

## OFFICE OF PERSONNEL MANAGEMENT

### Science and Technology Reinvention Laboratory Personnel Demonstration Project at the Naval Sea Systems Command Warfare Centers

**AGENCY:** Office of Personnel Management.

**ACTION:** Notice of intent to implement demonstration project.

**SUMMARY:** The National Defense Authorization Act for fiscal year 1995 (Pub. L. 103-337) authorizes the Secretary of Defense, with Office of Personnel Management (OPM) approval, to conduct a Personnel Demonstration Project at Department of Defense (DoD) laboratories designated as Science and Technology Reinvention Laboratories. The legislation requires that most requirements of Section 4703 of Title 5 shall apply to the Demonstration Project. Section 4703 requires OPM to publish the proposed project plan in the Federal Register. This notice meets that requirement.

**DATES:** *Comment date:* Written comments will be considered if received no later than April 9, 1997. *Hearing date:* A public hearing will be held on the proposed project plan on: March 26, 1997, at the Indian Head Pavillion, 100 Walter Thomas Road, Indian Head, MD, from 6:00 p.m. until testimony is completed.

**ADDRESSES:** Comment address: Send written comments to Shirley Scott, Head, Demonstration Project Office, NSWCDD, HR Department, 17320 Dahlgren Road, Dahlgren, VA 22448.

**FOR FURTHER INFORMATION CONTACT:** Shirley Scott at (540) 653-4623.

**SUPPLEMENTARY INFORMATION:** A public hearing will be held by OPM at the Indian Head Pavillion, 100 Walter Thomas Road, Indian Head, MD 20640, during which interested persons or organizations may present their written or oral views concerning the proposed Demonstration Project plan. So that OPM may regulate the course of the hearing and provide time for all who wish to present comments, parties who want to testify at the hearing are asked to contact one of the persons listed under **FOR FURTHER INFORMATION CONTACT:** for a specific scheduled time. Priority will be given to scheduled parties; others will be heard in the remaining available time. Each speaker's presentation will be limited to 10 minutes. In other respects, the hearing will be informal. The hearing record will be left open until April 9, 1997 to allow additional written data, views and

arguments from the parties participating in the hearing.

Dated: February 21, 1997.  
Office of Personnel Management.  
James B. King,  
*Director.*

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#### I. Executive Summary

The Naval Surface Warfare Center and the Naval Undersea Warfare Center, designated as Science and Technology Reinvention Laboratories, wish to conduct a Personnel Demonstration Project similar in nature to that of the 1980 Demonstration Project approved for the Naval Weapons Center, China Lake, and Naval Ocean Systems Center, San Diego. The Warfare Centers' project includes the following key project components: A Broad Banding Classification and Pay System for "white collar" employees; a Performance Development System; an Incentive Pay System; a new Reduction-in-Force (RIF) system; and a Competitive Examining and Appointment System. The Warfare Centers' project addresses an organization which is substantially larger (over 23,000 employees), has greater diversity of mission than previous projects, and has extensive union involvement at all major sites. In addition, the project plan has been developed with on-going involvement of the various unions represented in the Warfare Centers.

#### II. Introduction

##### A. Purpose

The overall goal of the Demonstration Project is to implement a Human Resource Management System that facilitates mission execution and organization excellence and responds to

today's dynamic environment of downsizing, restructuring and closures by obtaining, developing, utilizing, incentivizing and retaining high performing employees; and adjusting workforce levels to meet program and organizational needs. The system to be demonstrated has the flexibilities to accommodate and support wide-ranging activity missions, strategies and cultures. It is responsive to business considerations and permits a high degree of control over workforce costs. Clearly, it is more streamlined and understandable for those who will use it as well as those affected by it. Most importantly, it is focused not just on the needs of the organization, but also on the needs of the people who are the organization.

These objectives reflect the Federal and DoD goals of creating a government that works better and costs less, and a flexible system that can reduce, restructure or renew to meet diverse mission needs, expand or contract a workforce quickly, respond to workload exigencies, and contribute to quality products, people and workplaces. The objectives also align with the Federal and DoD values and guiding principles of empowering employees to get results, maximum flexibility tempered with accountability, innovation and continuous improvement, caring for people during downsizing, and vital partnerships and teaming with all the stakeholders in the process.

##### B. Problems with Present System

The Warfare Centers find the current Federal Personnel System to be cumbersome, confusing, and unable to provide the flexibility necessary to respond to the current mandates of downsizing, restructuring, and possible closure while trying to maintain a high level of mission excellence. The present system—a patchwork of laws, regulations, and policies—often inhibits rather than supports the goals of developing, recognizing, and retaining the employees needed to realign the organization with its changing fiscal and production requirements.

The current Civil Service General Schedule (GS) system has 15 grades with 10 levels each and involves lengthy, narrative, individual position descriptions, which have to be classified by complex, OPM-mandated position classification standards. Because these standards have to meet the needs of the entire federal government, they are often not relevant to the needs of the Warfare Centers and are frequently obsolete. Distinctions between levels are often not meaningful. Currently, standards do not provide for a clear progression beyond

the full performance level, especially for science/engineering occupations where career progression through technical as well as managerial career paths is important.

In addition, there are limited mechanisms for dealing with an employee who has been promoted out of his/her level of expertise or who, after a successful career, has been unable to gain the skills required of a new work environment. In most cases, the only possible action may be a reduction in grade. Under the current system a demotion to a lower grade is considered an adverse action even if there is no loss in pay. Under the proposal, a reduction in band level without a loss in pay will not be considered an adverse action.

Performance Management systems require additional emphasis on continuous, career-long development in a work environment characterized by an ever increasing rate of change. Since past performance and/or longevity are the factors on which pay raises are currently assessed, there is often no positive correlation between compensation and performance contributions nor value to the organization. These limited criteria do not take into account the future needs of the organization nor other culturally relevant criteria which an organization may wish to use as incentives.

The present Reduction in Force (RIF) process is highly complicated and relatively unresponsive to requirements for rapid work force restructuring and retention of employees with mission appropriate skills. RIF is confused by an augmented service credit for performance that is based in a performance appraisal system fraught with contention. Round I adds complexity, confusion, and uncertainty. Cost savings expected from RIF are drastically reduced by the inordinate administrative costs of the process and the likelihood that the employee

ultimately separated will be at a lower grade than the originally targeted position. Additionally there is the expense of retained grade and retained pay. Current RIF procedures impact negatively on morale because of the high number of people affected and frequent misunderstandings of a complicated system that leaves affected employees wondering why they have been "targeted".

And finally, the complexity of the current examining system creates delays in hiring. Line managers find the complexity limiting as they attempt to accomplish timely recruitment of needed skills. To compete with the private sector for the best talent available, they need a process which is streamlined, easy to administer, and allows for timely job offers.

#### *C. Changes Required and Expected Benefits*

The proposed Demonstration Project responds to problems in the classification system with a Broad Banding Classification system for GS employees; to problems in the current performance management system with a Performance Development and Incentive Pay Systems; to the problems of the existing RIF procedures with a streamlined RIF system; and to problems of complicated hiring and examining procedures with a simplified examining and appointment process.

#### *D. Participating Organizations and Mission*

Both the Naval Surface Warfare Center and the Naval Undersea Warfare Center will participate in the project. The Warfare Centers are comprised of a total of seven Divisions with 14 major sites nationwide. The sites are diverse in employment profiles and size and have bargaining unit populations ranging from a small percentage to more than half of the workforce. These

organizations operate throughout the full spectrum of research, development, test and evaluation, engineering and fleet support.

The Warfare Centers are Defense Business Operations Fund (DBOF) activities. Under DBOF, the cost of operating is paid by billing customers for work performed. The Warfare Centers seek to maximize management flexibility to control expenditures since the continued economic viability of a DBOF activity depends in large measure on remaining cost competitive with other organizations.

#### *E. Participating Employees*

This Demonstration Project will involve civilian personnel at all Warfare Center sites. There are 14 major sites (over 200 civilian personnel) and many smaller sites. Currently 23,697 civilians are employed as shown in Figure 1. The intent of the plan is to cover all civilian appropriated fund employees at all sites with the exception of the members of the Senior Executive Service. While the Demonstration Project, and its five components, cover all General Schedule (GS) employees, the Federal Wage System (FWS) employees are included only for purposes of changes in the Performance Development, Reduction-In-Force and Competitive Examining systems. Likewise, Senior Level (SL) and Scientific and Technical (ST) employees are covered only under the Incentive Pay, Performance Development and Reduction-In-Force systems. The Demonstration Project may be implemented incrementally throughout the Warfare Centers. The Demonstration Project will be implemented in bargaining units when those units so request and a negotiated agreement is reached. Approximately fifty percent of the workforce is represented by unions.

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<b>Naval Surface Warfare Center (NSWC)</b>							
DIVISIONS	P	A	T	C	W	O	Total
Dahlgren	2,617	558	583	288	334	160	4,540
Indian Head	802	365	382	122	380	90	2,141
Crane	1207	768	1,395	167	1,146	136	4,819
Pt. Hueneeme	925	753	399	192	21	32	2,322
Carderock	2,324	453	653	216	345	136	4,127
<b>NSWC Total</b>	<b>7,875</b>	<b>2,897</b>	<b>3,412</b>	<b>985</b>	<b>2,226</b>	<b>554</b>	<b>17,949</b>
<b>Naval Undersea Warfare Center (NUWC)</b>							
Newport	2,308	416	404	259	125	11	3,523
Keyport	711	425	279	70	706	34	2,225
<b>NUWC Total</b>	<b>3,019</b>	<b>841</b>	<b>683</b>	<b>329</b>	<b>831</b>	<b>45</b>	<b>5,748</b>
<b>Warfare Centers Total</b>							<b>23,697</b>
key: P = Professional A= Administrative T=Technical C=Clerical W=Wage O=Other							
data a/o 4/8/96							

FIGURE 1

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*F. Employee/Labor Participation*

One of the keys to developing a project plan sensitive to the multiplicity of management and employee needs has been the involvement of a Steering Committee composed of representatives from the Warfare Center Divisions and six national unions having bargaining units at the Warfare Center sites. The American Federation of Government Employees (AFGE), Metal Trades Council (MTC), International Association of Machinists (IAM), National Association of Government Employees (NAGE), the National Federation of Federal Employees (NFFE) and Fraternal Order of Police (FOP) represent more than half of the more than 25,000 employees in a variety of occupational groups at Warfare Center sites across the United States. Appendix A further describes the employee/union participation in this effort. The Steering Committee developed a project plan capable of meeting the seemingly differing, sometimes conflicting, goals of management and the unions. The Steering Committee substantially altered the original concept to address those needs in order to provide a viable implementation framework capable of meeting the wide variety of cultures and needs across the Warfare Center spectrum. The Steering Committee is also working to foster the establishment of partnerships within the Warfare Centers.

The Steering Committee agreed to the following language with respect to the implementation of the Demonstration Project in the Warfare Center bargaining units. "Essential to the success of the

Demonstration Project within a collective bargaining unit is the explicit choice of the parties to freely enter into the project with mutual agreement on all provisions associated with the project. To that end, either party will have the option NOT to enter the project up to the point where both parties sign a collective bargaining agreement covering the Demonstration Project and, if required, that agreement is ratified and approved. Further the parties may include in the contract provisions for evaluating, modifying and leaving the project during the life of the contract." Any disputes or impasses that arise in connection with the negotiation on the implementation of the Demonstration Project will be subject to mediation but not binding impasse procedures. For any bargaining subsequent to adoption of the Demonstration Project, the parties shall use impasse procedures defined in 5 U.S.C. 7119 unless alternative impasse procedures have been negotiated. In the event Executive Order 12871 is no longer in effect, the parties within the Demonstration Project will continue to negotiate issues covered by 5 U.S.C. 7106(b)(1) to the extent those issues impact on the provisions of the Demonstration Project. Within bargaining units, violations of provisions of the Demonstration Project may be covered by the negotiated grievance procedure.

This Demonstration Project was developed with management and union input through a collaborative process; however, it was agreed that union participation did not necessarily constitute full and complete endorsement of all details of the project. The Project will be implemented in

bargaining units only after there is full agreement through the collective bargaining process.

