

DEPARTMENT OF DEFENSE**Office of the Secretary****Science and Technology Reinvention Laboratory Personnel Management Demonstration Project at the U.S. Army Aviation and Missile Research, Development, and Engineering Center; Notice**

AGENCY: Office of the Deputy Assistant Secretary of Defense (Civilian Personnel Policy), DoD.

ACTION: Notice of amendment of the demonstration project plan.

SUMMARY: The National Defense Authorization Act for Fiscal Year 1995, as amended by Section 1114 of the National Defense Authorization Act for Fiscal Year 2001, authorizes the Secretary of Defense to conduct personnel demonstration projects at Department of Defense (DoD) laboratories designated as Science and Technology (S&T) Reinvention Laboratories. The above-cited legislation authorizes DoD to conduct demonstration projects that experiment with new and different personnel management concepts to determine whether such changes in personnel policy or procedures would result in improved personnel management.

This notice amends the Aviation and Missile Research, Development, and Engineering Center (AMCOM RDEC) project plan to change the method for pay setting upon promotion, add a staffing supplement, and make a technical correction to the categories of participating employees.

DATES: This amendment to the demonstration project plan may be implemented beginning on the date of publication of this notice in the **Federal Register**.

FOR FURTHER INFORMATION CONTACT: AMCOM RDEC: David Knepper, Aviation and Missile Research, Development, and Engineering Center, U.S. Army Aviation and Missile Command, ATTN: AMSAM-RD, Redstone Arsenal, Alabama 35898-5000. DoD: Patricia M. Stewart, CPMS-AF, 1400 Key Blvd., Suite B-200, Arlington, VA 22209-5144.

SUPPLEMENTARY INFORMATION:**1. Background**

Final plans were published in the **Federal Register** for the following S&T Reinvention Laboratory Demonstration Projects: Missile Research, Development, and Engineering Center (MRDEC) (Friday, June 27, 1997, Volume 62, Number 124, Part IV, page 34876); and Aviation Research,

Development, and Engineering Center (AVRDEC) (Friday, June 27, 1997, Volume 62, Number 124, Part V, page 34906).

Amendments to the final plans were published in the **Federal Register** as follows: To add competitive examining and Distinguished Scholastic Achievement Appointment authorities as part of the MRDEC and the AVRDEC plans (Thursday, March 11, 1999, Volume 64, Number 47, page 12216); and to merge the two separate demonstrations into one project as the AMCOM RDEC (Thursday, August 31, 2000, Volume 65, Number 170, page 53142).

The AMCOM RDEC demonstration project involves simplified job classification, paybanding, a performance-based compensation system, expanded employee development, and revised reduction-in-force procedures.

2. Overview

Pay setting for promotion is currently achieved by awarding an employee a 6 percent salary increase or the lowest level in the payband to which promoted, whichever is greater. In many instances, the increase has been smaller than what would have been received under comparable circumstances if the employee were in the General Schedule (GS) system. For example, an Engineer or Scientist in the demonstration with a salary equivalent to a GS-13, step 5 would receive a 6 percent increase upon promotion from payband DB III to DB IV. In the GS system, the salary increase from GS-13, step 5 to the next grade is 7.74 percent.

The minimum salary increase upon promotion is being changed from 6 percent to 8 percent or the lowest level in the payband to which promoted, which is more typical of comparable GS increases. Also, flexibility is being provided to the Personnel Management Board to raise the minimum increase beyond 8 percent on a case-by-case basis. The Board will document its rationale for decisions to provide an increase above 8 percent. This amendment is designed to alleviate a potential employee retention issue.

A staffing supplement is needed to provide the AMCOM RDEC the flexibility to remain competitive with special salary rates in the GS system. Employees assigned to occupational categories and geographic areas covered by special rates will be entitled to a staffing supplement if the maximum adjusted rate for the banded GS grades to which assigned is a special rate that exceeds the maximum GS locality rate for the banded grades. The staffing

supplement serves to compensate demonstration project employees for the comparable value of GS special salary rates, removing this as a potential employee hiring and retention issue.

A technical correction is needed specifically to exclude employees covered by the Defense Civilian Intelligence Personnel System (DCIPS). This exclusion was in the AVRDEC **Federal Register** notice. However, it was not made part of the MRDEC plan because MRDEC at the time did not employ DCIPS personnel. The correction is necessary because the two demonstrations (MRDEC and AVRDEC) have been merged into one and the MRDEC plan is being followed for the consolidated AMCOM RDEC project.

I. Executive Summary

The Department of the Army established the AMCOM RDEC personnel demonstration project to be generally similar in nature to the system in use at the Department of the Navy personnel demonstration project known as China Lake. The AMCOM RDEC project was built upon the concepts of linking performance to pay for all covered positions; simplifying paperwork in the processing of classification and other personnel actions; emphasizing partnerships among management, employees, and unions; and delegating authorities to line managers.

