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Wednesday  
December 24, 1997

**REGISTRATION**

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**Part II**

**Office of Personnel  
Management**

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**Personnel Demonstration Project;  
Alternative Personnel Management  
System for the U.S. Department of  
Commerce; Notice**

## OFFICE OF PERSONNEL MANAGEMENT

### Personnel Demonstration Project; Alternative Personnel Management System for the U.S. Department of Commerce

**AGENCY:** Office of Personnel Management.

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

**SUMMARY:** Title VI of the Civil Service Reform Act, now codified in 5 U.S.C. 4703, authorizes the Office of Personnel Management (OPM) to conduct demonstration projects that experiment with new and different human resources management concepts to determine whether changes in policies and procedures result in improved Federal human resources management. This demonstration project is designed to replicate many of the features of the National Institute of Standards and Technology (NIST) demonstration project created by Congress pursuant to the National Bureau of Standards Authorization Act for Fiscal Year 1987 (Pub. L. 99-574). This project will cover units of four Department of Commerce (DoC) organizations:

- (1) Technology Administration
  - Office of the Under Secretary
  - Office of Technology Policy
- (2) Economics and Statistics Administration
  - Bureau of Economic Analysis
- (3) National Telecommunications and Information Administration
  - Institute for Telecommunication Sciences
- (4) National Oceanic and Atmospheric Administration
  - Units of the Office of Oceanic and Atmospheric Research
  - Units of the National Environmental Satellite, Data, and Information Service
  - Units of the National Marine Fisheries Service

**DATES:** This demonstration project will be implemented on March 24, 1998.

**FOR FURTHER INFORMATION CONTACT:** (1) Department of Commerce: Darlene F. Haywood, U.S. Department of Commerce, 1400 Constitution Avenue, N.W., Room 5004, Washington, DC 20230, 202-482-3620; (2) OPM: Judith B. White, U.S. Office of Personnel Management, 1900 E Street, N.W., Room 7460, Washington, DC 20415, 202-606-1526.

#### SUPPLEMENTARY INFORMATION:

##### 1. Background

The NIST Demonstration Project was successful and was made permanent by

Congress in 1996 (Pub. L. 104-113). Independent surveys have demonstrated that a majority of the NIST employees are satisfied with the demonstration project. The Federal Employees Pay Comparability Act of 1990 included many of the interventions tested successfully at NIST. The DoC project is designed to test whether the interventions of the NIST project can be successful in DoC environments with different missions and different organizational hierarchies. Like the NIST project, the DoC Demonstration Project involves simplified position classification, pay for performance, and simplified recruiting and examining processes.

##### 2. Overview

A total of 67 oral and written comments were received in response to the first **Federal Register** Notice of May 2, 1997. These comments were a valuable source of input for the Department of Commerce Demonstration Project. All comments have been considered, and changes to the project plan have been made where deemed appropriate. Changes to the plan involve supervisory pay, performance-based reduction-in-force retention credit, and the extended probationary period for employees in the Scientific and Engineering Career Path. In addition to these changes, several sections of the plan have been clarified and expanded. Some editorial changes and corrections were also made.

##### 3. Summary of Comments

Nine speakers commented on the first **Federal Register** Notice at the five public hearings. A total of 58 letters were received, with one letter bearing 20 signatures. A variety of issues and concerns were raised; however, recurring comments addressed five major topics:

- (1) accountability, (2) reduction-in-force (RIF) retention credit, (3) impact of the project on equal employment opportunity (EEO)/Diversity, (4) pay administration, and
- (5) performance appraisal. Other issues raised include classification, employee input, project evaluation, and communication. The following summarizes the written and oral comments by topic and provides a response to each.

##### (1) Accountability

**Comments.** A majority (about two-thirds) of the comments from individuals and organized groups expressed a high level of concern that the demonstration project gives more

authority and responsibility to supervisors and managers. Believing that many supervisors do not properly and fairly execute supervisory responsibilities or utilize the power and tools provided under the current management system, these employees fear a new system that gives supervisors additional authority over their career and pay. Employees specifically questioned whether proper controls would be in place to prevent management abuse in the administration of the performance appraisal and classification systems. Comments focused on the potential for favoritism and unfair treatment of employees in the distribution of ratings and awards. Employees also questioned whether pay pool managers would have the requisite knowledge to make fair decisions about the work of all employees in the pay pool.

**Response.** The Department will implement a number of measures to ensure management accountability. These will include: (1) employee focus groups, (2) supervisory training, and (3) oversight.

**Employee focus groups:** Annual project evaluations will utilize employee focus groups as an important source of data in measuring the degree to which project interventions are accomplishing desired objectives.

**Training:** Supervisors and managers will receive detailed training in the new authorities they are to exercise. Classification training will emphasize the underlying principles of project classification and will instruct supervisors on the application of these principles to classification decisions. Training on the performance appraisal system will cover performance planning, monitoring, feedback, and appraisal. In addition, supervisors will receive training on the automated performance pay increase system and will be required to conduct a simulation of the performance evaluation and rewards system prior to the actual end-of-year performance appraisal. The training will also cover the pay pool manager's responsibilities for reviewing and reconciling ratings and ensuring equity and consistency in performance plans and ratings.

**Oversight:** The authorities delegated to supervisors under this demonstration project will be subject to three levels of oversight. The Office of Personnel Management will oversee the project under the authority of 5 U.S.C. 4703. The DoC Departmental Personnel Management Board (DPMB) will manage and oversee authority delegated to the Operating Personnel Management Boards (OPMBs) in participating

organizations, and OPMBs will monitor authorities delegated to supervisors, withdrawing them when warranted.

(a) **Classification:** Under authority delegated by the OPMBs, servicing human resources management staff will monitor and review classification decisions made by managers to ensure consistent and uniform application of classification policies and guidelines. When classification actions are found to be inconsistent with established policies, the servicing human resources management specialist will attempt to resolve the inconsistency with the responsible supervisor. If agreement cannot be reached, the issue will be referred to a Classification Review Panel (CRP). The CRP is an ad hoc advisory panel established by authority of the OPMB to review proposed classification actions referred to it by the servicing Human Resources Manager.

(b) **Performance Evaluation:** OPMBs will oversee the operating unit annual performance appraisal process, from development of plans to individual pay increases and bonuses. OPMBs will also establish operating unit guidelines on performance elements.

#### (2) *Reduction-in-Force (RIF) Retention Credit*

About half of all comments received addressed two related concerns with respect to RIF retention credit: loss of current performance-based credit and the percentage of employees eligible for credit under the project.

##### (a) *Loss of current credit*

*Comments.* Employees thought it unfair that conversion to the demonstration project would result in the loss of performance-based RIF credit acquired under the current system.

*Response.* The demonstration project will introduce a new "pay-for-performance" personnel system, and it is intended that all employees enter the system on an equal basis, i.e., on a "level playing field." Allowing some employees to bring forward performance-based RIF credit gained under the current system would give those employees an unfair advantage.

##### (b) *Percentage of Employees Eligible for Credit*

*Comments.* A number of employees objected to the provision that would award performance-based credit for only those employees who rank in the top ten percent of their career paths.

*Response.* The objective of this feature is to reward performance that is truly outstanding. Consequently, the group of employees receiving this credit must, by definition, be limited. However, in order

to more closely parallel agency historical experience, the project plan has been revised to grant performance-based RIF retention credit to employees who rank in the top 20 percent of their career path within a pay pool, rather than the top 10 percent.

#### (3) *Impact of the Project on EEO and Diversity*

*Comments.* Several employees expressed concern that the demonstration project would not support existing EEO and Diversity goals. Specific questions were raised about the impact of the project on the hiring of women and minorities and whether these groups would receive an equitable share of promotions, pay increases, and bonuses.

*Response.* EEO and Diversity goals of the Department will not change under the demonstration project. On an annual basis, the Department will continue to submit an annual report and update of affirmative employment to the Equal Employment Opportunity Commission. In addition, Diversity Plans and Diversity Councils now in place will continue to be required for organizations participating in the demonstration project. Also, Senior Executive Service managers will continue to be rated on a Diversity critical element. The Project Evaluation Model will include criteria that will track hiring, award, promotion, and retention data in order to closely monitor the impact of the project on workforce diversity. A variety of data sources will be used. These include records in servicing human resources management offices (including records of recruitment sources) and records of EEO complaints.

#### (4) *Pay Administration*

Two major compensation issues were raised. Several employees objected to the manner in which they would be compensated for time credited toward their next within-grade increase. In addition, some employees questioned the appropriateness of the supervisory pay differential.

##### (a) *Within-Grade Increase (WIGI) Payout*

*Comments.* Employees objected to the one-time lump sum payment for time credited toward the next within-grade increase on the grounds that it would result in a negative impact on their salary and retirement contributions and earnings. In lieu of the lump sum, some suggested that the WIGI payout be processed as a base pay increase. Others felt that they should be given a choice between a one-time payment and a permanent salary increase.

