

161a); the Federal Advisory Committee Act (5 U.S.C. App.); and the Commission's regulations in Title 10, U.S. Code of Federal Regulations, Part 7.

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## OFFICE OF PERSONNEL MANAGEMENT

### Personnel Demonstration Project; Pay Banding and Performance-Based Pay Adjustments in the National Nuclear Security Administration

**AGENCY:** U.S. Office of Personnel Management.

**ACTION:** Notice of approval of a demonstration project final plan.

**SUMMARY:** Chapter 47 of title 5, United States Code, authorizes the U.S. Office of Personnel Management (OPM), directly or in agreement with one or more agencies, to conduct demonstration projects that experiment with new and different human resources management concepts to determine whether changes in human resources policy or procedures would result in improved Federal human resources management. The National Nuclear Security Administration (NNSA) and OPM will test a pay banding system in which within-band pay progression is based on performance. The final project plan has been approved by NNSA, the Department of Energy, and OPM.

**DATES:** This demonstration project will be implemented on March 16, 2008.

**FOR FURTHER INFORMATION CONTACT:** National Nuclear Security Administration: Rosa Benavidez, Demonstration Project Leader, (202-586-1622), Office of Human Capital Management Programs, 1000 Independence Ave., SW., Washington, DC 20585. U.S.

Office of Personnel Management: Patsy Stevens, Systems Innovation Group Manager, U.S. Office of Personnel Management, (202) 606-1574, 1900 E Street, NW., Room 7456, Washington, DC 20415.

#### SUPPLEMENTARY INFORMATION:

##### 1. Background

In May 2006, NNSA responded to OPM's solicitation of interest in undertaking a demonstration project to experiment with and test the concept of performance-based pay increases. NNSA already had substantial experience with such a mechanism. NNSA's enabling

statute (*National Defense Authorization Act for Fiscal Year 2000, Pub. L. 106-65, as amended*) provided the NNSA Administrator with the authority to establish not more than 300 scientific, engineering, and technical positions as necessary to carry out the Administrator's responsibilities, and to appoint individuals to these positions and fix their compensation without regard to title 5, United States Code (U.S.C.) [hereafter in this notice referred to as the "NNSA excepted service system"]. In developing an employment system to support this authority, NNSA opted for pay banding and designed a performance-based pay system. NNSA has made full use of its excepted service system authority and considers pay-for-performance a highly effective tool to attract, reward, and retain high performers. OPM's solicitation was opportune. NNSA now desires to test the feasibility of expanding pay-for-performance among the ranks of its larger General Schedule (GS) workforce. At the same time, NNSA sees the demonstration project as an opportunity to streamline the traditional position classification system that governs GS positions by banding together one or more GS grades. NNSA had done similar banding when it established its excepted service system some years before. When NNSA submitted its official proposal to OPM in August 2006, pay banding was a vital part of the plan.

##### 2. Overview

The NNSA Demonstration Project proposal was approved by OPM and publicized in the **Federal Register** on February 28, 2007. With OPM's preliminary approval given, and knowing that NNSA would receive critical comments from the public and have about 6 months to refine its plan, NNSA's Administrator asked the agency's top program managers to re-examine projected career paths and proposed pay bands to ensure they effectively met the varying mission requirements and management needs found in NNSA's primary nuclear weapons, nuclear nonproliferation, and naval reactors propulsion programs. NNSA's Office of Human Capital Management Programs facilitated this re-examination. The agency's top managers were briefed on the various management and mission implications of the project, and discussions with managerial stakeholder groups were held to elicit insights and perspectives on how to ensure the project makes credible and meaningful contributions to enhancing the overall excellence of NNSA's twenty-first century workforce.

Meanwhile, there was a 30-day public comment period immediately following publication of the proposed demonstration project plan in the **Federal Register**, culminating in a public hearing on April 4, 2007, held at the Department of Energy (DOE) headquarters in Washington, DC. A total of 55 individuals, mostly NNSA employees, one NNSA sub-organization, and one labor organization, submitted written comments and questions. Two additional individuals provided comments and asked questions at the public hearing. Many of these commenters offered multiple comments and questions. A total of 170 different comments and questions were received, with some of them duplicative. Comments covered a number of different management and human resources topical areas, and in some cases, pertained to more than one topic. Two broad topics relating to pay bands and pay-related issues received the largest number of comments and questions by a considerable margin. There were 45 comments on pay-related issues and 39 on issues relating to pay bands. Other topical issues earning numerous comments/questions included staffing (17), position classification (14), management accountability (14), excepted service (10), employee relations (7), employee equity (6), performance management (5), and reduction in force (4). An additional 25 comments and questions did not fall into one of the above topical areas. Every comment and question received was extremely important, as each helped to focus NNSA's top leadership during the Administrator's re-examination of the project plan and helped the leadership to better understand the long-term management and employee implications of the project. Public comments and questions often served as a catalyst to raising additional questions on the part of top management. As a result of public comments received, NNSA has made a number of substantive refinements to its plan and a few clarifying editorial and textual changes as well.

##### 3. Summary of Comments and Responses

Comments are arranged into 11 broad topical areas that correspond to the topics identified in the previous section and are presented not in an order dictated by the number of comments received, but in an order that reflects the logic of the project's design scheme and contents; i.e., in a topical order beginning with pay banding and devolving through pay, position classification, staffing, performance

management, employee matters, and management matters. NNSA's responses are generic summaries relative to the major issues raised by comments/questions, rather than point-by-point responses.

#### (a) Career Paths and Pay Bands

There were several comments about proposed career paths, several comments about the constituent job series in each career path, several comments about proposed pay band pay rates, many comments about the lack of pay band symmetry across career paths, and many comments about the structure of proposed pay bands relative to the pay band structure in NNSA's excepted service system.

##### (1) Career Paths

*Comments:* Several commenters wondered why NNSA didn't establish a supervisory career path to recognize and reward supervision or have more targeted and occupationally narrower career paths, as the Defense Department's National Security Personnel System does.

*Response:* In designing proposed career paths, NNSA wanted to take the broadest approach that made sense, given the nature of the work performed and the nature of the occupations requiring this work. The broader the design approach, the more employees are treated alike and the simpler it is to administer pay banding. Employee equity and systemic simplification are central goals of this project. In deciding on the original career path proposal, NNSA opted to essentially build its career paths around OPM's white-collar "PATCO" categories with one exception. The PATCO scheme encompasses extremely broad groupings of white-collar occupational categories, largely based on differences in the nature of work and the essential job knowledge required to successfully perform the work (for instance, whether work accomplishment requires certain educational attainments, or analytical ability, or subject-matter competencies, and so on). OPM defines each distinct occupational job series according to whether work is professional ("P"), administrative ("A"), technical ("T"), clerical ("C"), or falls into a miscellaneous others ("O") category. NNSA's original proposal simply lumped into two broad primary career paths all "professional" occupations and all "administrative" occupations, respectively, while combining all "clerical" and "technician" occupations into a third composite career path, irrespective of whether positions in these career paths possessed classifiable

supervisory duties. There is no distinct PATCO category for supervision. The notable exception to this extremely broad general approach was an extremely narrow fourth career path, which covered only the GS-084 Nuclear Material Courier occupation. Notwithstanding the inclusion of only one job series, this career path covers a sizable block of employees. There are about 300 couriers scattered throughout the United States.

In light of the comments received regarding career paths, NNSA's top managers have reconsidered and refined certain elements of the original proposal, including career paths. NNSA has reconstituted its two primary career paths into an *Engineering and Scientific Career Path* and a *Professional, Technical, and Administrative Career Path* and is establishing a fifth career path for interns enrolled in NNSA's Future Leaders Program.

The most populous jobs in NNSA are engineering, followed by scientific. As of August 2007, there were 205 GS-801 employees, 64 GS-840 employees, and another 24 employees in positions classified in other GS-0800 occupations. There were also 64 GS-1301 employees and 7 in other GS-1300 occupations. All together, there were 364 General Schedule employees in engineering and scientific occupations, in complement to the additional 425 engineering and scientific employees appointed under NNSA's excepted service system authority and through two other DOE excepted service authorities. Because engineering and scientific employees perform work vital to NNSA's primary nuclear weapons, nuclear nonproliferation, and naval reactors missions, and because this cadre—engineers and scientists serving under either the General Schedule or the excepted service system—predominates in NNSA in comparison to other professional occupations (e.g., foreign affairs specialists, industrial hygienists, attorneys, and the like), the agency's top managers have decided to reconstitute the *Engineering and Scientific Career Path* to exclude other "professional" occupations. These other professional occupations are now incorporated into the reconstituted *Professional, Technical, and Administrative Career Path*.

Future Leaders are recruited with academic achievement and diversity in mind and traditionally have been appointed under several competitive and excepted service authorities, with varying conditions of employment and advancement opportunities unique to each respective appointing authority. Establishing a *Future Leaders Career*

*Path*, into which all interns will be appointed and advanced, and making all participants subject to pay banding will be of great benefit to NNSA and the interns. Not only will the human capital management practices attendant to these employees be standardized, but so will development and advancement opportunities—one set of rules and expectations for all Future Leader interns.

In lieu of a supervisory career path, or a supervisory pay differential, NNSA will seek to recognize and reward supervisory performance by providing supervisory bonuses as described in the project plan.

##### (2) Occupational Series in Career Paths

*Comments:* Several commenters wanted to know how NNSA decided which job series to assign to which career paths. In particular, there were questions relating to why certain "administrative" occupations were treated separately from "professional" occupations, since in the opinion of some commenters, the work accomplished in NNSA, regardless of whether performed, for example, by an engineer or program analyst, or an accountant or budget analyst, was pretty much the same.

*Response:* As explained in the response immediately above, NNSA's original career path proposal conformed generally to OPM's PATCO categories. OPM assigns each authorized job series to one of these categories for definitional and pay purposes. In constructing its three broad career paths in the original proposal, NNSA simply used the same PATCO series assignments as does OPM. In light of comments received regarding the proposed demonstration project plan, NNSA has reconsidered and refined certain elements of the original proposal, including the constituent job series that make up respective career paths. For instance, only professional positions whose occupational job series are found in OPM's "GS-0800 Engineering and Architecture Group" and "GS-1300 Physical Sciences Group" are to be included in NNSA's redesigned *Engineering and Scientific Career Path*. After further reflection, NNSA could not agree that such professional occupations as GS-510 accountants, GS-690 industrial hygienists, and GS-905 attorneys, employees who primarily "support" the main missions of NNSA, belonged in the same career path as engineers and scientists, those who do the pre-eminent mission work of NNSA. Further, it was not felt that GS-130 foreign affairs specialists, with their significantly

“non-technical” knowledge base, albeit professional employees who perform primary mission work, should be grouped in the same career path as engineers and scientists. Similarly, such professional occupations as GS-1102 contract specialist and GS-1515 operations research analyst are to be included in NNSA’s redesigned and expanded *Professional, Technical, and Administrative Career Path*.

### (3) Pay Rates

*Comments:* Some commenters pointed out that the pay rates associated with NNSA’s proposed pay bands were lesser in value than corresponding pay rates found in the demonstration projects and alternative personnel systems of other Federal agencies, or even in comparison with the pay rates in NNSA’s own excepted service system. Several commenters felt this rendered NNSA uncompetitive in the labor market versus these other systems, and several considered lower pay rates unfair and not consistent with the principle of “equal pay for equal work.”

*Response:* NNSA looked at two basic occupational questions in considering these comments:

1. Historically, has NNSA been able to attract and retain critical skills to carry out important work within the traditional GS grade and pay structure?
2. Is NNSA losing employees to pay-banded agencies with enhanced pay rates?

In looking at the first question, what NNSA found was that there is no directly correlative data relating to ability “to attract and retain critical skills,” but there is plenty of anecdotal information. NNSA experiences instances of recruitment difficulty in two basic circumstances, (1) when a local private employer successfully competes for a top prospect by offering a higher starting salary than NNSA can, and (2) at locations that are considered geographically isolated and remote, and where top candidates are scarce. But despite these instances, NNSA has not experienced a general pattern of recruitment difficulty because NNSA’s important national security work has an intrinsic attraction to prospective candidates, and because NNSA makes selective good use of Government-wide recruitment incentives. The second question was answered through a straightforward analysis of the data: NNSA is not losing current employees to any significant degree to agencies with enhanced pay rates, such as to the National Security Personnel System (NSPS) in the Department of Defense. In fact, during the past two years, NNSA has gained 13 employees (not including

senior executives) from NSPS, while losing only 9 to NSPS.

Based on these findings, NNSA’s initial approach to establishing pay band pay rates is affirmed. NNSA remains committed to its demonstration project principle to construct pay band thresholds and boundaries, and associated pay rates, consistent with OPM’s official classification criteria and the Government’s prevailing pay structure.

While the notion of pay rates in excess of the current rates permissible under the traditional GS pay system is attractive to many managers and employees, implementing enhanced pay rates on a broad scale is not compelling now on the evidence in hand. Nor is NNSA prepared at this time to undertake systematic occupational market studies to validate the need for enhanced pay rates or to develop NNSA-only position classification criteria and standards, which are prerequisites to obtaining OPM’s approval to institute enhanced pay rates. However, we note that the demonstration project includes an authority to establish special staffing supplements, in lieu of locality payments, in order to increase pay when necessary to address serious recruitment and retention difficulties associated with a particular category of jobs.

### (4) Pay Band Structures

*Comments:* Perhaps no other topic generated so many comments and often conflicting opinions. Many commenters felt that NNSA’s proposal failed to live up to the project’s goal to achieve greater parity with NNSA’s own excepted service pay-banded system, not only due to differences in pay band pay rates but also due to differences in how GS grades were to be bundled. Others took strong exception to the differences in proposed pay-band structures for “professional” and “administrative” positions, feeling that because, in their opinions, such work was of equivalent value to NNSA, it was unfair not to have identical pay bands, while others took a contrary view, feeling that engineers and scientists should not be in the same career path as other professional and administrative occupations. Still others offered that when NNSA proposed only single-grade pay bands (such as a GS-13 pay band, a GS-14 pay band, and a GS-15 pay band in the proposed “administrative” career path), this defeated the purpose of pay banding, that in fact it was not “pay banding” at all but just more of the same bureaucratic classification practice. Some commenters proposed their own pay band structures. Several

commenters suggested that NNSA establish supervisory pay bands with higher pay rates to recognize the value of supervision and to incentivize the voluntary movements of technical employees into leadership positions.

*Response:* NNSA found much to agree with in the many comments received on this topic. These comments led NNSA to reconsider the proposed pay-band structures, while recognizing that no matter what NNSA did in response to comments, there was no practical way to reconcile all viewpoints or satisfy everyone’s concerns. Consequently, NNSA revised some, though not all, of its earlier pay-band structures, where the work and employee promotional patterns supported doing so. NNSA agreed that the exercise of supervision compounds the complexities and value of a position’s work and should be recognized in some way. NNSA is therefore adopting a supervisory bonus mechanism as part of its performance policies.

In reconsidering NNSA’s fundamental approach to pay bands, NNSA weighed the various and often competing arguments, only to affirm in the end the original approach. Upon closer study, NNSA found that lying just beneath the surface of a seemingly attractive “equity” argument on behalf of identical pay bands was the more powerful reality that all work is not equivalent in grade value across occupations and organizations, that in fact there can be meaningful differences in the inherent level of work performed by professional and administrative employees, and that fulfilling the principle of “equal pay for substantially equal work” actually results in pay band structures that reflect these meaningful differences. Positions attributable to a given career path will have traditional grading patterns, and employee recruitment and promotion patterns, in common with other positions in the career path, but not in common with positions in other career paths.