While understanding that each bargaining unit will make its own choice about participating in the Demonstration Project, the Steering Committee has endeavored to create a project plan to fulfill the mutual interests of management and employees while supporting the long term objective of vital, competitive Warfare Centers capable of developing and delivering the best possible technology to their customers.

*III. Methodology**A. Project Design*

An overarching objective in the project design has been the development of a personnel system that provides a maximum opportunity for local "tailoring" to meet the variety of requirements of organizations engaged in missions ranging from theoretical research into submarine vulnerability and survivability to the storage of torpedoes. While the Divisions seek to recruit and retain world class engineers and scientists in order to remain viable as laboratories, they must also meet the development and motivational needs of an extraordinarily diverse workforce; i.e., employees ranging from small arms repairers in Crane, Indiana to program analysts in Newport, Rhode Island. In order to accomplish that end, the goal is to begin the process of delegating decision making to the people who know the most about what they need and how to get their work accomplished: the Divisions and sites.

While much of the Demonstration Project will be applied uniformly, there are decisions which will be delegated to the Divisions and activities so that the needs and cultures of those organizations may be taken into account. Decisions at the local level will be made through the collective bargaining process.

*B. Personnel System Changes*

**1. Classification and Pay**

A fundamental element of the system is a simplified white collar classification and pay component. The proposed broad banding scheme reduces the

fifteen GS grade levels and the Senior Level (SL) and Scientific & Technical (ST) pay levels, into five to six broad pay bands. (See Figure 2) GS occupations are further broken down into three separate career paths: Scientific and Engineering (ND), Administrative and Technical (NT), and General Support (NG).

The OPM-developed classification standards are replaced by a small number of one-page, generic benchmark standards developed within the Demonstration Project. These standards also serve as the core of the position description and replace lengthy individually tailored position

descriptions. These generic level descriptors encompass multiple series and provide maximum flexibility for the organization to assign individuals consistent with the needs of the organization, established level or rank that the individual has achieved, and the individual's qualifications. Career progression between levels will occur by promotion, and pay progression within levels will occur through incentive pay. Warfare Centers' long experience with industrial funding will ensure their ability to control costs, an essential requirement in today's environment.

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<b>CAREER PATHS &amp; BROAD BANDS</b>							
<b>Career Paths:</b>							
<b>Scientific/ Engineering</b>	<i>GS</i>	<i>1-4</i>	<i>5-8</i>	<i>9-11</i>	<i>12-13</i>	<i>14-15</i>	<i>ST/SL</i>
	<i>ND</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
<b>Administrative/ Technical</b>	<i>GS</i>	<i>1-4</i>	<i>5-8</i>	<i>9-10</i>	<i>11-12</i>	<i>13-14</i>	<i>14-15</i>
	<i>NT</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	<i>VI</i>
<b>General Support</b>	<i>GS</i>	<i>1-4</i>	<i>5-6</i>	<i>7-8</i>	<i>9-10</i>	<i>11-12</i>	
	<i>NG</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	

Figure 2

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a. *Career Paths.* The Warfare Centers request exemption from the current GS classification system and substitute career paths and band levels. The designated career paths are: Scientific and Engineering (ND), Administrative and Technical (NT), and General Support (NG). Like the China Lake system, the GS classification series would be retained. More detailed descriptions of the career paths and the classification series for each path are provided below. The breakdown of occupational series to career paths reflects only those occupations which currently exist within the two Warfare Centers.

Additional series may be added as a result of changes in mission requirements or OPM recognized occupations. These additional series will be placed in the appropriate career path consistent with the established career path definitions.

*Scientific and Engineering:* Professional engineering positions and scientific positions in the physical, biological, mathematical, and computer sciences; and student positions for training in these disciplines. Series and titles included in the path are: 0401, General Biological Science Series; 0403, Microbiology Series; 0408, Ecology Series; 0440, Genetics Series; 0460, Forestry Series; 0471, Agronomy Series; 0499, Biological Science Student

Trainee Series; 0801, General Engineering Series; 0803, Safety Engineering Series; 0804, Fire Protection Engineering Series; 0806, Materials Engineering Series; 0807, Landscape Architecture Series; 0808, Architecture Series; 0810, Civil Engineering Series; 0819, Environmental Engineering Series; 0830, Mechanical Engineering Series; 0840, Nuclear Engineering Series; 0850, Electrical Engineering Series; 0854, Computer Engineering Series; 0855, Electronics Engineering Series; 0861, Aerospace Engineering Series; 0871, Naval Architecture Series; 0892, Ceramic Engineering Series; 0893, Chemical Engineering Series; 0894, Welding Engineering Series; 0896,

Industrial Engineering Series; 0899, Engineering and Architecture Student Trainee Series; 1301, General Physical Science Series; 1306, Health Physics Series; 1310, Physics Series; 1313, Geophysics Series; 1320, Chemistry Series; 1321, Metallurgy Series; 1330, Astronomy and Space Science Series; 1350, Geology Series; 1360, Oceanography Series; 1372, Geodesy Series; 1386, Photographic Technology Series; 1399, Physical Science Student Trainee Series; 1515, Operations Research Series; 1520, Mathematics Series; 1529, Mathematical Statistician Series; 1530, Statistician Series; 1550, Computer Science Series; 1599, Mathematics and Statistics Student Trainee Series.

*Administrative and Technical:*

Professional or specialist positions in such administrative, technical and managerial fields as finance, procurement, human resources, computer, legal, librarianship, public information, safety, social sciences, and program management and analysis; nonprofessional technician positions that support scientific and engineering activities through the application of various skills and techniques in electrical, mechanical, physical science, biology, mathematics, and computer fields; and student positions for training in these disciplines. Series and titles included in this path are: 0018, Safety and Occupational Health Management Series; 0020, Community Planning Series; 0028, Environmental Protection Specialist Series; 0080, Security Administration Series; 0099, General Student Trainee Series; 0101, Social Science Series; 0110, Economist Series; 0132, Intelligence Series; 0170, History Series; 0180, Psychology Series; 0185, Social Work Series; 0187, Social Services Series; 0188, Recreation Specialist Series; 0201, Personnel Management Series; 0205, Military Personnel Management Series; 0212, Personnel Staffing Series; 0221, Position Classification Series; 0230, Employee Relations Series; 0233, Labor Relations Series; 0235, Employee Development Series; 0260, Equal Employment Opportunity Series; 0299, Personnel Management Student Trainee Series; 0301, Miscellaneous Administration and Program Series; 0334, Computer Specialist Series; 0340, Program Management Series; 0341, Administrative Officer Series; 0342, Support Services Administration Series; 0343, Management and Program Analysis Series; 0346, Logistics Management Series; 0391, Telecommunications Series; 0399, Administration and Office Support

Student Trainee Series; 0501, Financial Administration and Program Series; 0505, Financial Management Series; 0510, Accounting Series; 0560, Budget Analysis Series; 0599, Financial Management Student Trainee Series; 0602, Medical Officer Series; 0610, Nurse Series; 0690, Industrial Hygiene Series; 0802, Engineering Technician Series; 0809, Construction Control Series; 0818, Engineering Drafting Series; 0856, Electronics Technician Series; 0895, Industrial Engineering Technician Series; 0899, Engineering and Architecture Student Trainee Series; 0905, General Attorney Series; 0950, Paralegal Specialist Series; 0962, Contact Representative; 1001, General Arts and Information Series; 1010, Exhibits Specialist Series; 1015, Museum Curator Series; 1016, Museum Specialist and Technician Series; 1020, Illustrating Series; 1035, Public Affairs Series; 1060, Photography Series; 1071, Audiovisual Production Series; 1082, Writing and Editing Series; 1083, Technical Writing and Editing Series; 1084, Visual Information Series; 1101, General Business and Industry Series; 1102, Contracting Series; 1103, Industrial Property Management Series; 1104, Property Disposal Series; 1150, Industrial Specialist Series; 1152, Production Control Series; 1173, Housing Management Series; 1176, Building Management Series; 1199, Business and Industry Student Trainee Series; 1222, Patent Attorney Series; 1311, Physical Science Technician Series; 1410, Librarian Series; 1412, Technical Information Services Series; 1420, Archivist Series; 1521, Mathematics Technician Series; 1601, General Facilities and Equipment Series; 1640, Facility Management Series; 1654, Printing Management Series; 1670, Equipment Specialist Series; 1701, General Education and Training Series; 1710, Educational and Vocational Training Series; 1712, Training Instruction Series; 1810, General Investigating Series; 1811, Criminal Investigating Series; 1910, Quality Assurance Series; 2001, General Supply Series; 2003, Supply Program Management Series; 2010, Inventory Management Series; 2030, Distribution Facilities and Storage Management Series; 2032, Packaging Series; 2050, Supply Cataloging Series; 2101, Transportation Specialist Series; 2130, Traffic Management Series; 2150, Transportation Operations Series; 2181, Aircraft Operations Series.

*General Support:* Assistant and clerical positions providing support in such fields as budget, finance, supply, human resources; positions providing

support through application of typing, clerical, or secretarial knowledge and skills; positions providing specialized facilities support such as guards, police officers and firefighters; and student positions for training in these disciplines. This path includes the following series and titles: 0019, Safety Technician Series; 0029, Environmental Protection Assistant Series; 0081, Fire Protection and Prevention Series; 0083, Police Series; 0085, Security Guard Series; 0086, Security Clerical and Assistance Series; 0134, Intelligence Aid and Clerk Series; 0186, Social Services Aid and Assistant Series; 0189, Recreation Aid and Assistant Series; 0203, Personnel Clerical and Assistance Series; 0204, Military Personnel Clerical and Technician Series; 0303, Miscellaneous Clerk and Assistant Series; 0304, Information Receptionist Series; 0305, Mail and File Series; 0318, Secretary Series; 0322, Clerk-Typist Series; 0326, Office Automation Clerical and Assistance Series; 0332, Computer Operation Series; 0335, Computer Clerk and Assistant Series; 0344, Management Clerical and Assistance Series; 0350, Equipment Operator Series; 0351, Printing Clerical Series; 0356, Data Transcriber Series; 0361, Equal Opportunity Assistance Series; 0382, Telephone Operating Series; 0390, Telecommunications Processing Series; 0392, General Communications Series; 0394, Communications Clerical Series; 0399, Administration and Office Support Student Trainee Series; 0462, Forestry Technician Series; 0503, Financial Clerical and Assistance Series; 0525, Accounting Technician Series; 0530, Cash Processing Series; 0540, Voucher Examining Series; 0544, Civilian Pay Series; 0561, Budget Clerical and Assistance Series; 0640, Health Technician; 0647, Diagnostic Radiologic Technologist Series; 0679, Medical Clerk Series; 0698, Environmental Health Technician Series; 0945, Clerk of Court Series; 0986, Legal Clerical and Assistance Series; 1087, Editorial Assistance Series; 1105, Purchasing Series; 1106, Procurement Clerical and Technician Series; 1107, Property Disposal Clerical and Technician Series; 1411, Library Technician Series; 1531, Statistical Assistant; 1702, Education and Training Technician Series; 2005, Supply Clerical and Technician Series; 2091, Sales Store Clerical Series; 2102, Transportation Clerk and Assistant Series; 2131, Freight Rate Series; 2135, Transportation Loss and Damage Claims Examining Series; 2151, Dispatching Series.

*b. Broad Bands and Levels of Responsibility.* A fundamental purpose of broad banding is to make the distinctions between levels easier to discern and more meaningful. In that regard, the 15 GS grade levels are reduced to no more than six band levels, each representing a defined level of work. Within each career path, bands typically include the following categories of positions: student trainee and/or entry level, developmental, full performance level, and expert and/or supervisor/manager.

With fewer band levels than GS grades, the level of responsibility reflected in each band typically encompasses the responsibilities of two or more GS grade levels. For example, the responsibilities of a band level covering work at the full performance level may represent a synthesis of GS-11 and GS-12 responsibilities. For the NT career path, the responsibilities associated with the top two bands do not precisely align with equivalent GS levels. Some GS-14 level responsibilities band best with GS-13 while others band best with GS-15.

