the delivery of government services, obtain better value for the taxpayers' money, and give staff more satisfying work and working conditions. Under the Next

Steps program, a department's service delivery functions are broken into discrete management units, referred to as Next Steps agencies. Agencies are responsible for delivering their respective services and are accountable to the parent department for their performance. Policies are to be made by parent departments. In short, Next Steps seeks to (1) separate service delivery from policy functions, (2) give agencies more flexibility and autonomy, and (3) hold agency managers accountable for results.

The Next Steps program has become the British government's predominant form of service delivery, with about 71 percent of civil servants employed in Next Steps agencies as of 1996. Next Steps agencies numbered 125 in 1996, and ranged in size from 25 employees to nearly 69,000 employees. Because of Great Britain's unitary form of government, some Next Steps agencies perform functions that are generally not performed at the federal level in the United States. Such agencies include Driver and Vehicle Licensing, Fire Service College (training for the United Kingdom Fire Service), and the Vehicle Certification Agency. However, other Next Steps agencies are more directly comparable to U.S. federal functions. These include the Royal Mint, the Social Security Benefits Agency, the United Kingdom Passport Agency, and the Patent Office. According to an NPR review, Next Steps agencies have reduced operating costs an average of 5 percent each year while continuing to maintain or improve services to the public.

PBO Development and Requirements

According to the NPR, the proposal to create PBOs in the U.S. government has been adapted from the Next Steps program. In explaining the need for PBOs, the Vice President said that, while much of government can and should operate more the way a top-notch business does, systems of government presently do not allow them to operate in that manner. PBOs will change those systems, he said.

According to NPR, a PBO is to be a discrete management unit that commits to clear management objectives, measurable goals, customer service standards, and specific targets for improved performance. The unit is to remain in its current department under the policy guidance of the department secretary. As appropriate to the specific PBO, waivers may be sought from governmentwide regulations, policies, and procedures.

As PBOs, agencies are expected to shift from a focus on adherence to required processes to a focus on customers and achieving program results.

According to NPR, this can be done by (1) establishing clear measures of performance (as also required by the Government Performance and Results Act of 1993 (GPRA)), (2) granting the head of the agency authority to deviate from specified governmentwide rules, and (3) holding the head of the agency clearly accountable for achieving results. Legislation is required to charter PBOs; none were chartered as of March 1997.

According to NPR, there are several prerequisites for an agency to become a PBO candidate. It must (1) have a clear mission, measurable services, and a performance measurement system in place or in development; (2) generally focus on external, not internal, customers; (3) have a clear line of accountability to an agency head who has policy accountability for the functions; (4) have top-level support to transfer a function into a PBO; and (5) have predictable sources of funding.

SLSDC as a PBO Candidate

SLSDC is one of nine PBO candidates in the President's fiscal year 1998 budget. (A complete listing of the candidates is included in app. I.) SLSDC is responsible for ensuring safe and reliable navigation, primarily for commercial vessels, through the Saint Lawrence Seaway System and the Great Lakes. The Seaway System is comanaged for the United States and Canada by SLSDC and the Canadian Saint Lawrence Seaway Authority. SLSDC has direct responsibility for Seaway operations between Montreal, Canada, and Lake Ontario.

SLSDC is a relatively small component within DOT, with a fiscal year 1997 appropriation of $10.3 million and a workforce of 164 employees. Of these employees, 147 are located in Massena, NY, next to the waterway; and 17 are employed at SLSDC's headquarters in Washington, D.C. Officials from SLSDC and NPR said they believe there is value in SLSDC being a PBO model for other government agencies, and that the Seaway would be a low-risk pilot because it already has a corporate culture, operates in a businesslike manner, and has a small budget.

Scope and Methodology

The House conference report on fiscal year 1997 appropriations for the Department of Transportation and Related Agencies dated September 16, 1996, directed us to evaluate the PBO concept, with a specific emphasis on SLSDC. We coordinated our work with the congressional subcommittees that fund and oversee SLSDC: (1) the Subcommittee on Transportation, Senate Committee on Appropriations; (2) the Subcommittee on Surface Transportation and Merchant Marine, Senate Committee on Commerce, Science and Transportation; (3) the Subcommittee on Transportation, House Committee on Appropriations; and (4) the Subcommittee on Water Resources and Environment, House Committee on Transportation and Infrastructure. As agreed with these offices, our specific objectives were to (1) compare the characteristics of the Next Steps program and the PBO concept; and (2) describe the changes and effects the PBO concept potentially could have on the Saint Lawrence Seaway Development Corporation's financing mechanism, management structure, and accountability for performance including safety and regional economic impact, and on congressional oversight.

To accomplish our first objective, we reviewed reports and studies from both the public and private sectors of the United Kingdom,[2] the NPR, the National Academy of Public Administration, and the Congressional Research Service. Some of these reports provided information on the history, implementation, operation, and evaluation of the Next Steps agencies. Other reports and studies provided information on the concept and history of the U.S. PBO effort. In addition, we interviewed officials from OMB, the Office of Personnel Management (OPM), and NPR about PBOs and their relationship to Next Steps agencies.

To meet our second objective, we reviewed numerous DOT and SLSDC reports, which provided the key principles for establishing SLSDC as a PBO, and the management, financing, and budgeting implications for transition to a PBO. These reports included SLSDC's PBO concept paper, proposed administrative framework agreement, and financial plan; budget estimates; proposed legislation; and an economic impacts study. These papers laid out the foundation that we used to determine the potential effects to SLSDC of becoming a PBO. However, DOT and administration officials stressed that the PBO concept generally and the SLSDC proposal in particular are evolving. Thus, as these proposals change, the potential effects might also change.

In addition, to better understand the PBO concept, SLSDC proposal, and its governmentwide and Seaway specific implications, we met with senior managers of DOT and SLSDC, both in Washington, D.C., and Massena, NY. We also met with key officials in OMB, OPM, and NPR; the Executive Board of the American Federation of Government Employees Local 1968, which

[2]These studies include Improving Management in Government: The Next Steps (Mar. 1988); Making the Most of Next Steps: The Management of Ministers' Departments and their Executive Agencies (May 1991); Sylvie Trosa, Next Steps: Moving On (Feb. 1994); After Next Steps: The Massey Report (Jan. 1995); The Strategic Management of Agencies: Models for Management (Sept. 1995); Next Steps Agencies in Government Review 1995 (Feb. 1996); and Next Steps Briefing Note (Apr. 1996). Most of these studies are procurable through Her Majesty's Stationary Office, Publications Centre, London.

represents SLSDC's union employees; and a senior official at the Canadian Embassy in the U.S. (regarding the binational nature of the Seaway). Further, we spoke with representatives from seven Seaway user groups and interviewed staff of interested congressional representatives of the Great Lakes area to obtain their views on the proposed PBO and its potential consequences. While in Massena, we visited the Eisenhower and Snell locks and Seaway facilities to observe current maintenance projects and learn how future capital plans would affect lock operations.