*Response.* Organizations participating in the demonstration project will be required to maintain compensation costs at the levels they would have reached under the current system. A decision to grant permanent salary increases for time credited toward within-grade increases would result in immediate cost escalation prior to implementation that would distort base cost calculations. Such a decision would be counter to Departmental cost containment goals. Moreover, under the demonstration project, the salaries of good performers will soon overtake salaries they would have reached with WIGIs through the following provisions of the project plan:

(1) **Annual Performance Pay Increases:** The new pay system provides an opportunity for a performance pay increase each year, regardless of an employee's position in the band. This is in contrast to the waiting periods of one to three years for a WIGI in the General Schedule (GS) system. The potential size of a performance pay increase in the new system is significantly higher than the size of a GS within-grade increase.

(2) **Removal of Grade Barriers:** Broad banding removes the pay barriers between the GS grades that are placed in the same band. For example, because grades GS-7 and GS-8 will be placed in the same band in the Support Career Path, employees who previously reached the top of the GS-7 grade will now have access to the GS-8 pay range.

(3) **Potential for Higher Pay Increases Upon Promotion:** When an employee is promoted to a higher band, the employee's salary may be set at any point in the range of the higher band as long as the new salary represents an increase of at least 6 percent.

(4) **Supervisory Performance Pay:** Through pay for performance, supervisors have salary potential 6 percent higher than the normal ceiling of a band.

##### (b) *Supervisory Performance Pay*

*Comments.* Several employees questioned the appropriateness of the immediate salary increase that supervisors would receive under the demonstration project. Some stated that supervisors would receive additional compensation because they would convert to a higher pay band on the basis of their supervisory duties, and therefore, an automatic pay increase would result in double compensation for supervision. Some asserted that this policy conflicts with the basic "pay-for-performance" concept and suggested that any pay incentive awarded supervisors should be given after the

first performance appraisal cycle, if earned through performance.

*Response.* The proposed project plan provided for an automatic pay differential for supervisors in the Scientific and Engineering (ZP) Career Path only. The amount of this type of differential was to be fixed at 3 percent or 6 percent, for first-level and second-level (and higher) supervisors, respectively. However, as a result of comments received, this feature of the system has been eliminated. ZP supervisors will not be given an immediate salary increase upon conversion to the demonstration project. Supervisors in all career paths will be eligible for salaries up to 6 percent higher than the maximum rates of their pay bands, and there will be no differentiation in the amount of the increase based on supervisory level. Any employee who meets the demonstration project definition of "supervisor" will be eligible for the 6 percent increase, which may be reached through performance pay increases granted through the regular performance appraisal process (see Section III(D)(4) *Supervisory Performance Pay*).

#### 1. (5) Performance Appraisal

About half of all comments received addressed the performance appraisal process. Issues raised focused on three major areas: ranking versus teamwork, linking the annual comparability increase to performance, and the requirement for all performance elements to be critical.

##### (a) Impact of Ranking on Teamwork

*Comments.* Several employees commented that ranking employees by performance score will pit employees against each other, create a competitive work environment, and destroy teamwork.

*Response.* Under the demonstration project, employees will be rated against the criteria in their performance plans and ranked accordingly. There will be no direct comparison of employees' performance. It is expected that more competitive salaries that are directly tied to performance will improve both individual and organizational performance. Furthermore, the demonstration project performance appraisal system is flexible enough to reward those aspects of work that require cooperation and teamwork. For example, in units requiring high levels of cooperation and teamwork to accomplish organizational goals, supervisors may include contributions to the team's accomplishments in performance plans and rate employees accordingly.

##### (b) Linking the Annual Comparability Increase to Performance

*Comments.* Several employees expressed concern about the proposal to allow only those employees with a current annual performance rating of *Eligible* to receive the annual general comparability increase. They consider the annual increase a cost-of-living increase, which should not be tied to performance.

*Response.* The annual General Schedule (GS) pay adjustment is authorized under 5 U.S.C. 5303. It is based on the cost of labor, not the cost of living. GS pay adjustments are linked to changes in the Employment Cost Index (ECI), which measures the overall rate of change in employers' compensation costs in the private and public sector, excluding the Federal Government. The demonstration project is based on the principle of pay for performance; therefore, all pay increases, including the annual comparability increase, are tied to performance.

##### (c) Use of All Critical Elements in Performance Plans

*Comments.* Some employees expressed concern about the requirement for all elements in a performance plan to be critical elements. In their opinion, this will make it easier for supervisors to withhold pay increases or bonuses, or even initiate removal, when one element is rated *Unsatisfactory*.

*Response.* The requirement for all elements in a performance plan to be critical is not a departure from the current performance appraisal system. The demonstration project will not require that noncritical elements used in the current system be changed to critical elements under the project. The project simply eliminates noncritical elements. Also, while noncritical elements may now be included in an employee's performance plan, they have very little weight. Under the current system, unacceptable performance in one critical element results in a mandatory rating of *Unacceptable*. Likewise, under the demonstration project, unsuccessful performance on one element will result in a rating of *Unsatisfactory*.

##### (6) Other Comments

Employees addressed a number of other issues including classification, employee input to the project, project evaluation, and communication.

##### (a) Classification

*Comments.* One employee expressed concern that problems with the current GS classification standards would carry

over into the demonstration project. Some questioned the basis for grouping occupations into four career paths, and a few employees questioned the career path decisions for their occupations. Others expressed dissatisfaction with what they consider the "arbitrary" structure of the pay bands, believing that employees who convert to the top of their bands will have minimal opportunity for pay increases.

*Response.* (1) Classification Standards: Under the demonstration project, OPM classification standards will not be used. They will be replaced with more streamlined classification standards that have been developed to cover the work in the participating organizations. Each pay band in a career path will have a narrative standard that uses two factors:

(1) Duties and Responsibilities and (2) Knowledge, Skills, and Abilities (KSAs). At each successively higher band, the standards describe a higher level of work and a higher level of KSAs required to successfully perform the work. These standards will simplify the classification process, make it more understandable to managers and employees, and reduce the time required to make classification decisions.

(2) Career Paths: The four career paths are intended to replace the GS method of grouping occupations. Under the current system, GS occupations are placed in occupational groups according to general subject matter. Each group includes both two-grade and one-grade interval occupations, with each type receiving different treatment for classification and other purposes. By contrast, career paths group occupations that have parallel career patterns and can be similarly treated for staffing, classification, pay, and other personnel purposes.

(3) Pay Bands: Pay bands are designed to parallel the typical career patterns for occupations in a career path. For example, in the Scientific and Engineering (ZP) Career Path, professional technical employees begin their careers as trainees (Band I), move through a developmental stage that builds on professional knowledge gained through undergraduate work (Band II), proceed to independent, full performance research or operational work (Band III), acquire program responsibility (Band IV), and achieve broad recognition as an authority in the field (Band V).

(4) Potential for Pay Increases: Within each pay band, the maximum potential for a performance pay increase is highest for employees in interval one and lowest for employees in interval

three. This arrangement is intended to slow salary increases as employees move through a band, duplicating the effect of the longer waiting periods for GS within-grade increases as GS employees move through the steps of a grade.

*Comments.* Some employees questioned whether their occupations were assigned to the appropriate career paths.

*Response.* The four career paths used in the Department of Commerce Demonstration Project as well as placement of occupations in those paths replicate the NIST system. Career path determinations for occupations not covered by the NIST project are based on the definitions of career paths. However, after the first year of operation, questions concerning changes in career path may be considered.

#### (b) Employee Input

*Comment.* A few employees felt that the project plan had not received any input from employees and that this could adversely impact relationships between management and employees.

*Response.* Numerous briefings were provided to employees and union representatives prior to the public hearings. Employees were given an opportunity to provide oral comments at five public hearings held between June 9 and June 26, 1997. These hearings were held in locations across the country that were accessible to most employees. In addition, the first **Federal Register** Notice, published on May 2, 1997, informed employees that written comments would be accepted through July 10, 1997. As a result of comments received from employees during the public comment period, several changes have been made to the project plan.

#### (c) Project Evaluation

*Comments.* Several employees commented on the design of the Project Evaluation Model. Specifically, it was suggested that employee morale be measured since a direct link exists between morale and organizational performance, that employee opinions be one of the data sources for evaluation of the project, and that EEO complaints and grievance patterns be incorporated into the evaluations.

*Response.* The Project Evaluation Model will include employee surveys as a source of data. The surveys will include criteria to measure organizational climate and general concerns. In addition, as part of the evaluation process, data on EEO complaints and grievances will be monitored.

#### (d) Communication

*Comment.* One employee commented that the level of communication to employees about the project had been inadequate.

*Response.* All employees were invited to attend general briefings on the proposed demonstration project in March, April, and early May of this year. At these briefings, employees received handouts describing the key features of the project. The publication of the first **Federal Register** Notice was announced in a general bulletin issued to all employees during the week of May 5, 1997. In that announcement, employees were informed that the **Federal Register** Notice was immediately available on the Office of Personnel Management Internet Home Page. Shortly thereafter, the publication of the **Federal Register** Notice was announced on the Department of Commerce Internet Home Page, and numerous copies were distributed to all servicing human resources offices for dissemination to employees. An article on the demonstration project appeared in the May/June 1997 issue of the Department's *Commerce People* magazine. In addition, a video which provides an overview of the project was developed and made available to employees, and several follow-up briefings were conducted. To ensure that employees are kept informed on the project, the Department will issue a Demonstration Project Newsletter periodically.

