

Section J

APPENDIX B - ADVANCE UNDERSTANDING ON PERSONNEL COSTS POLICIES AND PROCEDURES

JB.1 INTRODUCTION

This Advance Understanding sets forth the basis for determining the allowability of Contractor human resource management policies and related expenses that have cost implications under the Contract. This agreement is intended to cover the majority of the human resources costs incurred by the Contractor for work performed by employees assigned to work tasks authorized by the U.S. Department of Energy (DOE), Office of River Protection (DOE-ORP) in accordance with this Contract. Costs not specifically addressed in this advance understanding will be treated in accordance with applicable Federal Acquisition Regulation (FAR) cost principles.

The Contractor shall select, employ, manage, and direct the work force, and apply the policies set forth herein in general conformity with the methods used in the Contractor's private operations insofar as those methods are consistent with this Contract. The Contractor shall use effective management review procedures and internal controls to assure that the allowable costs set forth herein are not exceeded, and that areas which require prior approval of the DOE Contracting Officer or designated representative are reviewed and approved prior to incurrence of costs.

The Contractor shall promptly furnish all reports and information required or otherwise indicated in this Appendix to the Contracting Officer or designated representative. The Contractor recognizes that other data requests may be made from time to time and the Contractor agrees to cooperate in meeting such requests.

JB.2 GENERAL

Subject to the specific limitations, conditions, and exclusions of FAR Subpart 31.2 as supplemented by Department of Energy Regulation (DEAR) 931.2, and to the special conditions set forth below, personnel and related costs incurred for work under this contract by the Contractor in accordance with the Contractor's corporate-wide policies consistently and uniformly applied throughout the corporation's domestic operations, and approved by DOE-ORP, are allowable. Such policies will be summarized and submitted in the form of a Personnel Policies Manual applicable to this Contract by January 31, 2001.

Revisions to corporate-wide or contract-only policies and employee benefit plans which increase costs will be provided to DOE-ORP for review for allowability prior to incurrence of costs.

JB.3 DEFINITIONS

- (a) Contractor – CH2M HILL Hanford Group, Inc.
- (b) Credited Service – Length of service for employees shall mean employment with the Contractor or Major Subcontractors including recognized credited service with predecessor DOE Hanford Contractors. Service credit will be applied in accordance with this Contract and the Contractor's service credit policies regarding leave accrual, severance pay, and other benefit programs.
- (c) FAR – Federal Acquisition Regulation
- (d) Work Week – The basic (or regular) work week shall be 40 hours. Alternative work weeks may be established with the approval of the Contracting Officer. Submit all Proposed Alternative work weeks to the Contracting Officer for approval by April 1, 2001.

JB.4 DIRECT COMPENSATION

The Contractor shall submit its Compensation Program applicable to work under this Contract to the Contracting Officer for initial approval by April 1, 2001. Proposed Compensation Program

design changes, which affect costs, will also be submitted for review and approval by the Contracting Officer.

(a) Administration of Wages and Salaries of Nonrepresented Employees

Administration of Wages and Salaries of Nonrepresented Employees shall be carried out in accordance with sound wage and salary administration principles and in a manner which shall provide for equitable treatment of personnel on a definitive, systematic basis consistent with economic business practices and judicious expenditure of public funds and which shall result in payment of total compensation to individual employees conforming to the standards of reasonableness as contemplated by FAR Subpart 31.205-6.

- (1) Compensation Increase Plan – No later than November 1 of each salary program year, the Contractor will develop and justify, in a manner prescribed by the Contracting Officer, a Compensation Increase Plan for exempt employees and a Compensation Increase Plan for non-exempt non-bargaining employees for review and approval. ORP will review/comment and approve within 60 calendar days of submittal of this plan. The funds are calculated as a percentage of exempt and non-exempt, non-bargaining base payroll at the end of the prior salary year, expressed as an annualized amount. The plans will include a separate fund for retention and recruitment incentives as defined in the FAR.