II. Introduction

The demonstration project at the AMCOM RDEC intends to provide managers, at the lowest practical level, the authority, control, and flexibility needed to achieve a quality laboratory and quality products. The project will allow the laboratory to compete more effectively for high-quality personnel and strengthen the manager's role in personnel management.

A. Purpose

The purpose of this amendment is: (1) To improve pay setting upon promotion to make it comparable to that received by GS employees by increasing the promotion salary entitlement from the current 6 percent or bottom of the payband to which promoted to 8 percent or the bottom of the payband to which promoted; (2) to allow the Personnel Management Board to raise the minimum increase upon promotion beyond 8 percent on a case-by-case basis as described below; (3) to add a staffing supplement to replace special salary rates that are waived in the demonstration project; and (4) specifically to exclude employees covered by the DCIPS from participating

in the demonstration. Other basic provisions of the approved AMCOM RDEC demonstration project are unchanged.

B. Employee Notification and Collective Bargaining Requirements

Employee notification will be made by delivery of a copy of this notice. Supervisors and employees will receive information briefings and training before implementation. Participating organizations must fulfill any collective bargaining obligations to unions that represent employees covered by the demonstration.

III. Personnel System Changes

A. Pay Setting for Promotion

The pay setting for promotion provisions in the MRDEC plan, under Section III B at page 34888, are amended to read: "Upon promotion, an employee will be entitled to an 8 percent increase in base pay or the lowest level in the payband to which promoted, whichever is greater. However, for employees assigned to occupational categories and geographic areas covered by special rates, the minimum salary rate in the payband to which promoted is the minimum salary for the corresponding special rate or locality rate, whichever is greater. For employees covered by a staffing supplement, the demonstration staffing adjusted pay is considered basic pay for promotion calculations. On a case-by-case basis, the AMCOM RDEC Personnel Management Board may approve requests for promotion base pay increases beyond 8 percent, in accordance with established AMCOM RDEC operating procedures. The Board will document its rationale for decisions to provide an increase above 8 percent. Highest previous rate may also be considered in setting pay in accordance with existing pay-setting policies."

B. Staffing Supplement

The MRDEC plan is amended by adding the following as Section III G, Staffing Supplement:

Application of the Staffing Supplement Upon Conversion to the Demonstration Project

Employees assigned to occupational categories and geographic areas covered by special rates will be entitled to a staffing supplement if the maximum adjusted rate for the banded GS grades to which assigned is a special rate that exceeds the maximum GS locality rate for the banded grades. The staffing supplement is added to base pay, much like locality rates are added to base pay. For employees being converted into the demonstration, total pay immediately

after implementation of this intervention will be the same as immediately before this intervention, but a portion of the total pay will be in the form of a staffing supplement. Adverse action and pay retention provisions will not apply to the conversion process, as there will be no change in total salary. The staffing supplement is calculated as follows:

Upon conversion, the demonstration base rate will be established by dividing the employee's former GS adjusted rate (the higher of special rate or locality rate) by the staffing factor. The staffing factor will be determined by dividing the maximum special rate for the banded grades by the GS unadjusted rate corresponding to that special rate (step 10 of the GS rate for the same grade as the special rate). The employee's demonstration staffing supplement is derived by multiplying the demonstration base rate by the staffing factor minus one. Therefore, the employee's final demonstration special staffing rate equals the demonstration base rate plus the staffing supplement. This amount will equal the employee's former GS adjusted rate.

Simplified, the formula is this:

Staffing factor = (Maximum special rate for the banded grades)/(GS unadjusted rate corresponding to that special rate)

Demonstration base rate = (Former GS adjusted rate, special or locality rate)/(staffing factor)

Staffing supplement = (Demonstration base rate) × (staffing factor - 1)

Salary upon conversion = (Demonstration base rate) + (staffing supplement) Note: This sum will equal the existing rate.

Example: Assume there is a GS-801-11, step 03, employee stationed in Huntsville, Alabama, who is entitled to the greater of a special salary rate of \$50,018 or a locality rate of \$48,499 (\$44,462 + 9.08 percent). The maximum special rate for a GS-801-11, step 10 is \$59,741, and the corresponding regular rate is \$54,185. The maximum GS-11 locality rate in Huntsville is \$59,105 (\$54,185 + 9.08 percent), which is less than the maximum special salary rate. Thus, a staffing supplement is payable. The staffing factor is computed as follows:

Staffing factor = \$59,741/\$54,185 = 1.1025

Demonstration base rate = \$50,018/1.1025 = \$45,368

Then to determine the staffing supplement, multiply the demonstration base by the staffing factor minus 1.