#### 4. Demonstration Project System Changes

The following directs readers to the substantive changes and clarifications to the project plan. The page numbers below refer to the pages of the proposed plan, published in the **Federal Register** on May 2, 1997.

(1) Page 24256, 24258, and 24260: The Office of the Chief Financial Officer/ Assistant Secretary for Administration and the Office of the General Counsel have been deleted, as those organizations will not participate in the project.

(2) Page 24259: Two laboratories of the Office of Oceanic and Atmospheric Research (OAR) that were inadvertently listed have been deleted since they will not participate in the demonstration project. These are the Geophysical Fluid Dynamics Laboratory, in Princeton, New Jersey, and the Pacific Marine Environmental Laboratory, in Seattle, Washington. In addition, all of the locations for each of the participating laboratories have been listed.

(3) Page 24262: Table 3 has been changed to correct an error introduced

by the printing process. Specifically the table has been corrected to show no GS-15 positions in the GS-1340 Meteorology Series and a total of 235 positions in this occupation.

(4) Page 24262: Mountain Administrative Support Center (MASC) has been deleted from Table 4, since MASC will not participate in the demonstration project.

(5) Page 24263: The definitions of the four career paths have been expanded for clarification.

(6) Page 24265: Paragraph B2(a) has been revised to restrict direct examination and the associated requirement for Applicant Supply Files to occupations for which there is documented evidence that skills are in short supply.

(7) The requirement for all employees in the Scientific and Engineering (ZP) Career Path to serve a three-year probationary period has been modified. The three-year probationary period will be applicable to only those ZP employees who are assigned to research and development positions as identified by the functional code assigned in conjunction with the classification process. All other ZP employees will serve a one-year probationary period. (For further explanation, see Section III(B)(10) *Probationary Period*.)

(8) Page 24266: The provisions for awarding performance-based RIF retention credit have been changed. An employee with an overall performance score in the top 20 percent (as opposed to the top 10 percent) of scores within a career path in a pay pool will be credited with 10 additional years of service for retention purposes.

(9) Page 24267: The demonstration project definition of "supervisor" has been clarified and expanded. Minimum criteria for classification of a position as "supervisory" have been included.

(10) Page 24267: The section "Locality Pay" has been clarified. Specifically, the sentence dealing with special rates and locality rates has been rewritten to indicate that for bands affected by special rates, the maximum rate will be the higher of the special rate or the locality rate, rather than the special rate and the locality rate.

(11) Page 24267: The policy on supervisory pay has been revised. Supervisors in the Scientific and Engineering (ZP) Career Path will not be eligible for immediate salary increases upon conversion to the demonstration project. Supervisors in all career paths will be eligible for salaries up to 6 percent higher than the maximum rates of their pay bands, and there will be no differentiation in the amount of the increase based on supervisory level.

Any employee who meets the demonstration project definition of "supervisor" will be eligible for the maximum increase of 6 percent, which may be reached through performance pay increases granted through the regular performance appraisal process.

(12) Page 24268: In the section entitled "Pay Setting Upon Movement of an Employee to a Different Pay Area," the formula for determining the pay rate in the new area was printed incorrectly and has been corrected.

(13) Page 24274: The Project Evaluation Model has been revised to include the objective of "Support for EEO and Diversity goals."

(14) Page 24276: In the "Project Management" section, the role of the DoC Acting Chief Financial Officer/ Assistant Secretary for Administration (now the Director of the National Institute of Standards and Technology) as chairman has been clarified to show that the role is specific to the individual, who will serve as Chair of the DPMB through the first cycle of the project's operation. After the first cycle, chairmanship of the Board will be assumed by one of the members of the Board.

**Janice R. Lachance,**  
Director.

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#### I. Executive Summary

This project was designed by the Department of Commerce with

participation and review by the Office of Personnel Management (OPM). The demonstration project will pursue several key objectives of the National Performance Review: to simplify the current classification system for greater flexibility in classifying work and paying employees; to establish a performance management and rewards system for improving individual and organizational performance; and to improve recruiting and examining to attract highly qualified candidates and get new hires aboard faster. The duration of the project will be 5 years, except that the project may be extended by OPM if further testing and evaluation are warranted.

The proposed project will test whether the interventions of the NIST project can be successful in other environments. Other reasons for testing the NIST interventions in the Department are: (1) all of the diverse operating units in the proposed coverage are within the same Department, the U.S. Department of Commerce, which is also the parent agency of NIST; (2) several of the operating units in the proposed coverage have served for eight years as comparison sites for the NIST project; and (3) during the implementation and operation of the NIST project, DoC and NIST staff worked closely with the U.S. Department of Agriculture's National Finance Center, which provides personnel and payroll computing and database services to all of DoC, including NIST and the units proposed for the new project.

#### II. Introduction

##### A. Purpose

The purpose of the proposed project is to strengthen the contribution of human resources management in helping to achieve the missions of specific operating units of the Department of Commerce. The project conducted by NIST successfully demonstrated that certain innovative changes could improve human resources management in the NIST environment. The proposed project will test whether these same innovations will produce similarly successful results in other DoC environments.

##### B. Problems With the Present System

The Department of Commerce encourages, serves, and promotes the Nation's international trade, economic growth, and technological advancement. Within this framework, and in the interest of promoting the national interest through the encouragement of the competitive free enterprise system,

the Department provides a wide variety of programs, some of which are included in the proposed coverage of the project.

The current system has three major impediments to a manager's ability to effectively manage human resources and shape the workforce: (1) Hiring restrictions, (2) an overly complex job classification system, and (3) poor tools for rewarding and motivating employees. These impediments, embedded in a system that does not assist managers in removing poor performers, build stagnation in the workforce and waste valuable time.

#### C. Changes Required/Expected Benefits

The innovations of the project and their objectives are:

##### 1. Classification

Career paths will replace occupational groups, broad bands will replace grades, and Departmental broad-band standards will replace OPM classification standards. The classification system will be automated and classification authority will be delegated to line managers.

These changes are intended to simplify and speed up the classification process, make the process more serviceable and understandable, improve the effectiveness of classification decision-making and accountability, and facilitate pay for performance. Broad bands provide larger classification targets that can be defined by shorter, simpler, and more understandable classification standards. This simpler system will be easier to automate, will require fewer resources to operate, and will facilitate delegation to line managers.

By providing broader and more flexible pay ranges for setting entry pay, broad banding will provide hiring officials with an important tool for attracting high-quality candidates and thus contribute to the objective of increasing the quality of new hires.

By providing more flexible pay setting based on performance, broad banding will give managers the ability to increase the pay of good performers to higher and more competitive levels, thus improving the retention of good performers. At the same time, the potential for higher pay increases for good performance, supported by the broader pay ranges of broad banding, will contribute to the objective of improving organizational and individual performance.

##### 2. Staffing

Staffing methods will include two that were implemented in the NIST

Demonstration Project and which are now available to all agencies through examining authority delegated by OPM. For the sake of simplification and to parallel the NIST Demonstration Project, they are retained with the same titles under the Department of Commerce Demonstration Project: Direct Examination and Agency-Based Staffing. In addition, there will be placements under Merit Assignment and various noncompetitive appointing authorities. OPM registers will not be used, but positions in occupations covered by the *Luevano* Consent Decree (Administrative Careers with America or successor programs) will be filled using OPM guidance. Other supplemental staffing tools will include such elements as paid advertising, flexible entry salaries, probation, local authority for recruiting and retention payments, and more flexible pay increases associated with promotion.

These changes are intended to attract high-quality candidates, speed up the recruiting and examining process, increase the effectiveness of the probationary review process, and increase the retention of good performers.

Agency-based staffing, supported by paid advertising, will allow hiring officials to focus on more relevant recruiting sources. Direct examination will allow managers to hire individuals with shortage skills as they find them, get them on board faster, and avoid the loss of good candidates who may grow impatient with a long hiring process, thus contributing to the objectives of increased quality of new hires and better fit between position requirements and candidate skills.

The three-year probationary period will help ensure that scientists and engineers who are retained beyond probation are capable of carrying out the full cycle of research and development (R&D) work, thus contributing to the objectives of high-quality hires and a high-performing workforce. (See Section III(B)(10) *Probationary Period*.) Local authority for recruiting and retention payments will provide extra incentives for hiring and retaining individuals with shortage skills, thus contributing to the objectives of increasing the quality of new hires, improving the fit between position requirements and individual qualifications, and improving the retention of good performers.

### 3. Pay

The most important change in pay administration is the introduction of pay for performance, which will govern individual pay progression within bands. Funds currently applied to

within-grade increases, quality step increases, and promotions from one grade to a higher grade when both grades are now in the same band, will be used instead to grant performance-based pay increases within bands. The amount of the basic pay and locality pay increases approved by Congress and the President, however, will continue to be applied to pay schedules and to the salaries of employees with a performance rating of *Eligible*. Other pay tools are supervisory performance pay, flexible pay setting for new hires, and more flexible pay setting upon promotion.

Pay for performance promotes fairness through the peer ranking process and provides a motivational tool and a retention tool. As a motivational tool, the promise of higher pay increases for good performance encourages high achievement. As a retention tool, pay for performance allows the organization to quickly move the salaries of good performers to levels that are more competitive in the labor market.