One of the proposed PBO changes that the congressional committees specifically asked us to examine was the mechanism for financing SLSDC operations and its treatment under the Budget Enforcement Act of 1990. SLSDC provided us with an analysis of the amount of funding it would have received had the PBO funding mechanism been in place for fiscal years 1993 through 1997 and would expect to receive for fiscal years 1998 through 2002. We compared these funding estimates with the amount of the appropriation SLSDC actually received during fiscal years 1993 through 1997 to illustrate the potential impact of the PBO funding mechanism. We did not independently verify SLSDC's PBO funding estimates.

We did our work in Massena, NY, and Washington, D.C., from October 1996 through March 1997 in accordance with generally accepted government auditing standards. In April 1997, we provided the Secretary of Transportation and the Director of OMB with a draft of this report for review and comment. DOT and OMB comments are included with our evaluation at the end of this letter.

Comparison of Next Steps and PBO Characteristics

Congress and the administration have introduced various approaches in recent years to make federal agencies more results oriented and federal managers more accountable for results. For example, the Government Performance and Results Act of 1993 requires agencies to set goals, measure performance, and report on their accomplishments. More recently, the administration has proposed the formation of PBOs, which the administration said were based on the British government's Next Steps program.

Information contained in relevant literature illustrated that the Next Steps program and the PBO concept are constructed alike in many important ways, but not in all. Both the Next Steps program and the PBO concept require a discrete organizational unit to provide the agreed-upon service that separates policymaking from provision of the service. In exchange for greater accountability for results, PBOs and Next Steps agencies are to be granted more flexibility than conventional agencies, such as the authority to deviate from certain personnel and procurement processes. Next Steps agencies and potential PBOs are similar in their management structure and accountability. Both are to be led by a chief executive (under PBOs to be called the chief operating officer) who is competitively selected and annually evaluated on the basis of performance and whose pay and job security are directly tied to that performance. In both cases, the chief executive is to be directly accountable to the head of the parent department, which is accountable to Parliament, or Congress and the President.

Despite the similarities in overall structure, the underlying philosophies of Next Steps and PBOs differ in some important respects. For example, a key difference is that Next Steps agencies have a goal of reducing costs each year, while the PBO concept as articulated by the administration has a major goal of improving performance rather than reducing costs. However, senior OMB officials told us there is nothing inherent in the concept that precludes future PBO candidates from having a goal of achieving significant cost reductions.

A further difference in Next Steps and the PBO concept is the continuing assessment of whether the service function should remain in the government or not. Under the Next Steps program, agency charters are to be reviewed at 3- to 5-year intervals or during major shifts in the policy environment. As part of that review, the government is to determine if the service should be continued and, if so, whether it should be provided by the private sector or by the Next Steps agency. The PBO concept is intended to work somewhat differently. Within 5 years of operation, an evaluation is to be made to determine if the PBO (1) should continue as a PBO or (2) return to the traditional structure in the department.

Unresolved Issues From Assessments of Next Steps

As the British government has designed and implemented its Next Steps program, it has confronted several difficult challenges with which it continues to grapple, according to reports and evaluations from both the public and private sectors of the United Kingdom. Information on these issues may be useful to Congress and the administration as they consider the PBO concept. These issues include agency and department roles, performance goals, and accountability.

Agency and department roles. Although the Next Steps program began in 1988, the roles of the Next Steps agencies and their parent departments often remain unclear, according to British program evaluations, because of the problems inherent in trying to separate roles.[3] For example, some Next Steps agencies believed they had the flexibility to change functions, while the parent departments believed they had the authority to prevent those changes. Some agencies have characterized parent departments as bureaucratic obstacles, while some departments have characterized Next Steps agencies as separate little kingdoms, as stated in one report.[4]

These evaluations identified policymaking as one area in which agencies and parent departments endure confusion of their roles. They indicated that, while in theory departments make policies and agencies implement those policies, there has not always been a clean separation between policymaking and implementation. Management decisions made by agencies sometimes have had an impact on policy choices made by the departments, according to evaluations. For example, if an agency's target is to reduce an operating deficit, it may propose to do so by creating a user fee. While this proposal may be viewed as a decision of agency management on how to implement the policy of reducing an operating deficit, it could also be viewed as making a policy decision on the type of public program where user fee funding is appropriate.

The British government has taken steps to address these issues, but with limited success, according to studies. One mechanism has been the establishment of the "Fraser Figure," a senior officer who is to interface between the agency and the department. One evaluation explained that although the Fraser Figure is used in 40 percent of the Next Steps agencies, this process has not worked well because the officer rarely represents the views of both the department and agency in a balanced way and does not have adequate staff to coordinate activities. Another mechanism is advisory boards, which have been used in 30 percent of the Next Steps agencies, also with limited success. Advisory boards are extremely diverse in composition, ways in which they work, and in their objectives, as studies have indicated. For example, boards tend to be unbalanced in their advisory and monitoring responsibilities, emphasizing one over the other. Less than 25 percent of the Next Steps agencies use a combination of the Fraser Figure and advisory boards.

[3]Trosa, Next Steps: Moving On (Feb. 1994) and After Next Steps: the Massey Report (Jan. 1995).

[4]Trosa, Next Steps: Moving On (Feb. 1994).

Performance goals. The performance goals and targets for the Next Steps agencies are set through negotiations between the agency and department, according to British evaluations. However, the British experience has underscored that public sector performance measurement is a complex, iterative process that involves a number of competing considerations.