Consequently, NNSA not only revised its career paths but is revising the attendant pay band structures, as follows:

*I. Engineering and Scientific Career Path:* Encompasses all professional positions classified in the GS-0800 and GS-1300 job series, subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-11)
- Pay Band III (GS-12/GS-13)
- Pay Band IV (GS-14/GS-15)

*II. Professional, Technical, and Administrative Career Path:* Encompasses all OPM-recognized professional occupations, except GS-

0800 engineers and GS-1300 scientists, requiring positive education requirements, and all other subject-matter, business, and administrative occupations characterized by a traditional two-grade interval pattern of grade progression. All positions encompassed within this career path are subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-12)
- Pay Band III (GS-13/GS-14)
- Pay Band IV (GS-15)

**III. Technician and Administrative Support Career Path:** Encompassing technician, secretarial, assistant, and clerical occupations, and similar positions characterized by a traditional one-grade interval pattern of grade progression. All positions encompassed within this career path are subdivided into the following pay bands:

- Pay Band I (GS-1 through GS-4)
- Pay Band II (GS-5 through GS-8)
- Pay Band III (GS-9)

**IV. Nuclear Materials Couriers Career Path:** Encompassing all positions classified into the GS-084 job series, subdivided into the following pay bands:

- Pay Band I (GS-8 through GS-10)
- Pay Band II (GS-11)
- Pay Band III (GS-12)
- Pay Band IV (GS-13)

**V. Future Leaders Career Path:** Encompassing the positions of all interns enrolled in NNSA's 2-year Future Leaders Program, in various engineering, scientific, professional, technical, and administrative occupations. All positions encompassed within this career path are subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-11)
- Pay Band III (GS-12/GS-13)<sup>1</sup>

The arguments in favor of readjusting NNSA's original pay-band proposals were several. (The only pay bands not altered from the original are those associated with career path III.) The readjustment in the *Engineering and Scientific Career Path* not only better reflects the pre-eminent work done in NNSA by engineers and scientists, but is more consistent with the actual promotional patterns found in the

demographics of the workforce. Most General Schedule engineers and scientists in NNSA are either at GS-14, or GS-15, with development patterns that often see GS-14 positions advance to GS-15 levels of work. Such advancement occurs traditionally under both competitive and noncompetitive promotional procedures, when such traditional job factors as Guidelines, Complexity, Scope and Effect, and others, have evolved under the weight of natural employee growth and maturation to the highest levels creditable (e.g., levels 2-5, 3-5, 4-6, and so on) under respective engineering and scientific standards and guides. In an agency with highly technical national security missions and one-of-a-kind nuclear weapons, nonproliferation, and naval reactor propulsion programs, it is not surprising to find engineering and scientific positions expanding in scope and responsibility due to recognizable increases in technical job expertise and project authority, which so often accrue to such positions over time. Out of 364 GS engineers and scientists, there are 147 GS-14 and 148 GS-15 positions that are graded in almost every case, including many classified supervisors, on their paramount non-supervisory work assignments.

Similarly, agency program managers, agreeing with many of the comments received on this subject, questioned the validity and effectiveness of the separate single-grade "bands" at the GS-13, -14, and -15 levels previously proposed for the now reconstituted *Professional, Technical, and Administrative Career Path*. As NNSA looked at the actual distributions of professional, subject-matter, and administrative positions that would be covered within this broad career path, as well as relevant employee promotional patterns, NNSA realized that this path's pay-band structure also required adjusting. The new pay-band patterns in this career path are more consistent with the demographics of the actual workforce today; the majority of positions found in this career path are graded at GS-13 and GS-14, about 640 encumbered positions at this writing. Combining GS-13 and -14 into band III therefore makes better sense to NNSA than the original proposal did, given the relationship between these two grades among the many occupations covered by the career path. Generally, the main difference in NNSA between GS-13 and GS-14 in actual classification practice is that the Supervisory Controls and Guidelines factors are credited one level higher at GS-14, the two factors most readily influenced by the greater freedom from

supervision and guidelines that invariably comes to a position through seasoning, through greater maturity of judgment, and through a derivatively more confident and authoritative incumbent performance. Combining these two grades into a single pay band, covering the majority of employees serving in positions in this important career path, shifts the focus of employee pay advancement from position classification and merit promotion criteria to performance-based criteria, one of the chief goals of this demonstration project. This shift in pre-eminence from classification and promotion criteria to performance also occurs, of course, in the examples of other pay bands in other occupational career paths, and serves in the aggregate to underscore how pay-banding intrinsically enhances the potential effectiveness of a performance-based pay system.

A review of actual promotional patterns supports combining GS-13 and -14 into one pay band. Of the 328 GS-14 employees serving in occupations that will be covered by the *Professional, Technical, and Administrative Career Path*, 80 were promoted from NNSA GS-13 positions in the same occupational series and line of work.

With respect to the *Nuclear Materials Couriers Career Path*, NNSA's Office of Human Capital Management Programs worked diligently with the top managers from the Office Secure Transportation, the NNSA organization in which the couriers are assigned, to arrive at a pay-band pattern that better met both management's mission needs and employee advancement expectations. In developing pay bands for the new *Future Leaders Career Path*, the Future Leaders Program Manager was heavily consulted.

#### (5) Comparisons With NNSA Excepted Service System Pay Bands

*Comments:* Many commenters questioned why NNSA proposed pay bands for General Schedule engineering and scientific positions that did not correspond to the pay band structure in NNSA's own excepted service system, pointing out, in their opinions, that the work was identical.

*Response:* To understand the different pay band structures between General Schedule and NNSA's excepted service system engineering and scientific positions, the fundamental distinction between these two systems must be understood. While it is true that many current excepted service system engineers and scientists are former General Schedule engineers and scientists, and that both General

<sup>1</sup> Although all Future Leaders will have career ladders to pay band III in either the *Engineering and Scientific Career Path*, or the *Professional, Technical, and Administrative Career Path*, a control point equating to the salary of GS-12 step 10 will be established for those Future Leaders with a Masters Degree in business-related and administrative fields to enable these individuals to be converted from band III of the *Future Leaders Career Path* to band II of the *Professional, Technical, and Administrative Career Path* upon successful completion of the 2-year program.

Schedule and excepted service system employees can currently be found working in the same facilities and offices, what needs to be kept in mind when comparing the two systems is the very nature of the authorities through which respective employees are appointed and paid. The NNSA Act (P.L. 106-65, as amended) gives the Administrator the authority to appoint employees to scientific and engineering positions and to pay them without regard to title 5, United States Code, when the Administrator deems it necessary to accomplish his statutory responsibilities. By design, these positions are established in unusual occupational circumstances (either extreme difficulty of work, or extreme difficulty in recruitment), and do not represent the engineering and scientific work common to many occupational settings in NNSA. Furthermore, excepted service system employees in concept have been held to a higher performance threshold (as befitting a performance-based pay system) than their General Schedule counterparts, which NNSA believes has resulted in an overall improvement in excellence and mission accomplishment—the reason NNSA now seeks to expand the applicability of pay-for-performance. At the same time, these excepted service system employees do not possess traditional civil service entitlements, such as “career status,” or certain protections having to do with reduction in force and other employment matters—a key design difference between the two systems. Although it is true that NNSA could request that OPM approve pay rates exceeding those traditionally associated with GS grades under the authority of the demonstration project, as discussed in subsection C above, NNSA is not now prepared to undertake systematic occupational market studies to validate the need for enhanced pay rates or to develop NNSA-only position classification criteria and standards.

#### (b) Excepted Service

*Comments:* There were other comments comparing the demonstration project to NNSA’s existing excepted service system, aside from concerns relating to proposed pay bands and pay rates. A number of commenters expressed the view that NNSA’s current General Schedule employees be permitted the opportunity to volunteer for the demonstration project, just as General Schedule engineers and scientists had the opportunity to volunteer to enter the NNSA excepted service system at the time of its inception a few years ago. Similarly,

others suggested that NNSA provide an opportunity for current excepted service employees to volunteer for the demonstration project, and in essence, volunteer out of the excepted service system. There were various reasons given for this latter suggestion. The absence of “career status” (and the resulting inability to apply for many of NNSA’s promotional opportunities), and the absence of “second-round” RIF protections, were mentioned. Also, some excepted service employees feel topped out in terms of pay potential.

*Response:* Providing an opportunity to volunteer in or out of the demonstration project, or the excepted service system for that matter, is not tenable today. Because NNSA is experimenting with a pay-banding and pay-for-performance system that, were it to be successful, would replace entire segments of the General Schedule workforce, allowing employees to volunteer to participate in the demonstration project would be unwieldy to manage, impractical to administer, and, more compelling, not in the best interest of efficient Government. Furthermore, NNSA intends to continue to make full use of its unique excepted service employment authority in those circumstances and for those purposes that the *NNSA Act* envisions. From a practical standpoint, excepted service employees who have not previously competed for competitive appointment and who do not already have career status will have to apply for demonstration project positions through an appropriate appointing authority.

#### (c) Pay and Pay Pools

*Comments:* This was the other topical issue receiving many comments. The most frequent pay comment, by far, had to do with the issue of annual comparability pay increases, locality pay, and the effects of performance on these annual pay events. NNSA had proposed one pay pool from which general pay adjustments and performance-based pay increases were to have been funded and paid out all at one time, and many commenters felt the plan was unclear in describing the interrelationships among these pay events. Other comments concerned (1) the effects of budgetary constraints on the amounts and timing of payouts; (2) the apparent lack of pay-setting guidelines with respect to hiring new employees and promoting existing employees; (3) the apparent lack of a financial incentive for an NNSA employee to be reassigned to another NNSA job or location to fill a critical need; (4) the pay implications of

supervisory incompetence, caprice, or favoritism in appraising employee performance; and (5) the effect of pay banding on premium pay for overtime work for the courier workforce, the payment of night differential for work performed beyond the first-40-hour tour of duty, and other pay matters relating to the unique irregular work schedules of the couriers.

*Response:* NNSA agrees that the original proposal was not as clearly presented as it should have been, and furthermore, has reconsidered certain mechanical features of its pay provisions, making several changes to the plan accordingly. NNSA will establish two pay pools, one from which to fund annual general pay adjustments and the second from which to fund performance-based payouts. Each pay pool will have its own payout schedule, though in close proximity to the end of the calendar year and to each other. In conjunction with establishment of two pay pools, NNSA is increasing the maximum number of shares for performance payouts, from 3 shares to 4. NNSA is also changing the share distribution pattern (number of shares linked to performance level) from 3–2–1–0 to 4–3–2–1–0. An employee with a Significantly Exceeds Expectation (level “5” performance under NNSA’s performance management program) may receive 3 or 4 shares, an employee with a Fully Meets Expectations (level “3” performance under NNSA’s performance management program) rating and no critical element rate at the Needs Improvement level may receive 1 or 2 shares, and all other employees receive 0 shares. As under the original proposal, any increased locality pay or staffing supplement percentages will be applied on top of eligible employees’ adjusted base rates outside of the pay pool process.

Furthermore, NNSA will provide a limited flexibility to increase an employee’s pay upon accepting an intra-pay band reassignment. These changes, along with NNSA’s pay-setting guidelines, will be described in detail in *NNSA’s Demonstration Project Policies and Procedures Manual*, which shall be published in accompaniment to this project plan. The pay-setting guidelines will ensure that the use of demonstration project pay flexibilities will be judicious and appropriate. NNSA’s administration of the demonstration project will be under OPM’s continuous oversight, with rigorous evaluations of pay-setting and other project provisions and applications. Supervisors will be afforded extensive training to ensure they have the competence to make fair

and valid employee appraisals, and they will be held accountable for doing so during their own performance appraisals. As for the courier workforce, pay banding will have no effect whatsoever on their tours of duty, their administrative work schedules, or on their eligibility under current law and regulation to receive premium pay, night differentials, and other pay benefits and incentives.

*(d) Position Classification*

*Comments:* Several commenters wondered how upholding the use of OPM's traditional position classification criteria and standards will lend itself to streamlining the "cumbersome, labor-intensive, and difficult to comprehend" system, as the project plan calls it. They imply that part of the problem with the present system is just these criteria and standards, and they don't see how NNSA will be able to reduce documentation requirements, eliminate use of the Factor Evaluation System format (which typically increases the length of position descriptions threefold), or reduce traditional procedural steps. Others wondered how NNSA's pay-banding system would safeguard equal pay for equal work when a selecting official will be free to set pay for a new appointee anywhere in a band. Some noted that current employees might be penalized in comparison to a new hire's potential for a pay increase, as pay increases for internal promotees are limited to 8 percent, and this limitation may actually offer an employee less money than customarily received when moving from one GS grade to the next during a conventional promotion. Others were concerned about the effect on an employee's existing promotion potential in a traditional career-ladder position when converting to a pay-banded position, when that potential falls outside the band of the position to which the employee converts. One person asked what impact there would be on the conversion to pay banding of a position currently graded outside the proposed maximum band range of a given career path. Others were concerned about the right of employees to appeal their placement into a career path and pay band.

*Response:* The comments in this topical area, while more process oriented than comments in other topical areas, underscore the need to clarify just how position classification works in a pay-banding environment. The comments, especially those about career ladders and equal pay for equal work, warrant more discussion.

In general, OPM's position classification standards and guides remain the single most concise and valuable analytical tools with respect to defining occupations and evaluating assignments of white-collar work, not only in the Federal sector, but in general. They remain models for other levels of Government, and even private industry, to emulate in developing their own local job-evaluation schemes. OPM's standards and guides do not in themselves contribute to the classification system's breakdown and inefficiency. Rather, it is the towering emphasis today on compensation as a tool for attracting and retaining the best talent in a hypercompetitive labor market that has hammered the rigid grade-bound classification system into a contorted and broken program. All the hammering has brought resistance, inertia, and resignation among managers and classifiers alike. Pay banding, in bundling several grades and pay rates together into one band when appropriate, will go a long way to lift the deadly onus off the classification program. But this is only the start of the classification program's streamlining. There will be a number of genuine and potentially significant opportunities under the demonstration project to simplify the administration of the classification program. Not delegating classification authority to managers, as most other demonstration projects and alternative personnel systems have done, is a significant simplification. Job analysis is no less sophisticated than are most other technical disciplines in the modern workplace. Efficient classification practice requires substantial training and years of seasoning. NNSA believes that it makes far better sense not to expend countless resources and endless hours trying to train and encourage supervisors to become seasoned classifiers, but rather, to hone their skills as leaders of the men and women they supervise and to retain classification authority and skills in the personnel office. Furthermore, there is nothing in OPM's existing doctrines and requirements that will not permit the simplification of position description formats or the synopsis of traditional evaluation documents. Add pay banding to the flexibility that already exists, and there is a significant opportunity to streamline. Pay banding can group two or more levels of traditional work and associated pay rates into one pay band when appropriate, thereby compressing expanses of work and pay rates into fewer classification units and easing attendant classification practices and protocols, with less documentation,

particularly when future automation comes on line.

It is true that successful streamlining doesn't happen by itself and won't happen overnight. NNSA has considerable design and development work to do in building an effective pay-banding classification system, but not having to develop its own classification standards and guides will contract NNSA's design and development challenges immeasurably. This system will be built around demonstration project career paths and will feature two unique concepts, the "core pay band descriptor" and the "core position description." A descriptor is a generic benchmark description used to illustrate the ranges of complementary work levels within a pay band. The assignment of a specific position to a particular pay band will be made on the basis of a core pay band descriptor. Core pay band descriptors will be based on the OPM job family standard and functional classification guide that most directly corresponds to the work encompassed within an occupational series. A core position description is simply an abbreviated benchmark description of a common set of core duties and responsibilities typical of large numbers of positions within each career path and pay band across NNSA's various organizational and functional settings. NNSA will publish its pay-banding classification policies in its companion document to this project plan, *NNSA's Demonstration Project Policies and Procedures Manual*, and will supplement these policies with handbook guidance as needed. This guidance will more fully describe NNSA's streamlined pay-banding classification system and will better describe the simplified position description concept with samples. Briefings tailored to managers, employees, and the personnel staff, respectively, will also be developed to accompany the development of the system and application of NNSA's classification policies.