Although band VI of the ND career path covers SL and ST positions, this does not represent a requested change in the basis for classification or allocation of billets for these positions. The authority to allocate new billets, classify positions and set initial pay for assignment to SL and ST positions within the Warfare Centers will be retained at the Assistant Secretary of the Navy (Manpower and Reserve Affairs) level. The intent of including these positions in the SE career path was two fold: (1) to emphasize the dual career progression for scientists and engineers in nonsupervisory and nonmanagerial career paths; and (2) to include SL and ST employees in all other aspects of the Demonstration Project, i.e., performance development, incentive pay and reduction-in-force systems. Consistent with our goal of developing, recognizing, and retaining employees needed to meet our changing

organizational needs, the Demonstration Project seeks the authority to manage its SL and ST workforce under the same performance development and incentive system as other employees. This includes the authority at the Division level to adjust the pay of SL and ST employees up to Level IV of the Executive Schedule. Incentive pay decisions will be made against criteria relevant to the needs of the organization including the criticality and difficulty of the position, critical skills, and current salary level of the employees.

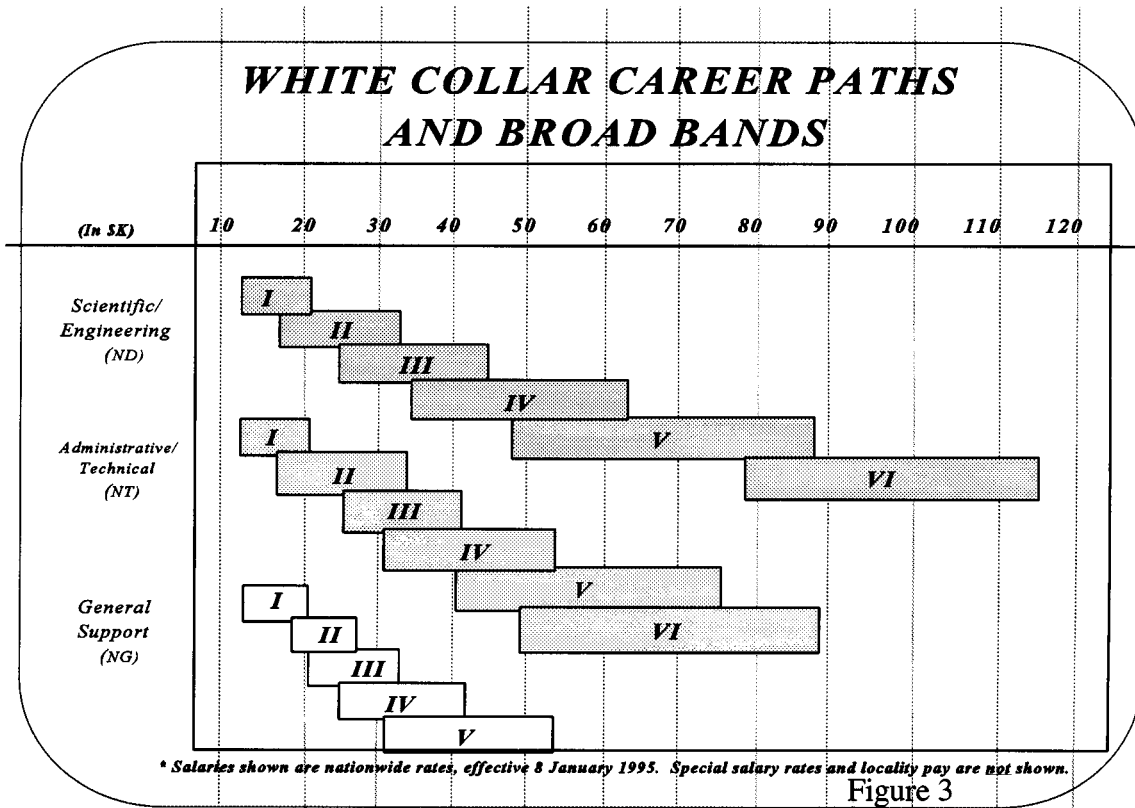
*c. Simplified Classification Process.* A limited number of Warfare Center one-page generic, level descriptor that also serve as the core of preclassified position descriptions will be created within the Demonstration Project. Those descriptions may be further tailored with an addendum to provide information on Fair Labor Standards Act (FLSA) coverage, selective placement factors, specialized knowledge/skills/abilities, etc. Within the Demonstration Project, the term "classification of a position" for positions covered by broad banding is defined as the placement of a position in its appropriate career path, occupational series, and band level based on the application of standards (referred to as level descriptors or benchmark standards) established at the Warfare Center level. Line managers will be meaningfully involved in the classification process to make it more relevant to their organization's needs.

*d. Simplified Assignment Process.* Today's environment of downsizing and workforce transition mandates that the organization has maximum flexibility to assign individuals. Broad banding can be used to address these needs. As a result of the assignment to a particular level descriptor, the organization will have maximum flexibility to assign an employee within broad descriptions consistent with the needs of the organization, and the individual's qualifications and rank or level. Subsequent assignments to projects, tasks, or functions anywhere within the

organization requiring the same level and area of expertise, and qualifications would not constitute an assignment outside the scope or coverage of the current level descriptor. Such assignments within the coverage of the generic descriptors are accomplished as realignments and do not constitute a position change. For instance, a technical expert can be assigned to any project, task, or function requiring similar technical expertise. Likewise, a manager could be assigned to manage any similar function or organization consistent with that individual's qualifications. This flexibility allows a broader latitude in assignments and further streamlines the administrative process and system.

*e. Broad Bands and Salary Ranges.* The basis for the Demonstration Project pay system is each band level having a basic salary range that exactly corresponds to salaries of three or more GS grade levels. This continued linkage with the GS system will result in adjustments to the salary ranges through future general and locality pay increases under the General Schedule System. To more closely replicate the salary overlap found in the current GS system, there is a one grade extended salary overlap with each lower band for bands II and above. (See Figure 3) The one exception is the band for ST and SL positions (ND VI). Consistent with law, the pay range for these positions will continue to be 120% of GS 15/1 salary up to Executive Level IV. The purpose of the salary overlap is twofold. First, it is to provide pay setting flexibilities and cost containment opportunities in promotions. This reduces the instances of non discretionary promotion pay increases of greater than 6% that may otherwise be required to advance pay to the lower end of the next higher band level. The second purpose is to facilitate an assignment back to the next lower level without loss in pay when appropriate.

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## BILLING CODE 6325-01-C

*f. Locality Pay and Special Salary Rates.* For each band level, the basic annual rate of pay will be adjusted to reflect the appropriate locality pay percentage. The maximum salary with locality pay will be referred to as "locality pay point". When the special salary rates authorized under the GS system exceed the locality pay point, the top of the applicable band will be extended to the maximum special salary rate authorized for that series and geographic location. Placement within this special rate extension will be restricted to employees in a series covered by that special rate. An employee will be considered a special rate employee only if his/her basic pay falls within the extension, i.e., the basic pay exceeds the locality pay point. Consistent with the intent of locality pay, special salary rate employees, as defined above, will not be eligible for locality pay adjustments. When the locality pay point overtakes the employee's rate of basic pay through general or locality pay increases, the employee will no longer be considered a special salary rate employee. In this instance, the employee's total adjusted basic pay will be increased to the new locality pay point. The employee's new adjusted salary will then be reallocated

into a new basic pay and a locality pay adjustment rate. Pay retention provisions and adverse action procedures will not apply to the reallocation of the employee's salary as the employee's total adjusted salary will remain the same.

*g. Pay Administration.* The following definitions and policies will apply to the movement of employees within the Demonstration Project from one career path or band level to another, or placement in a Demonstration Project Career Path from the GS, FWS, or other personnel systems:

**Advanced In-Hire Rate:** Upon initial appointment, the individual's pay may be set anywhere within the band level consistent with the special qualifications of the individual and the unique requirements of the position. These special qualifications may be in the form of education, training, experience, or any combination thereof that is pertinent to the position in which the employee is being placed.

**Geographic Movement Within the Demonstration Project:** An employee covered by broad banding who moves to a new duty station in a different geographic area and continues to be an employee covered by the Warfare Center Demonstration Project will have his/her pay in the new area computed as

explained below. In all cases, the geographic movement is processed before any other simultaneous pay action (e.g., promotion, reassignment, downgrade, change in series, etc.) effective on the same day.

1. *Regular Range Employees.* An employee paid at a rate below the locality pay point for his or her band level will receive no change in his or her rate of basic pay upon geographic movement. The employee's locality pay adjustment will be recomputed using the newly applicable locality pay percentage, which may result in a higher or lower locality pay adjustment and, thus, a higher or lower adjusted rate (locality rate or special rate, as applicable). Exception: For employees who would be eligible for a special rate under the GS system and who are in the regular range of a band with a special rate extension, the new adjusted salary following a geographic move may not be less than the old adjusted salary multiplied by the factor derived by dividing the new adjusted band maximum by the old adjusted band maximum.

2. *Special Rate Extension Employees.* For an employee being paid at a rate in a special rate extension, the new adjusted salary following a geographic

move is equal to the old adjusted salary multiplied by the factor derived by dividing the new adjusted band maximum by the old adjusted band maximum; however, the new adjusted rate may not be less than the applicable locality pay point in the new area.

**3. Pay Protection Provision.** A special pay protection provision applies to employees who (a) were entitled to a special rate immediately before conversion into the demonstration project, (b) continue to meet the GS special rate eligibility conditions, and (c) are paid at a rate that equals or exceeds the dollar amount of the pre-conversion special rate. For these employees, the new adjusted rate following a geographic move may not be less than the dollar amount of the employee's pre-conversion special rate. Adverse action and pay retention provisions of Title 5, United States Code, will not apply to any reduction in basic pay due solely to the operation of the above rules.

**Promotion:** Within the Demonstration Project Broad Banding system a promotion will be defined as the movement of an employee from a lower to a higher band level in the same career path, or from one career path to another wherein the band in the new career path has a higher maximum salary than the band from which the employee is moving.

After the implementation of the Demonstration Project, for an employee moving from the GS, a promotion will be defined as placement in a band level which incorporates a GS grade level which is higher than the employee's current grade.

For an employee moving from the FWS, a promotion will be defined as placement in the Demonstration Project in a band level where the representative rate of the highest GS grade covered (i.e. step 04 of the highest GS grade) is higher than the representative rate of the employee's current FWS grade (i.e. step 02).

Promotions will follow basic federal merit promotion policy that provides for competitive and non-competitive promotions. Upon promotion, an employee will normally receive an increase of six percent unless a higher increase is necessary to raise the employee's salary to the minimum salary of the new band. The employee's total adjusted pay (basic pay and locality pay; if any) will be used in determining the amount of the promotion increase and in setting the employee's adjusted pay in the higher band. Decisions not to increase pay or for increases of other than six percent or to the minimum level of the band must

be approved at the Division level, unless otherwise delegated to lower levels. In no situation may an employee's salary upon promotion be established lower than the minimum salary range of the new band.

Factors to be used to help determine the amount of the increase may include, but are not limited to, the employee's directly related experience which may be of immediate use in the new position; the employee's current pay; and the relationship to salaries of other similarly qualified employees.

**Reassignment:** For movement within the Demonstration Project Broad Banding system, a reassignment will be movement to a position covered by the same band level, or from one career path to another when the salary range of the new band level and the employee's current band level remains the same.

For an employee moving from the GS, a reassignment will be defined as placement in the Demonstration Project in a band level where the highest GS grade covered is the same as the employee's current GS grade.

For an employee moving from the FWS, a reassignment will be defined as placement in the Demonstration Project in a band level where the representative rate of the highest GS grade covered (i.e., step 04 of the highest GS grade included in that broad band) is the same as the representative rate of the employee's current FWS grade.

**Demotion or change to lower band level:** For movement within the Demonstration Project Broad Banding system, a demotion will be defined as the movement of an employee from a higher band to a lower band within the same career path, or from one career path to another where the band in the new career path has a lower maximum salary than the band from which the employee is moving.

For an employee moving from the GS, a demotion will be defined as placement in the Demonstration Project in a band level where the highest GS grade covered is lower than the employee's current GS grade.

For employees moving from the FWS, a demotion will be defined as placement in the Demonstration Project in a band level where the representative rate of the highest GS grade covered (i.e. step 04 of the highest grade included in that pay band) is lower than the representative rate of the employee's current FWS grade.