A British evaluation suggested that three major concerns have arisen in connection with Next Steps goal setting.[5] First, goal setting does not always reflect what is realistic as much as adding incremental improvements to prior results. There can be a tension between the agency and department over the target, with departments generally wanting more ambitious improvement targets, the study indicated. Second, difficulties exist over what exactly to measure when measuring core activities of Next Steps agencies. The evaluation showed that performance measures frequently focus on what agencies can measure, not what is most important in assessing performance. In addition, some targets, such as efficiency and quality, may even be in conflict with each other, requiring a careful balance. Third, the study stated that target setting can create difficulties when used in a mechanistic way and without appropriate evaluation. For example, using unmet targets to criticize agencies, rather than attempting to examine the reasons why the targets were not reached, may simply lead agencies to establish more easily achievable targets. The same would be true if targets were used to make automatic decisions, such as performance-related pay. The British government published "The Strategic Management of Agencies: Models for Management" in September 1995 to provide advice and best practice guidelines on target setting, such as balancing the dimensions of output, time, quality, and cost.

Accountability. A recent British study states that Next Steps has increased agencies' accountability to Parliament by making roles clearer and by providing much more information through the publication of each agency's framework document, key annual targets, and annual report.[6] However, as noted, the distinction between administration and policy often remains unclear in assessing accountability, being described as a "complex web of issues."[7] The distinction is unclear because of the inherent difficulties departments and agencies face in defining their separate roles. For example, because policies and their implementation are inherently linked—the study continued—it is difficult at times to

[5]Trosa, Next Steps: Moving On (Feb. 1994).

[6]Next Steps Briefing Note (Apr. 1996).

[7]After Next Steps: the Massey Report (Jan. 1995).

distinguish who is truly responsible for an outcome, the department minister who makes the policy or the agency chief executive who implements the policy. Questions have arisen on whether a poor result was due to poor policy or inadequate implementation and on who was ultimately accountable for the resulting performance. To mitigate this concern, the British government has encouraged greater collaboration between ministers and chief executives, facilitated by Fraser Figures.

Potential Effects of PBO Status on SLSDC

SLSDC officials told us that it is seeking PBO status for several reasons: (1) a more predictable and stable funding mechanism, (2) an accountable senior management structure working under a performance contract with clear incentives to improve efficiencies and service, and (3) increased autonomy from day-to-day DOT activities. Officials from SLSDC and NPR also said that the Seaway would be a low-risk pilot because it already has a corporate culture, operates in a businesslike manner, and has a small budget.

Funding Mechanism

SLSDC currently is funded from three sources: (1) annual appropriations from the Harbor Maintenance Trust Fund (HMTF), (2) SLSDC's capital reserve, and (3) miscellaneous revenue such as interest on the capital reserves. However, the primary funding is made through annual appropriations, which are paid out of the HMTF.[8] In requesting funds, SLSDC goes through DOT and OMB and is subject to the budget decisions of these two agencies as well as Congress.

Under the PBO proposal, the funding mechanism for SLSDC would change from annual congressional appropriations to mandatory, formula-based payments, based in large measure on the tonnage moved through the Seaway. SLSDC officials told us that this change in funding is a major reason for pursuing PBO status. They believe mandatory payments would give them more reliable and forecastable funding and that SLSDC needs such stability to better plan operations, maintenance, and capital improvements. Of course, Congress could provide a more stable funding stream through the annual appropriations process without making SLSDC a PBO. In addition to the stability the formula would provide, SLSDC estimates of formula-based funding over the next 5 years indicate that funds could increase yearly, based on projected tonnage figures. However, SLSDC

[8]HMTF was established by the Harbor Maintenance Revenue Act of 1986. Under law, the Fund's revenue is primarily derived from an appropriation equivalent to amounts received from an ad valorem tax (user fee) on commercial cargo loaded and unloaded at specified U.S. ports open to public navigation.

officials told us that the projected tonnage figures were “rough estimates,” and if tonnage actually declined then funding could also decline.

This proposed funding would be made through a mandatory payment from the HMTF, which is financed through the harbor maintenance tax. This tax has been ruled unconstitutional by the U.S. Court of International Trade. The court’s ruling was appealed and is pending in the U.S. Court of Appeals for the Federal Circuit. The ultimate ruling on this issue could affect SLSDC’s current funding since its appropriations now come from that fund. However, should the ruling be upheld, under the PBO formula-based funding mechanism, SLSDC’s formula would provide for a certain level of funding even though no tax would be collected.

The proposed PBO funding would be based on a formula that considers shipping tonnage on the Saint Lawrence Seaway and inflation. Specifically, the proposed formula is the 5-year average of U.S. international tonnage (in metric tons) moved through the Seaway multiplied by a factor of 1.076 and adjusted for inflation by the percentage difference between the Consumer Price Index for all urban consumers for the first quarter of calendar year 1996 and for the first quarter of the calendar year in which an annual payment is determined.

SLSDC officials told us that the proposed funding mechanism is not without risk to the agency because it is dependent upon Seaway traffic. However, they also felt that the formula, because of its 5-year rolling average, would provide a more predictable funding mechanism than annual appropriations. On the basis of information provided by SLSDC, as shown in table 1, if the PBO formula had been in effect in past years, the formula would have provided less than appropriations in some years and more in others. For the 5-year period of 1993-1997, there is, on average, no difference between appropriations and the PBO formula. Because it is unknown what Congress might appropriate for SLSDC over the 1998-2002 period, we cannot compare appropriations and the PBO funding formula for future years. However, as shown in table 1, SLSDC officials estimate that the funding from the formula will increase each year over the next 5 years, reaching a level of $12.8 million in fiscal year 2002.

Table 1: SLSDC Actual and Projected Funding for Fiscal Years 1993-2002

Current dollars in millions

Fiscal year	Appropriation	PBO formula	Difference between PBO formula and appropriation
1993	$10.7	$10.5	$-0.2
1994	10.8	10.4	–0.4
1995	10.2	10.3	+0.1
1996	9.9	10.6	+0.7
1997	10.3	10.1	–0.2
1998	None under PBO[a]	11.2	[b]
1999	None under PBO	12.0	[b]
2000	None under PBO	12.6	[b]
2001	None under PBO	12.8	[b]
2002	None under PBO	12.8	[b]

[a]In the President's budget request for fiscal year 1998, no appropriation is requested for SLSDC since financing is proposed to be derived from an automatic annual payment from the HMTF.

[b]Not applicable.