The compressed occupational construct of a pay band renders concerns about undermining the civil service system's classification principles unfounded, as several gradations of work are possible within a given pay band. In essence, pay banding assumes that different employees in the same career path, job series, and pay band of a properly classified position can operate at differing levels—within reason—due to variations in incumbent maturity (seasoning), and performance. In this circumstance, equal pay for substantially equal work is not compromised, even though one

employee may be earning higher pay than another employee in the same pay band. In a fundamental respect, this is really no different than the disparities in pay that occur between employees in the same properly classified GS-13 position where one employee is earning a GS-13, step 2, rate and another is earning a GS-13, step 9, rate.

The 8 percent limitation on a pay increase as a result of internal promotion is a standardized policy that will apply in most situations. Most other pay-banding systems set similar controls on pay increases. NNSA considered a higher percentage, and even considered a range of percentages, from lower to higher, but decided on the fixed 8 percent minimum increase to mitigate the opportunity for disparate employee treatment at such an important career event. While NNSA expects most internal promotion actions to adhere to this standard, like most rules, there will be the flexibility to allow an exception, with proper justification, and higher-management approval. This flexibility will be described in detail in the staffing and pay policies that will be published in accompaniment to this project plan.

There will continue to be "career ladders" under NNSA's pay-banding system, though instead of grade intervals, there will be band intervals. A "laddered" position is simply a position advertised during recruitment at a certain level of full performance that is filled through selection and appointment at a lower pay band. NNSA is developing staffing policies that will "grandfather" employees who at the time of conversion to the appropriate pay band have not reached their promotion potential. These employees will be eligible for an in-band pay increase similar to a promotion increase under the General Schedule system until they reach their full promotion potential. "Full promotion potential" is a traditional position classification and personnel staffing concept that will continue to have validity under NNSA's demonstration project, and it means the highest grade, or pay band, of a career-ladder position for which an incumbent previously competed under the Government's merit system principles and an agency's merit promotion plan. Once an NNSA employee who converted to pay banding under this demonstration project receives an in-band pay increase or a promotion that takes him or her to a pay level equivalent to the highest GS grade in the formerly applicable career ladder, the employee will be considered to have reached the full performance level, and the grandfather provision will cease to

apply. Future in-band pay increases for such an employee would then be based solely on performance, consistent with all other demonstration project employees. Of course, just as a GS employee is not guaranteed a career-ladder promotion without the supervisor's certification, the promotions and special grandfathered in-band increases for demonstration project employees will not be guaranteed, and they will be issued new performance plans with each pay increase. Only current NNSA employees who convert at the inception of pay banding will be afforded the benefit of having their career ladders grandfathered. The specific terms and conditions of this benefit will be published in the policies and procedures manual that will implement this project plan.

As NNSA prepares to implement the demonstration project, NNSA is reviewing current position classification outcomes, and potential discrepancies and inconsistencies, with the intent to correct any that are found prior to implementation to assure a smooth conversion process.

Under the demonstration project, employees retain their traditional position classification appeal rights. A classification appeal is a formal request by an employee in writing for a review of the official job series, pay band, or pay system, of the employee's current position to correct what the employee believes is an erroneous classification. Any employee in a position covered by chapter 51 of 5 U.S.C., and by NNSA's Demonstration Project, can file a classification appeal.

#### *(e) Staffing*

*Comments:* Most of the 17 staffing comments crossed over into other topical areas already treated, such as the structure of relative pay bands across career paths, and the impact of employee conversion to pay banding on pre-existing promotion potential as a result of having successfully competed for a career-ladder position. Other comments concerned such issues as pay-setting and band and grade assignment upon converting to a pay-banding position from a GS position, and vice versa, upon converting back to GS from pay banding. Many commenters pointed out that the language in the February 28 **Federal Register** notice pertaining to such practical staffing and pay matters was vague. One person expressed concern at the quality of applicants under pay banding, should candidates only need to meet the minimum qualification requirements associated with the lowest

grade level in a multi-graded band, and believed that the candidate screening process would suffer as a result.

*Response:* It is understandable that many commenters found NNSA's proposed project plan vague and unclear in parts. NNSA's demonstration project plan, in both its proposed and final incarnations, is designed to mainly answer the "what" of a matter, not the "how." This is why there have been many references in these responses, as well as throughout the text of the project plan, to a policies and procedures manual. But this response is not to dodge the issues. Most of the comments received during the public comment period have been invaluable in guiding NNSA's development of its companion policies and procedures. By design, a demonstration project is an experiment. Frankly, there is more than one way to execute and effect almost any feature of this experiment, and though modeling previous successful experiments and viable alternative personnel systems can be extremely useful, there are still mechanical subtleties and finer points of interpretation in matters of pay banding, staffing, and pay that NNSA must come to terms with. Having said this, it can be said after the past 6 months of rigorous development and refinement, that NNSA has gained competence and sureness about how to effectively execute the innumerable features and applications of this project. With respect to questions about conversion, NNSA GS employees will be converted to the career path and pay band that is equivalent to their current job series and grade, irrespective of pre-existing promotion potential, as discussed in the preceding subsection. In no case will an employee lose pay upon conversion; in fact, at conversion, most employees will receive an increase in pay reflecting the prorated value of their next scheduled within-grade increase (WIGI) based on the amount of time they have served in their respective waiting period.

The project plan gives NNSA authority to establish the rules governing pay-setting for employees who convert out of the demonstration project and move to a GS position. Those technical conversion-out rules will be provided in NNSA's manual of implementing policies and procedures and will be forwarded to other Federal agencies should an NNSA pay-banded employee move to a GS position in another agency. In general, demonstration project employees moving to a GS position will be converted to a GS-equivalent grade and rate before they leave the demonstration

project and thus will be treated as GS employees under GS pay-setting rules.

NNSA is also developing staffing guidelines to aid managers, selecting officials, and personnel office staff on processes to use in evaluating candidate qualifications, and to identify the more qualified candidates from among applicants. We expect that this will take time as we train staff, develop operating procedures, and evaluate their effectiveness. This will be true of most other operational features and applications of the project. It will be some time following project implementation and employee conversion before NNSA is proficient in most demonstration project matters, though NNSA is taking great pains and care to ensure that start-up and transition are implemented as smoothly as possible.

*(f) Performance Management*

*Comments:* Most of the several comments received on performance management concerned the adaptability of NNSA's existing performance management program to the demonstration project. There were concerns expressed about the timing of implementation—too soon—about the readiness of NNSA's supervisors to fulfill their responsibilities to appraise their subordinates fairly—not ready—about the subjectivity of NNSA's four-level rating scheme—can't make distinctions—and so on. A labor union suggested ways to improve NNSA's appraisal program.

*Response:* The project is scheduled to be implemented on March 16, 2008. Once implementation occurs, there will be complete instructions on what to expect, and how to proceed, midway through the rating year as it will be. As NNSA prepares to implement the demonstration project, agency management holds many of the same reservations as did commenters. When NNSA was established seven years ago as a separately organized agency within DOE, NNSA inherited a variety of then existing performance management programs, between headquarters and a multitude of field offices. Four appraisal cycles ago, NNSA consolidated and standardized all GS and equivalent appraisal programs into one. At the onset of each new rating year since then, NNSA has made changes in its program based on the lessons learned from the previous rating cycle. As NNSA's program has evolved from year to year, it has been necessary to conduct focus groups and supervisory training. This upcoming year, during the transition to the demonstration project, will be no exception. And NNSA thinks this is a

good thing. It is doubtful there would ever be an ideal time to embark on such a project. NNSA believes waiting for such a time will be a precious opportunity lost. By design, the demonstration project is an experiment. Many things are supposed and anticipated, but few things are known for sure in advance. They need to be tried and tested. This NNSA intends to do, realizing that it is likely that there will continue to be a need for improvements in design and execution for the next several years to come, not only concerning the existing performance management program, but to the demonstration project as a whole.

*(g) Reduction in Force*

*Comments:* There were several questions concerning the mechanics of reduction in force (RIF) under the demonstration project, and the impact on employee RIF entitlements. One person asked whether demonstration project employees and excepted service employees would compete together in a RIF. Another asked whether employee protections would be lessened under the demonstration project. A third person asked specifically whether there would be "bumping" rights.

*Responses:* Not only will there be bumping rights for demonstration project employees, but all other traditional employee protections are retained under the demonstration project. There is only one substantive change from traditional rules, having to do with a further subdivision of an NNSA competitive area by career path. Currently in NNSA, the decision to undertake RIF is made by the Administrator, respective Site Office Managers, the Service Center Director, and the heads of the Naval Reactors Offices in Pittsburgh, PA, and Schenectady, NY. Consequently, each of these management officials is considered to be the head of a competitive area for RIF purposes. (The Administrator has actually delegated the authority to take and direct personnel actions to these officials, while retaining this authority for all headquarters components, except Naval Reactors, which has a unique dual reporting arrangement with the Secretaries of Energy and Navy.) What this means from a practical management standpoint is that Site Offices, the Service Center, and the Pittsburgh and Schenectady Naval Reactors Offices are considered to be under separate administration for RIF purposes, while the Administrator remains the head of the headquarters competitive area. The existing competitive area standard in NNSA under current Federal regulation, and

DOE policy, is "a subdivision of the agency under separate administration within the local commuting area [5CFR351.402]." The concept of "local commuting area" further defines the competitive area standard. Regulations permit agencies to subdivide competitive areas according to commuting area, the geographic proximity within which normal patterns of applicant recruitment and worker commutation can be expected to occur, even when the management official with the authority to take and direct personnel actions is located elsewhere. This is what NNSA does currently, and this part won't change under the demonstration project. Therefore, employees in one NNSA competitive area would not now compete with employees in another competitive area, nor would employees in different commuting areas within the same competitive area compete with each other. Under the demonstration project, NNSA will institute one additional competitive area subdivision, by career path, so that the employees in one career path would not compete with employees in another career path in a given RIF. NNSA's non-demonstration project employees, such as bargaining unit employees at headquarters, or all excepted service employees, are not affected by this competitive area change. They continue to be subject to traditional RIF rules, and applicable collective bargaining agreements, and would not compete with demonstration project employees in a given RIF.

*(h) Employee Relations*

*Comments:* The several comments in this topical area concerned whether employees have the right of appeal, or to grieve, their performance ratings, and whether employees whose ratings are less than Fully Meets Expectations will have an opportunity to improve.

*Response:* The demonstration project has no direct bearing on NNSA's performance management program, though the program continues to be refined based on lessons learned from previous rating cycles. Under NNSA's performance management policies, employees whose ratings are less than Fully Meets Expectations are provided structured opportunities to improve their performance. An employee who is dissatisfied with an official rating can request a reconsideration, under NNSA's policies and procedures.

*(i) Employee Equity*

*Comments:* Commenters generally felt that the demonstration project will actually produce contrary results. Instead of encouraging workers to



higher levels of excellence, it will actually discourage workers who benefit now from the employment stability that the traditional civil service system provides. They suggested that the net effect of basing pay increases on performance will allow for faster pay progression in the short-term, with the ultimate effect of increasing salary costs to such a degree that there won't be sufficient funds to properly reward employees in the future. Two persons agreed with basing pay increases on performance, but had concerns about the equity of the process, and disagreed that performance pay increases should be combined with the annual comparability pay adjustment.

*Response:* NNSA shares some of these same concerns, and views these concerns as challenges. Perhaps the biggest challenge the agency faces is earning and keeping the trust of its employees during this time of profound change, while ensuring that the demonstration project is not perceived as a disincentive. Perhaps the next biggest challenge is ensuring that supervisors are properly trained in their key responsibilities under the demonstration project, and that they are held accountable when they don't uphold these responsibilities. And two other significant challenges are ensuring that there are adequate cost controls in place, and that ample funds are appropriated to support meaningful levels of performance-based pay increases. NNSA does not minimize the significance of these challenges, but does not shrink from them either.

As already discussed, NNSA is establishing two pay pools, and will administer annual pay adjustments and performance-based pay increases separately.

#### (j) Management Accountability

*Comments:* A uniform thread runs through the many comments submitted on management accountability. Commenters expressed disbelief that managers will be held accountable for not rendering objective and fair performance ratings, and some said they have yet to see measures put in place, or actions taken, to assure accountability. One person wanted to know how OPM will oversee accountability and conduct ongoing evaluations.

*Response:* Chapter 47 of title 5 requires an evaluation of the results of each demonstration project and its impact on improving public management. This project plan has been revised to include additional details about the project evaluation. In addition, NNSA will be held to scrutiny

under DOE's human capital management accountability regimen. Aside from these layers of oversight, NNSA is dedicated to changing the management culture. One of the Administrator's highest goals is to make NNSA an Employer of Choice. NNSA will encourage openness between managers and employees, will provide extensive training to supervisors, will institute a regimen of employee communications, and will hold supervisors accountable through the performance management process. Supervisors, like everyone else in NNSA, will be held to higher standards.

#### (k) Other

*Comments:* The comments in this category did not fall neatly under any other topic, and mainly reflected employee anxiety, or asked extremely process-oriented questions that will be responded to via other media. A general concern in various comments was the desire for more specificity. In some cases, NNSA has made changes that provide more specific information. (See section 4, "Changes to Demonstration Project Plan.")

Two specific comments warrant NNSA's response: a letter from a labor organization, and a thoughtful comment about the merit system principles.

*Response:* The labor organization offered an extensive critique of recent pay-for-performance initiatives in Government, and then offered suggestions concerning NNSA's proposal. NNSA shares the union's deep concern for the welfare of affected employees, and for advancing the public's interest in protecting nuclear security. NNSA will consider all suggestions for improving the demonstration project, and for making it a success. Should NNSA decide to apply the demonstration project to its bargaining unit employees in the future, it will honor its collective bargaining obligations.

One person expressed concern that NNSA and OPM were not giving due adherence to the statutory merit system principles [5 U.S.C. 2301]. We disagree. As explained earlier, NNSA is relying on OPM's position classification criteria and standards and is adhering to the classification principle in 5 U.S.C. 5101(1) of "equal pay for substantially equal work," which is akin to the merit principle in 5 U.S.C. 2301(b)(3) of "equal pay should be provided for work of equal value." NNSA has a profound regard for the merit system principles and has taken great pains in the design of this project to safeguard these principles. We note that the merit principle in 5 U.S.C. 2301(b)(3) also

states that "appropriate incentives and recognition should be provided for excellence in performance." Thus, the performance-based pay features of this demonstration project support this merit principle.

#### 4. Changes to Demonstration Project Plan

What follows is a list enumerating the substantive changes to NNSA's demonstration project, and major textual changes to the plan. The page numbers referenced are those found in the February 28, 2007, **Federal Register** Notice. Some of the changes have been described in the preceding responses to specific comments. Other changes provide additional detail, provide clarification, or correct technical problems.

(1) *Page 9038:* The Table of Content is revised to reflect the addition of three new sections, III.A. 3., "Position Classification Appeals," III.D., "Supervisory Bonuses", and VII., "Project Modification."

(2) *Page 9039:* The "executive summary" is rewritten to reflect NNSA's final project goals.

(3) *Page 9040:* NNSA has decided to create separate pay pools for comparability adjustments and performance payouts.

(4) *Page 9041:* August 2006 data is superseded with August 2007 data in the table, "Covered Employees by Occupational Series and Grade."

(5) *Page 9042:* The design principles are rewritten to eliminate ill-defined and inadequately developed principles.

(6) *Page 9043:* Career path and pay band structures are revised, consistent with the NNSA's response herein under the "pay band structures" subsection.

(7) *Page 9043:* A new section III.A.3., "Position Classification Appeals," is added.

(8) *Page 9044:* The pay increase preclusion for maximum rate employees who receive less than an SEE performance rating is modified to permit a 50 percent increase.

(9) *Page 9044:* A locality rate cap 5 percent higher than the statutory pay cap is provided for top-rated performers in the upper range extension.

(10) *Page 9044:* The section "rate of basic pay upon promotion" is clarified.

(11) *Page 9044:* The date of performance-based pay adjustment is changed to "the first day of the last full pay period in each calendar year."

(12) *Page 9044:* The pay retention provisions in the section "other pay administration provisions" are modified to provide 100 percent of the annual comparability pay adjustment for up to

2 years for employees who are reduced in band through no fault of their own.