**Salary adjustment:** A salary adjustment is defined as an increase in an employee's base pay (by other than the incentive pay process) within the employee's current band level to an amount which does not exceed the top

of the band. The salary adjustment may be used to adjust the pay of individuals who have acquired a level of education that would otherwise make the employee qualified for an appointment at a higher level and would be used in lieu of a new appointment. For example, this authority may be used to adjust the pay of graduate level Cooperative Education (COOP) students or employees who have obtained an advanced degree, e.g., Ph.D.

**Other:** Current provisions for Highest Previous Rate, Pay Retention (except as otherwise noted), Special Recruitment and Relocation Bonuses, Retention Allowances and Accelerated Promotions will continue. The use of OPM's Operating Manual for "Qualification Standards For General Schedule Positions" will continue with minor modifications; "Band" will be substituted for "Grade" where appropriate and the time in grade requirement will be eliminated.

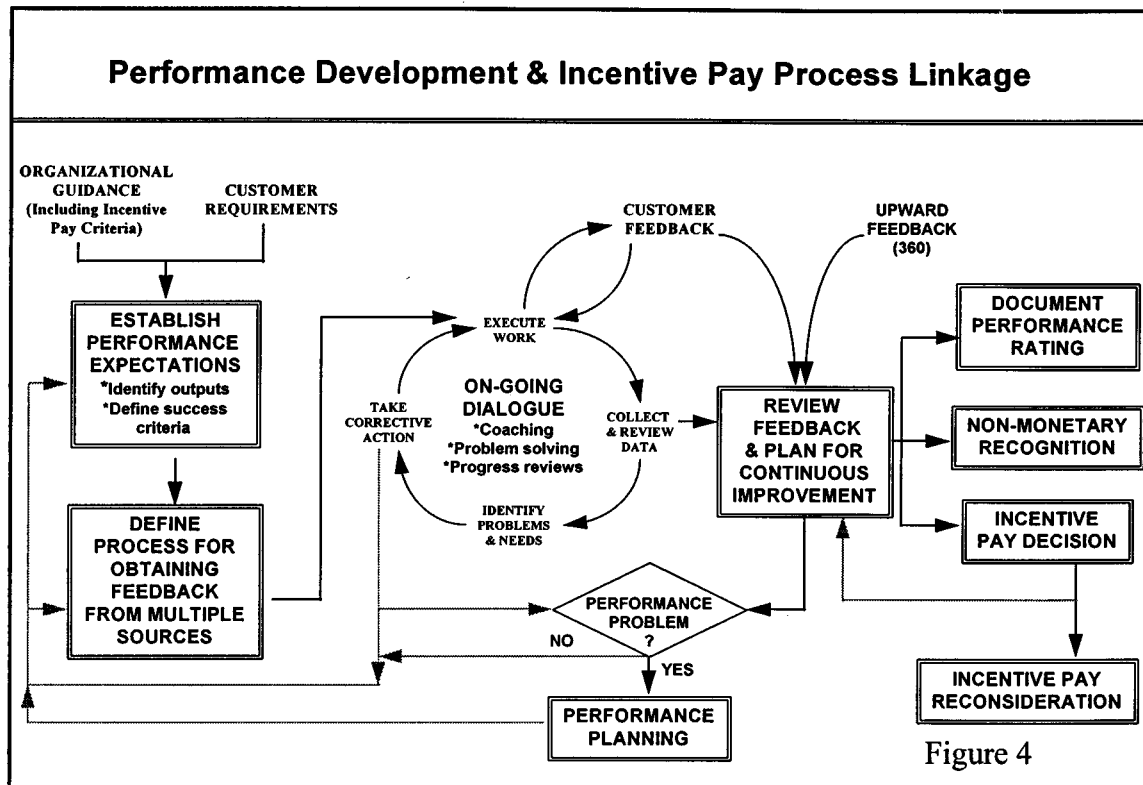
## 2. Performance Development System

The philosophical base of this Demonstration Project is that employees are valued and trusted and are the organization's most critical assets. Accordingly, the primary objectives of the Demonstration Project are to: Develop employees to meet the changing needs of the organization; to help employees achieve their career goals; to improve performance in current positions; to retain high performers, and to improve communication with customers, colleagues, managers and employees. The system focuses on continuous performance improvement and minimizes administrative requirements. On-going dialogue between the employee and supervisor is fundamental to this development focus, and Performance Development Resources are provided as part of the system to facilitate this dialogue and assist with diagnosis of performance issues. The emphasis on continued improvement is carried over into the process for addressing performance problems. The proposed system substitutes an early intervention which focuses immediately on a formal performance plan designed to support the employee's success. A determination of unacceptable performance is made only if the employee does not meet the requirements for acceptable performance detailed in that plan. The following paragraphs describe the key components of the Performance Development System. Figure 4 depicts the relationship of these components



and their linkage with the Incentive Pay system.

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*a. Performance Development Resources.* At the heart of the performance development system is the concept of providing organizational resources to support the development process. While the design of these resources will be delegated to each Division, they will typically consist of a pool of people, including union representatives, who act as a support system to identify or help provide for the needs of employees and managers in the development process. Current limitations regarding union involvement in discussions concerning assigning and directing employees will not prevent the parties within the Demonstration Project from developing appropriate procedures for the Performance Development Resources.

The Resources will be available to facilitate communications around expectations and needs, and help supervisors and employees seek agreement throughout all aspects of the performance development process. Should performance problems arise, these resources will be particularly useful in diagnosing issues impacting performance (e.g., employee skills,

attitudes and motivation, clarity of job expectations, systemic issues, access to information and resources, relationships with co-workers and supervisor, etc.) and identifying options for addressing these issues (e.g., development opportunities, tools or equipment to support improved performance, reassignment of the employee to a position that better matches his/her capabilities and interests, etc.). They will also make referrals to others who may be helpful, and identify systemic or organization wide issues which may be affecting performance.

Supervisors are expected to utilize the Resources for assistance in preventing and alleviating performance problems. Employees may also use the resources to assist them in correcting self-identified performance problems, in development planning to enhance their career opportunities consistent with the needs of the organization, and to facilitate communication and feedback with their supervisors, etc.

*b. Two Level Rating System.* The system employs a two level rating system: "acceptable" and "unacceptable" performance.

"Acceptable" performance is defined as "performance that fulfills the requirements for which the position exists." An employee's performance may not be determined "unacceptable" unless the employee has been placed on and failed a performance plan. Employee performance ratings will be documented annually.

*c. Establishing Performance Expectations.* Clear, mutually understood performance expectations that are linked to organizational goals, strategies and values are fundamental to successful individual and organizational performance. The outcome of this component of the Performance Development System is clear communication of the products and/or services to be delivered by the employee(s), and the success criteria against which those outputs will be assessed. Documentation of outputs and success criteria is expected when necessary to facilitate mutual understanding of performance expectations.

The most effective means of creating a common understanding is through a process in which the supervisor and

employee(s) discuss requirements and establish performance goals and expectations. Employees and supervisors are expected to actively participate in these discussions to seek clarity regarding expectations and identify potential obstacles to meeting goals. In addition, employees should explain (to the extent possible) what they need from their supervisor to support goal accomplishment. The timing of these goal setting discussions will vary based on the nature of work performed, but will occur at least annually. More frequent, task specific, discussions of expectations may be more appropriate in some organizations. In cases where work is accomplished by a team, team discussions regarding goals and expectations may be appropriate; however, expectations for individual contributions to the team goals should always be clearly specified. Either the supervisor, the employee, or the union may enlist the assistance of the Performance Development Resources to facilitate effective dialogue with regard to these issues.

Documentation of performance expectations is a helpful mechanism for ensuring clarity of understanding and providing a focus for later discussions on progress and developmental needs. As a minimum, formal documentation of expectations is required when an employee begins a new or substantially different job. Documentation in other situations is based on the needs and desires of the employee and supervisor, and may rely on other existing documentation (e.g., project plans, process documentation, customer requirements, etc.) No prescribed format is required for such documentation; the employee and supervisor are encouraged to seek agreement on what form of documentation will meet their needs and who will be responsible for producing it. The assistance of the Performance Development Resources may be enlisted by either party to support their efforts to reach agreement. In bargaining units, documentation procedures will be subject to bargaining. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties within the Demonstration Project from developing appropriate procedures for documenting performance discussions.

*d. On-going Performance Dialogue.* To facilitate performance development, employees and supervisors will engage in on-going dialogue. Ideally this dialogue will occur as part of normal day-to-day interactions for the purpose of ensuring a common understanding of expectations, reviewing whether

expectations are being met, providing support in identifying resources or solving problems, providing coaching on complex or sensitive issues, providing information to increase the understanding of the project context, and keeping the supervisor informed of progress. In addition to this on-going interaction, however, it is expected that periodically a more formal dialogue will occur focused on reviewing progress, discussing customer feedback, exploring process improvements that could remove obstacles to effective performance, and identifying developmental needs to support continual improvement and career growth. The employee and supervisor should seek agreement on the frequency and form for both the formal and informal dialogues to ensure they will meet their needs. Either the supervisor, the employee or the union may call upon the Performance Development Resources to facilitate communications or conflict resolution around these issues. In cases where work is accomplished by a team, team meetings may be an appropriate forum for some of this interaction; however, team discussions do not eliminate the need for the supervisor to have some form of individual dialogue with each employee.

The expected outcomes from this on-going dialogue component are plans to support the continuous improvement of individual and organizational performance. Documentation of these discussions and resulting plans is encouraged to the extent that it contributes to clarity of understanding and facilitates later review of progress on continuous improvement efforts. The nature and content of such documentation is based on the needs and desires of the employee and supervisor. No prescribed format is required for such documentation; the employee and supervisor are encouraged to seek agreement on what form of documentation will meet their needs and who will be responsible for producing it. The assistance of the Performance Development Resources may be enlisted by either party to support their efforts to reach agreement.

In bargaining units, these procedures are subject to bargaining. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties within the Demonstration Project from developing appropriate procedures for ongoing performance dialogues and for documenting performance discussions.

*e. Feedback from Multiple Sources.* The primary purpose of feedback in the

Performance Development System is to provide employees with information regarding how well their performance is meeting customer requirements in order to help the employees continually improve their performance. The outputs expected from this component are data and customer feedback which enable review of performance against success criteria. These data provide input to the review and continuous performance improvement planning discussed as part of the on-going dialogue component.

The responsibility for employee development and continuous improvement is jointly held between the supervisor and employee. They are expected to work together to identify internal and external customers and to define and implement a process by which the employee can regularly receive feedback. A variety of mechanisms may be appropriate, such as customer surveys, process measures which track customer requirements, and discussions with customers. Supervisors are expected to facilitate this process and work with employees to interpret the feedback and establish improvement goals. Performance Development Resources may be helpful during this process. Their assistance may be requested by the supervisor, the employee or the union. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties within the Demonstration Project from developing appropriate mechanisms and procedures for obtaining feedback from multiple sources.

Managers and supervisors are also expected to obtain feedback from their customers, including their employees, and to use that feedback as a basis for establishing both personal and organizational performance development goals. The use of an anonymous instrument is appropriate for providing feedback to supervisors and managers on the impact of their behavior. The use of these instruments will help focus attention on desired leadership behaviors, structure the feedback in a constructive manner, and offset the power imbalance that often prevents supervisors from getting useful feedback from their employees. When necessary, supervisors and managers may choose to use the Performance Development Resources to help support their own developmental needs.

*f. Performance Plan.* When an employee has continued performance difficulties, the organization will provide a formal Performance Plan to support the supervisor and employee in resolving the performance problems.

Use of the Performance Development Resources will be an integral part of this effort. Supervisors are expected to call on the Resources for assistance in preventing or alleviating performance problems before the need for formal action arises. When there is an indication that performance is not consistently meeting customer requirements, supervisors are expected to call on the Resources to analyze the causes of the difficulty and develop an approach for resolving it. Development of a formal Performance Plan is indicated if and when it is determined that the employee's performance (vs. system performance) is a contributor to the problem and informal intervention has not been successful in correcting the problem. Use of the Performance Development Resources is expected throughout the period of the Performance Plan in an attempt to facilitate a solution to the problem. The Performance Plan must be written, and will clearly document organizational expectations for successful job performance, specify accountability, identify developmental resources to correct any skill deficiencies, define the time frame of the performance plan, specify organizational support that will be provided and how performance results will be monitored. In addition, the Plan will clearly specify the potential consequences if performance is not acceptable. Periodic discussions between the supervisor and employee must occur during the time frame of the Performance Plan to review progress; these discussions must be documented. Current limitations regarding union involvement in decisions concerning assigning, directing, removing or reducing in grade employees will not prevent the parties within the Demonstration Project from developing appropriate procedures and

documentation in connection with Performance Plans. (Note: Nothing in this subsection will preclude action under Title 5, United States Code, Chapter 75, when appropriate.)