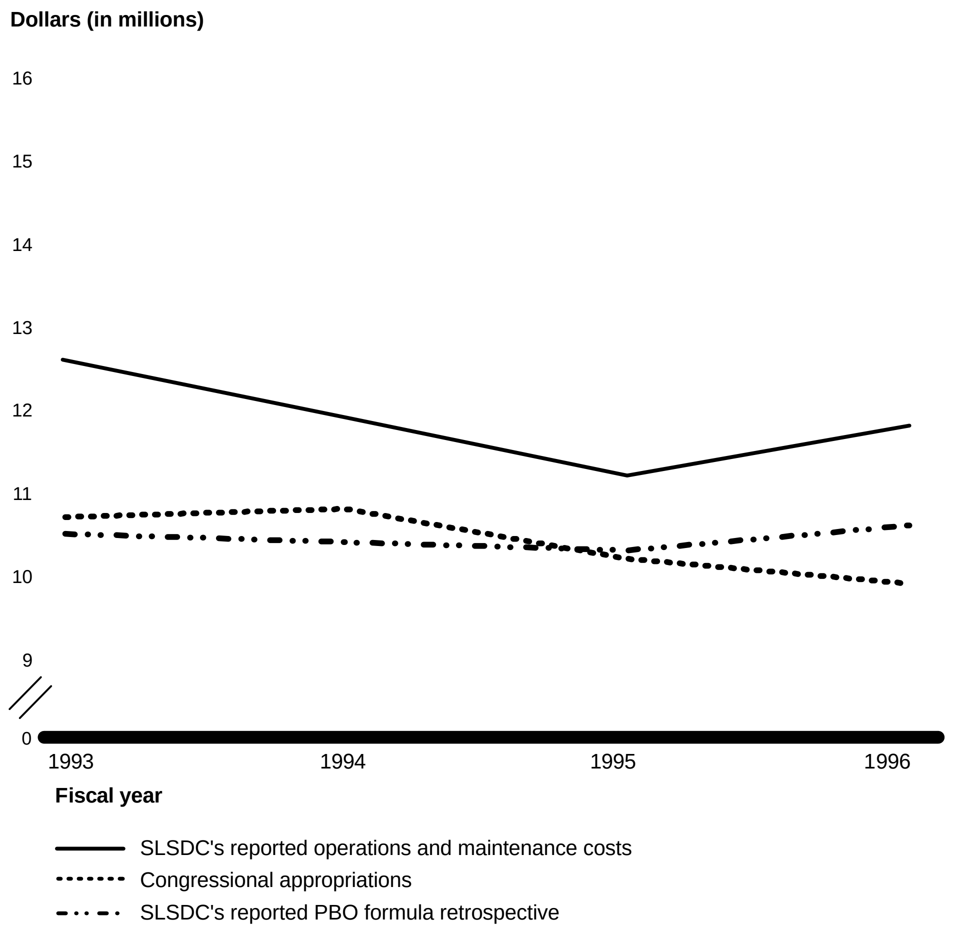
Source: SLSDC.

Essentially, SLSDC officials worked backwards from an estimate of the amount of funds they thought they needed in fiscal year 1997 to generate the funding formula, according to SLSDC and OMB officials. The formula came about through negotiations among officials from DOT, SLSDC, and OMB. SLSDC estimated the level of funding it believed it needed in 1997 to operate and maintain the Seaway and OMB tied that funding need to tonnage through an adjustment factor.

SLSDC officials cite the failure of recent appropriated funds to fully cover costs and the resulting drawdown of its capital reserves as supporting the need for new, more stable funding. The Harbor Maintenance Revenue Act, which created the HMTF, authorized the trust fund to fully finance SLSDC's operation and maintenance costs. However, according to SLSDC officials, the HMTF has not fully funded operation and maintenance costs since 1987. Figure 1 shows SLSDC's actual operations and maintenance costs, HMTF appropriations, and a retrospective look at what the level of funding would have been if the PBO funding formula had been in effect for fiscal years 1993 through 1996.[9]

[9]Table 1 provides data for HMTF appropriations and the retrospective PBO funding. Actual operations and maintenance costs for fiscal years 1993 through 1996 are $12.6 million, $11.9 million, $11.2 million, and $11.8 million respectively.

Figure 1: Comparison of O&M Costs, HMTF Appropriations, and Retrospective Application of the PBO Formula



Source: SLSDC.

As shown in figure 1, SLSDC has had to augment its appropriations with capital reserves and miscellaneous revenue to cover its operations and maintenance costs. According to SLSDC officials, it is important to have a stable, predictable funding source so that the agency would be able to better plan for multiyear operations, maintenance, and capital improvement projects. The Seaway facilities are about 40 years old and, according to SLSDC officials, require a lead time for ordering and building unique parts. Over time, the aging lock and machinery facilities and the long-term concrete deterioration problems require an aggressive preventive maintenance program, according to officials. Because the formula would allow better forecasting of revenues, SLSDC officials said they believe they could develop a more aggressive maintenance program.

SLSDC's capital reserve fund has allowed SLSDC to smooth out fluctuations in appropriations and lower-than-anticipated miscellaneous revenue. SLSDC officials told us that because of the HMTF appropriations shortfalls, SLSDC has been using its capital reserves, interest, and other revenue to finance operations and maintenance. Table 2 provides data on the fluctuations of this fund.

Table 2: Capital Reserve Fund Balance and Drawdowns

Fiscal year	Reserve balance[a]	Significant reserve drawdowns
1985	$12.9	None
1986	10.9	Concrete rehabilitation-$2.1 million
1987	8.9	Basic operating expenses, transition year from tolls-$2 million
1988	10.1	None
1989	11.5	None
1990	11.1	Corps of Engineers structural evaluation study-$318,000
1991	11.6	None
1992	12.6	None
1993	11.9	Channel maintenance dredging-$528,000
1994	11.8	Concrete repair-$192,000
1995	11.9	None
1996	11.2	Concrete repair and workboat purchase-$700,000
1997	10.0 (estimate)	Equipment replacement and capital outlay programs-$1.2 million

[a]Dollars in millions.

Source: SLSDC.

SLSDC officials told us it is important to maintain a level of $12 million in the capital reserve fund, since this is the amount needed to replace two gates. Under the PBO funding mechanism, SLSDC estimates the capital reserve account could increase by yearly amounts varying from $680,000 in fiscal year 1998 to $1.58 million in fiscal year 2000. By the end of the initial 5-year PBO period, SLSDC estimates that the combined effect of the annual increases and the drawdowns would result in a capital reserve fund's balance of $11.5 million.