(13) *Page 9045*: NNSA clarifies that it may request that OPM establish a new staffing supplement for a category of NNSA employees.

(14) *Page 9045*: The performance-rating reconsideration process is to be referenced, rather than stipulated, in the plan.

(15) *Page 9046*: There are to be two pay pools.

(16) *Page 9046*: The share distribution pattern (linked to levels of performance) is revised to take into account the effect of the establishment of separate pay pools for comparability adjustments and performance payouts and to provide additional flexibility.

(17) *Page 9046*: The section "pay adjustments" is modified to reflect the impact of establishing two pay pools, with staggered payouts.

(18) *Page 9047*: The section "employees who do not receive a pay adjustment" is modified to eliminate general references to employee notification and redress procedures, which will be handled through NNSA's own performance-rating reconsideration process.

(19) *Page 9047*: The mechanism for withholding a pay increase from an employee who receives a less than Fully Meets Expectations rating is modified; in the unlikely event that an employee whose basic pay is frozen as a result of a less than Fully Meets Expectations rating moves to another demonstration project position with a different locality pay schedule or staffing supplement, the employee's frozen base and locality pay or staffing supplement would be adjusted in accordance with NNSA's *Demonstration Project Policies and Procedures Manual*.

(20) *Page 9047*: A new section III.D., "Supervisory Bonuses," is added.

(21) *Page 9048*: A new section VII, "Project Modification," is added.

(22) *Page 9049*: Several changes are made and citations are added in the "waiver of laws and regulations required" segments.

**Linda M. Springer,**  
Director.

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## I. Executive Summary

This project was designed by NNSA in consultation with OPM. The goals of this demonstration project are to—

- (1) Improve hiring by allowing NNSA to compete more effectively for high quality employees through the judicious use of higher entry salaries;
- (2) Motivate and retain staff by providing faster pay progression for high-performing employees;
- (3) Improve the usefulness and responsiveness of the position classification system to managers;
- (4) Increase the efficiency of administering the position classification system through a simplified pay-banded application of the current General Schedule grade structure, and reduce the procedural steps and documentation requirements traditionally associated with classifying positions;
- (5) Eliminate automatic pay increases (i.e., annual adjustments that normally take effect the first day of the first pay period beginning on or after January 1) by making pay increases performance-sensitive, so that only Fully Successful (known as "Fully Meets Expectations" in NNSA) and higher performers will receive pay adjustments, and the best performers will receive the largest pay adjustments;

(6) Integrate with, build upon, and advance the work of several key human capital management improvement initiatives and projects currently underway in NNSA, including—

- a. Advancing the ongoing refinement of NNSA's four-year old enterprise-wide performance management program, which currently features a pilot for automating yearly performance ratings, to the next logical level, encompassing performance-based pay adjustments,
- b. Achieving greater parity, though not complete harmony, with NNSA's mature excepted service pay-banded and pay-for-performance system (e.g., will have lower pay band maximum rates; no automatic pay increases, etc.),
- c. Building on the simplified position description (PD) format and automated PD library that are already in place,
- d. Continuing to develop improved performance management skills among first-line supervisors through increased program rigor, additional training, and better guidance materials, to better develop standards that reflect differences in performance,
- e. Establishing a system of career-enhancing career paths for the purpose of developing, advancing, and retaining employees,
- f. Building on the new workforce analysis and planning system, already in place to identify FTE needs and competency needs and skills gaps, to conduct a valid occupational analysis to construct meaningful pay bands.

The demonstration project will modify the General Schedule (GS) classification and pay system by identifying several broad career paths, establishing pay bands which may cover more than one grade in each career path, eliminating longevity-based step progression, and providing for annual pay adjustments based on performance. The proposed project will test (1) the effectiveness of multi-grade pay bands in recruiting, advancing, and retaining employees, and in reducing the processing time and paperwork traditionally associated with classifying positions at multiple grade levels, and (2) the application of meaningful distinctions in levels of performance to the allocation of annual pay increases.

The demonstration project will modify the General Schedule (GS) classification and pay system by identifying several broad career paths, establishing pay bands which may cover more than one grade in each career path, eliminating longevity-based step progression, and providing for annual pay adjustments based on performance. The proposed project will test (1) the effectiveness of multi-grade pay bands in recruiting, advancing, and retaining employees, and in reducing the processing time and paperwork traditionally associated with classifying positions at multiple grade levels, and (2) the application of meaningful distinctions in levels of performance to the allocation of annual pay increases.

## II. Introduction

### A. Purposes and Approach

The purposes of the proposed project are to—

- (1) Modify the GS classification system by establishing pay bands which may cover more than one grade; and
- (2) Modify the GS pay system to provide larger annual pay increases to employees who are better performers

based on performance distinctions made under a credible, strategically-aligned performance appraisal system/program and thereby improve the results-oriented performance culture within the organization.

NNSA's approach to achieving these purposes is to integrate with and build upon the several ongoing human capital management initiatives and projects that are already underway, and to design a GS pay banding and performance-based pay adjustment system that—

(1) Complements and increases parity with the statutory NNSA excepted service employment system already in place, and

(2) Profits from the successes, mistakes, and lessons of other agency demonstration projects, past and current.

#### B. Problems With the Present System

##### Position Classification Rigidity, Incomprehensibility, and Procedural Excesses

Although the GS classification system is not a compensation system per se, the classification and pay systems are inextricably intertwined. In practice, the GS classification system is the primary determinant of an employee's basic pay. Furthermore, NNSA believes in the principles underlying the GS classification system (i.e., equal pay for substantially equal work, and variations in pay based on the work actually performed, rather than on who performs the work) and believes that these principles are as valid and applicable to the Federal civil service system today as when originally enacted into law in 1923, and when the General Schedule was established in 1949. As Ismar Baruch wrote in a classic groundbreaking 1941 report, *Position Classification in the Public Service*:

\* \* \* the very nature of governmental jurisdictions places them in a position of peculiar responsibility to the public at large. Individual actions without plan or system and based merely upon the expediency of the moment are undesirable. Public personnel policies and transactions affecting positions and employees should be supportable by facts and logic in the light of broad considerations applicable to the service as a whole. Further, in the management of public personnel affairs, considerations of fairness and equity require uniform action under like circumstances, particularly in the establishment of pay rates.

This in essence is what the Federal position classification system was designed to achieve, and has achieved in principle, if not practice, ever since these words were first written. Thus, rather than "scrapping" the current GS classification system and starting over,

NNSA believes that modifying the system to accommodate the work and workforce of the 21st century is a more prudent and workable approach.

Pay banding does this. The current GS classification system is cumbersome, labor intensive, and difficult to comprehend. As OPM's April 2002 white paper, *A Fresh Start for Federal Pay: The Case for Modernization*, points out, the GS classification system was designed during the World War II years when civil servants were predominantly "process-obsessed" file clerks. Public servants in the middle of the 20th century performed work that tended to be mechanical and repetitive in nature, consisting of job tasks readily observable and measurable. Today, work tends to be knowledge-based and highly specialized, and does not lend itself to easy categorization based on readily observable characteristics. Nonetheless, as an employee progresses from the entry level to the full-performance level in a given occupation today, under the traditional classification system, a separate position description is still required for each grade. For example, an entry level GS-5 Engineer with promotion potential to GS-12 requires five different position descriptions (or statements of differences) covering grade intervals GS-5, GS-7, GS-9, GS-11, and GS-12. Additionally, each position description should be accompanied by a position evaluation report certifying that the duties and responsibilities of the position meet the requirements for classification into the series and grade. Often, the difference between a higher-graded and lower-graded position in the same career progression may be the level of supervision an employee receives, or the increasing gradations in the scope and effect of an employee's work on agency missions and programs, or some other interpretative degree of occupational difficulty and responsibility. As a result, managers who assign work and who are responsible for describing such assignments of work, and the position classifiers who evaluate assignments of work against OPM's and applicable agency classification criteria, often view the practice attendant to the current GS classification system as an exercise in semantics, and PD writing, for the purpose of "beating the system" to award the highest grade possible to a position, instead of as a management tool by which to make meaningful and significant distinctions between levels of work.

The current GS classification system also directly impacts the effectiveness of agency recruitment activities. Recruiting

for a vacancy which may be filled at any level from the entry level to the full-performance level requires a separate position description for each grade, separate qualifications requirements for each grade, separate applicant assessment and rating tools (often referred to as "crediting plans") for each grade, and separate lists of best-qualified candidates (often referred to as "certificates") for each grade. For example, recruiting for a single GS-5/12 Engineer vacancy requires five different position descriptions (GS-5, GS-7, GS-9, GS-11, and GS-12) and five different "crediting plans," and will result in the agency issuing multiple "certificates." Thus, Federal managers and applicants for Federal employment often view the system as cumbersome, time consuming, and unresponsive.

Modifying the current system to supplant sequential grade progression with valid, rational, and credible pay bands will (1) provide much needed management relief from the seeming arbitrariness, rigidity, and document heaviness of the current classification system, (2) provide managers with much needed flexibility, and (3) offer applicants and employees greater opportunities for advancement and inducements to retention, while retaining the public policy principles and management values underlying the current civil service system.

##### A Need for Performance-Based Pay Increases

Additionally, the current GS pay system provides annual pay increases to all employees, even those whose performance is less than Fully Successful. Similarly, periodic within-grade pay increases are virtually automatic. Although an employee's performance must be determined to be at an "acceptable level of competence" in order for the employee to receive a within-grade increase (WGI), this is only a single-level threshold and no further distinctions in levels of performance play a role. All performance levels above the threshold are treated the same for purposes of determining the amount of the increase and the rate at which an employee advances through the rate range of his or her grade. NNSA and OPM do not believe it is a wise use of the limited resources available for the compensation of Federal employees—nor does it serve taxpayers effectively or treat employees fairly—to pass on the same pay adjustments, year after year, to all employees regardless of differences in their performance.

The current GS pay system does provide one limited tool to address distinctions in levels of performance—

namely, quality step increases (QSIs). QSIs are discretionary adjustments that are not integrated into the normal pay adjustment process; thus, limited funds are available to provide QSIs, and the decision-making process may not be very transparent. In addition, there is no flexibility as to the amount of the QSI; a full step increase is required. Also, QSIs may be used only for those with the highest rating of record. In summary, QSIs alone cannot be relied upon to establish an effective link between pay and performance based on meaningful distinctions among different levels of performance.

Under these constraints of the GS pay system, agencies are severely limited in their ability to establish a results-oriented performance culture as contemplated under the Human Capital Assessment and Accountability Framework (HCAAF). Within the HCAAF, a results-oriented performance culture effectively plans, monitors, develops, rates, and rewards employee performance, consistent with the merit system principle that "appropriate incentives and recognition should be provided for excellence in performance" (5 U.S.C. 2301(b)(3)).

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

The proposed demonstration project will respond to the GS classification system problems identified above by compressing the 15 GS grades into pay bands that may cover multiple grades. Although this "compression" is neither designed nor intended to eliminate the fundamental statutory grading distinctions embedded in the traditional position classification system, it will considerably reduce the excessive rigidity inherent in the current system, making it substantially less cumbersome, less labor intensive, less time consuming, and easier to comprehend and apply.

Importantly, banding the GS grade structure shifts the emphasis for employee pay advancement from

position classification factors and merit promotion criteria to performance factors, one of the chief goals of this demonstration project. Because a pay banding system uses broader work levels, the system can be viewed as having more of a rank-in-person emphasis; that is, it permits a more direct relationship between an incumbent's actual (or anticipated) individual level of job performance and a given position's particular level of pay.

By permitting the advancement of employees within given bands without the necessity of advertising promotional opportunities, and without the need for handling employee applications in accordance with publicized merit promotion procedures, the attainment of some of the project's process simplification and streamlining objectives is also furthered.

The proposed demonstration project will respond to the pay problem identified above by eliminating fixed steps within each of the pay bands and by making annual GS pay adjustments performance-sensitive. Pay adjustments will be funded from two pay pools: One consisting of the amount that would otherwise be used to pay the annual GS pay adjustment, and the second consisting of the amounts that would otherwise be used to pay WGIs and QSIs to employees covered by the demonstration project. The second pay pool also may include funds saved through the elimination of promotion increases for promotions between grades that are consolidated into the same band. A share mechanism will be used to allocate pay increases among employees with different levels of performance, and managers will be expected to control costs (and will be held accountable for doing so in their own performance plans). Implementation of the proposed pay system will result in larger pay increases going to employees who demonstrate higher performance. By

regularly rewarding better performance with better pay, participating organizations will strengthen their results-oriented performance cultures. Among other things, they will be better able to retain their good performers and recruit new ones.

#### *D. Participating Organizations*

It is expected that every major headquarters and field organization in NNSA will participate. This includes HQ, program, and support components, including NNSA's cadre of nuclear materials couriers, who are deployed at various locations in the United States, eight geographically dispersed Site Offices and two special purpose Naval Reactors Offices (in Pittsburgh, PA, and Schenectady, NY), and the Service Center in Albuquerque, NM. Each of these units is committed to operating a credible, robust performance appraisal program aligned to the organization's strategic goals and objectives, by providing the necessary training and resources. These organizations have demonstrated this commitment the past three years, as NNSA implemented a comprehensive performance management program enterprise-wide.

#### *E. Participating Employees*

The demonstration project will cover all GS non-bargaining unit employees in the participating organizations identified in the preceding paragraph. (The only bargaining unit in NNSA is at headquarters, and currently includes 16 positions.) Included in the coverage are Schedule A and B Excepted Service employees. Not included are Schedule C Excepted Service employees and Excepted Service employees authorized under the NNSA Act, National Defense Authorization Acts, and the DOE Organization Act. Table 1 shows the number of employees available through September 2007 who are subject to coverage under this project by occupational series and grade.





Management has provided initial notice to affected employees and will continue consultation throughout project implementation.

#### F. Project Design

The project is designed to (1) fundamentally simplify the position classification system as the key to improving recruitment, retention, and classification activities, (2) ensure that no participating employee with a rating of record of less than Fully Meets Expectations will receive a pay increase, and (3) ensure that funds available for pay adjustments will be allocated on the basis of performance, the better performers receiving the greater performance payouts.

To ensure expeditious and effective project implementation and completion, NNSA will model, to the extent feasible and appropriate, programmatic features and operating systems and procedures relating to NNSA's own pay-banded, pay-for-performance excepted service system; in addition, NNSA will review the successes, mistakes, and lessons from the experiences of other agency demonstration projects, notably the current Department of Defense (DoD) laboratory projects, which are based on the foundational China Lake project; the National Institute of Standards and Technology permanent Alternative Personnel System; and DoD's new National Security Personnel System (one of the participating Air Force labs shares Kirtland AFB with NNSA).

Two basic design principles will underpin this project:

- NNSA will not establish its own classification standards, but rather, will construct band thresholds and boundaries consistent with OPM's official classification criteria. To streamline documentation, NNSA will establish core pay band descriptors and core position descriptions based on the OPM job family standard and functional classification guide that most directly corresponds to the work encompassed within an occupational series. The descriptor is a generic benchmark description used to illustrate the ranges of complementary work levels within a pay band. The assignment of positions to pay bands will be made on the basis of the core pay band descriptor.

- NNSA will not delegate classification authority to managers. NNSA understands that not delegating classification authority runs counter to the experiences of other agency demonstration projects. Nonetheless, it is much more efficient to leave the exercise of this authority and all attendant administration activities in the trained hands of the resident human

resources (HR) staff. NNSA sees little value in turning managers into classifiers, but rather, believes the value is in preparing managers to become better supervisors. NNSA's pre-eminent managerial goal is to develop a seasoned cadre of Federal managers who can practice the art of supervision at an uncommonly high level (i.e., the supervisor who is more mentor than taskmaster, who can nurture subordinates and unleash their potential for superior performance through the instruments of performance appraisal and reward programs).