All increases are charged to the fund on an annualized basis. Once an individual's salary increase is charged to the fund, reuse of that amount, i.e., recovery, for any other purpose during the salary year is unallowable. If an individual terminates before receiving an increase, the portion of the fund allocated for that increase might remain in the fund.

The Contractor shall also provide a copy of the annually developed salary guidelines prepared for supervisory use, indicating the parameters for granting various increases based on employee performance and current salary.

The dollar amounts of the funds shall be subject to review and adjustment by the Contracting Officer upon a significant reduction in Contractor employment levels, as in a reduction-in-force.

- (2) Individual Employee Salary Approval – The base annual salary costs for employees of the Contractor designated as Key Personnel are reimbursable only to the extent each such salary has been approved on DOE Form 3220.5, *Application for Contractor Compensation Approval*, or other approved form, by the Contracting Officer.

The Contractor will provide supporting information with DOE Form 3220.5 (or other approved form) on all such compensation actions in advance of the effective date.

Effective March 7, 2003, no reimbursable base annual salary costs for individual CHG employees, who are not Key Personnel, can exceed the approved reimbursable salary for the lowest paid Key Personnel salary approved by the CO. All exceptions shall be approved by the CO in advance of the effective date.

- (3) Incentive Compensation, Bonuses and Project Assignment Allowances will not be allowable costs under this Contract unless specifically approved in advance by the Contracting Officer.

- (4) Salary Structures – The Contractor shall establish separate salary structures containing position grades, classifications, and salary ranges

for exempt and for non-exempt, non-bargaining employees who are assigned to work on the Contract. The structures shall be submitted to the Contracting Officer for review and approval in advance of incurrence of costs and no later than January 31, 2001, and as required thereafter. As long as the structures are within the guidelines of paragraph JB.4 (a)(1), "Compensation Increase Plan," a submittal will not be required. No salary above the maximum of the salary range shall be allowable except in those cases where the Contracting Officer authorizes a "red circle" rate.

(5) RESERVED

(6) Premium Pay - The Compensation Program shall contain provisions for any established premium payments to employees, such as overtime, shift differential and special qualification or certification pay.

(7) Compensation Reports - The Contractor shall submit reports and information relating to the administration of wages, salaries and benefits as the Contracting Officer may require from time-to-time to evaluate the reasonableness of the Contractor's total compensation program.

(b) Compensation - Employee Welfare and Other Benefit Plans

(1) General

Net costs of employer payments for the following non-statutory employee benefit plans, as related to work under this Contract, are allowable subject to the limitations and conditions set out in FAR 31.2. The initial terms and conditions of the plans shall be submitted to and must be approved by the Contracting Officer. Copies of employee communications, such as Summary Plan Descriptions, shall be provided to DOE when issued. Costs incurred in the administration of the following plans are allowable:

- (i) Life Insurance (Basic, AD&D, Personal Accident, Dependent, other)
- (ii) Disability Plans (Short Term and Long Term)
- (iii) Medical Insurance Plan (Indemnity, HMO, PPO, other)
- (iv) Dental Insurance Plans
- (v) Vision Plan
- (vi) Retiree Medical and Life Insurance Plans

Other Benefit Plans

- (vii) Flexible Spending Account(s) and similar programs (e.g., VEBAs)
- (viii) Employee Assistance Program
- (ix) Other supplemental employee paid plans such as Group Universal Life, Long Term Care

(2) Separation Pay

(i) The cost of separation pay allowances for employees with one (1) or more years of continuous service, who are involuntarily separated, will be allowable in accordance with the Contractor's policy. The initial policy, and any changes thereto which increase costs, require the approval of the Contracting Officer.