The change in funding would bring about several potential effects, which raise questions of budget policy. SLSDC now competes for funding with other discretionary programs in the budget, as well as within the DOT budget. However, the legislation would change SLSDC from a discretionary to a mandatory program.[10] Providing mandatory funding for SLSDC would reduce Congress' ability to adjust program priorities and to allocate resources for other purposes. Considering the relatively small size of SLSDC's budget, the effect of this change would not be great; however, the precedent may be of greater concern.

The Statement of Purpose and Need accompanying the proposed legislation stated that OMB would score the bill as having a net effect of zero because the bill would reduce discretionary spending caps. However, after our audit work was completed, OMB officials told us that the administration would soon release a revised version of SLSDC's PBO legislation. We were told that the revised legislation, when issued, would no longer contain the provision for reducing the discretionary spending cap. Rather, according to OMB officials, SLSDC funding would still be treated as a mandatory payment and would require an offset by cutting spending in other mandatory programs or increasing revenue. This raises an additional budget policy issue, beyond the creation of a new mandatory program—how the increase in spending would be offset by cuts in other mandatory programs or increases in taxes.

Management Structure

PBO status would change the managerial leadership of SLSDC from an appointed administrator to a contracted-for chief operating officer. Currently, SLSDC is headed by a presidentially appointed administrator who serves a 7-year fixed term and reports directly to the Secretary of Transportation. As a PBO, SLSDC would be led by a chief operating officer who would be competitively selected by the Secretary of Transportation and would be accountable for delivering results that are spelled out in the chief operating officer's contract. Pay and job security would be tied to performance, as measured through such objectives as efficiency, cost, and service. The chief operating officer of SLSDC would be directly accountable to the Secretary of Transportation who would, in turn, continue to be

[10]The proposed bill would reduce discretionary caps for fiscal year 1998 by $11.2 million in budget authority and outlays. Comparable amounts for fiscal years 1999-2002 are $12.0 million, $12.6 million, $12.7 million, and $12.8 million respectively.

accountable to Congress and the President for the activities and performance of the SLSDC PBO.

British evaluations of Next Steps have shown that developing and monitoring a chief executive's contract is a long-term and iterative process. Since SLSDC is a relatively small part of the Department of Transportation, the Secretary may have to spend a disproportionate amount of time to craft and monitor a chief operating officer's contract with specific and measurable performance goals. This degree of oversight and accountability has not been applied before to SLSDC. Furthermore, if SLSDC is one of the first PBOs, administration architects of PBOs may pay particular attention to the development of the contract since it could be a model for other PBOs.

As a PBO, SLSDC expects to have greater autonomy from DOT. SLSDC is part of DOT and as such, DOT requires participation in its activities and reporting requirements. According to SLSDC officials, SLSDC personnel are getting pulled into departmental initiatives and away from the primary mission of SLSDC. For example, according to one SLSDC official's rough estimate, SLSDC was required to participate in 60 DOT committees within a 1-year period. SLSDC officials said that since its Washington office is so small (17 employees, including the Administrator and her staff), participation in DOT functions places a disproportionate burden on SLSDC staff. DOT provided us with a list of reporting requirements for SLSDC, which included 93 reports that are either legislated, required by DOT, or required by other agencies. This list includes for example, reports on Earth Day event planning, the Interagency Council on the Homeless, vehicle lease agreements, and the DOT annual report. The SLSDC Administrator said she believed many of the reports could be eliminated under PBO status, although DOT and SLSDC officials would have to negotiate which reports would be eliminated and which would remain.

Under the PBO proposal, SLSDC would remain part of DOT but have greater independence from the Office of the Secretary. In addition to the reporting requirements previously discussed, SLSDC generally would not clear its reports through the Office of the Secretary or participate in the department's various multimodal transportation groups. This would make more staff resources available to work on SLSDC's core mission, according to SLSDC officials. However, the degree of independence would depend on negotiations between officials of SLSDC and DOT.

Many of the reporting requirements between DOT and SLSDC were imposed by DOT. Therefore, SLSDC could seek waivers from DOT to eliminate some or all of these reporting requirements. Eliminating some requirments does not require making the agency a PBO. However, SLSDC officials told us that because of its size, it is sometimes difficult to get an audience with DOT officials, and DOT officials have not been receptive to granting waivers. DOT officials confirmed this, saying they generally would not look favorably on requests for relief from participating in departmentwide initiatives and reporting requirements because the department does not want to set the precedent of relieving any of its administrations from crosscutting departmental requirements.

The PBO concept also provides flexibilities from governmentwide personnel and procurement requirements. These flexibilities are intended to give managers greater freedom in achieving their performance goals. According to SLSDC managers, the corporation does not expect many changes as a PBO in this regard.

Concerning personnel flexibilities, approximately two-thirds of SLSDC's employees belong to a union and, although the PBO legislation would allow for changes, the personnel practices affecting the bargaining unit would not change unless the contract was renegotiated. For the remaining one third, SLSDC would have more flexibility regarding personnel and plans in particular to explore developing and implementing innovative performance and pay systems. Also, SLSDC would no longer be subject to externally imposed employment ceilings and would be able to hire more employees as needed within the limits of its budget.

As for procurement, the PBO proposal states that SLSDC does not make large numbers of major procurements, and the existing rules have not posed a problem, although there could be some changes in procurement actions as a PBO. For example, under the PBO legislation, SLSDC could direct the majority of its procurement actions to vendors in Massena and the Great Lakes region.

Even as a PBO, SLSDC would still remain in DOT. The PBO concept follows the British Next Steps program in attempting to separate policymaking (in this case, by DOT) from the carrying out of services (in this case, by SLSDC). SLSDC has started to work on this separation by drafting a list dividing up the functions to be performed by itself and DOT under the PBO concept.

According to evaluations of the Next Steps experience, the relationship between the agency and its parent department is not always clear. Even when it appears roles are clearly defined, such as the case of policy (department) versus implementation (PBO), there will still be overlap of those roles. As previously discussed, determining the appropriate distribution of roles and responsibilities between SLSDC and DOT would likely take time, involve trial and error, and need to be continuously reassessed as new issues arise. For example, SLSDC has traditionally conducted trade missions, which are intended to educate potential shippers about the Saint Lawrence Seaway and serve as a means to encourage more ships to use that system. As such, they may be viewed as a method of achieving the goal of increasing traffic through the Seaway. However, such missions also have policy implications, for example, if they were to result in shifting the route imports take into the United States.