Supervisory performance pay provides an incentive for supervisors, addressing the objective of improved individual and organizational performance. Supervisory performance pay also addresses the objective of improving retention by raising the pay of high-performing supervisors to more competitive levels.

Flexible pay setting for new hires is a recruiting tool that gives hiring officials greater flexibility to offer more competitive salaries to high-quality candidates, addressing the objective of improving the quality of new hires. The greater flexibility in setting pay upon promotion gives managers another retention tool to help retain top performers.

### 4. Performance Appraisal

The new system replaces the current five-level rating system with a two-level rating system, using *Unsatisfactory* and *Eligible* labels. (*Unsatisfactory* is equivalent to *Unacceptable*, as used in Part 430 of Title 5, Code of Federal Regulations.) The most important feature of the proposed performance appraisal system is that it is based on the application of a weighted 100-point scoring system linked to pay for performance. As in the current system, each employee has an individual performance plan composed of several performance elements (all of which are critical elements) that are measured with the 100-point scoring system in conjunction with the application of benchmark performance standards. Based on the resulting total scores, supervisors rank employees by

performance within peer groups and grant performance pay increases according to the ranking. Highly ranked employees within a peer group receive relatively high pay increases and lower ranked employees receive relatively lower pay increases. Bonuses are granted at the discretion of the supervisor following the performance appraisal process.

The performance appraisal process is intended to (1) promote good performance; (2) encourage a continuing dialogue between supervisors and employees on organizational objectives, supervisory expectations, employee performance, employee needs for assistance and guidance, and employee development; and (3) provide a basis for performance-related decisions in employee development, pay, rewards, assignment, promotion, and retention. The system will more effectively communicate to employees how they are performing in relation to their peers, the rewards of good performance, and the consequences of poor performance.

Performance-based pay increases give an operating unit the ability to raise the pay of good performers more rapidly, thus improving retention of good performers. The potential for higher pay increases for good performance will encourage achievement and promote the objective of improved individual and organizational performance.

### 5. Performance Bonuses

In accordance with 5 CFR 451, at the end of the annual performance period, Rating Officials, with the approval of Pay Pool Managers, will have the opportunity to reward employee performance with bonuses up to \$10,000. Bonuses address two objectives. First, rewarding achievement will make high achievers more likely to remain, thus improving retention of the best performers. Second, the potential for bonuses for achievement will encourage improved individual performance.

### 6. More Efficient Systems

The Department will improve the efficiency of human resource systems by streamlining procedures, reducing paperwork, and automating processes wherever possible.

### 7. Line Management Authority

Under the demonstration project, greater authority and accountability will be delegated to line managers. This delegation is intended to improve the effectiveness of human resources management by strengthening the role of line managers as the human resources managers of their units. The project will

be managed by the Departmental Personnel Management Board (DPMB). Through the first cycle, the Board will be chaired by the Director of the National Institute of Standards and Technology. Following that, one of the Board members will assume the role of Chairman. Each major operating unit will have its own Operating Personnel Management Board (OPMB) to manage and oversee local operations. (See the section on *Project Management*.)

#### D. Participating Organizations

The Department of Commerce encourages, serves, and promotes the Nation's international trade, economic growth, and technological advancement. Within this framework, and in the interest of promoting the national interest through the encouragement of the competitive free enterprise system, the Department provides a wide variety of programs, some of which are included in the proposed coverage. The following organizations will participate in the project:

##### Technology Administration (TA)

The Technology Administration, which oversees NIST and the National Technical Information Service (NTIS), was established by Congress in 1988 as the premier technology agency working with U.S. industry in improving competitiveness and increasing the impact of technology on economic growth. The TA coverage would include only the Office of the Under Secretary for Technology Administration and the Office of Technology Policy. This coverage would be an opportunity to apply broad banding principles to a policy, planning, and development environment dealing with issues vital to the future of the U.S. economy as it is affected by technology. TA offices in the proposed coverage are located at the DoC headquarters building in Washington, D.C.

The key occupations are: General Administration, Management Analyst, and General Business Specialist.

##### Bureau of Economic Analysis (BEA), Economics and Statistics Administration

BEA is responsible for providing a current picture of the U.S. economy through the preparation, development, and interpretation of the national income and product accounts showing the gross domestic product, business and other components of the national wealth accounts, industrial market interrelationships traced by the input-output accounts, and other accounts showing such economic indicators as personal income, foreign investment,

and balance of payments. The bureau also develops surveys and other tools for analyzing and forecasting economic developments. This coverage provides a test of the NIST system in an environment that uses economists and accountants as analysts, reporters, and forecasters. BEA is located at 1441 L Street, N.W., Washington, D.C.

The economic analysis work of the organization is reflected in the following key occupations: Economist, Accountant, Financial Administrator, Computer Specialist, Statistician, and Statistical Assistant.

##### Institute for Telecommunication Sciences (ITS), National Telecommunications and Information Administration

ITS is a major component of the National Telecommunications and Information Administration (NTIA). ITS is the principal Federal telecommunications research and engineering laboratory. The Institute conducts telecommunications research in support of NTIA's responsibilities in advising the President on telecommunications and information policy; developing U.S. plans and policies in international forums; and developing policy for Federal use of the radio frequency spectrum. This application will test how well the NIST interventions work in a research and development (R&D) environment quite different from the NIST environment. ITS is located in Boulder, Colorado.

The ITS R&D work is carried out primarily by Electronics Engineers, with help from Mathematicians.

The remaining units are subunits of the National Oceanic and Atmospheric Administration (NOAA):

##### Office of Oceanic and Atmospheric Research (OAR)

OAR is the primary research and development unit of NOAA. OAR provides the science and technology to support improvements in NOAA services and address current and future problems. OAR conducts research programs in coastal, marine, atmospheric, and space sciences through its own laboratories and offices, as well as through networks of university-based programs. The work consists of research, modeling, and environmental observations relating to weather, climate, and environmental resources. The laboratory component of OAR is the Environmental Research Laboratories (ERL). ERL includes research laboratories in space environment, aeronomy, environmental technology, weather forecast systems, climate monitoring and diagnostics,

severe storms, air resources, oceanography, and geophysical fluid dynamics. This diversity provides a rich new R&D environment for the testing of broad banding principles. OAR and ERL headquarters are located in Silver Spring, Maryland. All ERL laboratories will be included in the project, except the Great Lakes Environmental Research Laboratory (Ann Arbor, MI), the Geophysical Fluid Dynamics Laboratory (Princeton, NJ), and the Pacific Marine Environmental Laboratory (Seattle, WA). The project laboratories are:

Aeronomy Laboratory—Boulder, CO  
Atlantic Oceanographic and

Meteorology Laboratory—Miami, FL; Silver Spring, MD; San Diego, CA; Norfolk, VA; and Seattle, WA.

Air Resources Laboratory—Silver Spring, MD; Boulder, CO; Research Triangle Park, NC; Oak Ridge, TN; Las Vegas, NV; and Idaho Falls, ID

Climate Diagnostic Center—Boulder, CO  
Climate Monitoring and Diagnostics Laboratory—Boulder, CO; Hilo, HI; Barrow, AK; Pago Pago, American Samoa; South Pole, Antarctica

Environmental Technology Laboratory—Boulder, CO  
Forecast Systems Laboratory—Boulder, CO  
National Severe Storms Laboratory—Norman, OK  
Space Environmental Laboratory—Boulder, CO

The dominant occupation within OAR is Meteorologist. Other key occupations are Physical Scientist, Physicist, Electronics Engineer, Computer Specialist, Electronics Technician, Physical Science Technician, and Mathematician.

##### National Environmental Satellite, Data, and Information Service (NESDIS)

NESDIS operates NOAA's satellites and ground facilities; collects, processes, and distributes remotely sensed data; conducts studies, plans new systems, and carries out the engineering required to develop and implement new or modified satellite systems; carries out research and development on satellite products and services; provides ocean data management and services to researchers and other users; and acquires, stores, and disseminates worldwide data related to solid earth geophysics, solar-terrestrial physics, and marine geology and geophysics. NESDIS provides both a technical operations environment and a new R&D environment for testing the NIST interventions. NESDIS headquarters and most of its offices are located in Suitland, Maryland. Ground stations are located at Wallops Island, Virginia, and Fairbanks, Alaska. The National Climatic Data Center is located



in Asheville, North Carolina. All of NESDIS will be included in the project, except for the Wallops Island ground station.

The key occupations within NESDIS are Physical Scientist, Meteorologist, Computer Specialist, Oceanographer, Physical Science Technician, Meteorological Technician, Electronics Engineer, Engineering Technician, Geophysicist, and Mathematician.

National Marine Fisheries Service (NMFS)

The mission of the National Marine Fisheries Service is the stewardship of living marine resources for the benefit of the Nation through their science-based conservation and management and promotion of the health of their environment. NMFS supports domestic and international conservation and management of living marine resources. The goals of NMFS are to rebuild and maintain sustainable fisheries, to promote the recovery of protected species, and to protect and maintain the

health of coastal marine habitats. NMFS brings in a variety of work in the biological sciences never before addressed by broad banding principles.