(ii) In the event that responsibility for performance of work and services or operation of part or all of the government-owned facilities under this Contract (including standby protection and maintenance functions) is assumed by another Contractor or Government agency, employees who are transferred to the employ of, or who are offered employment within their same classification or at positions of comparable responsibility by such Contractor or agency, which employment will commence within thirty (30) days after being laid off, will not be paid any separation pay allowance.

(3) FAS 106 Valuation – The Contractor will provide a copy of the FAS 106 Valuation to the DOE.

(c) Group Pension Plans

(1) General – Costs of the Contractor's participation with other Hanford Site Contractors in the Operations and Engineering Pension Plan, and the Hanford Contractors Multi-Employer Pension Plan for Hanford Atomic Metal Trades Council (HAMTC) Represented Employees, or identical plans as approved by the Contracting Officer, will be allowable for the purpose of providing retirement benefits only to employees under the Contract, and former employees of predecessor Hanford Contractors, who are eligible to participate in one or the other of the Plans in accordance with their terms. The Plans must be established and maintained as qualified defined benefit plans under the regulations of the Internal Revenue Code Service. The Plan and Trust documents and any amendments thereto which effect substantive changes or increase costs are subject to the approval of DOE. With respect to each of the plans, the parties agree as follows:

(2) Administration of the Plans

(i) Costs of employer contributions incurred under the terms of said plans and costs incurred in the course of their administration are allowable to the extent approved by the Contracting Officer. At DOE request, the Contractor shall provide an itemization of costs incurred for administration. The plan fund, not the Contractor, shall be liable for costs incurred in the course of administration.

(ii) The Contractor will provide to DOE copies of the following annual reports:

(A) Accounting reports and annual actuarial valuations. The reports and valuations will include at least the information specified in DOE Order 350.1, Chapter VI.

(B) DOL Form 5500 with schedules and attachments, as submitted to the Department of Labor each year.

(C) Financial Accounting Standards Board (FASB) Statement 87 Report. A copy of the FASB 87 report is prepared each year to satisfy the expense-reporting

requirement of the Office of Management and Budget.
The final accounting period shall end with the effective date of Contract termination or expiration.

(iii) Actuarial gains and losses developed by annual valuations will be taken into account for purposes of establishing contributions to the Plan as soon as reasonably possible and consistent with requirements of the Employee Retirement Income Security Act of 1974, amendments thereto, and any other applicable laws.

(iv) The aggregate annual contribution to the pension fund may range from the minimum specified by the Internal Revenue Code (IRC) Section 412(b) to the amount necessary to fully fund the year-end expected current liability. However, the aggregate annual contribution to each plan shall be no less than the minimum specified by IRC Section 412(b) nor greater than the tax-deductible limit specified by the IRC Section 404. All contributions to each pension fund shall equal the total amount currently attributable to participants in the plans. These contributions will be based on the actuarial valuation, as determined by the *Employee Retirement Income Security Act of 1974* (ERISA), as amended valuation for the most recent plan year. The fund shall be a trust.

(v) If requested by DOE to do so, the Contractor will participate in pension plans established on a multiple or multi-employer basis applicable to some or all DOE prime cost-type Contractors on the Hanford Site. The Contractor will take no action concerning the termination, merger, or spin-off or other action affecting the status of the plans as separate contract-only plans without the approval of the Contracting Officer.

(vi) Unless otherwise required by federal law or resulting from the collective bargaining process, no amendment to any of the pension plans shall result in allowable costs under this contract if the adoption date of such amendment is later than twelve (12) months before the termination or expiration date of the Contract.

(3) Actions Required at Contract Termination or Expiration

(i) No Replacement Contractor - In the event that the Contract expires or is terminated without a replacement contractor; all employee-accrued benefits are to become 100 percent vested immediately irrespective of the Plan's vesting schedule. All employees would receive benefits equivalent to the value of their vested portion consistent with ERISA, as amended.