### III. Personnel System Changes

The 15-grade GS position classification system established under 5 U.S.C. chapter 51 and the GS pay system established under 5 U.S.C. chapter 53, subchapter III, will be modified as described in the following sections. Except as otherwise provided in this plan, demonstration project employees will be considered to be GS employees in applying other laws, regulations, and policies. NNSA does not currently have employees covered by law enforcement officer (LEO) special base rates. Should any law enforcement officers be covered by this demonstration project in the future, they will not be considered to be General Schedule employees for the purposes of applying LEO special base rates authorized by section 403 of the Federal Employees Pay Comparability Act of 1990; a separate career path would be established for these employees, and band ranges for any such LEOs will take LEO special base rates into account.

#### A. Pay Banding Classification and Pay System

##### 1. Establishment of Career Paths and Pay Bands

NNSA may establish, and adjust over time, career paths that group one or more occupational categories together and provide a common banding structure (i.e., set of work levels and rate ranges) for occupations within a given career path. Initially, NNSA intends to establish five career paths.

Each career path will be subdivided into pay bands. Each pay band will correspond to one or more GS grades. NNSA may establish, and adjust over time, a career path's pay band structure.

NNSA's initial career path and pay bands are:

(1) *Engineering and Scientific Career Path*: Encompasses all professional positions (with the exception of professional positions in the Future Leaders Career Path) classified in the GS-800 and GS-1300 job series,

subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-11)
- Pay Band III (GS-12/GS-13)
- Pay Band IV (GS-14/GS-15)

(2) *Professional, Technical, and Administrative Career Path*:

Encompasses all OPM-recognized two-grade interval occupations, except GS-800 engineers and GS-1300 scientists. All positions in this career path are subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-12)
- Pay Band III (GS-13/GS-14)
- Pay Band IV (GS-15)

(3) *Technician and Administrative Support Career Path*: Encompasses all OPM-recognized one-grade interval occupations, excepting positions

classified in the GS-084 Courier series (see below). All positions in this career path are subdivided into the following pay bands:

- Pay Band I (GS-1 through GS-4)
- Pay Band II (GS-5 through GS-8)
- Pay Band III (GS-9)

(4) *Nuclear Materials Couriers Career Path*: Encompasses all positions classified into the GS-084 job series, subdivided into the following pay bands:

- Pay Band I (GS-8 through GS-10)
- Pay Band II (GS-11)
- Pay Band III (GS-12)
- Pay Band IV (GS-13)

(5) *Future Leaders Career Path*:

Encompasses the positions of all interns enrolled in NNSA's 2-year Future Leader Program, in various engineering, scientific, business, and administrative occupations. All positions in this career path are subdivided into the following pay bands:

- Pay Band I (GS-5 through GS-8)
- Pay Band II (GS-9 through GS-11)
- Pay Band III (GS-12/GS-13)<sup>2</sup>

NNSA will coordinate changes in career paths or pay banding structures with OPM. After coordination with OPM, NNSA will give affected employees advance notice and an opportunity to comment before effecting a change with respect to career paths or banding structure.

<sup>2</sup> Although all Future Leaders will have career ladders to pay band III in either the *Engineering and Scientific Career Path*, or the *Professional, Technical, and Administrative Career Path*, a control point equating to the salary of GS-12 step 10 will be established for those Future Leaders with a Masters Degree in business-related and administrative fields to enable these individuals to be converted from band III of the *Future Leaders Career Path* to band II of the *Professional, Technical, and Administrative Career Path* upon successful completion of the 2-year program.

## 2. Position Classification

Application of the 15-grade GS position classification system established under 5 U.S.C. chapter 51 will be simplified by allowing a position to be assigned to a specific pay band if the duties and responsibilities of the position meet (or exceed) the requirements for classification into the lowest grade included in that specific pay band. For example, an 801, Engineer, position assigned to Pay Band 1 (GS-5 through GS-8), need only meet the requirements for classification at the GS-5 level. Position descriptions will include examples of higher-level duties and responsibilities to which employees are fully intended to progress. NNSA will establish pay band boundaries consistent with OPM's existing position classification standards, grade-evaluation criteria, and grading practices.

## 3. Position Classification Appeals

An individual employee may request that NNSA or OPM reconsider the classification (i.e., pay system, occupational series, official title, or pay band) of his or her official position of record at any time, consistent with procedures currently prescribed under 5 CFR part 511, subpart F. A full description of the classification appeals process for the NNSA demonstration project will be included in the *Demonstration Project Policies and Procedures Manual* that will accompany this project plan.

## 4. Minimum Qualifications Requirements

Application of the *OPM Operating Manual: Qualification Standards for General Schedule Positions* is simplified by allowing a candidate to qualify for a specific pay band if the candidate meets (or exceeds) the requirements for the lowest grade included in that specific pay band. For example, a candidate for an 801 Engineer position assigned to Pay Band 1 (GS-5 through GS-8), need only meet the qualifications requirements for a GS-801 Engineer position at the GS-5 level.

For NNSA demonstration project employees and employees of other Federal agencies who are in sufficiently similar pay banding systems, the common OPM requirement of one year of experience "at the next lower grade in the normal line of progression for the occupation" is changed to "at the next lower pay band in the normal line of progression for the occupation."

Federal employees in the General Schedule pay system, Federal employees in other pay systems

comparable to the General Schedule, and non-Federal applicants must meet the common OPM requirement of one year of experience "at the next lower grade in the normal line of progression for the occupation."

## 5. Elimination of Fixed Steps

The 10 fixed steps of each GS grade will not apply to employees participating in the demonstration project. The fixed-step system was designed to reward longevity. A pay banding system is an important element of any effort to make pay more performance-sensitive. No employee's pay will be reduced as a result of becoming covered by the demonstration project. However, demonstration project employees will no longer receive longevity-based within-grade pay increases at prescribed intervals. Instead, they will be granted annual performance adjustments as described in section III.C. below.

## 6. Rate Range

The normal minimum and maximum rates of the rate range for each pay band will equal the applicable step 1 rate and step 10 rate, respectively, for the lowest and highest grades, respectively, in the General Schedule that are included in the pay band. The minimum rate of the pay band is extended 5 percent below the normal minimum for employees with a rating of record below Fully Meets Expectations (FME). Such an employee's rate may fall below the normal pay band minimum when that minimum increases as a result of a pay band adjustment, but the employee cannot receive a pay adjustment, or performance pay increase, because the employee's rating of record is below Fully Meets Expectations, as described in section III.C.4.

The maximum rate of each pay band is extended 5 percent above the normal maximum for all employees with a rating of record at the highest level (currently called "Significantly Exceeds Expectations" (SEE) in NNSA). This upper range extension will help ensure that the range of available pay rates will be adequate to recognize truly outstanding performance. The upper range extension is reserved for employees with a SEE rating. If an employee in the upper range extension is rated below the SEE level, special provisions apply, as described in section III.A.10.

In addition to rates of basic pay, employees may receive locality payments or staffing supplements as described in section III.A.10 or III.A.11, respectively.

## 7. Rate of Basic Pay Upon Initial Appointment

Upon appointment to a demonstration project position under Delegated Examining, Direct-Hire Authorization, or other authority primarily designed for initial entry into the Federal service (e.g., Veterans Employment Opportunity Act, 30% Disabled Veteran Appointment), an appointee's pay rate may be set at any rate within the normal pay band range. In exercising this flexibility, NNSA will consider the appointee's qualifications, competing job offers, NNSA's need for the appointee's talents, the appointee's potential contributions to NNSA mission accomplishment, and the rates received by on-board employees. This flexibility will allow NNSA to compete more effectively with private industry for the best talent available, though managers will be expected to use this flexibility with great judiciousness and prudence.

## 8. Rate of Basic Pay Upon Promotion

Upon promotion to a higher pay band, an appointee's pay rate generally will be set at a rate within the normal pay band range to which the appointee is being promoted that provides a pay increase of 8 percent, unless a greater increase is necessary to set pay at the normal range minimum. NNSA may establish exceptions to this policy to deal with employees receiving a retained rate, employees who are re-promoted shortly after a demotion, employees with exceptional performance warranting a larger increase with higher management approval, etc. In exercising this flexibility, NNSA will consider the appointee's qualifications, competing job offers, NNSA's need for the appointee's talents, and the appointee's potential contributions to NNSA mission accomplishment. A demonstration project employee who moves to a higher pay band (defined as a pay band with a maximum base rate for the normal range that is higher than the maximum rate of the normal range of the employee's pay band before the move) in a different career path is considered to have been promoted under policies prescribed by NNSA. NNSA may adopt policies providing a promotion-equivalent increase to a Federal employee outside the demonstration project who is selected, through merit promotion plan procedures, to fill a higher-level position (as defined in NNSA policies) covered by the demonstration project.

NNSA employees, who at the time of conversion into the demonstration project are in a career ladder to a higher



GS grade (i.e., have not reached the top level of that career ladder), will be eligible for special in-band pay increases under the authority of this demonstration project. The in-band pay increases will be sufficient to ensure that an employee's base rate under the demonstration project is equivalent to the base rate which the employee would have received had the employee and position remained in the General Schedule. Only one in-band pay increase may be received in a 52-week period. This "grandfathering" benefit will cease to be applicable when the employee reaches equivalence with the top GS grade of the formerly applicable career ladder. Only current NNSA employees who convert at the inception of pay banding will be afforded this "grandfathering" benefit. The specific terms and conditions of this benefit will be established by NNSA in *NNSA's Demonstration Project Policies and Procedures Manual* that will implement this project plan.

NNSA may establish special rules for computing the promotion increase for promotions involving positions covered by a staffing supplement that take into account the staffing supplement and locality pay, subject to guidance provided by OPM.

#### 9. Rate of Basic Pay in Competitive and Noncompetitive Lateral Actions

When a non-demonstration project employee from NNSA or DOE is reassigned into a demonstration project position, NNSA may provide an immediate increase in the rate of basic pay to reflect the prorated value of the employee's next scheduled within-grade increase or similar within-range adjustment under the former pay system, consistent with the requirements in section V.A. Similarly, when an employee transfers into NNSA from another Federal agency, NNSA may provide an immediate increase in the rate of basic pay to reflect the prorated value of the employee's next scheduled within-grade increase or similar within-range adjustment, also consistent with section V.A. When a demonstration project employee is selected through competitive procedures to fill another demonstration project position that is at the same pay band as the employee's current position, or has no greater pay potential, NNSA may provide an immediate pay increase up to 5 percent upon reassignment. The increase to pay must be based on a review of the employee's current salary, salary history, performance evaluations, and qualifications. Justification and review requirements for such an increase will be reflected in the staffing

and pay-setting policies found in *NNSA's Demonstration Project Policies and Procedures Manual*.

#### 10. Other Pay Administration Provisions

Performance-based pay increases described in section III.C will be made to the scheduled annual rate of pay. These increases will be made on the first day of the last full pay period in each calendar year. Annual general pay adjustments will be effective on the first day of the first full pay period in January of each year.

Locality-based comparability payments under 5 U.S.C. 5304 will be paid on top of the scheduled annual rate of pay in the same manner as those payments apply to other GS employees (except as described in the following paragraph). Staffing supplements may apply as described in section III.A.11.

A locality rate cap 5 percent higher than the normal EX-IV statutory cap is established to accommodate those employees in the upper rate range extension, whose current rating of record is SEE. This higher cap will only apply to employees whose pay rate is in the upper range extension. If the locality rate for an employee at the normal band maximum is affected by the EX-IV cap, resulting in an "effective locality pay percentage" that is less than the regular locality pay percentage, the locality rate for an employee in the upper rate range extension of the same band will be computed using that same effective locality pay percentage. (For example, if the regular locality pay percentage is 30 percent, but the EX-IV cap causes the amount of locality pay actually received by an employee at the regular band maximum to be 20 percent, that effective locality pay percentage of 20 percent would be used to compute locality pay for an employee in the upper range extension of the same band.)

If an employee in the upper range extension receives a Fully Meets Expectations (FME) annual rating of record following the previous year's SEE rating, the employee will be converted to a retained rate status and will receive 50 percent of the increase in the adjusted rate for the normal range maximum (including any applicable locality payment or staffing supplement). The employee will receive the 50 percent adjustment each year he or she receives an FME rating of record until the employee's pay falls at or below the normal maximum rate of the pay band.

Employees receiving a rating of record below Fully Meets Expectations are prohibited from receiving any increase in basic pay including any annual

adjustment in the scheduled rate of pay, locality pay, or staffing supplement, except as necessary to prevent their frozen rate from falling below the 5 percent threshold of the lower band extension. A frozen rate of pay does not result in a reduction in pay and therefore is not subject to adverse action procedures in chapter 75 of title 5, United States Code. In no case may an employee's rate of basic pay fall below the 5 percent lower band extension. If an employee's frozen rate of pay falls below the bottom threshold of the lower range extension, it will be adjusted by the dollar amount of the annual adjustment in the scheduled rate of pay necessary to bring their adjusted frozen rate back within the lower extended range. *NNSA's Demonstration Project Policies and Procedures Manual* will address how a frozen locality payment or staffing supplement will be adjusted if an employee moves to a demonstration project position with a different locality pay schedule or staffing supplement.

When an employee receives a rating of record below Fully Meets Expectations, their existing rate of basic pay including any applicable locality pay or staffing supplement is frozen until they receive a new rating of record of Fully Meets Expectations. If NNSA chooses to give such an employee a new rating of record of FME before the end of the current appraisal period, the employee is entitled to an increase in the rate of basic pay effective on the first day of the first pay period beginning on or after the date the new rating is final, as described in section III.C.4.

Subject to guidance provided by OPM, NNSA will establish supplemental pay administration rules for determining an employee's rate of pay upon initial appointment, promotion, demotion, transfer, reassignment, or other position change, as needed. In addressing geographic conversions and simultaneous pay actions, such rules must be consistent with 5 CFR 531.205 and 5 CFR 531.206, respectively.

The grade retention provisions in 5 U.S.C. 5362 and 5 CFR part 536 are not applicable (i.e., no band retention). The pay retention rules in 5 U.S.C. 5363 and 5 CFR part 536 apply to demonstration project employees, subject to the following exceptions:

(1) Enhanced pay retention (as described in the next paragraph) applies to an employee who is entitled to a retained rate as a result of an involuntary reduction in band through no fault of his or her own;

(2) An employee with a rating of record below Fully Meets Expectations

may not receive an increase in his or her retained rate under 5 U.S.C. 5363(b)(2)(B);

(3) An employee in the upper range extension who is rated below Significantly Exceeds Expectations will be converted to a retained rate before processing any other pay action;

(4) The cap on retained rates is equal to the rate for level IV of the Executive Schedule plus 5 percent (instead of the EX-IV cap established under 5 CFR 536.306) in order to accommodate employees in the upper range extension whose rating of record falls below SEE; and

(5) The range maximum rate used in computing retained rate adjustments will always be the applicable adjusted rate for the normal range maximum (including any applicability locality payment or staffing supplement), not the upper range extension maximum, regardless of the employee's rating of record.

Enhanced pay retention applies to employees who become entitled to a retained rate as a result of an involuntary reduction in band under conditions that would have met the requirements for grade retention if the employee were covered by 5 CFR 536.201–536.202. Under enhanced pay retention, an employee's retained rate will be determined as prescribed in 5 CFR 536.304. However, an employee's retained rate will be increased by 100 percent (instead of 50 percent) of the dollar amount of any increase in the normal maximum rate of the employee's band during the 2-year (i.e., 104-week) period beginning on the date the employee's retained rate is established. After the 2-year period of enhanced pay retention, the regular 50-percent adjustment rule in 5 U.S.C. 5363(b)(2)(B) and 5 CFR 536.305 will apply, as modified by the provisions in this section. The 50-percent adjustment rule will be applied by measuring the dollar change in the applicable adjusted rate for the normal maximum rate of the band (linked to applicable GS step 10 rate).

If an employee is receiving a retained rate that is less than the applicable adjusted maximum rate (including any applicable locality payment or staffing supplement) for the upper range extension for the employee's band, and if that employee receives a rating of record of Significantly Exceeds Expectations, the employee's retained rate will be terminated and converted to an equal adjusted rate (base rate in upper range extension plus applicable locality payment or staffing supplement). This conversion must be

processed before any other pay adjustment.