In addition to the headquarters office in Silver Spring, Maryland, there are five regions, each of which consists of a Regional Office and a Fisheries Science Center. The regional offices are located in the following areas: Northeast (Gloucester, Massachusetts); Southeast (St. Petersburg, Florida); Northwest (Seattle, Washington); Southwest (Long Beach, California); and Alaska (Juneau). All the above units of NMFS will be included in the project except for the following: in Headquarters, the Office of Enforcement and the Inspection Services Division; and in the regions, the Fisheries Science Centers located in Woods Hole, Massachusetts; Miami, Florida; Seattle, Washington; La Jolla, California; and the Alaska Center located in Seattle, Washington.

NMFS is supported mainly by occupations in the biological sciences:

Fish Biologist, Biologist, Microbiologist, and Biology Technician. Other important occupations are Chemist, Oceanographer, Wildlife Biologist, Computer Specialist, and General Business Specialist.

E. Participating Employees

The project covers all positions that would otherwise be in the General Schedule (GS) system. Wage Grade positions are not included.

Table 1 shows the total number of employees in each operating unit to be covered by the project. Table 2 lists the occupational series in which current positions are classified and shows the number of employees in each series. The OPM occupational series will be retained. The series are listed under the career path in which they will be placed. (See *Position Classification* for definitions of the four career paths.) Table 3 shows the number of covered employees in each series, by General Schedule grade.

TABLE 1.—NUMBER OF COVERED EMPLOYEES BY UNIT

Operating unit		Number
TA .....	.....	35
BEA, ESA .....	.....	414
ITS, NTIA .....	.....	82
NOAA .....	.....	2114
OAR .....	(640)	
NESDIS .....	(736)	
NMFS .....	(738)	
Total .....	.....	2645

TABLE 2.—OCCUPATIONAL SERIES, BY CAREER PATH

Series	Title	Number
<b>Scientific and Engineering (ZP) Career Path</b>		
101 .....	Social Scientist .....	2
110 .....	Economist .....	247
184 .....	Sociologist* .....	1
190 .....	Anthropologist* .....	1
334 .....	Computer Specialist .....	267
401 .....	Biologist .....	51
403 .....	Microbiologist .....	4
408 .....	Ecologist* .....	4
480 .....	Fish Administrator* .....	43
482 .....	Fish Biologist* .....	182
486 .....	Wildlife Biologist* .....	2
499 .....	Biological Science Student .....	1
701 .....	Veterinary Medical Officer* .....	1
801 .....	General Engineer .....	3
810 .....	Civil Engineer .....	8
830 .....	Mechanical Engineer .....	3
850 .....	Electrical Engineer .....	1
854 .....	Computer Engineer .....	2
855 .....	Electronics Engineer .....	96
861 .....	Aerospace Engineer* .....	1
899 .....	Engineering Trainee .....	1
1301 .....	Physical Scientist .....	198
1310 .....	Physicist .....	71
1313 .....	Geophysicist* .....	12
1315 .....	Hydrologist* .....	1

TABLE 2.—OCCUPATIONAL SERIES, BY CAREER PATH—Continued

Series	Title	Number
1320	Chemist	23
1330	Astronomer	8
1340	Meteorologist *	226
1350	Geologist	2
1360	Oceanographer	77
1372	Geodesist	3
1382	Food Technologist *	2
1399	Physical Science Student	1
1515	Operations Research Analyst	1
1520	Mathematician	24
1529	Mathematical Statistician	1
1530	Statistician	13
1550	Computer Scientist	7
ZP	Total	1591
<b>Scientific and Engineering Technician (ZT) Career Path</b>		
332	Computer Operator	3
392	Radio Frequency Technician	2
404	Biology Technician	9
802	Engineering Technician	28
856	Electronics Technician	22
1311	Physical Science Technician	79
1341	Meteorological Technician *	41
1531	Statistical Clerk/Assistant *	21
ZT	Total	205
<b>Administrative (ZA) Career Path</b>		
130	Foreign Affairs Specialist *	11
131	International Relations Specialist *	7
260	Equal Employment Specialist	4
301	Miscellaneous Administration	77
340	Program Manager	2
341	Administrative Officer	22
342	Support Services Specialist *	3
343	Management Analyst	76
346	Logistics Management Specialist *	2
391	Telecommunications Specialist	1
501	Financial Administrator	10
510	Accountant	46
560	Budget Analyst	28
610	Nurse *	1
696	Consumer Safety Specialist *	1
930	Appeals Officer *	2
1001	General Arts and Information	3
1035	Public Affairs Specialist	6
1082	Writer/Editor	14
1083	Technical Writer/Editor	4
1084	Visual Information Specialist	7
1101	General Business Specialist	72
1140	Trade Specialist	8
1165	Loan Specialist *	16
1410	Librarian	13
1412	Technical Information Specialist	5
1654	Printing Manager	1
1670	Equipment Specialist	1
1712	Training Instructor *	1
1750	Instructional Systems Specialist *	1
ZA	Total	445
<b>Support (ZS) Career Path</b>		
29	Environmental Protection Assistant *	1
303	Miscellaneous Clerk/Assistant	72
305	Mail and File Clerk	3
309	Correspondence Clerk/Assistant	1
318	Secretary	190
322	Clerk-Typist	2
326	Office Automation Clerk/Assistant	40
335	Computer Clerk/Assistant	43

TABLE 2.—OCCUPATIONAL SERIES, BY CAREER PATH—Continued

Series	Title	Number
344 .....	Management Clerk/Assistant .....	5
399 .....	Student Trainee .....	8
525 .....	Accounting Technician .....	8
561 .....	Budget Clerk/Assistant .....	3
963 .....	Legal Instruments Examiner* .....	9
1087 .....	Editorial Clerk/Assistant .....	1
1101 .....	Trade Information/Financial Assistant* .....	7
1105 .....	Purchasing Agent .....	4
1411 .....	Library Technician .....	4
2005 .....	Supply Clerk/Assistant .....	2
2102 .....	Transportation Clerk/Assistant .....	1
ZS .....	Total .....	404

\* These occupations were not tested by the NIST project.

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TABLE 3: COVERED EMPLOYEES, BY SERIES AND GRADE

Series	Grade															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
029						1										1
101											1	1				2
110					1		15		17		27	80	45	37	25	247
130												1	5	4	1	11
131													2	4	1	7
184														1		1
190															1	1
260											1		3			4
301							2		11	1	17	11	8	13	14	77
303	4		3	1	14	12	28	7	2							72
305	1	1			1											3
309						1										1
318					17	69	59	31	13	1						190
322			1	1												2
326	2	3	4	7	17	5	2									40
332					1	1	1									3
334					1		7		17		46	87	72	33	4	267
335			2	3	6	8	11	5	4	3	1					43
340											1		1			2
341							3		2		5	8	3	1		22
342									1		1	1				3
343							7		7		10	15	20	12	5	76
344					1		1	1	2							5
346											2					2



Series	Grade															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1001									1			1	1			3
1035							1					2	3			6
1082									2		9	3				14
1083									1		1	1		1		4
1084							1		1		2	3				7
1087							1									1
1101						2	5		18		21	15	9	5	4	79
1105							3	1								4
1140												2	5		1	8
1165							1				10	2	2	1		16
1301							1		4		10	28	61	56	38	198
1310											1	10	16	23	21	71
1311			2	4		2	7	3	22	1	24	7	7			79
1313									1		1	2	2	4	2	12
1315												1				1
1320									2			6	6	7	2	23
1330												1	4	2	1	8
1340					1		1		5		8	60	75	50	26	226
1341				2		11	10	4	8	1	3	2				41
1350													1		1	2
1360									1		7	16	26	14	13	77
1372														1	2	3
1382											1		1			2
1399									1							1
1410									1		2	6	1	2	1	13
1411		1	2				1									4
1412									2		1		2			5
1515											1					1
1520									1		2	6	10	5		24
1529															1	1
1530							1		1		1	1	4	4	1	13

Series	Grade															Total
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
1531					1	1	6	1	9	2	1					21
1550											1		5	1		7
1654											1					1
1670												1				1
1712											1					1
1750											1					1
2005					1	1										2
2102							1									1
<b>TOTAL</b>	<b>11</b>	<b>7</b>	<b>15</b>	<b>25</b>	<b>76</b>	<b>124</b>	<b>191</b>	<b>54</b>	<b>194</b>	<b>13</b>	<b>295</b>	<b>554</b>	<b>526</b>	<b>351</b>	<b>208</b>	<b>2645</b>

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Senior Executive Service and ST-3104 Positions

The personnel systems for SES positions (see 5 U.S.C. 3131-3136 and 5 U.S.C. 5381-5385) will not change for the project. SES classification, staffing, compensation, performance appraisal, awards, and reduction-in-force will be based on standard SES methods. The personnel systems for ST-3104 positions (see 5 U.S.C. 3104 and 5376) will change only to the extent that ST-3104 positions are in the same performance appraisal, awards, and reduction-in-force systems as General Schedule positions. Classification,

staffing, and compensation, however, will not change. Neither SES nor ST-3104 employees will be subject to the pro rata share payouts upon conversion to the demonstration project. Pay adjustments for their positions under the project will be carried out in accordance with existing Federal rules pertaining to SES and ST-3104 pay adjustments.