(ii) Replacement Contractor Situation - In the event of reassignment of all or a portion of the Contractor's work under this contract to a replacement Contractor(s) or upon termination or expiration of said contract followed by a replacement Contractor(s) the Contractor will assist DOE in the necessary arrangements for the replacement Contractor(s) to take over the plans, plan assets and plan liabilities. Such arrangements shall include preserving for these employees their accrued pension benefit and vesting service time under the Contract by carrying forward Contractor pension service time to the replacement

Contractor. Granting of such service credits shall not result in duplicate benefits for the same service time.

(iii) Change of Plan Sponsor - The DOE shall have the unilateral right to change a plan sponsor upon termination or expiration of the Contract.

(iv) Determination of Contract Service Pension Plan Assets and Liabilities

(A) Contract Service Assets - Contract Service Assets shall be determined in accordance with paragraph JB.4(c)(2)(ii)(A) above and shall include all assets attributable to DOE-funded employer contributions (including investment earnings thereon) and the employee accumulations (including investment earnings thereon) determined at current market value until the date of payment or transfer.

(B) Liabilities for Present and Future Benefits - The Contractor's actuary shall quantify liabilities for employee plan benefits as of the contract termination or expiration date.

(4) Financial Requirements – Funds to be paid or transferred to any party as a result of settlements relating to pension plan termination or spin-off shall be placed in short-term investment funds from a date stipulated by the Contracting Officer until the actual date of funds transfer. The Contractor shall actively manage any DOE-reimbursed assets awaiting transfer to a successor trustee or to DOE until the successor trustee or DOE is able to assume stewardship of those assets.

(5) Special Programs – The Contractor shall request DOE prior approval for each early-out program, window benefit, disability program, plan-loan feature, employee contribution refund, asset reversion, or incidental benefit. Such costs are unallowable until specifically approved by the Contracting Officer.

(d) Group Savings Plans

The Contractor will maintain two savings plans for employees who are eligible to participate in accordance with their terms; one plan for bargaining unit employees and one plan for non-bargaining employees (exempt and nonexempt). The plans must be established and maintained as qualified defined contribution plans under the regulations of the IRC. The plan and trust documents and any amendments thereto which effect substantive changes or increase costs are subject to the approval of the Contracting Officer. With respect to the Plans, the parties agree as follows:

(1) Costs of employer matching contributions incurred and accrued under the terms of the plans are allowable. The plan fund, not the Contractor, shall be liable for the costs incurred in the course of its administration.

(2) The Contractor will provide DOE with annual accounting reports within seven months after the close of a plan year. In addition, a copy of IRS Form 5500 will be provided to DOE each year when prepared by the Contractor.

(3) Employee forfeitures of accrued benefits shall be in accordance with the terms of the Plan and such forfeitures shall be used to reduce

Contractor contributions made on behalf of remaining participating employees.

(4) In the event of Contract expiration or termination, the Contractor, if requested by DOE to do so, will transfer to a replacement Contractor the Plan, plan assets and plan liabilities.

(5) The Contractor will take no action concerning termination, merger, spin-off, or other action affecting the status of the plans as separate, contract-only plans without the approval of DOE.

(e) Paid Absences

(1) Personal Time Off – A Personal Time Bank (PTB) is established for eligible employees. Absences for leisure time off, personal time off, time away from work due to illness or injury, family emergencies or medical/dental appointments will be charged to the employee's PTB account if the employee wishes to receive pay for the absence. Non-exempt salaried employees will charge PTB for the above time off per FLSA requirements and Contractor PTB procedure as approved by Contracting Officer.

(i) Eligible Employee: Regular full-time or part-time exempt and salaried non-exempt employees.

(ii) Pay Rate: Hours taken as time off will be paid at the employee's base salary rate in effect at the time of absence.