Performance Improvement and Accountability

Consistent with the requirements of GPRA, under the PBO concept agencies are to set goals, measure performance, and report on their accomplishments. Under the PBO proposal, the SLSDC chief operating officer (COO) would be held accountable for performance—with opportunities for substantial bonuses when performance goals are met and possible sanctions, including removing the COO, if goals are not met. According to OMB and DOT officials, these possible incentives and sanctions establish a foundation for substantial improvements in SLSDC's performance by clearly linking SLSDC's leadership's pay and tenure to performance. SLSDC has drafted general goals and objectives as well as more specific performance goals and indicators that could serve as a basis for the contract. However, the actual measures of performance and performance goals would be established in the contract between the COO and the Secretary of Transportation. This provides the flexibility to develop and adjust the measures and goals based on experience and changing circumstances. Consequently, there are no clear indications yet of how much SLSDC believes PBO status would improve SLSDC's performance in key areas.

Next Steps evaluations have shown that determining exactly what to measure and how to set a performance goal remain a continuing political and technical challenge. Our work has found that agencies are confronting similar challenges as they implement GPRA, and we expect PBOs would also confront such issues.[11]

[11] Managing for Results: Achieving GPRA's Objectives Requires Strong Congressional Role (GAO/T-GGD-96-79, March 6, 1996) and Managing for Results: Using GPRA to Assist Congressional and Executive Branch Decisionmaking (GAO/T-GGD-97-43, February 12, 1997).

According to SLSDC's PBO proposal, SLSDC is to be held accountable in four performance areas: (1) safety; (2) long- and short-term reliability of the Seaway system; (3) trade development, including regional economic impacts; and (4) customer service and fiscal performance. According to SLSDC, a focus on these performance areas will ensure a more efficient operation by eliminating programs and cost areas that do not fully support performance goals. SLSDC estimates average annual cost savings in excess of half a million dollars will be realized based on savings from reductions in rent, personnel, programs, and elimination of awards. However, a definitive plan on how these cost savings will be achieved has not yet been developed. Each of SLSDC's four key performance areas is discussed below.

Safety

SLSDC currently makes safety a key measure of performance. For example, SLSDC reports that the number of vessel incidents each year ranged from one to four over the last 3 years. Over this period, the corporation continued its foreign vessel screening program, including vessel construction, standard safety equipment, and navigation charts and logs. During 1995, 166 foreign vessels were inspected under the program. SLSDC also has to annually maintain its two locks to provide a safe environment for vessels transiting the Seaway. During the winter of 1995, SLSDC completed the second phase of a 3-year concrete replacement project at the U.S. Eisenhower lock.

As a PBO, SLSDC's draft performance goals suggest that the SLSDC COO would be held accountable for maintaining acceptable levels of safety and reducing the likelihood of accidents and to demonstrate SLSDC's preparedness to respond to an environmental emergency. Safety measures would apply to vessel and workplace safety as well as environmental protection. For example, one goal would be to reduce the risk of commercial vessel accidents; this would be measured by the number of accidents/incidents per 1,000 transits. In addition, another goal would be to maintain emergency response time (i.e., the time elapsed from notification to arrival on the scene) at 3 hours or less. (The measure for this goal is to be the time taken to respond to actual and simulated emergencies.) SLSDC currently collects these data on an incident basis, but they are not reported in an aggregated manner.

According to SLSDC officials, balancing the goals of safety and increased traffic would not be a new concern if SLSDC should become a PBO. Both are goals for the Seaway now, and SLSDC officials said that PBO status is not expected to make a significant difference because, regardless of the level of traffic, SLSDC must strike a balance between working safely and moving traffic through the locks. Seaway officials told us SLSDC has been moving, on average, about 12 vessels a day through the locks, which is about half of its capacity. These officials said that marginal increases in traffic should not compromise safety procedures, but a dramatic increase in traffic, such as doubling current transits, would necessitate a review of safety procedures and potential impacts.

Long- and Short-Term Reliability

The second proposed performance goal for SLSDC is to ensure a viable shipping route; the Seaway's shipping season must be as long as possible with maximum availability to users, according to SLSDC officials. Proposed measures for reliability include lock availability, lock or equipment failure, and lock and equipment inspections.

SLSDC's draft PBO plans seek to maintain a high level of system reliability and availability of U.S. navigation facilities for Seaway users. For example, the SLSDC PBO goal is to achieve 95 percent lock/system availability. From 1991 through 1995, SLSDC averaged 96 percent availability, and during 1995, the waterway's availability rate climbed to 99 percent. However, the goal of availability is affected by factors that are outside the control of SLSDC, such as the weather (e.g., ice, high water).

Trade Development and Regional Impacts

The third proposed performance goal, promotion of trade to generate new business for the Saint Lawrence Seaway and to enhance the U.S. Great Lakes economy, is already an important facet of SLSDC's mission. Changes in Seaway traffic can affect the entire Great Lakes-Saint Lawrence Seaway area. Regional impacts take such forms as changes in jobs, personal income, and federal, state, and local taxes. These impacts are a function of many factors including tonnage levels, which port is used, commodity mix, and labor and port productivity.

According to SLSDC, one performance indicator of effective trade development is cargo tonnage. Over the last 10 years, tonnage has fluctuated from 31.4 million metric tons per year to 40.6 million metric tons per year. As a PBO, SLSDC plans to continue to measure annual U.S. international volume, the actual number of vessels operating by fleet, and the average tons per loaded vessel. Like system availability, tonnage is affected by many economic factors outside the scope of the corporation's control.

However, the factors that affect the regional impacts would not change if SLSDC should become a PBO. PBO status would change many things for SLSDC, including its funding mechanism, selecting official for the agency head, and relationships with DOT and Congress. However, none of these changes directly affects the factors that affect regional impact, so changing the management approach to a PBO should not directly affect the Great Lakes regional economy.

Because of the large number of variables that must be considered, a sophisticated model is necessary to predict the specific locations and magnitude of any changes in economic impacts. In the past, SLSDC has commissioned studies to determine economic impacts of the region. Its 1995 Annual Report compared impacts on the 1991 (34.9 metric tons) and 1994 (38.4 metric tons) shipping seasons based on studies it had commissioned. SLSDC reported increases in the 12-14 percent range in jobs; personal income; annual revenue by Great Lakes firms; and local, state, and federal taxes.