*g. Accountability for Performance.* An employee will be given a rating of unacceptable only if and when the employee is unable to successfully complete the Performance Plan. When an employee's performance is rated as unacceptable, one of four actions will be taken: (1) removal from the Federal Service, (2) placement in a lower band level with a corresponding reduction in pay (demotion), (3) reduction in pay while remaining in the same band level, or (4) placement in a lower band level with no reduction in pay (demotion).

For the third category of action, the amount of reduction in pay will be up to, but may not exceed, the maximum amount of incentive pay (see below) that the employee could be eligible to receive during the current payout period, i.e., up to the equivalent of 4 continuing pay points as of the most recent payout cycle. Following the pay reduction, the objective is to restore performance and pay commensurate with it. A formal Development Plan will be established to maximize the opportunity for success in the assignment by clearly identifying performance expectations and defining a plan to achieve them within an appropriate time frame, not to exceed 12 months. The activity's Performance Development Resources will be utilized throughout this process. If and when performance improves during the period in which the employee is otherwise ineligible for incentive pay, some or all of the reduced pay may be restored. Such restoration is not retroactive and is separate and apart from incentive pay.

For the fourth category of action, the employee may be moved to the next

lower band level provided no loss in pay results and the employee's pay does not exceed the top of the lower band level. Within the Demonstration Project, this would not be considered an adverse action and would not be appealable through a statutory appeals process except for preference eligible employees. Employees will be provided with a written notice of the decision and preference eligibles will be notified of their right to appeal the action to the Merit Systems Protection Board. Current limitations regarding union involvement in decisions concerning reducing employees in grade will not prevent the parties within the Demonstration Project from developing procedures for the non-adverse reduction in band level. The decision to reduce an employee to a lower band level with no reduction in pay will be subject to review under existing grievance or alternative dispute resolution procedures.

### 3. Incentive Pay System

The Incentive Pay System provides a mechanism for encouraging and rewarding performance contributions and other outcomes resulting from the continuous improvement focus of the performance development system.

*Incentive Pay for Employees Covered by Broad Banding:* Supervisors will conduct an annual review of each employee's salary and decide how total compensation should be adjusted to reflect the employee's performance contribution to the organization. The adjustment may be made as a continuing increase to base pay and/or as a one-time cash bonus to adjust total compensation. The philosophical foundation for incentive pay is described below:

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### Principles of Incentive Pay

**Background:** One of the outcomes of pay banding is an expanded range of pay progression opportunities for employees. This is accomplished through "incentive pay." Incentive pay is awarded to people based on the value of their performance contributions to the organization. With this comes the necessity to insure that pay decisions are consistent with the needs and values of the organization. At the same time, they must be seen as fair and equitable. While the Demonstration Project provides discretion for Warfare Center Divisions to substantially define the criteria and process for managing incentive pay, it is appropriate that there be general Project-wide principles that provide a policy framework for division decisions. The following are those principles.

**PRINCIPLE:** "The organization succeeds through the collective contributions of people in all occupations."

The Warfare Centers perform critical missions for the Navy in support of national defense. These missions require the collective efforts of all their people. While certain positions and occupations are highly visible, it is the whole organization as a team pulling in the same direction and towards the same goals that enables the Centers to excel. In that regard, no occupational groups are to be effectively excluded from opportunities for incentive pay and other forms of recognition. Rather, there is an expectation that incentive pay generally will be distributed proportionally to the various career paths. Further, all people who are making positive performance contributions as demonstrated by acceptable performance will share in incentive pay. Amounts and time intervals will be set by Divisions/sites.

**PRINCIPLE:** "Pay should be commensurate with value of performance to the organization."

In general, an individual's total pay (base pay, plus any incentive pay) should be commensurate with the value of the performance contributions to the organization. Contributions may be based on past and/or potential performance consistent with criteria defined by the Warfare Center Divisions. In that regard, there should be relative pay equity between people whose contributions to the organization are of equal value. Consistent with this principle, as the value of a person's contribution increases, compensation should likewise increase. It follows that as an individual's compensation increases, there is a corresponding increase in expected performance contributions.

Typically, when a person is hired, or promoted to a higher band level, and pay is at or near the lower end of that band, there are expected successive increases in pay toward the mid range of that band. This pay growth is reflective of a learning curve upon entering a new position, and the corresponding increasing value to the organization. Pay progression through the mid range occurs with progressively higher levels of performance contributions. Beyond that, extraordinary contributions are expected for pay to increase through the upper levels of the band.

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*a. Eligibility.* All employees who are making positive performance contributions as demonstrated by acceptable performance will share in

incentive pay with the amounts and time intervals set by the Divisions and sites. Employees receiving an unacceptable rating since the last

incentive payout are ineligible for the next incentive pay consideration.

*b. Incentive Pay Pool.* Payments under the Incentive Pay System are made from the incentive pay pool. Within the

incentive pay pool, there are separate funds for continuing pay increases and bonus payments. The incentive pay pool is not used to fund promotions between pay bands. It is also not used to fund general pay increases, special rate increases, or locality pay increases; rather, employees will continue to receive any such increases consistent with other employees outside the demonstration project.

The incentive pay pool will be operated within the parameters of the overall finance system governing the Warfare Centers. As a Defense Business Operating Fund (DBOF) activity, the Warfare Centers are 100 percent industrially funded and operate as "not-for-profit" competitors within the Department of Defense. Under DBOF, the Centers are reimbursed for their work by their customers through billings based on stabilized rates. The assistant Secretary of the Navy for Financial Management and Comptroller oversees the establishment of these stabilized rates through reviews of Biannual Financial Management Budget submissions, which are highly visible at all Command levels. This funding process imposes a discipline in controlling costs (including salary expenditures) for the Warfare Centers that is not present under appropriated funded organizations.

The size of the continuing pay fund is based on appropriate factors, including the following:

a. historical spending for within-grade increases, quality step increases, and in-level career promotions (with dynamic adjustments to account for changes in law or in staffing factors e.g., average starting salaries and the distribution of employees among job categories and band levels);

b. labor market conditions and the need to recruit and retain a skilled workforce to meet the business needs of the organization; and

c. the fiscal condition of the organization.

Given the implications of base pay increases on long-term pay and benefit costs, the amount of the continuing pay fund will be derived after a cost analysis with documentation of the mission-driven rationale for the amount. Any decision to substantially reduce the amount of funds devoted to continuing pay increases would typically occur only in lieu of more drastic cost cutting measures (e.g., RIF or furlough). As part of the evaluation of the project, average salary (base pay) will be tracked over time using two comparison groups: (1) the original two Navy Demonstration labs in China Lake and San Diego, and (2) a comparison group constructed

using OPM's Central Personnel Data File.

The size of the bonus pay fund will be based on appropriate factors, including the following:

a. historical spending for performance awards, special act awards, and awards for beneficial suggestions;

b. the organization's fiscal condition and financial strategies; and

c. employee retention rates.

The decision process for defining the size of the incentive pay pool and the two funds within that pool will be established at the Division/site level. The design of the decision process, insofar as it affects bargaining unit employees, will be subject to collective bargaining.

d. *Delegated Criteria Setting.* The criteria and process for incentive pay will be substantially defined at the Division/site level. The incentive pay decision may be based on some combination of past, present and future performance. Examples of criteria may include criticality of skills, difficulty of position, criticality of position, individual or team contributions, suggestions for improving system or organization processes, length and/or quality of experience, current total compensation, etc. The criteria and process for incentive pay distribution for bargaining unit employees are subject to collective bargaining. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties from developing the criteria and process for incentive pay decisions. (Note: The movement of an employee within a band based on the execution of an incentive pay decision is not a "classification" action.)

e. *Pay points.* The payout process will utilize a point system to distribute incentive pay increases. A maximum of four (4) points will be available, thus each employee performing in an acceptable manner will be eligible to receive 0,1,2,3 or 4 pay points in the form of continuing pay, bonus pay or some combination.

For FWS employees, cash awards continue to be available under the existing Incentive Awards system based on performance and special acts.

f. *Communication and Documentation.* It is important that employees understand what is expected in order to receive a pay increase. Supervisors will interpret organizational criteria for their employees to clarify how it applies to their work and have periodic assessment discussions with employees to prevent surprise decisions at the time of payout. These assessment discussions should normally be held

separately from performance development dialogues. Supervisors and employees are encouraged to seek agreement on their documentation needs. In addition, supervisors are expected to document their payout recommendation decisions and to discuss their decision rationale with employees. In bargaining units, documentation procedures will be subject to bargaining. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties from developing documentation procedures for the communication and documentation of incentive pay discussions and decisions.

g. *Reconsideration of Incentive Pay Decisions.* Employees will have the opportunity for a reconsideration of incentive pay decisions. While the specific purpose of the reconsideration is to address employee concerns about such decisions, the process is also intended to facilitate communication and understanding between employees and supervisors/managers concerning performance contributions and their impact on pay decisions. In addition, the process seeks to identify possible systemic problems that need to be addressed. In that regard, reconsideration is considered a positive and integral component of an effective incentive pay system by providing a mechanism to support continuous improvement. Accordingly, employees will not be discouraged from requesting reconsideration. Neither will they be subjected to reprisal or stigma. The specific process for reconsideration will be defined at the Division/site level. Current limitations regarding union involvement in decisions concerning assigning and directing employees will not prevent the parties from developing procedures for the reconsideration of incentive pay decisions. That process will include, but will not necessarily be limited to, the following characteristics: It should be administratively streamlined; provide expedited resolution; maintain appropriate confidentiality; be fair and impartial; address assertions of harmful error involving issues of process and procedure; and ensure that management payout decisions reflect reasonableness in judgment in evaluating applicable criteria.

h. *Guidance on Managing Incentive Pay.* Each Division is expected to develop policies and criteria to guide the implementation of the incentive pay system which are consistent with their mission, strategies and organizational values, and supportive of the Naval Sea Systems Command and Warfare Center

strategic plans. Some Divisions may rely on individual management judgment based on general guidance, while other Divisions may define a more mechanical process based on highly objective criteria. Additional guidance may be provided by major organizational components (e.g., departments or directorates) to tailor or interpret the command-level criteria for their specific mission and strategies. Each major organizational component will have authority to manage the incentive pay allocation derived from the salaries of employees in that component. Departments/Directorates may further delegate authority to manage a prorated portion of the fund to the next lower echelon. Supervisors and managers within the unit will be assessing the nature of each employee's contribution, consistent with the organization's policy and criteria as reflected in the written guidance. They will then make recommendations to a second level reviewer regarding the number of pay points to be awarded to each employee (i.e., 0 to 4 points) and the nature of incentive pay (i.e., continuing pay and/or bonus pay). Decisions regarding approval/disapproval of recommendations will be made at the organizational level to which authority has been delegated to manage the pay pool; typically this will be the second or third level reviewer. In cases where work is accomplished by a team, the team members may be involved in formulating the recommendation for distribution of incentive pay.

#### 4. Reduction in Force (RIF)

Flexible and responsive alternatives are needed to restructure an organization in a short period of time. The current RIF system is complicated, costly, and relatively unresponsive to the needs of the organization.

The proposed RIF system will have a single round of competition to replace the current "two round" process. Once the position to be abolished has been identified, the incumbent of that position may "displace" another employee when the incumbent has a higher retention standing and is fully qualified for the position occupied by the employee with a lower standing. Retention standing is based on tenure, veteran's preference, length of service, and performance. However, there will be no augmented service credit based on performance ratings. An employee rated as unacceptable during the 12 month period preceding the effective date of a RIF may only displace an employee rated unacceptable during that same period. The same "undue disruption" standard currently utilized will serve as

the criteria to determine if an employee is fully qualified. The displaced individual may similarly displace other employees. If/when there is no position in which an employee can be placed by this process or assigned to a vacant position, that employee will be separated.