For a retained rate employee with a rating of record of Significantly Exceeds Expectations, if a retained rate adjustment provided at the time of a range adjustment results in the retained rate falling below the applicable adjusted rate for the upper range extension maximum, the employee's retained rate will be terminated, and the employee's pay will be set at the maximum rate of the upper range extension.

For a retained rate employee with a rating of record of Fully Meets Expectations, if a retained rate increase provided at the time of a range adjustment results in the retained rate falling below the applicable adjusted rate for the normal band maximum, the employee's retained rate will be terminated, and the employee's pay will be set at the normal band maximum rate.

For a retained rate employee with a rating of record below Fully Meets Expectations, the retained rate is frozen and not subject to adjustment. When such an employee's retained rate falls below the applicable adjusted rate for the normal band maximum, the employee's retained rate will be terminated, and the employee's pay will be set at an adjusted rate equal to the retained rate (i.e., the rate is not set at the range maximum).

As required by 5 CFR 536.304(a)(2) and 536.305(a)(2), any general pay adjustment, including a retained rate adjustment as described in the preceding paragraphs, must be processed before any other simultaneous pay action (such as a geographic pay conversion).

When applicable, the saved pay rules in 5 U.S.C. 3594 and 5 CFR 359.705 for former SES members continue to apply to demonstration project employees, except that (1) an employee with a rating of record below Fully Meets Expectations may not receive an increase in his or her saved rate under 5 U.S.C. 3594(c)(2); and (2) the 50-percent adjustment rule must be applied in the same manner as it is applied for a retained rate under 5 U.S.C. 5363, subject to the modifications described in the preceding paragraphs. The rules regarding termination of a saved rate when it falls below the applicable adjusted maximum rate must be parallel to those governing termination of a retained rate under 5 U.S.C. 5363, subject to the modifications described in the preceding paragraphs. The enhanced pay retention provisions described in the preceding paragraphs do not apply to saved rates under 5 U.S.C. 3594.

NNSA may adopt supplemental pay administration policies governing matters not specifically addressed in this plan, subject to any OPM guidance.

#### 11. Staffing Supplements

An employee who is assigned to an occupational series and geographic area covered by an OPM-established special rates schedule, and who meets any other applicable coverage requirements, will be entitled to a staffing supplement if the maximum adjusted rate for a covered position in the GS grades corresponding to the employee's band is a special rate that exceeds the applicable maximum GS locality rate. The staffing supplement is added on top of the rate of basic pay in the same manner as locality pay. An employee will receive the higher of the applicable locality payment or staffing supplement.

For employees being converted into the demonstration project, the employee's total pay immediately after conversion will be the same as immediately before, but a portion of the total 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 the total salary rate. The staffing supplement is calculated as described below.

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 base rate corresponding to that special rate (step 10 GS base 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 special staffing supplement; this amount will equal the employee's former GS adjusted rate.

Simplified, the formula is this:

$$\begin{aligned} \text{Staffing factor} &= (\text{Maximum special rate for banded grades}) / (\text{GS base rate corresponding to that special rate}) \\ \text{Demonstration base rate} &= (\text{Former GS adjusted rate [special or locality rate]}) / (\text{Staffing factor}) \\ \text{Staffing supplement} &= \text{demonstration base rate} \times (\text{staffing factor} - 1) \\ \text{Salary upon conversion} &= \text{demonstration base rate} + \text{staffing supplement [sum will equal existing rate]} \end{aligned}$$

If a special rate employee is converted to a band where the maximum GS adjusted rate for the banded grades is a

locality rate, when the employee is converted into the demonstration project, the demonstration base rate is derived by dividing the employee's former special rate by the applicable locality pay factor (for example, in the Washington-Baltimore area, the locality pay factor is 1.175 in 2006). The employee's demonstration locality-adjusted rate will equal the employee's former GS adjusted rate.

Any General Schedule or special rate schedule adjustment will require recomputation of the staffing supplement. 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, as appropriate. Upon geographic movement, an employee who receives the special staffing supplement will have the supplement recomputed; any resulting reduction in the supplement will not be considered an adverse action or a basis for pay retention.

Established salary including the staffing supplement will be considered basic pay for the same purposes as a special rate under 5 CFR 530.308—e.g., for purposes of retirement, life insurance, premium pay, severance pay, and advances in pay. It will also be used to compute workers' compensation payments and lump-sum payments for accrued and accumulated annual leave. Staffing supplement adjusted rates are subject to the Executive Schedule level IV cap that applies to GS locality rates and special rates (except as provided in the following paragraph).

Adjusted rates that include a staffing supplement are subject to an Executive Schedule level IV cap, except for employees in the upper range extension whose rating of record is SEE. For those with a base rate in the 5 percent upper range extension, an adjusted rate cap 5 percent higher than the normal EX-IV cap is established. This higher cap will apply only to employees receiving a rate within the upper range extension. If the adjusted rate for an employee at the normal band maximum is affected by the EX-IV cap, resulting in an "effective staffing supplement percentage" that is less than the regular staffing supplement percentage, the adjusted rate for an employee in the upper rate range extension of the same band will be computed using that same effective staffing supplement percentage. (For example, if the regular staffing supplement percentage is 35 percent, but the EX-IV cap causes the amount of the staffing supplement actually

received by an employee at the regular band maximum to be 20 percent, that effective staffing supplement percentage of 20 percent would be used to compute the staffing supplement for an employee in the upper range extension of the same band.)

OPM may approve staffing supplements for categories of employees within the NNSA demonstration project who are not in approved special rate categories for GS employees, consistent with the provisions in 5 U.S.C. 5305(a) and (b).

### B. Performance Appraisal

NNSA recognizes the importance of maintaining highly credible performance management systems. NNSA will use a performance management program under the Department of Energy appraisal system that has been approved by OPM consistent with chapter 43 of title 5, United States Code. Throughout the duration of the demonstration project, the effectiveness of performance management within the project will be monitored by examining metrics and assessments that will be included in the demonstration project evaluation plan.

#### 1. Program Requirements

The NNSA performance appraisal program requires written performance plans for each covered employee containing the employee's performance elements and standards. The performance plan links the performance elements and standards for individual employees to the organization's strategic goals and objectives. Ongoing feedback and dialogue between employees and their supervisors regarding performance is required. In addition, the program provides for, at a minimum, one mid-year progress review.

The NNSA appraisal program, including its performance levels and standards, provides for making meaningful distinctions in performance. The program currently uses a four-level rating pattern to both summarize performance and to appraise performance at the element level. Its summary level pattern under 5 CFR 430.208(d) uses Levels 1, 2, 3, and 5, which NNSA has labeled Does Not Meet Expectations, Needs Improvement, Fully Meets Expectations, and Significantly Exceeds Expectations, respectively. Employees must be covered by their performance plan for at least 90 days before they can be assigned a rating of record. Supervisors and managers apply the appraisal program in a way that makes appropriate differentiations in performance. These differentiations

reflect overall organizational performance. Employees receive a written performance appraisal (i.e., a rating of record) annually. Forced distributions of ratings are prohibited. Each annual appraisal period will begin on October 1 and end on the following September 30. Performance appraisals will be completed in a timely manner to support pay decisions in accordance with section III.C.

Additional guidance on the NNSA performance appraisal program is provided through internal operations manuals. Performance appraisal is an evolutionary process, and changes may be made during the course of the demonstration project based on findings from our ongoing evaluations and reviews. Any changes will be communicated to affected employees, and they will be given a chance to comment before NNSA implements the changes.

#### 2. Supervisory Accountability

Supervisors are responsible for providing appropriate consequences for employee performance by addressing poor performance and recognizing exceptional performance. The performance plans for supervisors and managers include the degree to which supervisors and managers plan, assess, monitor, develop, correct, rate, and reward subordinate employees' performance. It is recognized that specific training must be provided to prepare supervisors and managers to exercise these responsibilities. NNSA has provided supervisory training each of the past three years on philosophical and procedural aspects of its new and still evolving performance management program (i.e., the lessons learned in the administration of each performance appraisal cycle have resulted in refinements each subsequent year). NNSA understands that this demonstration project will heighten the need for continuing supervisory training to support the accurate and realistic appraisal of performance.

#### 3. Reconsideration of Ratings

To support fairness and transparency for the program and its consequences, employees have an opportunity to request reconsideration of a rating of record. Such requests will be administered through a reconsideration process outlined in NNSA's Demonstration Project Policies and Procedures Manual. This procedure will be the sole process for addressing complaints regarding overall summary ratings and ratings of individual elements.

### C. Performance-Based Pay Increases

#### 1. Pay Pools

Funds that otherwise would be spent on the annual GS pay adjustment, WGIs, and QSIs for demonstration project employees will instead be placed into two pay pools: (1) the general pay increase pool will include funds that otherwise would be spent on the annual scheduled rate pay adjustment and (2) the performance pay pool will include funds that would otherwise be used to pay WGIs and QSIs. The performance pay pool also may include funds saved through the elimination of promotion increases for promotions between grades that are consolidated into the same band.

All employees with a rating of Fully Meets Expectations or higher are entitled to an adjustment in the scheduled rate of pay equal to the annual pay adjustment, which is also used to adjust NNSA pay ranges. This general increase is funded by the general increase pool. Employees who receive a rating below FME will be eligible for the annual pay adjustment, should a new rating be assigned after a period of time under a performance improvement plan.

Additional pay increases will be funded from the performance pay pool using a share mechanism (1) to ensure that employees with higher ratings of record receive greater pay increases than employees with relatively lower ratings of record and (2) to control costs without resorting to a forced distribution of ratings. Each employee will be assigned a certain number of shares, based on his or her rating of record in accordance with section III.C.2.

Participating organizations will establish pay pools for allocating performance pay increases. NNSA will determine which participating employees are covered by any pay pool and determine the dollar value of each pay pool. In setting the value of pay pools, NNSA will initially allocate an amount for performance pay increases equal to the estimated value of the WGIs, QSIs, and applicable promotion increases that otherwise would have been paid to participating employees. In computing the estimated value of WGIs and QSIs, NNSA may use estimated Governmentwide averages as computed by OPM.

#### 2. Performance Shares

NNSA will establish rating/share patterns for each pay pool—that is, the relationship between a rating of record and the number of shares. NNSA rating/share patterns will ensure that a higher

rating of record receives a higher performance payout percentage for employees in the normal rate range.

NNSA may adjust rating/share patterns over time after coordination with OPM and after giving affected employees advance notice. A change in the rating/share pattern may be applied in computing performance-based pay adjustments based on an appraisal period only if it takes effect at least 120 days before the end of that appraisal period. Initially, the number of shares for each rating level will be as follows: 4 shares are assigned to a Significantly Exceeds Expectations summary rating when an employee receives SEE ratings in all critical elements; 3 shares are assigned when an employee receives a summary rating of SEE, but one or more critical elements are rated at FME; 2 shares are assigned to an FME summary rating when one or more critical elements are rated at SEE; and 1 share is assigned to an FME summary rating when no critical element is rated below FME. Employees who receive a final summary rating of FME with one critical element rated at the NI level are not eligible for any shares from the performance pay pool.

No shares may be assigned to any rating of record below Fully Meets Expectations, since no pay increase is payable to employees with such a rating of record. After the ratings of record and shares are assigned to employees, the value of a single share can be calculated.

In addition to performance-based pay increases, demonstration project employees remain eligible to receive both monetary and non-monetary forms of recognition, so long as employees are not rewarded twice for the same contributions using incentive awards authorities under chapter 45 of title 5. Additionally, supervisors may receive supervisory bonuses, as referenced in section III.D. of this plan. NNSA will adopt supplemental award administration policies not specifically covered by this plan.

#### 3. Performance Payout

*In general:* NNSA will determine the value of one performance share, expressed as a percentage of the employee's rate of basic pay, based on the value of the pay pool and the distribution of shares among pay pool employees. An individual employee's performance payout is determined by multiplying the determined percentage value of a performance share by the number of shares assigned to the employee. The performance payout is computed as a percentage of the employee's rate of base pay as in effect on the date determined in NNSA

policies. On the first day of the last full pay period in each calendar year, this amount must be paid as an increase in the employee's rate of basic pay, but only to the extent that it does not cause the employee's rate to exceed the maximum rate of the employee's rate range. Notwithstanding the preceding sentence, employees in the upper band extension rated below the highest rating level are subject to special rules as described in section III.A.6 and III.A.10. Any portion of an employee's performance payout amount that cannot be delivered as a basic pay increase will be paid out as a lump sum (with no charge to the pay pool). Such a lump-sum payment is not basic pay for any purpose and is not a cash award under chapter 45 of title 5, United States Code.

An employee who does not have a rating of record for the appraisal period most recently completed will be treated the same as employees in the same pay pool who received the modal rating for that period, subject to NNSA proration policies.

NNSA may establish policies on prorating the performance pay increases and/or lump-sum payments for an employee who, during the period between annual pay adjustments, was (1) hired or promoted, (2) in leave-without-pay status, (3) on a part-time work schedule, or (4) in other circumstances that make proration appropriate. Those policies may establish a minimum employment period as a condition to receive any amount of a performance payout.

If an employee's rating of record that is the basis for a performance payout is retroactively revised (after the regular effective date of performance payouts) through the reconsideration process, the employee's performance payout must be retroactively recomputed using the share value as originally determined. This also applies to the retroactive correction of a critical element previously rated as Needs Improvement, when that element rating resulted in zero shares being given to an employee with a Fully Meets Expectations rating of record. Any such retroactive corrections are not funded out of the pay pool and do not affect the performance payouts provided to other employees in the pay pool. In setting the size of a future pay pool, management will take into account past and projected corrections.

*Special provisions for employees returning to duty after a period of service in the uniformed services or in receipt of workers' compensation benefits:* Special pay-setting provisions apply to employees who do not have a rating of record to support a pay

adjustment but who are returning to duty status after a period of leave without pay or separation during which the employee (1) was serving in the uniformed services (as defined in 38 U.S.C. 4303 and 5 CFR 353.102) with legal restoration rights (e.g., 38 U.S.C. 4316), or (2) was receiving workers' compensation benefits under 5 U.S.C. chapter 81, subchapter I. In these cases, NNSA will determine the employee's prospective rate of basic pay upon return to duty by making performance pay adjustments for the intervening period based on the modal rating of record for employees in the same pay pool. The performance pay increases during the intervening period may not be prorated based on periods covered by this provision. In addition, a performance pay increase that is effective after the employee's return to duty may not be prorated based on periods covered by this provision. A lump-sum payment for a period including actual service performed after the employee's return to duty must be prorated (based on service covered by this provision) under the same agency proration policies that apply generally to periods of leave without pay.

*Special provisions for employees receiving a retained rate:* An employee receiving a retained rate under 5 U.S.C. 5363 or 5 U.S.C. 3594 is not eligible for a basic pay increase except in conjunction with a rate range adjustment, as described in section III.A.10. At the discretion of the Administrator or the Administrator's designee, a retained rate employee may receive the same lump-sum payment approved for an employee in the same pay pool who is at the applicable range maximum and who has the same performance rating of record and number of shares.

#### 4. Employees Who Cannot Receive a Performance Pay Increase

Employees with a rating of record at Fully Meets Expectations with one or more elements rated at the Needs Improvement level are prohibited from receiving a performance payout. Employees with a rating of record below Fully Meets Expectations are prohibited from receiving a performance payout or general pay adjustment. When an employee's pay is frozen because of performance below Fully Meets Expectations, his or her pay rate may fall below the normal minimum rate of the pay band, since that range minimum may be increasing. However, in no case may an employee's rate of basic pay be reduced more than 5 percent below the normal range minimum. Details on adjusting the basic rate of pay to stay

within the 5 percent extended minimum rate range can be found in III.A.10.