Customer Service and Fiscal Performance

The PBO concept paper states that the fourth proposed performance goal for SLSDC is to ensure that the customers and corporate employees themselves have a voice in evaluating the corporation's performance and contributing to business decisions. In addition, SLSDC must ensure that U.S. navigation facilities are in good working order and reserves are adequate to meet emergency and critical drawdown needs.

While taking a corporate view of enhancing and protecting its customer base, SLSDC has surveyed its customers on a regular basis to determine how satisfied they were with the service SLSDC provided. SLSDC has had a continuing program of coordination and outreach to user groups and published customer-service standards in October 1996.

As a PBO, SLSDC plans to continue to ensure that customers have input into evaluating the corporation's performance and business decisions. For example, SLSDC intends to measure customer satisfaction and has set a target of achieving a rating of 3.5 or better based on a 1 to 5 scale. The overall rating for 1995, the only year of the survey, was 4.5. Moreover, according to SLSDC officials, the proposed funding formula provides an additional incentive to improve customer service since any increases in tonnage result in increased funding. As a PBO, SLSDC also expects to continue to work with its employees and their representatives to promote both employee satisfaction and human resources management practices. To this end, SLSDC plans to institute a new measure by conducting an employee satisfaction survey. This survey would serve as a baseline for future measures and targets.

The PBO concept and GPRA both require agencies to strive for results and hold managers accountable for achieving results. However, the PBO concept is different from GPRA in that the PBO concept provides for direct, personal incentives for agency leadership for meeting performance goals and sanctions for nonperformance. Under the PBO concept, the chief operating officer would be eligible for substantial rewards and contract renewal for excellent performance.[12] Conversely, the chief operating officer could be removed by the President or by the Secretary for misconduct or failure to meet performance goals. In contrast, the Secretary cannot remove the SLSDC administrator for not meeting performance goals. Thus, the chief operating officer could be more easily removed for inadequate performance than the holder of the administrator position. Given the level of detail and specificity expected in the chief operating officer's contract, the Secretary should be able to easily tell if goals were met or not, and take appropriate action. However, as evaluations of Next Steps agencies have shown, while determining if a goal was met may be straightforward, determining why a goal was not met and the actions needed to meet unmet goals can be analytically difficult. Moreover, the degree to which a secretary would be willing to fire a chief operating officer for failure to meet performance goals is, of course, unknown.

Congressional Oversight

Since PBOs must be created through the enactment of enabling legislation, Congress would have an opportunity to define its role in each PBO. As currently structured, there is uncertainty within the PBO concept on the relationship between Congress and PBOs. This includes the level and type of oversight and control Congress would have over PBOs. In general, a chief operating officer would be directly accountable to the department head who, in turn, would remain accountable to Congress. Since the funding mechanism is expected to be unique to each PBO, it is not possible to generalize what Congress' role would be in each PBO's budget process.

More specifically, the relationship between Congress and SLSDC as a PBO would fundamentally change. Because a mandatory funding mechanism would eliminate appropriations, Congress would no longer determine the level of funding or direct the use of those funds. However, even when SLSDC was fully funded by Seaway tolls, it regularly went to Congress for budget hearings and to receive Congress' input on spending funds. SLSDC officials told us that such a requirement could be written into SLSDC's PBO

[12]A chief operating officer may receive a bonus of up to 50 percent of base pay, according to the proposed PBO legislation for SLSDC.

legislation to ensure congressional oversight, although they also noted they have been exempt from appropriations hearings in the Senate for many years and in the House for the past 2 years. Because the chief operating officer would be selected by the Secretary of Transportation, Congress would no longer have direct input into the selection of the agency head. Moreover, under PBO status, SLSDC could have flexibilities from governmentwide requirements governing personnel and procurement.

Conclusion

Reviews of Next Steps agencies have reported substantial improvements in performance and reductions in costs over the past 7 years. Next Steps agencies have a management structure that separates a department's service delivery functions from its policy functions. Performance-based organizations would seek to emulate Next Steps agencies in many important ways. Both are designed to operate in a more businesslike manner, providing flexibility from constraints in exchange for greater accountability for results. Because of their similarities, unresolved issues from the Next Steps experience can provide lessons for the U.S. effort, such as lack of clarity in relationships between agencies and their parent departments, difficulty in developing and setting performance goals, and uncertainty concerning who is accountable for performance.

Based on our evaluation, the effects of PBO status on SLSDC and congressional oversight would be mixed. On the one hand, the SLSDC proposal appears to be a workable mechanism for addressing SLSDC's reported concerns for more predictable funding, an incentive-based focus on performance standards and measures, and relief from DOT requirements. If Congress is interested in testing the PBO concept, SLSDC could be a low-risk pilot because it has a small budget, businesslike operations, and already has some flexibilities that would be available to a PBO. On the other hand, other approaches are also available to address some of SLSDC's stated needs, such as DOT granting waivers from its reporting requirements or Congress providing a more stable funding stream through the annual appropriations process. However, the proposed PBO funding mechanism, particularly the shift from a discretionary account to mandatory funding, raises a potentially significant issue of budget policy that may overshadow SLSDC's condition. Moreover, the legal challenge to the funding source complicates the final resolution of SLSDC's status.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of Transportation and the Director of OMB. We received oral comments from senior officials at the Department of Transportation, including the Assistant to the Deputy Secretary and SLSDC's Deputy Administrator, and designated officials at the Office of Management and Budget.

In general, DOT officials told us the report provided a good historical perspective on SLSDC and much valuable information on the PBO proposal. However, they thought that the draft did not give sufficient attention to some key areas.

First, DOT officials said the draft report did not give sufficient attention to the "power of incentives" that would affect a chief operating officer's pay and tenure based on SLSDC's performance. According to DOT officials, this "incentivized management structure" is a key motivational factor for achieving superior performance. DOT officials said that while these incentives and consequences would initially affect only the top level of SLSDC management, "leadership by example" would filter down to other staff levels, providing the incentive for improved performance at all levels. Each employee would better understand how his/her particular job contributes to organizational goals and consequently each employee would be more motivated to improve his/her performance. In addition, personnel flexibilities, including performance-based pay, would allow all staff to eventually benefit from the improved performance of the organization.