Staffing supplement = \$45,368 × 0.1025 = \$4,650

The staffing supplement of \$4,650 is added to the demonstration base rate of \$45,368 and the total salary is \$50,018, which is the salary of the employee before this intervention.

If an employee is in a band where the maximum GS adjusted rate for the banded grades is a locality rate, when the employee enters into the demonstration project, the demonstration base rate is derived by dividing the employee's former GS adjusted rate (the higher of locality rate or special rate) by the applicable locality pay factor (for example, 1.0908 in the Huntsville area for CY 2002). The employee's demonstration locality-adjusted rate will equal the employee's former GS adjusted rate. Any GS or special rate schedule adjustment will require computing the staffing supplement again. Employees receiving a staffing supplement remain entitled to an underlying locality rate, which may over time supersede the need for a staffing supplement. If OPM discontinues or decreases a special rate schedule, pay retention provisions will be applied. Upon geographic movement, an employee who receives the staffing supplement will have the supplement recomputed. Any resulting reduction in pay will not be considered an adverse action or a basis for pay retention.

Application of the Staffing Supplement in Circumstances Other than Conversion to the Demonstration Project

Calculation of the staffing supplement discussed above was presented in the context of a General Schedule employee entering the demonstration project. Application of the staffing supplement is normally intended to maintain pay comparability for General Schedule employees entering the demonstration. However, the staffing supplement formulas must be compatible with non-Government employees entering the demonstration and also be adaptable to the special circumstances of employees already in the demonstration. Employees who are already in the demonstration project and who are in occupational categories covered by special salary rate tables will have their salaries examined for the application of a staffing supplement or a one-time salary adjustment.

The principles in paragraphs 1 through 6 will govern the modifications necessary to the previous staffing supplement calculations to apply the staffing supplement to circumstances other than a General Schedule employee entering the demonstration project. No adjustment under these provisions will provide an increase greater than that provided by the special salary rate. An

increase provided under this authority is not an equivalent increase, as defined by 5 CFR 531.403. These principles are stated with the understanding that the necessary conditions exist that require the application of a staffing supplement.

1. If a non-Government employee is hired into the demonstration, then the employee's entry salary will be used for the term, "former GS adjusted rate" to calculate the demonstration base rate.

2. If a current demonstration project employee is covered by a special salary rate table that has not changed (other than by annual general pay increases), then the employee's current demonstration adjusted base salary will be used for the term "former GS adjusted rate" to calculate the demonstration base rate.

3. If a current demonstration project employee is covered by a new or modified special salary rate table, then the employee's current demonstration base rate is used to calculate the staffing supplement percentage. The employee's new demonstration adjusted base salary is the sum of the current demonstration base rate and the calculated staffing supplement.

4. If a current demonstration project employee is in an occupational category that is covered by a special salary rate table and subsequently, the occupational category becomes covered by a different special salary rate table with a higher value (e.g.; a DB 854 originally covered by table 422 is subsequently covered by table 999B, which is a higher rate schedule), then the following steps must be applied to calculate a new demonstration base rate:

Step 1. To obtain a relevance factor, divide the staffing factor that will become applicable to the employee by the staffing factor that would have applied to the employee. For example, table 999B (2002 rates for Huntsville, AL) is applicable to a DB 854-II employee, and the applicable staffing factor is 1.18 (\$63,938/\$54,185). For table 0422 (the table that would have applied if table 999B had not been implemented) the applicable staffing factor is 1.1282 (\$61,130/\$54,185). Thus:

Relevance factor = $1.18/1.1282 = 1.0459$

Step 2. Multiply the relevance factor resulting from step 1 by the employee's current adjusted demonstration rate to determine a new adjusted demonstration rate.

Step 3. Divide the result from step 2 by the applicable staffing factor to derive a new demonstration base rate. This new demonstration base rate will be used to calculate the staffing supplement and the new demonstration adjusted base salary.

5. If, after the establishment of a new or adjusted special salary rate table, an employee enters the demonstration (whether converted from the General Schedule or hired from outside Government) prior to this intervention, then the employee's current adjusted base salary is used for the term "former GS adjusted rate" to calculate the demonstration base rate. This principle prevents double compensation due to the single event of a new or adjusted special salary rate table.

6. If an employee is in an occupational category covered by a new or modified special salary rate table, and the pay band to which assigned is not entitled to a staffing supplement, then the employee's salary may be reviewed and adjusted to accommodate the salary increase provided by the special salary rate. The review may result in a one-time pay increase if the employee's salary equals or is less than the highest special salary grade and step that exceeds the comparable locality grade and step. AMCOM RDEC operating procedures will identify the officials responsible to make such reviews and determinations. The applicable salary increase will be calculated by determining the percentage difference between the highest step 10 special salary rate and the comparable step 10 locality rate and applying this percentage to the demonstration base rate.