Displacement is limited to one broad band level below the employee's present level. A preference eligible employee with a compensable service connected disability of 30 percent or more may displace up to two broad band levels (or the equivalent of five General Schedule grades) below the employee's present level. Employees not covered by broad banding (FWS), may "displace" up to three grades/intervals (five grades/intervals for preference eligibles with a service connected disability of 30 percent or more).

The new system will eliminate retained grade but will preserve retained pay.

All positions included in the Demonstration Project within an activity at a specific geographic location will be considered a separate competitive area.

#### 5. Competitive Examining and Distinguished Scholastic Appointments

The Warfare Center needs a process which will allow for the rapid filling of vacancies, is less labor intensive, and is responsive to our needs. Restructuring the examining process and providing an authority to appoint candidates meeting distinguished scholastic achievements will help achieve these goals. When a Division implements the Demonstration Project for some portion of their workforce, this component may be available for all occupations. This will eliminate the imposition of multiple examining and appointment systems on the public and will strengthen efficiencies gained under the Demonstration Project. To further minimize resource requirements and the complexities inherent in administering two different sets of examining and hiring processes, this component may also be applied to GS and FWS positions in activities for which the Warfare Center Divisions provide human resource services.

*a. Delegated Examining Authority.* The Warfare Centers propose to demonstrate a streamlined examining process for both permanent and non-permanent positions. This authority will be further delegated to the Division level. This authority will apply to all positions with exception of positions in the Senior Executive Service, to Senior Level (ST/SL) positions, to the Executive Assignment System or positions of Administrative Law Judge.

This authority will include the coordination of recruitment and public notices, the administration of the examining process, the administration of veteran's preference, the certification of candidates, and selection and appointment consistent with merit principles.

*b. Description of Examining Process:* The primary change in the examining process to be demonstrated is the grouping of eligible candidates into three Quality Groups using numerical scores and the elimination of consideration according to the "rule of three".

For each candidate, minimum qualifications will be determined using OPM's Operating Manual for "Qualification Standards For General Schedule Positions"/"Job Qualification Systems For Trades and Labor Occupations (Handbook X-118C)" including any selective placement factors identified for the position. Candidates who meet basic (minimum) qualifications will be further evaluated based on knowledge, skills and abilities which are directly linked to the position(s) to be filled. Based on this assessment, candidates will receive a numerical score of 70, 80, or 90. No intermediate scores will be granted except for those eligibles who are entitled to veterans preference. Preference eligibles meeting basic (minimum) qualifications will receive an additional 5 or 10 points (depending on their preference eligibility) which is added to the minimum scores identified above. Candidates will be placed in one of three quality groups based on their numerical score, including any veterans preference points: Basically Qualified (score of 70 and above), Highly Qualified (score of 80 and above), or Superior (score of 90 and above). The names of preference eligibles shall be entered ahead of others having the same numerical.

For scientific/engineering and professional positions at the equivalent of GS-9 and above, candidates will be referred by quality groups in the order of the numerical ratings, including any veterans preference points. For all other positions, i.e., other than scientific/engineering and professional positions at the equivalent of GS-9 and above, preference eligibles with a compensable service-connected disability of 10 percent or more who meet basic (minimum) eligibility will be listed at the top of the highest group certified.

In selecting the top candidate, selecting officials should be provided with a reasonable number of qualified candidates from which to choose. All candidates in the highest group will be

certified. If there is an insufficient number of candidates in the highest group, candidates in the next lower group may be certified in rank order. When two or more groups are certified, candidates will be identified by quality group (i.e., Superior, Highly Qualified, Basically Qualified) in the order of their numerical scores. In making selections, to pass over any preference eligible(s) to select a nonpreference eligible requires approval under current pass over or objection procedures.

*c. Distinguished Scholastic Achievement Appointment:* The Warfare Centers further propose to establish a Distinguished Scholastic Achievement Appointment using an alternative examining process which provides the authority to appoint undergraduates and graduates through the doctoral level who meet basic eligibility as determined by using OPM's Operating Manual for "Qualification Standards For General Schedule Positions" plus any previously established selective placement factors, if applicable and the following scholastic standards:

- 3.5 grade-point average (GPA) or above on a 4.0 scale for required courses in the major field of study, or for all course work; or
- graduated in the top 10% of their graduating class.

At the undergraduate level, the GPA may be based on 4 years of education or on those courses completed during the final 2 years of the curriculum.

Veterans preference procedures will apply when selecting candidates under this authority. Preference eligibles who meet the above criteria will be considered ahead of nonpreference eligibles. In making selections, to pass over any preference eligible(s) to select a nonpreference eligible requires approval under current objection procedures.

This authority allows for the competitive appointment to positions at the equivalent of GS-7 through GS-11, and GS-12 for positions involved in research. Distinguished Scholastic Achievement Appointments will enable the Warfare Centers to respond quickly to hiring needs with eminently qualified candidates possessing distinguished scholastic achievements.

### *C. Project Implementation*

While many of the basic elements of each component of the project will be implemented uniformly at all sites through policies established at the Warfare Center level, a number of policies, procedures, or processes will be delegated to the Division and/or site levels. This permits the system to be

operationally defined, within a Warfare Center directed framework, to fit the culture and needs of the local organizations. In bargaining units, the project will be implemented only after there is full agreement through the collective bargaining process.

### *D. Entry Into and Exit From the Project*

*1. Initial Conversion of Current Workforce.* For the most part, current GS/GM employees will be converted automatically from their current grades to the appropriate career paths and band levels. However, the Warfare Centers consider it essential to the success of the project that employees, upon entering the project, feel that they are not losing a pay entitlement accrued under the GS system. Accordingly, current employees of the Warfare Centers will be "made whole" through a one year "buy-in" period. On the day of conversion, employees typically will receive base pay increases for prorated step increase equivalents. Employees at the 10th step are not eligible for the increase. Further, during the first 12 months following conversion, employees will receive pay increases for non-competitive promotion equivalents when the grade level of the promotion is encompassed within the same band, the employee's performance warrants the promotion and promotions would have otherwise occurred during that period. Employees who receive an in-level promotion at the time of conversion will not receive a prorated step increase equivalent.

Additionally, in many cases, employees who are today covered by a local or national special salary rate will no longer be considered a special rate employee under the Demonstration Project and will thus gain eligibility for full locality pay. To control conversion costs and to avoid a salary increase windfall for these employees, the adjusted salaries of these employees will not change. Rather, the employees will receive a new basic pay rate computed by dividing their adjusted basic pay by the locality pay factor for their area. A full locality adjustment will then be added to the new basic pay rate. Adverse action and pay retention provisions will not apply to the conversion process as there will be no change in total salary.

*2. New and Transfer Employees.* New hires, including employees transferring from other Federal activities, will be converted into the Demonstration Project in the career path and at the level and pay consistent with the duties and responsibilities of the position and individual qualifications.

*3. Exit From the Demonstration Project.* Employees who leave the

Demonstration Project broad banding system to accept federal employment in the traditional Civil Service system will have their pay set by the gaining activity. To assist activities in setting pay and in determining whether such placement constitutes a promotion, reassignment, or change to lower grade, the employee's band and salary level will be converted to a General Schedule equivalent grade prior to leaving the Demonstration Project in the following manner:

Employees who exit the Demonstration Project will be tentatively converted to a GS grade most comparable to the employee's current Demonstration Project level and salary. In instances where the current salary is in the area between two overlapping GS grades within the same level, the converted grade is either (1) the higher of the two overlapping GS grades if the current salary meets or exceeds Step 4 of the higher GS grade, or (2) the lower of the overlapping grades if the current salary is less than Step 4 of the higher GS grade. In those instances where the current salary falls below the established GS salary range for the lowest GS grade covered by that Demonstration Project band level, the converted grade is the lowest GS grade level in that band. In those situations where an employee has not been promoted or placed in a lower pay band while covered by the Demonstration Project, the employee will be converted at a level which is no lower than the GS grade held immediately prior to entering the Demo project. This converted GS grade is the GS equivalent grade and is not necessarily the grade the employee will have upon transfer or reassignment outside the Demonstration Project.

An employee's pay within the converted GS grade is set by converting the demonstration project adjusted rate of pay to a rate on the highest applicable adjusted rate range for the converted GS grade (including locality rates and special rates, as applicable). For example, if the highest applicable adjusted rate range under the GS pay system for a particular employee is a special rate range, the adjusted project rate (locality rate or special rate) is converted to the lowest special rate in that range that equals or exceeds the project rate; from this converted special rate, the employee's unadjusted GS rate and locality rate would be derived. This pay conversion is done before processing any geographic movement or other pay-related action coinciding with the employee's conversion out of the demonstration project.

When an employee transfers to another activity, the employee's rating

of record will be transferred. When the gaining activity uses other than a two level performance system, the employee may be provided a supplementary performance assessment using the gaining organizations appraisal criteria. If the employee requests such an appraisal, the employee will be responsible for providing the criteria to the supervisor for completion. Gaining organizations are not bound to use this supplementary performance appraisal in any formal actions.

#### *E. Project Duration*

The initial implementation period for the Project will be five years. At that time, the entire demonstration project will be reexamined to determine whether to continue, modify or terminate the Project.

#### IV Evaluation Plan

Chapter 47 (Title 5 U.S.C.) requires that an evaluation system be implemented to measure the effectiveness of the proposed personnel management interventions. An evaluation plan for the entire laboratory demonstration program covering 24 DOD labs was developed by a joint OPM/DOD Evaluation Committee. A Comprehensive evaluation plan was submitted to the Office of Defense Research & Engineering in 1995 and subsequently approved. (Proposed Plan for Evaluation of the Department of Defense S&T Laboratory Demonstration Program, Office of Merit Systems Oversight & Effectiveness, June 1995). The overall evaluation effort will be coordinated and conducted by OPM's Personnel Resources and Development Center (PRDC). The primary focus of the evaluation is to determine whether the waivers granted result in a more effective personnel system than the current as well as an assessment of the costs associated with the new system.

The present personnel system with its many rigid rules and regulations is generally perceived as an impediment to mission accomplishment. The Demonstration Project is intended to remove some of those barriers and therefore, is expected to contribute to improved organizational performance. While it is not possible to prove a direct causal link between intermediate and ultimate outcomes (improved personnel system performance and improved organizational effectiveness), such a linkage is hypothesized and data will be collected and tracked for both types of outcome variables.

An intervention impact model (Appendix B) will be used to measure the effectiveness of the various personnel system changes or

interventions. Additional measures will be developed as new interventions are introduced or existing interventions modified consistent with expected effects. Measures may also be deleted when appropriate. Activity specific measures may also be developed to accommodate specific needs or interests which are locally unique.

The evaluation model for the Demonstration Project identifies elements critical to an evaluation of the effectiveness of the interventions. The overall evaluation approach will also include consideration of contact variables that are likely to have an impact on project outcomes: e.g., HRM regionalization, downsizing, cross-service integration, and the general state of the economy. However, the main focus of the evaluation will be on intermediate outcomes, i.e., the results of specific personnel system changes which are expected to improve human resources management. The ultimate outcomes are defined as improved organizational effectiveness, mission accomplishment and customer satisfaction.

Data from a variety of different sources will be used in the evaluation. Information from existing management information systems supplemented with perceptual data will be used to assess variables related to effectiveness. Multiple methods provide more than one perspective on how the demonstration project is working. Information gathered through one method will be used to validate information gathered through another. Confidence in the findings will increase as they are substantiated by the different collection methods. The following types of data will be collected as part of the evaluation: (1) Workforce data; (2) personnel office data; (3) employee attitudes and feedback using surveys, structured interviews and focus groups; (4) local activity histories; (5) core measures of laboratory effectiveness.

#### V. Waivers of Law and Regulation

##### *A. Waivers to Title 5, United States Code*

###### Chapter 33, Section 3317(a):

Competitive service, certification from register (in so far as "rule of three" is eliminated under the Demonstration project).

###### Chapter 33, Section 3318(a): In so far as "rule of three" is eliminated under the Demonstration project.

Chapter 43, Section 4301: Definitions  
Chapter 43, Section 4302: Establishment of performance appraisal systems.  
Chapter 43, Section 4303: Modified to the extent that an employee may be

removed, reduced in band level with a reduction in pay, reduced in pay without a reduction in band level or reduced in band level without a reduction in pay based on unacceptable performance. For employees who are reduced in band level without a reduction in pay, Sections 4303(b) and 4303(e) do not apply.