General Schedule Positions

All General Schedule (GS and GM) positions are incorporated in the new career path/pay band system. The within-grade increases of the General Schedule will be replaced by the annual performance pay increases. Except as

otherwise provided in the project plan, laws and regulations pertaining to GS employees (e.g., overtime pay and cost-of living allowance provisions) continue in force for all project employees in the same way as they do for GS employees.

F. Labor Participation

All unions affected by the project are local units of the American Federation of Government Employees (AFGE). All of the AFGE representation is within the National Oceanic and Atmospheric Administration (NOAA). The following table shows the number of project employees represented by each union local.

TABLE 4.—BARGAINING UNIT COVERAGE

Operating unit	Location	Union local	Employees covered
NESDIS .....	Camp Springs, MD .....	AFGE 3680 .....	118
	Asheville, NC .....	AFGE 146 .....	146
NMFS .....	Silver Spring, MD .....	AFGE 2703 .....	169
OAR .....	Research Triangle Park, NC .....	AFGE 3347 .....	39

The project operating units provided numerous briefings on the project to employees and union representatives. Human resources representatives traveled to the various organizational locations to conduct three-hour information briefings. In addition, each bargaining unit covered was invited to send a representative to Boulder, Colorado, at management's cost to receive further information on the project and to interact with a panel of NIST managers and employees currently in the NIST project. The project operating units offered Impact and

Implementation Bargaining to each of these unions on the conditions and provisions of the proposed project. All of the unions on the list have agreed to the project.

G. Project Design/Methodology

The project methodology is to introduce into selected DoC operating units certain innovations in human resources management, and to evaluate over time the effects of those innovations on the ability of the operating units to manage their human resources. The methodology includes the following steps:

1. Selection of Innovations: After review of the innovations tested at NIST, the Department has determined that all would have potential benefit in other DoC units and therefore should be included in the proposed project. These innovations, and the procedures associated with them, are described below under *Position Classification, Staffing, Reduction-in-Force, Pay Administration, and Performance Evaluation and Rewards*.

2. Selection of Operating Units: The Department has selected several operating units (See *Participating*

*Organizations*.) that will provide a useful test of whether the innovations successfully tested at NIST will produce similarly successful results in other environments.

3. Establishment of Goals and Objectives: The following section on *Goals and Objectives* describes the overall goals of the project and the objectives associated with each of the innovations.

4. Partnership: The Department has sought input on the proposal from each affected local union. (See *Labor Participation*.) The Department will also ensure that partnership in accordance with Executive Order 12871 continues to be an integral part of planning and implementation.

5. Baseline Evaluation: To provide a basis of comparison between employee opinions of the current system and their future opinions of the project system, each employee in the covered operating units will be asked to complete an opinion questionnaire on the current system prior to implementation of the project. To establish a baseline cost analysis, each operating unit will be required to analyze its personnel costs during fiscal years 1994, 1995, and 1996.

6. Training: The Department and the operating units will provide training to human resources staff, managers, and employees prior to implementation of the project and will provide additional training to managers on the pay-for-performance system prior to the end of the first performance cycle. (See *Training*.)

7. Implementation: To ensure a smooth implementation, the Department and the operating units will emphasize top management support; the development of detailed operating procedures prior to implementation; thorough training of managers and human resources office staff; step-by-step implementation planning; adequate backup systems, particularly in automated personnel and payroll systems; and sufficient operating resources.

8. Operation: The Department will exercise continual oversight, under the direction of the Departmental Personnel Management Board (See *Project Management*.) to ensure that project authorities and procedures are administered correctly.

9. Evaluation: The Department will arrange for an annual evaluation of the project under an OPM-approved evaluation plan. (See *Project*

*Evaluation*.) The evaluation will be designed to determine whether the innovations are achieving the goals and objectives described in the following sections and are operating within acceptable cost limits. (See *Budget Discipline*.)

### III. Personnel System Changes

#### A. Position Classification

##### 1. Introduction

Career paths will replace occupational groups, broad bands will replace grades, and Departmental broad-band standards will replace OPM classification standards. The classification system will be automated, and classification authority will be delegated to line managers.

These changes are intended to simplify and speed up the classification process, make the process more serviceable and understandable, improve the effectiveness of classification decision-making and accountability, and facilitate pay for performance. Broad bands provide larger classification targets that can be defined by shorter, simpler, and more understandable classification standards. This simpler system will be easier to automate, will require fewer resources to operate, and will facilitate delegation to line managers.

By providing broader and more flexible pay ranges for setting entry pay, broad banding will provide hiring officials with an important tool for attracting high-quality candidates and thus will contribute to the objectives of increasing the quality of new hires and improving workforce performance.

By providing more flexible pay setting based on performance, broad banding will give managers the ability to increase the pay of good performers to higher and more competitive levels, thus improving the retention of good performers. At the same time, the promise of higher pay increases for good performance, supported by the broader pay ranges of broad banding, will contribute to the objective of improving organizational and individual performance.

##### 2. Career Paths

A career path aggregates comparable occupations that have parallel career patterns and are suitable for similar treatment in staffing, classification, pay, and other personnel functions.

There are four career paths: (a) Scientific and Engineering (ZP): two-

grade interval professional technical positions in the physical, engineering, biological, mathematical, computer and social science occupations; and student trainee positions in these disciplines.

(b) Scientific and Engineering Technician (ZT): one-grade interval positions support scientific and engineering activities through the application of various skills and techniques in the electrical, mechanical, physical science, biological, mathematical, and computer fields; and student trainee fields.

(c) Administrative (ZA): two-grade interval positions in such administrative and managerial fields as finance, procurement, personnel, librarianship, public information and program and management analysis; and student trainee positions in these fields.

(d) Support (ZS): one-grade interval positions that provide administrative support through the application of typing, clerical, secretarial, assistant, and similar knowledge and skills; positions that provide specialized facilities support, such as guards and firefighters; and student trainee positions in these areas.

##### 3. Bands

Each career path is divided into five bands, which replace GS grades. The maximum rate of a band is step 10 of the highest GS grade in the band including locality rates in the 48 contiguous States and the District of Columbia. When a special rate for an occupation in the band is higher than the applicable locality rate, the Departmental Personnel Management Board will have to use the maximum applicable special rate to set the maximum rate of the band for specific occupations in certain geographical areas. (See *Pay Administration*.) For each regular band, there is a corresponding supervisory band for employees who receive supervisory performance pay. The supervisory band has the same minimum rate as the nonsupervisory band, but has a maximum rate 6 percent higher than the maximum rate of the nonsupervisory band. Positions in the supervisory band include positions that meet the DoC Demonstration Project definition of "supervisor". (See *Pay Administration*.) The following chart shows the four project career paths, the bands in each career path, and the relationship between bands and General Schedule grades.

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CHART 1: CAREER PATHS AND BANDS

CAREER PATHS	BANDS															
	Scientific and Engineering (ZP)	I					II					III			IV	
Scientific and Engineering Technician (ZT)	I			II				III			IV		V			
Administrative (ZA)	I					II					III			IV		V
Support (ZS)	I		II		III		IV		V							
GS Grades	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	

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4. Occupational Series

The General Schedule occupational series will be retained. Existing OPM occupational series may be added or deleted in response to programmatic needs.

5. Classification Standards

Each classification standard will describe each band in two factors: (1) general duties and responsibilities and (2) knowledge, skills, and abilities. These two factors complement each other at each band in a career path and may not be separated in classifying a position. OPM classification standards will not be used.

6. Position Descriptions

Line managers will follow an automated menu-driven process to classify positions and produce position descriptions.

7. Delegation of Classification Authority

The Operating Personnel Management Boards (OPMBs) will oversee the delegation of classification authority to line managers. Under authority delegated by the DPMB, the Department's human resources staff will monitor and review classification decisions made by managers to ensure

consistent and uniform application of classification policies and guidelines. Under this authority, the Department's Director for Human Resources Management will establish a plan to review the accuracy of classification decisions made by line managers and make periodic reports to the DPMB. A variety of approaches will be used to conduct classification reviews, such as regularly scheduled Departmental oversight reviews as well as ad hoc reviews conducted to address specific classification issues identified through data analysis, random sampling of classification actions, project evaluation reports, etc. The Governmentwide system of approval of SES and ST-3104 positions will be maintained.

8. Classification Appeals

An employee covered by the DoC Demonstration Project may appeal the career path (when the position is in a series that may be assigned to more than one career path, e.g., GS-1101), occupational series, or pay band of his or her position at any time. An employee wishing to formally appeal must first appeal to the Operating Unit (OU). If the employee is dissatisfied with the OU decision, he or she may appeal further to the Department level

(DPMB or designee). The decision of the Department will be final.

Details pertaining to the classification appeals process are found in the project operating procedures.

B. Staffing

1. Introduction

The project operating units will use a variety of staffing methods to fill positions, including Direct Examination, Agency-Based Staffing, Merit Assignment, and various noncompetitive placements. Recruiting and examining will be carried out directly by the operating units except for positions covered by the Luevano Consent Decree. OPM registers will not be used. These methods will be supplemented by other staffing tools, such as paid advertising, flexible entry salaries, probation, recruitment and retention payments, and flexible pay increases associated with promotion. The Department will make necessary adjustments in response to future revisions in staffing statutes. These changes are intended to attract higher quality candidates, speed up the recruiting and examining process, increase the effectiveness of the probationary review process, and improve the retention of good performers.