An established salary including the staffing supplement will be considered basic pay for the same purposes as a locality rate under 5 CFR 531.606(b), i.e., for purposes of retirement, life insurance, premium pay, severance pay, and advances in pay. It will also be used to compute worker's compensation payments and lump-sum payments for accrued and accumulated annual leave.

Section V of the MRDEC plan, Conversion to the Demonstration Project, paragraph c is amended to read: "Employees who are covered by special salary rates, upon being covered by the demonstration project, will no longer be considered special rate employees under the demonstration project. These employees will, therefore, be entitled to full locality pay or a staffing supplement. The adjusted salaries of these employees will not change. Rather, the employees will receive a new basic pay rate computed under the staffing supplement rules in Section III G, Staffing Supplement, if applicable. Adverse action and pay retention provisions will not apply to the conversion process, as there will be no change in total salary."

Section V of the MRDEC plan, Conversion or Movement from a Project

Position to a General Schedule Position, paragraph a (1), first sentence is amended to read: "The employees' adjusted rate of basic pay under the demonstration project (including any locality payment or staffing supplement) is compared with step 4 rates on the highest applicable GS rate range." Paragraph b (2), first sentence is changed to read: "An employee's adjusted rate of basic pay under the project (including any locality payment or staffing supplement) is converted to the GS adjusted rate on the highest applicable rate range for the converted GS grade."

Section IX of the MRDEC plan, Required Waivers to Law and Regulation, is amended by inserting after the first paragraph, a new paragraph as follows: "The following waivers and adaptations of certain Title 5, U.S.C., provisions are required only to the extent that these statutory provisions limit or are inconsistent with the actions contemplated under this demonstration project. Nothing in this plan is intended to preclude the demonstration project from adopting or incorporating any law or regulation enacted, adopted, or amended after the effective date of this demonstration project."

Section IX is also amended by modifying the existing waiver to title 5, United States Code, chapter 53, sections 5361-5366, Grade and pay retention; re-numbering the existing "(5)" as "(6)"; and inserting a new item "(5)" as follows: "(5) provide that pay retention provisions do not apply when reduction in basic pay is due solely to the reallocation of demonstration project pay rates in the implementation of a staffing supplement'.

Additionally, Section IX is amended by inserting the following provision above the existing waiver to title 5, United States Code, chapter 55: "Chapter 55, Section 5542(a)(1)-(2): Overtime rates; computation" These sections are adapted only to the extent necessary to provide that the GS-10 minimum special rate (if any) for the special rate category to which a project employee belongs is deemed to be the "applicable special rate" in applying the pay cap provisions in 5 U.S.C. 5542."

Section IX is amended by inserting the following provision above the existing waiver to title 5, United States Code, chapter 57: "Chapter 55, Section 5547(a)-(b): Limitation on premium pay—These sections are adapted only to the extent necessary to provide that the GS-15 maximum special rate (if any) for the special rate category to which a project employee belongs is deemed to be the "applicable special rate" in

applying the pay cap provisions in 5 U.S.C. 5547.”

Section IX is further amended by modifying the existing waiver to title 5, Code of Federal Regulations, part 536; re-numbering the existing “(4)” as “(5)”; inserting a new item “(4)” as follows: “(4) provide that pay retention provisions do not apply when reduction in basic pay is due solely to the reallocation of demonstration project pay rates in the implementation of a staffing supplement’.

Finally, Section IX is amended by inserting the following two provisions above the existing waiver to title 5, Code of Federal Regulations, part 550.703:

(1) “Part 550, sections 550.105 and 550.106: Biweekly and annual maximum

earnings limitations—These sections are adapted only to the extent necessary to provide that the GS–15 maximum special rate (if any) for the special rate category to which a project employee belongs is deemed to be the “applicable special rate” in applying the pay cap provisions in 5 U.S.C. 5547.”

(2) “Part 550, section 550.113(a): Computation of overtime pay—This section is adapted only to the extent necessary to provide that the GS–10 minimum special rate (if any) for the special rate category to which a project employee belongs is deemed to be the “applicable special rate” in applying the pay cap provisions in 5 U.S.C. 5542.”

C. Participating Employees

The third sentence under Section II E, Participating Employees, of the MRDEC plan is amended to read: “Senior Executive Service (SES) employees and positions, Federal Wage System (FWS) employees, Defense Civilian Intelligence Personnel System (DCIPS) employees, and employees in the Quality Assurance Specialist (Ammunition Surveillance) (QASAS) career program will not be covered in the demonstration project.”

Dated: January 30, 2002.

Patricia L. Toppings,

Alternate OSD Federal Register Liaison Officer, Department of Defense.

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