Chapter 43, Section 4303(b)(1)(A)(ii): Requirement for critical elements.

Chapter 51, Section 5101-5111:

Purpose, definitions, basis, classification of positions, review, authority—To the extent that white collar employees will be covered by broad banding. Pay category determination criteria for Federal Wage System positions remain unchanged.

Chapter 53, Section 5301; 5302(1), (8), and (9); Section 5303; and Section 5304: Pay Comparability System. (To the extent necessary to allow Demonstration project employees covered by broad banding to be treated as General Schedule employees and to allow basic rates of pay under the Demonstration project to be treated as scheduled rates of basic pay.) (This waiver does not apply to Federal Wage System (FWS) employees. This waiver does not apply to SL/ST employees who continue to be covered by these positions, as appropriate.)

Section 404 of the Federal Employees Pay Comparability Act of 1990 (PL 101-509): Special Pay Adjustments for Law Enforcement Officers in Selected Cities. (To the extent necessary to allow law enforcement officers under the demonstration project to be treated as law enforcement officers under the General Schedule.)

Chapter 53, Section 5305: Special Pay Authority. (This waiver does not apply to FWS employees.)

Chapter 53, Sections 5331-5336: General Schedule Pay Rates.

Chapter 53, Section 5362: Grade Retention.

Chapter 53, Section 5363: Pay Retention. (Only to the extent necessary to provide that pay retention does not apply to—(1) conversions from General Schedule special rates to Demonstration project pay and reallocations of Demonstration project pay rates within special rate extensions to locality adjusted pay rates due to promotions or general or locality pay increases, as long as the employee's total rate of pay is not reduced; and (2) reductions in basic pay due solely to the operation of the pay setting



- rules for geographic movement within the Demonstration Project.)
- Chapter 55, Section 5545(d): Hazardous Duty Differential. (Only to the extent necessary to allow Demonstration project employees covered by broad banding to be treated as General Schedule employees.) (This waiver does not apply to FWS and SL/ST employees.)
- Chapter 57, Sections 5753, 5754, and 5755: Recruitment; Relocation Bonuses; Retention Allowances; Supervisory Differentials: (Only to the extent necessary to allow employees and positions under the Demonstration project covered by broad banding to be treated as employees and positions under the General Schedule.) (This waiver does not apply to FWS employees. This waiver does not apply to SL/ST employees who continue to be covered by these provisions, as appropriate.)
- Chapter 59, Section 5941: Allowances based on living costs and conditions of environment; employees stationed outside continental United States or Alaska (Only to the extent necessary to provide that COLA's paid to employees under the demonstration project are paid in accordance with regulations prescribed by the President (as delegated to OPM)). (This waiver does not apply to FWS employees. This waiver does not apply to SL/ST employees who continue to be covered by these provisions, as appropriate.)
- Chapter 71, Section 7106(a)(2): In so far as provision on assigning and directing, documenting performance discussions, Performance Development Resources, Performance Plans, criteria and process for incentive pay, and communication and documentation requirements for incentive pay and reconsideration of incentive pay decisions; and, in so far as provision on reducing employees in grade may prevent the parties from negotiating procedures for non-adverse assignment of employees to a lower pay band.
- Chapter 71, Section 7119(b)(1): In so far as provision for either party to request impasse proceedings would be contrary to provisions of the Demonstration project.
- Chapter 75, Section 7512(3): To the extent necessary to exclude reductions in band level not accompanied by a reduction in pay taken under Chapter 43.
- Chapter 75, Section 7512(4): Adverse Action. (Only to the extent necessary to provide that adverse action provisions do not apply to—(1) conversions from General Schedule special rates to Demonstration project pay and reallocations of Demonstration project pay rates within special rate extensions to locality adjusted pay rates due to promotions or general or locality pay increases, as long as the employee's total rate of pay is not reduced; and (2) reductions in basic pay due solely to the operation of the pay setting rules for geographic movement within the demonstration project.)
- B. Waivers to Title 5, Code of Federal Regulations*
- Part 300, Sections 300.601 through .605: Time in grade restrictions are eliminated in the Demonstration project.
- Part 332, Section 332.401(b): Only to the extent that for non-professional or scientific positions equivalent to GS-9 and above, preference eligibles with a compensable service-connected disability of 10 percent or more who meet basic (minimum) qualification requirements will be entered at the top of the highest group certified without the need for further assessment.
- Part 332, Section 332.402: "Rule of three" will not be used in the Demonstration project.
- Part 332, Section 332.404: Order of selection is not limited to highest three eligibles.
- Part 351, Section 351.402(b): Competitive area to the extent that the Demonstration project will be a separate competitive area within the activity.
- Part 351, Sections 351.403(a) and (b): Competitive levels to the extent that there is no requirement for the establishment of competitive levels in the Demonstration project.
- Part 351, Section 351.404(a) and (b): Retention register to the extent that the requirement to establish separate retention registers by competitive level is eliminated.
- Part 351, Section 351.501(a)(3): For order of retention, delete "as augmented by credit for performance under Section 351.504.
- Part 351, Section 351.504: Credit for performance to the extent that the Demonstration project eliminates service credit for performance.
- Part 351, Section 351.601 through .608: References to competitive levels are eliminated.
- Part 351, Section 351.701(b) and (c) Assignment rights (bump and retreat). To the extent that the distinction between bump and retreat is eliminated and the placement of "white collar" Demonstration Project employees is restricted to no more than one broad band level below the employee's current level, except that for a preference eligible with a compensable service connected disability of 30 percent or more, the limit is two broad band levels (or the equivalent of five General Schedule grades) below the employee's present level."
- Part 430, Subpart B: Performance appraisal for General Schedule, Prevailing Rate and certain other employees: Employees under the Demonstration project will not be subject to the requirements of this subpart.
- Part 432: Modified to the extent that an employee may be removed, reduced in band level with a reduction in pay, reduced in pay without a reduction in band level and reduced in band level without a reduction in pay based on unacceptable performance. Also modified to delete referenced to critical element. For employees who are reduced in band level without a reduction in pay, Sections 432.105 and 432.106(a) do not apply, except that such sections continue to apply to preference eligible employees.
- Part 432, Section 432.104 and .105: Proposing and Taking Action Based on Unacceptable Performance: In so far as references to "critical elements" are deleted and adding that the employee may be "reduced in grade or pay or removed" if performance does not improve to acceptable levels after a reasonable opportunity. In addition, requirements waived to the extent that a reduction in band level is taken based on skill utilization criteria when there is no reduction in pay.
- Part 511, Section 511.201: Coverage of and exclusions from the General Schedule. (To the extent that White Collar positions are covered by broad banding, Pay category determination criteria for Federal Wage System positions remain unchanged.)
- Part 511, Section 511.601: Classification appeals—modified to the extent that white collar positions established under 5 U.S.C. 4703, although specifically excluded from Title 5, are covered by the classification appeal process outlined in this section, as amended below.
- Part 511, Section 511.603(a): Right to appeal—substitute "band" for grade.
- Part 511, Section 511.607(b): Non Appealable Issues—add to the list of issues which are neither appealable nor reviewable, "the assignment of series under 5 U.S.C. 4703 to appropriate career paths."

- Part 530, Subpart C: Special Salary Rates.
- Part 531, Subparts B, D, and E: Determining The Rate of Basic Pay, Within-Grade Increases, and Quality Step Increases.
- Part 531, Subpart C and F: Special Pay Adjustments for Law Enforcement Officers and Locality-Based Comparability Payments. (Only to the extent necessary to allow Demonstration Project employees covered by broad banding to be treated as General Schedule employees and to allow basic rates of pay under the demonstration project to be treated as scheduled annual rates of pay.) (This waiver does not apply to FWS employees. This waiver does not apply to SL/ST employees who continue to be covered by these provisions, as appropriate.)
- Part 536: All provisions pertaining to grade retention.
- Part 536, Section 536.104: Pay Retention. (Only to the extent necessary to provide that pay retention does not apply to—(1) conversions from General Schedule special rates to Demonstration project pay and reallocations of Demonstration project pay rates within special rate extensions to locality adjusted pay rates due to promotions or general or locality pay increases, as long as the employee's total rate of pay is not reduced; and (2) reductions in basic pay due solely to the operation of the pay setting rules for geographic movement within the Demonstration Project.)
- Part 550, Section 550.703: Severance Pay. (Modify the definition of "reasonable offer" by replacing "two grade or pay levels" with "one band level" and "grade or pay level" with "band level".) (This waiver does not apply to FWS employees.)
- Part 550, Section 550.902, definition of "employee": Hazardous Duty Pay. (Only to the extent necessary to treat demonstration project employees covered by broad banding as General Schedule employees.) (This waiver does not apply to FWS and SL/ST employees.)
- Part 575, Subparts A, B, C, and D: Recruitment Bonuses, Relocation Bonuses, Retention Allowances, and Supervisory Differentials. (Only to the

- extent necessary to allow employees and positions under the demonstration project covered by broad banding to be treated as employees and positions under the General Schedule.) (This waiver does not apply to FWS employees. This waiver does not apply to SL/ST employees who continue to be covered by these provisions, as appropriate.)
- Part 591, Subpart B: Cost-of-Living Allowances and Post Differential-Nonforeign Areas. (To the extent necessary to allow demonstration project employees covered by broad banding to be treated as employees under the General Schedule.) (This waiver does not apply to FWS employees. This waiver does not apply to SL/ST employees who continue to be covered by these provisions, as appropriate.)
- Part 752: Section 752.401(a)(3): To the extent necessary to exclude reductions in band level not accompanied by a reduction in pay taken under Chapter 43.
- Part 752: Section 752.401(a)(4): Adverse Action. (Only to the extent necessary to provide that adverse action provisions do not apply to—(1) conversions from General Schedule special rates to Demonstration project pay and reallocations of Demonstration project pay rates within special rate extensions to locality adjusted pay rates due to promotions or general or locality pay increases, as long as the employee's total rate of pay is not reduced; and (2) reductions in basic pay due solely to the operation of the pay setting rules for geographic movement within the demonstration project.)

#### VI. Cost

The goal of this Demonstration Project is the implementation of a system in which payroll costs and resource utilization can be controlled consistent with the organization's larger fiscal strategies. This is especially critical in our industrially funded (DBOF) environment. The continued economic viability of the DBOF activities depends in large measure on controlling expenditures and remaining cost competitive with other organizations. This Demonstration Project proposes a system of pay incentives and processes

that are flexible and can operate in harmony with the organization's operational needs and the financial needs of the larger organization. The costs of project implementation will be borne by the Divisions/sites.

Costs associated with the development of the Demonstration project include software automation, training and project evaluation. All funding will be provided through the Warfare Centers budget. Training costs will be approximately \$192K per thousand employees. The timing of the expenditure will be site specific and dependent upon the implementation schedules. Because automation requirements will be minimized as a result of system similarities to existing Navy Demonstration Projects, costs are estimated at \$100K for the first two years of project implementation. Evaluation costs are estimated at approximately \$60K per year.

#### VII. Project Oversight and Management

Project oversight and management will be carried out by the Warfare Center's Executive Group, composed of the Commanders and Technical Directors of the two Warfare Centers. They will be assisted by the Demonstration Project Management Office and the Steering Committee. (See Figure 5)

The Steering Committee, chaired by a senior executive or senior Navy officer appointed by the Executive Group, is comprised of a senior member of each Division of the Warfare Centers, and a member from the American Federation of Government Employees, Metal Trades Council, International Association of Machinists, National Association of Government Employees, National Federation of Federal Employees, and Fraternal Order of Police. This group serves as an advisory body to the Executive Group which makes final decisions on the Demonstration Project proposal and implementation. The role of the Steering Committee is to aggregate and analyze incoming data from formal and informal evaluations and make recommendations. It may also include facilitating information sharing, mediating impasses, and promotion of partnership roles.