If NNSA later chooses to give such an employee a new rating of record of Fully Meets Expectations before the end of the next appraisal period, as a result of the successful completion of a formal improvement plan, the employee is entitled to the same *percentage* of basic pay as the percentage that would have applied if the employee had been rated FME at the time the general pay adjustment was denied. This provision only applies to the annual general pay adjustment and is not retroactive. Under no circumstances is an employee eligible for a performance payout based on share distribution until the next appraisal period closes.

#### D. Supervisory Bonuses

NNSA may provide supervisors with annual supervisory bonuses. A supervisory bonus may not exceed 5 percent of the employee's rate of basic pay. A supervisory bonus is not basic pay for any purpose, nor may it be used in computing a lump-sum annual leave payment under 5 U.S.C. 5551–5552. A supervisory bonus is not an award under 5 U.S.C. chapter 45; it is a special lump-sum payment established under the demonstration project authority. Bonus expenditures will be funded through other NNSA funding sources. NNSA may establish supplementary policies and procedures to implement these bonuses, subject to OPM guidance.

#### E. Reduction-in-Force

1. If, during the life of the demonstration project, NNSA enters into a reduction-in-force (RIF), the RIF will be conducted in accordance with 5 U.S.C. 1302, 3502, and 3508 and 5 CFR part 351, except as follows:

(a) Each of the five career paths in each NNSA local commuting area will constitute separate competitive areas (i.e., separate from the other career paths, and separate from the competitive areas of other NNSA employees);

(b) NNSA will establish competitive levels consisting of all positions in a competitive area which are in the same pay band and classification series, and which are similar enough in duties, qualification requirements, pay schedules, and working conditions so that the incumbent of one position may be reassigned to any of the other positions in the level without undue interruption. Each demonstration project competitive level will become a Retention List for purposes of competition when employees are released from their competitive levels, displaced by higher-standing

employees, or placed during the exercise of assignment rights.

(c) Assignment rights will be modified by substituting "one pay band" for "three grades" and "two pay bands" for "five grades."

(d) NNSA will use retention standing when it chooses to offer vacant positions within the meaning of 5 CFR 351.704.

2. Prior to conducting a RIF, NNSA will issue and implement a policy for the establishment and operation of an agency-level reemployment priority list (RPL) designed to assist current NNSA competitive service demonstration project employees who will be separated as a result of a RIF and, subsequently, former NNSA competitive service demonstration project employees who have been separated as a result of a RIF, or who have fully recovered from a compensable injury after more than one year, in their efforts to be reemployed at NNSA, by affording them priority consideration over certain outside job applicants for NNSA competitive service demonstration project vacancies.

NNSA will develop and adopt supplemental RIF administration procedures to augment the RIF policies stipulated by this plan.

#### IV. Training

As NNSA has learned during the past three years of implementing and refining a new performance management program, training for all involved will be essential to the success of the demonstration project. Training will be provided to employees, supervisors, and managers before the project is launched and throughout the life of the project. It is important that employees perceive the performance management program as fair and transparent; therefore, supervisors and managers will be trained extensively in setting and communicating performance expectations; monitoring performance and providing timely feedback; developing employee performance and addressing poor performance; rating employees' performance based on expectations; and involving employees in the development and implementation of the performance appraisal program. Supervisors and managers will be held accountable for the effective management of the performance of employees they supervise through performance expectations set for and appraisals made of their own performance in this regard.

All employees will be trained in the performance appraisal process and the pay adjustment mechanism. Various types of training are being considered,

including videos, on-line tutorials, and train-the-trainer concepts.

## V. Conversion

### A. Conversion to the Demonstration Project

1. Employees whose positions become covered by the demonstration project will convert into the career path and pay band covering the occupational series and grade of their position of record. Employees will convert to the demonstration project with no change in their total rate of pay (including basic pay, plus any applicable locality payment, special rate supplement, or staffing supplement). Special conversion rules apply to special rate employees as described in section III.A.10, Staffing Supplements. Any simultaneous pay action that is scheduled to take effect under the GS pay system on the date of conversion must be processed before processing the conversion to the pay banding system. NNSA implementing policies will provide procedures for converting an employee on grade retention under 5 U.S.C. 5362 or receiving a retained rate under 5 U.S.C. 5363 or a saved rate under 5 U.S.C. 3594 to the demonstration project.

2. Immediately after conversion, eligible employees will receive an increase in basic pay reflecting the prorated value of the next scheduled within-grade increase (WGI). The prorated value is determined by calculating the portion of the time-in-step employees have completed towards the waiting period for their next WGI. This WGI "buy-in" adjustment will not be paid to (1) employees who are at the step 10 rate for their grade immediately before conversion to the demonstration project, (2) employees who are receiving a retained rate of pay under 5 U.S.C. 5363 or saved rate under 5 U.S.C. 3594 immediately before conversion to the demonstration project, or (3) employees whose rating of record is below Fully Meets Expectations.

3. Adverse action provisions under 5 U.S.C. chapter 75, subchapter II, do not apply to reductions in pay upon conversion into the demonstration project as long as the employee's total rate of pay (including basic pay, plus any applicable locality payment, special rate supplement, or staffing supplement) is not reduced upon conversion.

4. The first performance-based pay increase under the project's pay adjustment mechanism will be effective on the first day of the last full pay period in calendar year 2008.

5. For employees who enter the demonstration project by lateral

reassignment or transfer (i.e., not by conversion of position), NNSA may apply parallel pay conversion rules, including rules for providing a prorated adjustment reflecting time accrued toward a GS within-grade increase or similar within-range adjustment under another pay system. If conversion into the demonstration project is accompanied by a geographic move, the employee's pay entitlements under the former pay system in the new geographic area must be determined before performing the pay conversion.

### B. Conversion to the General Schedule System

NNSA implementing policies will provide procedures for converting an employee's pay band and pay rate to a GS-equivalent grade and rate of pay if the employee moves out of the demonstration project to a GS position. The converted GS-equivalent grade and rate of pay will be determined before any geographic move, promotion, or other simultaneous action that occurs simultaneously with conversion back to the GS system. The new employing organization must use the converted GS-equivalent grade and rate of pay in applying various pay administration rules that govern how pay is set in the GS position (e.g., rules for promotion and highest previous rate under 5 CFR part 531, subpart B, and pay retention under 5 CFR part 536). The converted GS grade and rate of pay are deemed to have been in effect at the time the employee left the demonstration project pay banding system. The rules for determining the converted GS grade for pay administration purposes do not apply to the determination of an employee's GS-equivalent grade for other purposes, such as reduction-in-force or adverse action. NNSA will perform the computations for employees who remain within NNSA and DOE. NNSA may perform the computations, as a courtesy, for employees who move to other Federal agencies. At a minimum, NNSA will provide a copy of the conversion procedures to gaining Federal agencies for their use. If an employee moves out of the demonstration project to a non-GS system, the employee's pay will be set under the pay-setting rules governing that system.

## VI. Project Duration

The initial implementation period for the demonstration project will be 5 years. However, with OPM's concurrence, the project may be extended for additional testing or terminated before the expiration of the 5-year period.

## VII. Project Modification

Demonstration projects require modification from time to time as experience is gained, results are analyzed, and conclusions are reached on how the system is working. NNSA may modify and adjust over time features and elements of this project plan. NNSA will coordinate such modifications with OPM and gain its approval prior to implementing the modification. Depending on the nature and extent of the modification, OPM may require that the modification be published as a notice in the **Federal Register**.

## VIII. Project Evaluation

Chapter 47 of title 5, United States Code, requires an evaluation of the results of the demonstration project. NNSA, in coordination with OPM, will develop a plan to evaluate the demonstration project to determine the extent to which the pay increases paid to participating employees reflect meaningful distinctions among their levels of performance and the extent to which the project is achieving its other stated goals. Workforce data will be analyzed to make this assessment and to determine whether the project is resulting in any adverse impact on particular groups of employees. Key indicators, including leadership commitment, communication, stakeholder involvement, training, planning, mission alignment, and the rewarding of performance, will be assessed to ensure compliance with stated project goals.

To evaluate and assess this project, NNSA intends to use a new approach developed by OPM and piloted during OPM's 2007 assessments of the Department of Defense's and Department of Homeland Security's Alternative Personnel Systems (APSs). This new approach is entitled the "Alternative Personnel Systems Objectives-Based Assessment Framework." Because demonstration projects are APSs, this Framework will be applicable.

The Assessment Framework is an evaluation structure for determining the extent to which an agency is adequately preparing for and progressing on the goals and objectives of its APS. It describes assessment components, dimensions, elements, and indicators that may be adapted to address the project's specific requirements. The Framework complements the approach used in previous demonstration projects where the evaluation assessed both the implementation and impact of specific interventions and determined whether

these interventions were effective and likely to be beneficial Governmentwide. It uses a standard approach that assesses project implementation and the extent to which personnel system changes are meeting their intended objectives. The Assessment Framework allows stakeholders, including OPM, to draw conclusions about the success of the project. It includes a set of qualitative and quantitative standards which, based on past experience in both the public and private sectors, and input from key stakeholders in both OPM and other agencies, are essential to successfully implementing significant human capital reforms.

There are two major components to the Framework: Preparedness and Progress. The Preparedness component assesses an agency's readiness to implement a demonstration project. The Progress component assesses the extent to which the agency has achieved, or is in the process of achieving, the project's goals and objectives.

Each of the components includes five dimensions or key attributes. The dimensions of the Preparedness component are Leadership Commitment, Open Communication, Training, Stakeholder Involvement, and Implementation Planning. Agencies that provide adequate emphasis and effort in

the Preparedness dimensions are well positioned to successfully implement a demonstration project or other APS. The dimensions of the Progress component are Mission Alignment, Results-Oriented Performance Culture, Workforce Quality, Equitable Treatment, and Implementation Plan Execution. Agencies that demonstrate Progress in achieving these broad goals are successfully implementing their APS.

The following table depicts the Assessment Framework, including the dimensions (key attributes of the Preparedness and Progress components) and elements (specific features that define dimensions) for each component.

**APS OBJECTIVES-BASED ASSESSMENT FRAMEWORK**

Dimension	Element
<b>Preparedness</b>	
<p><b>LEADERSHIP COMMITMENT:</b> Agency leaders are actively engaged in promoting and gaining workforce acceptance of the program, as well as prioritizing program implementation. Agency leaders provide appropriate resources for program implementation and are held accountable for effective execution.</p>	<p><b>Engagement</b>—The extent and sufficiency of senior leader efforts to promote, provide information about, and gain widespread acceptance of the APS across an agency workforce via leadership outreach and communication programs.</p> <p><b>Accountability</b>—Agency leaders identify APS implementation as an agency priority, and are responsible for playing an active role in the design, development and/or implementation of the APS.</p> <p><b>Resources</b>—Agency leaders ensure an agency has established an appropriate organizational framework with sufficient resources and authorities to effectively design, develop, and implement the APS.</p> <p><b>Governance</b>—Agency leaders ensure a clear governance process is established for the APS program, including an effective mechanism for resolving conflicts and finalizing decisions, and this governance process is being used to address disagreements regarding APS design, development, and implementation issues.</p>
<p><b>OPEN COMMUNICATION:</b> Agency provides accurate, up-to-date information on system features and implementation plans. Active outreach efforts are undertaken to provide information to employees and to address questions and concerns. Effective mechanisms are in place for gathering and considering feedback.</p>	<p><b>Information Access</b>—Agencies ensure comprehensive information is available via a website accessible by all employees regarding key APS design features, training materials, rollout schedules, and other APS issues.</p> <p><b>Outreach</b>—Agencies conduct regular outreach sessions such as town meetings, webinars, electronic newsletters and other information channels that provide employees with up-to-date information on APS status and issues.</p> <p><b>Feedback</b>—Agencies provide employees with an accessible mechanism for providing feedback on APS features and issues, and establish practical procedures for considering this feedback.</p>
<p><b>TRAINING:</b> Agency developers and executes a comprehensive training strategy for effective training on relevant components of the program to users via a range of delivery methods.</p>	<p><b>Planning</b>—An agency establishes a comprehensive training strategy that addresses the full range of APS components, tools, and roles.</p> <p><b>Delivery</b>—An agency implements the training strategy to ensure all staff receive training appropriate for their role in the APS, with special emphasis on ensuring supervisors acquire the performance management competencies required to administer the APS effectively.</p>
<p><b>STAKEHOLDER INVOLVEMENT:</b> Stakeholders are actively involved in the program design and evaluation process and play a supportive role in the implementation of the program.</p>	<p><b>Inclusion</b>—Agencies engage a broad spectrum of key stakeholder groups to capture a wide range of perspectives regarding APS design features, and to foster buy-in and support for the APS across these stakeholder groups.</p>

## APS OBJECTIVES-BASED ASSESSMENT FRAMEWORK—Continued

Dimension	Element
<p><b>IMPLEMENTATION PLANNING:</b> Agency establishes and implements a comprehensive planning process that coordinates activities across key work streams, such as HR business processes and procedures, tools and technology infrastructure, and change management, while providing mechanisms for assessing status and managing risk.</p>	<p>Work Stream Planning and Coordination—Agencies require an effective planning process that identifies and defines key work streams, highlights critical dependencies, provides for the management and mitigation of risk, and facilitates regular assessments of status against key milestones.</p> <p>HR Business Processes and Procedures—Prior to rolling out an APS, an agency documents the business processes and procedures associated with all APS components, such as staffing, pay pool administration, and performance management.</p> <p>Tools and Technology Infrastructure—Agencies develop appropriate technology tools and infrastructure to enable administering the APS.</p> <p>Structured Approach—Agencies develop a comprehensive change management strategy that addresses managing the mechanisms for people side of change.</p>
<b>Progress</b>	
<p><b>MISSION ALIGNMENT:</b> The program effectively links individual, team, and unit performance to organizational goals and desired results.</p>	<p>Line of Sight—The degree to which employee performance expectations are linked to agency mission.</p> <p>Accountability—Identifies not only whether or not the linkage is present in performance plans, but also whether or not employees are actually accountable for achieving them.</p>
<p><b>RESULTS-ORIENTED PERFORMANCE CULTURE:</b> The program promotes a high performance workforce by differentiating between high and low performers and rewarding employees on the basis of performance while effectively managing payroll costs.</p>	<p>Differentiating Performance—The extent to which performance ratings cover a full distribution of likely levels, versus clustering at the higher end of the scale.</p> <p>Pay for Performance—The relationship between pay raises and awards/bonuses and performance rating levels.</p> <p>Cost Management—The extent to which reliable cost estimates are associated with decisions and the extent to which decision makers are accountable for cost management.</p>
<p><b>WORKFORCE QUALITY:</b> Agency retains its high performers, keeps employees satisfied and committed, attracts high-quality new hires, and transitions its low performers out of the organization.</p>	<p>Recruitment—The extent to which the agency can improve its ability to recruit employees with the appropriate skills, based on the perceptions of supervisory employees.</p> <p>Flexibility—The agency's Progress in providing supervisors with the personnel flexibility needed to re-deploy their staff, and the extent to which this flexibility is used.</p> <p>Retention—The ability of an agency to use the tools provided by the APS to increase the rewards to high performers, thereby helping assure that they remain with the agency, and to provide appropriately lower rewards to lower performers such that they either improve their performance or decide to leave the agency.</p> <p>Satisfaction and Commitment—Based on the premise that an agency's mission performance is increased when its workforce is both committed and satisfied.</p>
<p><b>EQUITABLE TREATMENT:</b> The program promotes an environment of fairness and trust for employees, consistent with the Merit System Principles and free of Prohibited Personnel Practices.</p>	<p>Fairness—The objective is to measure the impact of the APS on the perceived fairness of agency-related practices.</p> <p>Transparency—This element will assess whether pay for performance processes and procedures are available and understood by stakeholders.</p> <p>Trust—The literature and historical data suggest that employee trust is essential to success not only of the APS, but also an agency's overall effectiveness. This element will assess the impact of the APS on the level of trust employees have for their supervisors.</p>
<p><b>IMPLEMENTATION PLAN EXECUTION:</b> Agency demonstrates Progress in implementing the program in accordance with its comprehensive planning process.</p>	<p>Work Stream Planning and Status—This element will assess the execution of the implementation process in accordance with the planning process, with attention to key work streams, critical dependencies, management and mitigation of risk, and regular assessment of status.</p> <p>Performance Management System Execution—This element will provide an assessment of the extent to which the performance management components of the APS are being as intended.</p> <p>Employee Support for APS—While not definitive as to the overall effectiveness of the APS, employee support is a strong indicator of implementation Progress and will be assessed.</p>



In addition to dimensions and elements, NNSA's final Evaluation Plan, to be approved by OPM, will stipulate the indicators (characteristics used to measure or assess the agency's performance against the elements), the

assessment criteria (standards by which the individual indicators are judged), and planned data sources to be used to evaluate the project. Assessment criteria will be used to assess indicators; indicators will be used to assess

elements, and elements will be used to assess dimensions. An example of indicators, assessment criteria, and data sources is included in the table below:

#### PROGRESS

Dimension	Element	Indicator	Assessment criteria	Data sources
Results-Oriented Performance Culture.	Pay for Performance	Extent to which pay/bonuses are linked to performance (e.g., mean pay increases and bonuses by performance level/band).  Perception of association between performance rating and financial reward.	Following program implementation, there is a high association between performance ratings and salary increases (allowing for pay band limits). Following program implementation, there is a high association between performance ratings and bonuses. Continuing improvement over baseline/prior year's work.	Payout matrices, salaries, bonuses, and performance ratings from workforce data.  Employee Survey. Awards/pay raises in my work unit depend on how well employees perform their jobs.