(iii) Composition: Accrual rates will include the following:

(iv) Vacation: 0-5 years service	80 hrs/yr
>5 years service	120 hrs/yr
>10 years service	160 hrs/yr
>20 years service	200 hrs/yr

(v) Sick/Personal: Exempt	40 hrs/yr
Salaried non-exempt	56 hrs/yr

(vi) Time Not Included: Absences for the following will not be taken from an employee's PTB account: Death in the family (up to 5 days per event), excused absence (EA) time (8 hours per year for salaried nonexempt employees who work north of the Wye Barricade), jury duty, military, road conditions, plant injury, volunteerism, and miscellaneous absences as defined in the PTB Policy.

(vii) Cash Out Provision: Effective December 15 through December 31, 2005, employees may cash out all but 40 hours PTB hours (a minimum of 40 hours must remain in the employee's account). No PTB cash out requests will be permitted after December 31, 2005, pending a final determination regarding the new IRS regulations for the American Job Creation Act (AJCA) that changes the taxation of deferred compensation plans.

(A) The rate of cash out will be at the base salary at the time of cash out. Cash out will be in one-hour increments.

(B) Employees may opt to put the cash directly into their after-tax Savings Plan account.

(viii) Maximum PTB Hours: An employee may accumulate up to a maximum number of PTB hours as follows:

(A) In 2001 through December 31, 2005 – 1000 hours

(B) January 1, 2006 and thereafter – 2080 hours

(2) EXEMPT ACCRUALS (hours per biweekly pay period)

2003 and thereafter

0-5 years of service	4.615
5-10 years of service	6.154
10 to 20 years of service	7.692
More than 20 years of service	9.231

(3) SALARIED NONEXEMPT ACCRUALS (hours per biweekly pay period)

2003 and thereafter

0-5 years of service	5.231
5-10 years of service	6.769
10-20 years of service	8.308
More than 20 years of service	9.846

(f) Holidays: There shall be nine (9) days per calendar year designated as Facility Closure days. These shall be paid as full day absences. The nine approved facility closure days are: New Year's Day, President's Day*, Memorial Day*, July 4th, Labor Day, Thanksgiving Day, Friday After Thanksgiving, December 24 and Christmas Day. *These days are observed on the day specified by Federal Law.

(g) Applicable Collective Bargaining Agreement shall cover bargaining unit personnel.

(h) The Contractor shall submit a report one year plus 30 days after the implementation of the revised PTB policy. The report will address requirements set forth in ORP letter 02-AMIC-082.

(i) Corporate Employees

Certain employees of the Contractor transferred from an affiliate to work under the Contract may continue to participate in their corporate group insurance, pension and savings, and severance pay plans. Costs for such continued participation while assigned to work under the Contract shall be billed to the Contract pursuant to applicable FAR cost principles and/or Cost Accounting Standards. DOE shall have no further obligation for costs incurred by the parent organizations on behalf of such employees after reassignment or termination from Contract work.

JB.5 TRAVEL AND RELOCATION COSTS

Necessary and reasonable expenses incurred by employees and prospective employees for travel and relocation at the request of the company in connection with work under this Contract are allowable, subject to applicable provisions of FAR Subpart 31.2. Project Assignment Allowances and outbound relocation costs upon termination or expiration are unallowable. In accordance with these regulations, Contractor employees transferred from corporate entities will

be administered under the Contractor's common Relocation and Travel policies, which are subject to the review and approval of the Contracting Officer.

JB.6 COLLECTIVE BARGAINING AGREEMENTS

The Contractor will consult with DOE on all parameters before and during negotiations.

JB.7 WORK FORCE RESTRUCTURING

The Contractor will comply with the requirements of the applicable Hanford Site Work Force Restructuring Plan, which implements Section 3161 of the *National Defense Authorization Act for Fiscal Year 1993*. Costs associated with the implementation shall be allowable for those activities described in the applicable Plan.

JB.8 EMPLOYEE MORALE, RECREATION, SERVICE AWARDS, AND WELFARE PROGRAMS

Costs incurred for such programs are allowable in an amount not to exceed thirty-five dollars (\$35.00) per employee per year.