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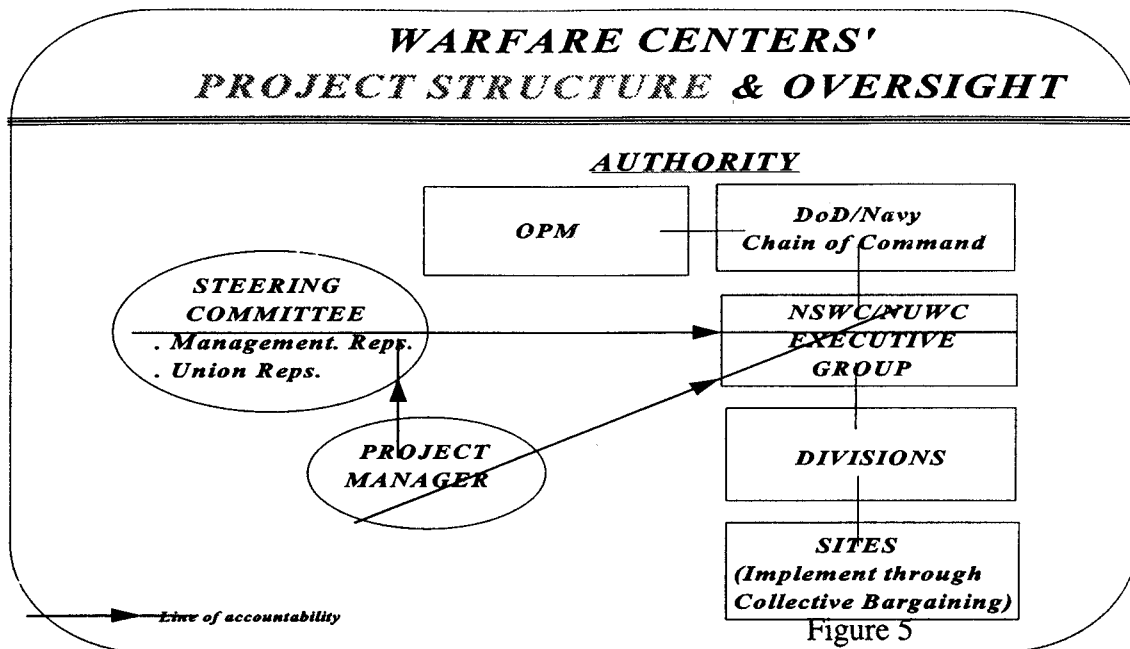


Figure 5

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Appendix A: Employee/Union Involvement Methodology

From the inception of the Naval Sea Systems Command Warfare Centers' Personnel Demonstration Project, employee involvement in crafting the Project Proposal was viewed as essential to producing a plan that considered the needs of all parties. National union representatives participated as members of the Steering Committee which developed the Personnel Demonstration Project Proposal and will be overseeing its implementation. While the process that produced the Project Proposal was a collaborative one, union participation did not necessarily constitute full and complete endorsement of all details of the Proposal.

At the Warfare Centers' various Divisions and sites, employees and unions are involved through a variety of communications strategies. Within the Divisions, communications teams composed of a cross section of the workforce have been formed for the purpose of disseminating information

about the project as well as a focal point for employee questions. Further, Divisions are establishing groups or committees to help guide the implementation of the Project throughout the organization. This model of broad participation is envisioned to continue throughout the life of the Demonstration Project.

Unions Represented

- Dahlgren, VA—American Federation of Government Employees
- White Oak, MD—American Federation of Government Employees; Metal Trades Council
- Panama City, FL—National Federation of Federal Employees
- Crane, IN—American Federation of Government Employees; Fraternal Order of Police
- Louisville, KY—International Association of Machinists & Aerospace Workers
- Carderock, MD—Metal Trades Council; Federal Firefighters Association; Pattern Maker Association
- Annapolis, MD—National Federation of Federal Employees

- Philadelphia, PA—Metal Trades Council; Fraternal Order of Police; International Association of Firefighters
- Ft. Lauderdale, FL—American Federation of Government Employees
- Port Hueneme, CA—National Association of Government Employees; Federal Union of Scientists and Engineers
- Indian Head, MD—American Federation of Government Employees; International Association of Firefighters; International Association of Machinists and Aerospace Workers
- McAlester, OK—American Federation of Government Employees
- Keyport, WA—Metal Trades Council
- Newport, RI—National Association of Government Employees; Federal Union of Scientists and Engineers
- New London, CT—National Association of Government Employees

Appendix B: Project Evaluation and Oversight

Intervention Impact Model—DOD Lab Demonstration Program

1. COMPENSATION

Intervention	Expected effects	Measures	Data sources
a. Broad banding .....	—Increased organizational flexibility. —Reduced administrative workload, paperwork reduction. —Advanced in-hire rates .....	—Perceived flexibility .....	—Attitude survey.
		—Actual perceived time savings ..	—Personnel office data, PME results, attitude survey.
		—Starting salaries of banded v. non-banded employees.	—Workforce data.

1. COMPENSATION—Continued

Intervention	Expected effects	Measures	Data sources
b. Conversion buy-in .....	—Slower pay progression at entry levels. —Increased pay potential .....	—Progression of new hires over time by band, career path. —Mean salaries by band, career path, demographics.	—Workforce data. —Workforce data.
	—Increased satisfaction with advancement. —Increased pay satisfaction .....	—Employee perceptions of advancement. —Pay satisfaction, internal/external equity.	—Attitude survey. —Attitude survey.
	—Improved recruitment .....	—Offer/acceptance ratios—Percent declinations.	—Personnel office data.
	—No change in high grade (GS-14) distribution. —Employee acceptance .....	—Number/percentage of high grade salaries pre/post banding. —Employee perceptions of equity, fairness. —Cost as a percent of payroll .....	—Workforce data. —Attitude survey. —Workforce data.

2. PERFORMANCE MANAGEMENT

Intervention	Expected benefits	Measures	Data sources
a. Cash awards/bonuses .....	—Reward/motivate performance .. —To support fair and appropriate distribution of awards.	—Perceived motivational power ... —Amount and number of awards by career path, demographics. —Perceived fairness of awards .... —Satisfaction with monetary awards.	—Attitude survey. —Workforce data. —Attitude survey. —Attitude survey.
b. Performance/contribution based pay progression.	—Increased pay-performance link  —Improved performance feedback  —Decreased turnover of high performers; increased turnover of low performers. —Differential pay progression of high/low performers.  —Alignment of organizational and individual performance expectations and results.  —Increased employee involvement in performance planning and assessment.	—Perceived pay-performance link  —Perceived fairness of ratings ..... —Satisfaction with ratings .....	—Attitude survey.  —Attitude survey. —Attitude survey. —Attitude survey.  —Workforce data.  —Workforce data.
c. New appraisal process .....	—Reduced administrative burden	—Turnover by performance rating category.  —Pay progression by performance rating category, career path.	—Attitude survey.  —Workforce data.
d. Performance development .....	—Improved communication ..... —Better communication of performance expectations. —Improved satisfaction and quality of workforce.	—Linkage of performance expectations to strategic plans/goals; performance expectations; perceived involvement. —Performance management procedures.  —Employee and supervisor perception of revised procedures. —Perceived fairness of process ... —Feedback and coaching procedures used. —Organizational commitment .....	—Performance expectations, strategic plans; attitude survey/focus groups.  —Attitude survey/focus groups; personnel regulations.  —Attitude survey. —Focus group. —Focus groups.  —Attitude surveys.  —Attitude survey.

3. "WHITE COLLAR" CLASSIFICATION

Intervention	Expected effects	Measures	Data sources
a. Improved classification systems with generic standards.	—Reduction in amount of time and paper-work spent on classification.  —Ease of use .....	—Time savings; reduction of paper work/number of personnel actions (classification/promotions). —Managers' perceptions of time savings, ease of use, improved ability to recruit. —Perceived quality of recruits .....	—Personnel office data.  —Attitude survey.
	—Improved recruitment of employees with appropriate skills.	—GPA's of new hires, education levels.	—Focus groups/Interviews. —Personnel office data.

3. "WHITE COLLAR" CLASSIFICATION—Continued

Intervention	Expected effects	Measures	Data sources
b. Classification authority delegated to managers.	<ul style="list-style-type: none"> <li>—Increased supervisory authority/accountability.</li> <li>—Decreased conflict between management and personnel staff.</li> <li>—No negative impact on internal pay equity.</li> </ul>	<ul style="list-style-type: none"> <li>—Perceived authority .....</li> <li>—Number of classification disputes/appeals pre/post.</li> <li>—Management satisfaction with service provided by personnel office.</li> <li>—Internal pay equity .....</li> </ul>	<ul style="list-style-type: none"> <li>—Attitude survey.</li> <li>—Personnel records.</li> <li>—Attitude survey.</li> <li>—Attitude survey.</li> </ul>
c. Dual career ladder .....	<ul style="list-style-type: none"> <li>—Increased flexibility to assign employees.</li> <li>—Improved internal mobility .....</li> <li>—Increased pay equity .....</li> <li>—Flatter organization .....</li> <li>—Improved quality of supervisory staff.</li> </ul>	<ul style="list-style-type: none"> <li>—Assignment flexibility .....</li> <li>—Sup/non-sup ratios .....</li> <li>—Perceived internal mobility .....</li> <li>—Perceived pay equity .....</li> <li>—Supervisory/non-supervisory ratios.</li> <li>—Employee perceptions of quality of supervisors.</li> </ul>	<ul style="list-style-type: none"> <li>—Focus groups, surveys.</li> <li>—Workforce data.</li> <li>—Attitude survey.</li> <li>—Attitude survey.</li> <li>—Workforce data.</li> <li>—Attitude survey.</li> </ul>

4. STAFFING/RECRUITMENT

Intervention	Expected benefits	Measures	Data
Competitive examining and categorical grouping.	<ul style="list-style-type: none"> <li>—Improved hiring process .....</li> <li>—increased quality of hires .....</li> <li>—Increased timeliness .....</li> <li>—No negative impact on fairness of process, openness to competition.</li> </ul>	<ul style="list-style-type: none"> <li>—Management satisfaction with hiring process, time to hire, perceived quality of new hires.</li> <li>—GPA's of new hires, education levels.</li> <li>—Time to fill positions .....</li> <li>—Candidate/employee satisfaction.</li> </ul>	<ul style="list-style-type: none"> <li>—Attitude survey.</li> <li>—Personnel office data (from issue of Form 52 to referral of candidates).</li> <li>—Attitude survey.</li> </ul>

5. RIF

Intervention	Expected effects	Measures	Data sources
Modified RIF .....	<ul style="list-style-type: none"> <li>—Prevent loss of high performing employees with needed skills.</li> <li>—Contain cost and disruption .....</li> </ul>	<ul style="list-style-type: none"> <li>—Separated employees by demographics, performance.</li> <li>—Satisfaction with RIF process .....</li> <li>—Cost comparisons of traditional v. modified RIF; time to conduct RIF; number of appeals/reinstatements.</li> </ul>	<ul style="list-style-type: none"> <li>—Workforce data; attitude survey/focus groups.</li> <li>—Attitude survey/focus groups.</li> <li>—Rightsizing and documenting systems/personnel office/budget data.</li> </ul>

6. COMBINATION OF ALL INTERVENTIONS

Intervention	Expected effects	Measures	Data sources
All .....	<ul style="list-style-type: none"> <li>—Improved organizational effectiveness.</li> <li>—Improved management of R&amp;D workforce.</li> <li>—Improved planning .....</li> <li>—Improved cross functional coordination.</li> <li>—Increased product success .....</li> <li>—Cost of innovation .....</li> </ul>	<ul style="list-style-type: none"> <li>—Combination of personnel measures.</li> <li>—Employee/management satisfaction.</li> <li>—Planning procedures .....</li> <li>—Perceived effectiveness of planning procedures.</li> <li>—Actual/perceived coordination ...</li> <li>—Customer satisfaction .....</li> <li>—Project training/development cost (staff salaries, contract cost, Training hours per employee).</li> </ul>	<ul style="list-style-type: none"> <li>—All data sources.</li> <li>—Attitude survey.</li> <li>—Strategic planning documents.</li> <li>—Attitude survey; organizational charts.</li> <li>—Attitude survey.</li> <li>—Customer satisfaction surveys.</li> <li>—Demo project office records; contract documents.</li> </ul>

## 7. CONTEXT

Intervention	Expected effects	Measures	Data sources
a. Regionalization .....	—Reduced servicing ratios/cost ... —No negative impact on service quality.	—HR servicing ratios .....	—Attitude survey. —Workforce data.
b. GPRA .....	—Improved organizational performance.	—Average cost per employee served. —Service quality, timeliness ..... —Other measures to be developed.	—Attitude survey/ focus groups. —As established.

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