The evaluation process will be conducted in two main phases over a 5-year period—formative and summative evaluation. The formative evaluation phase will include baseline data collection (i.e., collecting "current state" measures prior to the implementation of the project) and analyses, implementation and progress evaluation, and interim assessments. The formal reports and interim assessments will provide information on the project implementation and operation, as well as current information on the impact of the project on veterans and EEO groups, Merit System Principles, and Prohibited Personnel Practices. The summative evaluation will focus on an overall assessment of the demonstration project outcomes after five years. The final report will provide information on how well the interventions achieved the desired goals and will provide recommendations on broader Federal Government application.

The project will be examined during each phase of the evaluation to assess that costs are being managed effectively. Moreover, cost discipline will be examined during each phase of the evaluation to ensure spending remains within acceptable limits. The evaluation will also address the extent to which the project has incorporated the elements required by section 1126 of Public Law 108-136 (5 U.S.C. 4701 note) for pay-for-performance systems in demonstration projects: (1) Adherence to merit principles set forth in section 2301 of title 5; (2) a fair, credible, and transparent employee performance

appraisal system; (3) a link between elements of the pay-for-performance system, the employee performance appraisal system, and the agency's strategic plan; (4) a means for ensuring employee involvement in the implementation and operation of the pay-for-performance system; (5) adequate training and retraining for supervisors, managers, and employees in the implementation and operation of the pay-for-performance system; (6) a process for ensuring ongoing performance feedback and dialogue between supervisors, managers, and employees throughout the appraisal period, and setting timetables for review; (7) effective safeguards to ensure that the management of the system is fair and equitable and based on employee performance; and (8) a means of ensuring that adequate agency resources are allocated for the design, implementation, and administration of the pay-for-performance system.

#### IX. Costs

##### A. Buy-in Costs

There will be added costs resulting from the within-grade increase "buy-in" provision described in section V; however, those costs will be offset to some degree by the elimination of within-grade step increases that otherwise would have occurred.

##### B. Recurring Costs

All funding will be provided through the organization's budget. No additional funding will be requested specifically for this project; all costs will be charged to available funds through existing

appropriations, including those incurred in the areas of project development, training, and project evaluation.

#### X. Waiver of Laws and Regulations Required

##### A. Title 5, United States Code

*Chapter 35, section 3594:* Saved pay for former members of the Senior Executive Service (only to the extent necessary to (1) bar employees with a rating of record lower than Fully Meets Expectations from receiving saved rate increases under 5 U.S.C. 3594(c)(2); (2) provide a saved rate that is less than the maximum rate (including any locality adjustment or staffing supplement) of the upper range extension for an employee who receives a rating of record of Significantly Exceeds Expectations will be terminated and converted to an equal adjusted rate; (3) provide the range maximum rate used to compute saved rate adjustments is the normal range maximum rate (including any locality adjustment or staffing supplement); and (4) provide when a frozen saved rate for an employee with a rating of record below Fully Meets Expectations falls below the applicable adjusted rate for the normal band maximum, the saved rate will be terminated and the employee's pay will be set at an adjusted rate equal to the saved rate).

*Chapter 51:* Classification (except that (1) sections 5111 and 5112 are retained with "grade" replaced by "pay bands" and (2) for the purpose of applying any other laws, regulations, or policies that refer to GS employees or to chapter 51

of title 5, United States Code, the modified classification system established under this plan must be considered to be a GS classification system under chapter 51; this includes, but is not limited to, the reference to the General Schedule in section 5545(d) (relating to hazard pay)).

*Chapter 53, section 5302(1)A, (8) and (9):* Definitions (only to the extent necessary to provide that employees under the demonstration project are not considered to be GS employees for the purposes of annual adjustments under section 5303 or similar provisions of law governing annual adjustments for employees covered by section 5303).

*Chapter 53, section 5303:* Annual adjustments to pay schedules.

*Chapter 53, section 5304:* Locality-based comparability payments (only to the extent necessary to (1) provide a locality rate that may not exceed the rate for EX-IV plus 5 percent for employees in the upper range extension; (2) apply an "effective" locality pay percentage for employees in the upper range extension under circumstances described in the plan); and (3) allow a frozen locality pay percentage for employees with a rating of record below Fully Meets Expectations, as provided in the plan

*Chapter 53, section 5305:* Special pay authority.

*Chapter 53, sections 5331-5336:* General Schedule pay rates (except that, for purposes of applying any other laws, regulations, or policies that refer to GS employees or to subchapter III of chapter 53 of title 5, United States Code, the modified pay system established under this plan must be considered to be a GS pay system established under such subchapter III; this includes, but is not limited to, references to the General Schedule in section 5304 (relating to locality pay), section 5545(d) (relating to hazard pay), and sections 5753-5754 (dealing with recruitment, relocation, and retention incentives)).

*Chapter 53, section 5362:* Grade retention.

*Chapter 53, section 5363:* Pay retention (only to the extent necessary to (1) replace "grade" with "band;" (2) bar employees with a rating of record lower than Fully Meets Expectations from receiving retained rate increases under 5 U.S.C. 5363(b)(2)(B); (3) provide that pay retention provisions do not apply to conversions into the demonstration project from the General Schedule or other pay system, as long as the employee's total pay rate is not reduced; (4) provide the pay (including any locality adjustment or staffing supplement) of an employee in the

upper range extension who is rated below Significantly Exceeds Expectations will be converted to a retained rate before processing any other actions; (5) provide a retained rate that is less than the maximum rate (including any locality adjustment or staffing supplement) of the upper range extension for an employee who receives a rating of record of Significantly Exceeds Expectations will be terminated and converted to an equal adjusted rate; (6) provide the range maximum rate used to compute retained rate adjustments is the normal range maximum rate (including any locality adjustment or staffing supplement); (7) provide a retained rate under the enhanced pay retention provisions in section III.A.10. will be increased by 100 percent of the dollar amount of any increase in the normal maximum rate of the employee's band during the two-year period beginning on the date the employee's retained rate is established; and (8) provide when a retained rate for an employee with a rating of record below Fully Meets Expectations falls below the applicable adjusted rate for the normal band maximum, the retained rate will be terminated and the employee's pay will be set at an adjusted rate equal to the retained rate)

*Chapter 55, section 5542(a):* Overtime rates (only to the extent necessary to provide that the GS-10 minimum special rate (if any) for the special rate category that would otherwise apply to an employee (but for the existence of the demonstration project) is deemed to be the "applicable special rate of pay" in determining the overtime hourly rate cap)

*Chapter 55, section 5547:* Limitation on premium pay (only to the extent necessary to provide that an applicable staffing supplement is added to the GS-15, step 10, rate in lieu of the applicable locality payment)

*Chapter 75, section 7512(34):* Adverse actions (only to the extent necessary to replace "grade" with "band")

*Chapter 75, section 7512(4):* Adverse actions (only to the extent necessary to provide that adverse action provisions do not apply to conversions into the demonstration project from the General Schedule or other pay system, as long as the employee's total rate of pay is not reduced)

**Note:** If any of the provisions of title 5, United States Code, listed above are amended during the period this demonstration project is in effect, NNSA may choose to terminate the waiver of one or more such provisions with respect to employees participating in the project, without formally modifying the project itself. NNSA must notify OPM when any such waiver is terminated.

*B. Title 5, Code of Federal Regulations*

*Part 210, subpart A, section 210.102(b)(12):* Reassignment (only to the extent necessary to modify the definition of reassignment to include the movement of an NNSA demonstration project employee from one position to another position with a pay adjustment).

*Part 300, subpart F, section 300.604:* Restrictions (only to the extent necessary to restrict advancement to a higher pay band to candidates who have completed a minimum of 52 weeks in positions no more than one pay band lower than the position to be filled)

*Part 330, subpart B, section 330.201:* Establishment and maintenance of Reemployment Priority List (RPL) (only to the extent necessary to establish and maintain a reemployment priority list exclusively for NNSA competitive service demonstration project employees)

*Part 351, subpart D, section 351.402:* Competitive area (only to the extent necessary to permit the use of career paths in conjunction with organizational units and geographic locations when establishing competitive areas)

*Part 351, subpart D, section 351.403:* Competitive level (only to the extent necessary to substitute "same pay band" for "same grade")

*Part 351, subpart G, section 351.701:* Assignment involving displacement (only to the extent necessary to substitute "one pay band" for "three grades" and "two pay bands" for "five grades")

*Part 359, subpart G, section 359.705:* Pay (only to the extent necessary to (1) bar employees with a rating of record lower than Fully Meets Expectations from receiving a saved rate increase under 5 CFR 359.705(d)(1); (2) provide a saved rate that is less than the maximum rate (including any locality adjustment or staffing supplement) of the upper range extension for an employee who receives a rating of record of Significantly Exceeds Expectations will be terminated and converted to an equal adjusted rate; (3) provide the range maximum rate used to compute saved rate adjustments is the normal range maximum rate (including any locality adjustment or staffing supplement); and (4) provide when a saved rate for an employee with a rating of record below Fully Meets Expectations falls below the applicable adjusted rate for the normal band maximum, the saved rate will be terminated and the employee's pay will be set at an adjusted rate equal to the saved rate)

*Part 430, subpart B, section 430.203:* Definitions (only to the extent necessary to allow an additional rating of record to support a pay decision under section III.C.3 or 4 of this project plan)

*Part 511, subpart B:* Coverage of the General Schedule

*Part 530, subpart C:* Special Rate Schedules for Recruitment and Retention

*Part 531, subpart B:* Determining Rate of Basic Pay

*Part 531, subpart D:* Within-Grade Increases

*Part 531, subpart E:* Quality Step Increases

*Part 531, section 531.604:* Determining an employee's locality rate (only to the extent necessary to (1) allow a frozen locality pay percentage for employees with a rating of record below Fully Meets Expectations, as provided in the plan; and (2) apply an "effective" locality pay percentage for employees in the upper range extension under circumstances described in the plan)

*Part 531, section 531.606:* Maximum limits on locality rates (only to the extent necessary to provide a locality rate may not exceed the rate for EX-IV plus 5 percent for employees in the upper range extension).

*Part 536, subpart B:* Grade Retention

*Part 536, subpart C:* Pay Retention (only to the extent necessary to (1) replace "grade" with "band;" (2) bar employees with a rating of record lower than Fully Meets Expectations from receiving retained rate increases under 5 CFR 536.305; (3) provide that pay retention provisions do not apply to conversions into the demonstration project from the General Schedule or other pay system, as long as the employee's total pay rate is not reduced); (4) provide that a retained rate may not exceed the rate for EX-IV plus 5 percent; (5) provide the pay (including any locality adjustment or staffing supplement) of an employee in the upper range extension who is rated below Significantly Exceeds Expectations will be converted to a retained rate before processing any other actions; (6) provide a retained rate that is less than the maximum rate (including any locality adjustment or staffing supplement) of the upper range extension for an employee who receives a rating of record of Significantly Exceeds Expectations will be terminated and converted to an equal adjusted rate; (7) provide the range maximum rate used to compute retained rate adjustments is the normal range maximum rate (including any locality adjustment or staffing supplement); (8)

provide a retained rate under the enhanced pay retention provisions in section III.A.10. will be increased by 100 percent of the dollar amount of any increase in the normal maximum rate of the employee's band during the two-year period beginning on the date the employee's retained rate is established; and (9) provide when a retained rate for an employee with a rating of record below Fully Meets Expectations falls below the applicable adjusted rate for the normal band maximum, the retained rate will be terminated and the employee's pay will be set at an adjusted rate equal to the retained rate).

*Part 550, sections 550.106–107:* Biweekly and annual maximum earnings limitation (only to the extent necessary to provide that an applicable staffing supplement is added to the GS–15, step 10, rate in lieu of the applicable locality payment).

*Part 550, section 550.113(a):* Computation of overtime pay (only to the extent necessary to provide that the GS–10 minimum special rate (if any) for the special rate category that would otherwise apply to an employee (but for the existence of the demonstration project) is deemed to be the "applicable special rate of pay" in determining the overtime hourly rate cap).

*Part 550, section 550.703:* Definitions (to the extent necessary to modify paragraph (c)(4) of the definition of "reasonable offer" by replacing "two grade or pay levels" with "one pay band level" and "grade or pay level" with "pay band level").

*Part 752, section 752.401(a)(3):* Adverse actions (only to the extent necessary to replace "grade" with "band").

*Part 752, section 752.401(a)(4):* Adverse actions (only to the extent necessary to provide that adverse action provisions do not apply to conversions into the demonstration project from the General Schedule or other pay system, as long as the employee's total rate of pay is not reduced).

**Note:** If any of the provisions of title 5, Code of Federal Regulations, listed above are revised during the period this demonstration project is in effect, NNSA may choose to terminate the waiver of one or more such provisions with respect to employees participating in the project, without formally modifying the project itself. NNSA must notify OPM when any such waiver is terminated.

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## SECURITIES AND EXCHANGE COMMISSION

[File No. 500–1]

### In the Matter of: Score One, Inc., Physical Property Holdings, Inc.; Order of Suspension of Trading

December 19, 2007.

It appears to the Securities and Exchange Commission that there is a lack of current and accurate information concerning the securities of the issuers listed below. For each issuer, questions have arisen regarding the adequacy and accuracy of press releases and other publicly-disseminated information concerning, among other things: (1) The companies' assets; (2) the companies' current business operations; (3) the companies' current financial condition; (4) the issuance of the companies' securities; and (5) transactions in the companies' securities by insiders, consultants, and other individuals and entities.

1. *Score One, Inc.* is a Nevada corporation headquartered in Hong Kong. The company is dually quoted on the Over-the-Counter Bulletin Board and Pink Sheets under the ticker symbol "SREA." The company has recently been the subject of spam e-mails touting the company's shares.

2. *Physical Property Holdings, Inc.* is a Delaware corporation headquartered in Hong Kong. The company is dually quoted on the Over-the-Counter Bulletin Board and Pink Sheets under the ticker symbol "PPYH." The company has recently been the subject of spam e-mails touting the company's shares.

The Commission is of the opinion that the public interest and the protection of investors require a suspension of trading in the securities of Score One, Inc. and Physical Property Holdings, Inc.

Therefore, it is ordered, pursuant to section 12(k) of the Securities Exchange Act of 1934, that trading in the securities of Score One, Inc. and Physical Property Holdings, Inc. is suspended for the period commencing at 9:30 a.m. EST, December 19, 2007, and terminating at 11:59 p.m. EST, on January 3, 2008.

By the Commission.

**Nancy M. Morris,**  
Secretary.

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**BILLING CODE 8011–01–P**