Second, DOT officials said the draft report also did not give sufficient attention to the potential improvements in customer service that would result in a likely increase in Seaway traffic. For example, because PBO status would allow a change in processes and promote an aggressive marketing program, SLSDC might be able to provide better customer service and attract new customers. Further, the amount of funding SLSDC would receive is directly linked to tonnage through the Seaway, which provides an additional incentive for SLSDC to better understand the needs of all Seaway users and thus increase the number of transits and level of tonnage.

Third, the officials stated that SLSDC's PBO funding mechanism is not without risk. Officials noted that the tonnage estimates that formed the basis for SLSDC's estimated funding are only rough projections and, therefore, actual funding may stay the same or even decline if traffic does not meet SLSDC's projections.

Fourth, according to the officials, the PBO initiative can have far-reaching implications and provides the opportunity to substantially improve performance in many agencies. Because SLSDC currently operates much like a business, officials felt strongly that SLSDC is uniquely positioned to become a PBO. The summary of experience from each PBO can affect how the federal government could potentially develop new and better business operations and practices, and officials thought SLSDC would be an excellent candidate to participate in this experiment.

In general, we believe the draft report adequately addressed the issues raised by DOT. For example, the draft report stated that performance incentives and consequences are key design features of a PBO, and that the PBO concept provides for direct, personal incentives for agency leadership for meeting performance goals and sanctions for nonperformance. Nonetheless, we have added additional language in this report to expand upon this point. We also noted that, as a PBO, SLSDC would have the flexibility to develop and implement innovative performance and pay systems for its employees, and we added language reflecting plans SLSDC officials told us about in their comments. Regarding customer service, the draft report stated that SLSDC traditionally has sought to enhance and protect its customer base and reach out to Seaway user groups, but we added wording reflecting DOT's view that its funding formula increases the incentives for SLSDC to be customer oriented.

The draft report noted that the proposed funding mechanism is not without risk since funding is dependent upon Seaway traffic and those amounts are estimated. However, we added language to the report reflecting DOT's view that the tonnage estimates were rough estimates and that SLSDC funding would decrease if tonnage declines.

In our view, the draft report also provided an appropriate discussion of the corporation's position on its advantages of becoming a PBO. For example, we reported that SLSDC and NPR officials said that SLSDC would be a low-risk pilot because it already has a corporate culture and has businesslike operations. However, we also noted that the proposal has important policy implications, which Congress may want to consider, particularly regarding the mandatory funding mechanism.

OMB provided several overall comments on the draft of this report, including comments regarding performance incentives, the relevance of our information on the Next Steps agencies' experience, alternative approaches to PBO status for SLSDC, and pending changes in SLSDC's PBO legislation.

OMB, like DOT, stated that we needed to provide more detail and attention to the performance incentives that are contained within the SLSDC PBO proposal. OMB also noted that there are real incentives for improved performance, such as the possibility of a significant bonus for the chief operating officer when performance goals are met and possible consequences, such as the firing of a chief operating officer when goals are not met. OMB also told us that such incentives and consequences are key performance drivers and provide the motivation to strive for superior performance.

OMB officials said that some of the draft report's description of the British Next Steps experiences and lessons learned may not be particularly relevant to the PBO proposal because of the key differences between Next Steps agencies and PBO candidates. For example, OMB officials stated that the U.S. PBO concept does not provide for a "Fraser Figure" like the Next Steps model. OMB officials also said that the draft did not sufficiently address alternative approaches for autonomy from DOT requirements and for a stable funding mechanism. For example, OMB stated that we did not elaborate on what other funding alternatives could provide stable funding.

OMB officials told us that a forthcoming revised draft of the SLSDC PBO legislation will change certain conditions of SLSDC's PBO funding mechanism. According to OMB officials, the proposed legislation would still fund SLSDC through a mandatory payment, but the revised legislation would no longer adjust the discretionary cap to accommodate the mandatory payment. Instead, an offset from other mandatory spending will be required. According to OMB officials, this revised legislation is consistent with the President's budget.

As we noted in our evaluation of DOT's comments, we believe that the draft appropriately considered performance incentives; but we added some language to provide a fuller discussion. As we pointed out in our draft, we agree that Next Steps and PBOs are different in several ways. However, the administration's documents on PBOs—including speeches by the Vice President—repeatedly have referred to Next Steps agencies as a model for PBOs. In that regard, we highlighted some of the lessons learned by Next Steps agencies that appear to be most applicable to the PBO concept. For example, the lack of clarity in the roles of agencies and departments and the difficultly in developing performance measures appear to be relevant issues irrespective of the national context. We also added some language in the report to reflect OMB's comments about an alternative funding mechanism.

Revisions to SLSDC's proposed PBO legislation occurred after we completed our audit work and had not been issued when we met with OMB. Since we were told that this revision would no longer provide for a reduction in the discretionary spending cap scored to offset the mandatory payment, the legislation raises budget policy issues beyond the creation of a new mandatory program—how the spending would be offset by cuts in other mandatory programs or increases in taxes. We added language to that effect in this report.

DOT and OMB also suggested a number of technical clarifications, which we have incorporated as appropriate.

We are sending copies of this report to the Secretary of Transportation; the Administrator of the Saint Lawrence Seaway Development Corporation; the Director, Office of Management and Budget; and the Project Director of the National Performance Review. We will also make copies available to others on request.

Please contact me at (202) 512-8676 if you or your staff have questions. Major contributors to this report are listed in appendix II.

L. Nye Stevens

L. Nye Stevens
Director, Federal Management
and Workforce Issues

Contents

Abbreviations

COO	chief operating officer
DOT	Department of Transportation
GPRA	Government Performance and Results Act of 1993
HMTF	Harbor Maintenance Trust Fund
OMB	Office of Management and Budget
OPM	Office of Personnel Management
NPR	National Performance Review
PBO	performance-based organization
SLSDC	Saint Lawrence Seaway Development Corporation

Candidates for PBO Status, as of January 1997

Agency	PBO candidates
Commerce	Technical information dissemination (National Technical Information Service)
Commerce	Intellectual property rights (Patent and Trademark Office)
Commerce	Seafood inspection (National Marine Fisheries Service)
Defense	Defense commissary services (Defense Commissary Agency)
Housing and Urban Development	Mortgage insurance services (Government National Mortgage Association)
Housing and Urban Development	Mortgage insurance services (Federal Housing Administration)
Office of Personnel Management	Retirement benefits services (Federal Retirement and Insurance Service)
Transportation	Saint Lawrence Seaway (Saint Lawrence Seaway Development Corporation)
Treasury	U.S. Mint

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