Agency-based staffing, supported by paid advertising, will allow hiring officials to focus on more relevant recruiting sources. Direct examination will allow managers to hire individuals with shortage skills as they find them, get them on board faster, and avoid the loss of good candidates who may grow impatient with a long hiring process, thus contributing to the objectives of increasing the quality of new hires and improving the fit between position requirements and candidate skills. The three-year probationary period will help ensure that scientists and engineers who are retained beyond probation are capable of carrying out a full cycle of R&D work, thus contributing to the objectives of high-quality hires and a high-performing workforce (see Section III(B)(10)). Local authority for recruiting and retention payments will provide extra incentives for hiring and retaining individuals with shortage skills, thus contributing to the objectives of increasing the quality of new hires, improving the fit between position requirements and individual qualifications, and improving the retention of good performers.

## 2. Direct Examination

The project will apply two direct examination authorities: (a) Direct Examination: Critical Shortage Occupations and (b) Direct Examination: Critical Shortage Highly Qualified Candidates. These vacancies will normally be filled through direct recruiting by selecting officials, supplemented by a required search of the operating unit Applicant Supply File. Direct examination procedures are not exempt from the application of veteran preference rules.

### (a) Direct Examination: Critical Shortage Occupations

Direct examination procedures will be used for categories of occupations that require skills that are in short supply. Included in this group are specific occupations in two categories listed in the Project Operating Procedures: (1) some occupations for which there is a special rate under the General Schedule pay system, and (2) some occupations at Pay Band III and above in the ZP Career Path. Any position in these shortage categories may be filled through direct examination procedures.

### (b) Direct Examination: Critical Shortage Highly Qualified Candidates

Direct examination procedures will be used for additional positions for which there is a shortage of highly qualified candidates. Candidates for positions at Band I or II of the ZP Career Path who have a bachelor's degree with at least a

2.9 GPA (on a 4.0 scale) in a job-related major or a master's degree in a job-related field constitute a shortage category; candidates for positions at Band I of the ZT Career Path who have at least a 2.9 GPA in a job-related field during a minimum of at least 2 years in an accredited college, junior college, or technical institute constitute a shortage category; and candidates for positions at Band II of the ZT Career Path who have at least a 2.9 GPA in a job-related field in 4 years of college study constitute a shortage category.

## 3. Agency-Based Staffing

Agency-based staffing procedures will be used to fill vacancies not covered by direct examination or the project operating unit Merit Assignment Plan (MAP). Vacancies filled by agency-based procedures will be advertised at a minimum through the Governmentwide automated employment information system operated by OPM.

## 4. Merit Assignment Plan (MAP)

MAP procedures will be used to fill positions restricted to current or former Federal employees with competitive status. These plans will be amended to include any demonstration project flexibilities.

## 5. Applicant Supply Files

The operating units will advertise the availability of job opportunities in direct-examination occupations by continuous posting of an Applicant Supply Bulletin (that conforms with the requirements of 5 U.S.C. 3327) on the Governmentwide automated employment information system operated by OPM. The operating units will accept applications for this file on an open-continuous basis for all direct-hire authorities. Selecting officials will be able to recruit directly for applicants, but any applicants they find must compete with applicants who apply through the Applicant Supply Bulletin and other applicants whose applications are stored in the operating unit Applicant Supply File.

## 6. Referral Procedures for Direct Examination and Agency-Based Staffing Authorities

Either direct referral or rating and ranking will be used to refer applicants for vacancies under direct examination and agency-based staffing authorities.

### (a) Direct referral

A qualified candidate may be referred directly without rating and ranking:

- (1) When there are no more than three qualified candidates and no preference eligibles; or
- (2) If the candidate is a preference eligible with a compensable Service-

connected disability of 10 percent or more. (These preference eligibles are given absolute preference except when the position is at Band III or above in the Scientific and Engineering Career Path.) Selecting officials may choose any of these preference eligibles when more than one are referred.

### (b) Rating and ranking

Rating and ranking (including veteran preference and "rule-of-three" procedures) will be used when the list of qualified candidates contains:

- (1) More than three candidates; or
- (2) Two or more candidates including at least one preference eligible (except when direct referral of a 10-point veteran is made under (a)(2) above).

## 7. Priority Placement

All Department of Commerce and OPM priority placement programs will be followed.

## 8. Paid Advertising

Paid advertising may be used as one of the first steps in recruitment without having to first try unpaid methods.

## 9. Private Sector Temporaries

Private sector temporary help services may be used as appropriate.

## 10. Probationary Period

Probation under the project will follow current law and regulations, except for employees in the Scientific and Engineering (ZP) Career Path performing research and development (R&D) work. ZP employees performing R&D work will be required to serve a probationary period of three years, except that a supervisor may end the probationary period of a subordinate R&D employee at any time after one year. Near the end of the first year of the R&D employee's probationary period, the supervisor will be required to decide whether to: (1) change the employee from probationary status to non-probationary status; (2) remove the employee; or (3) continue the employee on probation. If the employee is continued on probation, the supervisor must select from the same options near the end of the second year of probation. If probation is continued into the third year, the supervisor must make a final decision on whether to retain or remove the employee near the end of the third and final year of probation.

The purpose of the three-year probationary period for scientists and engineers performing R&D work is to allow a hiring official to view the full cycle of a research assignment before

making a final decision on retaining the employee. The one-year probationary period is insufficient to cover the full cycle of research and development from assignment of a research project to publication of results. For other positions, the one-year probationary period is adequate.

#### 11. Qualification Standards

The qualifications required for placement within a band and within a career path will be based on the OPM Qualification Standards for General Schedule Positions, except that testing requirements will not be used and the Superior Academic Criterion will be defined as a 2.9 GPA (on a 4.0 scale). The minimum qualifications for the occupation and for the GS grade corresponding to the lowest grade in the band will apply. The DPMB may authorize new or modified qualification standards based on current practices in the scientific, engineering, and computer science fields and to reflect modern curricula in recognized degree programs.

#### 12. Recruitment and Retention Payments

The project operating units may grant recruiting and retention payments in appropriate circumstances, not to exceed \$10,000 or 25 percent of basic pay, whichever is greater. Decisions on allowances will be based on market factors such as salary comparability and salary offer issues, relocation and dislocation issues, programmatic urgency, emerging technologies, turnover rates, special qualifications, and shortage categories or scarcity of positions unique to the operating unit. All scientific, engineering, and other hard-to-fill positions will be eligible. Recruitment and retention payments will not be considered part of basic pay.

#### 13. Travel Expenses

Travel and transportation expenses, advancement of funds, per diem expenses incident to travel, and/or relocation expenses may be provided to new hires in the same manner as is authorized in sections 5723, 5724, 5724a, 5724b, and 5724c of title 5, U.S. Code. Recipients must sign service agreements indicating commitment to at least 12 months of continued service.

#### 14. Promotion

A promotion is a change of an employee to (1) a higher band in the same career path, or (2) a band in another career path in combination with an increase in pay. To be eligible for promotion, an employee must have a current performance rating of *Eligible*.

The time-in-band requirement for promotion eligibility is 52 weeks, with two exceptions: (1) an employee may be promoted from Band I to Band II in the Support Career Path without time restriction; and (2) an employee may be promoted from Band II to Band III in the Support Career Path without time restriction if the employee was not promoted from a Band I to a Band II position during the previous 52 weeks. (For pay provisions related to promotion, see *Pay Administration*.)

#### C. Reduction-in-force

##### 1. Introduction

The project operating units will follow reduction-in-force procedures contained in law and regulation, except that career path will be added to the definition of competitive areas, retention credit for performance will be based on performance ranking, and grades will be converted to bands for the purpose of interpreting reduction-in-force regulations.

The objective of the link between career paths and competitive areas is to improve the fit between the skills of displaced employees and the positions they are offered through reduction-in-force procedures. The objective of the link between performance and retention standing is to continue to make performance a factor in retention during reduction-in-force.

##### 2. Competitive Areas

Each of the four career paths in each project operating unit local commuting area will be a separate competitive area—separate from the other career paths and separate from the competitive areas of other operating unit employees.

##### 3. Link Between Performance and Retention

An employee with an overall performance score in the top 20 percent of scores within a career path in a pay pool (See *Performance Evaluation and Rewards* below.) will be credited with 10 additional years of service for retention purposes. The total credit will be based on the employee's three most recent annual performance scores received during the 4-year period prior to an established cutoff date, for a potential total credit of 30 years. Career status and veteran preference will continue to have the same effect on retention standing as they now have under current regulations. No performance-related retention credit will convert to this system from any other performance appraisal system.

#### 4. Link Between Bands and Grades

OPM reduction-in-force regulations on assignment rights (5 CFR 351.701) will be applied to the project by substituting "one band" for "three grades" and "two bands" for "five grades."

#### D. Pay Administration

##### 1. Introduction

The most important change in pay administration is the introduction of pay for performance, which will govern individual pay progression within bands. The amount of the basic pay and locality pay increases approved by Congress and the President will continue to be applied to pay schedules and employee salaries, with the variations described below. Other pay tools are supervisory performance pay, flexible pay setting for new hires, and more flexible pay setting upon promotion.

Pay for performance promotes fairness and provides a motivational tool and a retention tool. It is fair that higher achievement should produce higher rewards. In particular, the quality work that arises from a commitment to the goals and objectives of the organization should be rewarded by higher pay increases. As a motivational tool, the promise of higher pay increases for good performance encourages high achievement. As a retention tool, pay for performance allows the organization to more quickly move the salaries of good performers to levels that are more competitive in the labor market.

Supervisory performance pay provides an extra performance incentive for supervisors, addressing the objective of improved individual and organizational performance. Supervisory performance pay also addresses the objective of improving retention by raising the pay of high-performing supervisors to more competitive levels. Flexible pay setting for new hires is a recruiting tool that gives hiring officials greater flexibility to offer more competitive salaries to high-quality candidates, addressing the objective of improving the quality of new hires. The greater flexibility in setting pay upon promotion gives managers another retention tool to help retain top performers.

##### 2. Pay for Performance

Pay for performance has three components: (a) the annual adjustment to basic pay, which includes the annual general increase and the locality pay increase; (b) annual performance pay increases; and (c) bonuses. The first component, the annual adjustment to

basic pay, is set according to the subsections referring to general and locality increases. The second component, performance pay increases, is set according to the procedures under *Performance Evaluation and Rewards*. The third component, bonuses, is managed in accordance with the subsection on *Performance Bonuses* under *Performance Evaluation and Rewards*.

### 3. Placement in a Lower Band

An employee whose performance rating is *Unsatisfactory* does not receive the annual adjustment to basic pay. Because the minimum pay rate for each band is increased each year by the amount of the annual adjustment to basic pay, it is possible that the new minimum rate of a band will exceed the basic pay of an employee in that band who does not receive the annual adjustment to basic pay due to unsatisfactory performance. When this happens, the employee is placed in the next lower band. This placement shall not be considered an adverse action under 5 U.S.C. 7512, nor shall grade (i.e., band) retention under 5 U.S.C. 5362 be applicable.

### 4. Supervisory Performance Pay

Employees who meet the demonstration project definition of "supervisor" will be eligible for supervisory performance pay. Positions that require incumbents to spend 25 percent or more of their time performing all of the following duties will be titled "supervisory" for classification and other official purposes and will be eligible for supervisory performance pay.

1. Assign and review work daily, weekly, or monthly;
2. Assure that production and accuracy requirements are met;
3. Approve leave;
4. Evaluate work performance of subordinates; and
5. Exercise at least four of the following authorities and responsibilities: (a) plan work to be accomplished by subordinates, set and adjust short-term priorities, and prepare schedules for completion of work; (b) assign work to subordinates based on priorities, selective consideration of the difficulty and requirements of assignments, and the capabilities of employees; (c) give advice, counsel, or instruction to employees on both work and administrative matters; (d) interview candidates for positions in the unit and recommend appointment, promotion, or reassignment to such positions; (e) hear and resolve complaints from employees, referring

group grievances and more serious unresolved complaints to a higher level supervisor or manager; (f) effect minor disciplinary measures, such as warnings and reprimands, recommending other action in more serious cases; (g) identify developmental and training needs of employees, providing or arranging for needed development and training; (h) find ways to improve production or increase the quality of the work developed; and (i) develop performance standards.

Supervisory performance pay will be considered a part of basic pay. Upon conversion to the project, all eligible supervisory positions will be placed in the supervisory bands. The incumbents of these positions will be converted at their basic pay (including special rates or locality pay) at the time of conversion. New hires into supervisory positions after the date of conversion will have their pay set at the supervisor's discretion within the pay range of the applicable supervisory band.

Supervisors in all career paths will be eligible for salaries up to 6 percent higher than the maximum rate of their pay bands. The amount by which a supervisor's pay exceeds the maximum rate of the band constitutes supervisory performance pay. The higher salaries shall be reached through performance pay increases granted through the regular performance appraisal cycle.

The payment of supervisory performance pay is not considered a promotion or a competitive action. Supervisory performance pay will be canceled when an employee's supervisory responsibilities are discontinued. The cancellation of supervisory pay does not constitute an adverse action, and there is no right of appeal under 5 U.S.C. Chapter 75. Pay retention under 5 U.S.C. 5363 is not applicable. Before entering a supervisory position, an employee will be required to sign a statement certifying that the employee understands that the supervisory pay will be canceled when the employee ceases to be a supervisor.

### 5. Pay and Compensation Ceilings

The maximum rate for a band (excluding special bands established to allow for supervisory performance pay) will be equal to the maximum rate—GS rate, locality rate, or special rate, as applicable—payable to GS employees for the grades corresponding to the band. An employee's basic pay may not exceed the maximum rate of the employee's band (including a supervisory band), except for employees receiving retained rates of pay.

An employee's rate of basic pay payable under any pay band may not exceed the rate of basic pay payable for Level IV of the Executive Schedule. An employee's aggregate monetary compensation for a calendar year may not exceed the basic rate of pay for Level I of the Executive Schedule, as required by 5 U.S.C. 5307 and OPM regulations in Subpart B of 5 CFR 530.

### 6. Locality Pay

Locality pay is implemented as basic pay for all purposes except as otherwise provided in this plan. The locality adjustment will be applied to the minimum and maximum rates of each band, as applicable. For bands affected by special rates, the maximum rate will be the higher of the special rate or the locality rate. A locality adjustment may be applied to an eligible employee's basic pay only to the extent that it does not cause the employee's basic pay to exceed the maximum rate of the band.

### 7. Special Salary Rates

When appropriate, special salary rates will be used to determine employees' maximum pay rates in lieu of the normal pay band ceilings. The provisions of current regulations (5 CFR 530.303) will be followed to determine the appropriateness of special salary rates. As provided for under these regulations, special salary rates will be restricted to occupations and/or geographic locations for which there is an existing or likely difficulty in the recruitment or retention of well-qualified personnel.

### 8. Effect of General and Locality Pay Increases on Bands

The minimum and maximum rates of each band will be increased at the time of a general pay increase under 5 U.S.C. 5303 and/or a locality pay increase under 5 U.S.C. 5304 or 5304a so that they equal the new locality-adjusted minimum and maximum rates of the grades corresponding to the band. The maximum rates of bands set according to special rates, however, may exceed this amount to the extent necessary to equal the 10th step of the appropriate special rate scale if that rate is higher.

### 9. Effect of General and Locality Pay Increases on Individual Pay

Only employees with a current annual performance rating of record of *Eligible* may receive an increase in their basic pay at the time of band adjustments. This increase in basic pay will reflect any applicable general and/or locality pay increase for General Schedule employees. The increase in basic pay for eligible employees whose basic pay is at

the ceiling of their band will equal the increase in the ceiling.

The basic pay increase for eligible employees whose basic pay is below the ceiling of their band will be calculated by applying two factors to the employee's rate of pay. One factor is the general increase factor representing the

increase in General Schedule rates under 5 U.S.C. 5303 (e.g., 1.02 if the general increase is 2 percent). The second factor is the locality pay increase factor, which is derived by dividing the newly applicable locality pay percentage factor by the formerly applicable locality pay percentage

factor. (For example, if the locality payment percentage for an area increased from 4.23 percent to 5.48 percent, the locality pay increase factor would be 1.0548 divided by 1.0423, or approximately 1.012.) Thus, the new rate of basic pay would be calculated using the following formula:

$$\text{new pay rate} = \text{general increase factor} \times \frac{1 + \text{newly applicable locality pay percentage}}{1 + \text{formerly applicable locality pay percentage}} \times \text{former pay rate}$$

However, a basic pay increase will be applied only to the extent that it does not cause an employee's basic pay to exceed the ceiling of the applicable band.

#### 10. Basic Pay

Employees covered by the project will not have separate basic pay rates and locality pay rates, as do General Schedule employees. Project basic pay rates will be basic pay for all purposes, except as specifically provided in the demonstration project plan.

#### 11. Pay Setting Upon Promotion

The new basic pay rate upon promotion may be set at any level in the new band (If the move is to a different career path, any band in the new career path would be considered a "new band."), except that the minimum pay increase upon promotion is 6 percent. OPMBs will establish operating unit guidelines and delegate approval authority for setting pay levels for promotions.

#### 12. Pay Setting for New Hires

The setting of initial salaries within bands for new appointees will be flexible, particularly for hard-to-fill positions in the Scientific and Engineering Career Path. OPMBs will establish operating unit guidelines and delegate approval authority for setting pay levels for new hires.

#### 13. Conversion of Employees From the General Schedule to the Demonstration Project

For employees being converted from the GS pay system to the demonstration

project, GS grades will translate directly to the project's career path and band structure. Employees will be converted at their current highest rate under the GS pay system (i.e., highest of locality rate or special rate or similar rate) at the time of conversion. No one's salary will be reduced as a result of the conversion. When conversion of an employee into the project is accompanied by a geographic move, the employee's GS pay entitlements (including any locality rate or special rate) in the new area will be determined before converting the employee's pay to the demonstration project pay system.

At the time of conversion, each converted employee will be given a lump-sum cash payment for the time credited to the employee toward what would have been the employee's next within-grade increase. The payment for a General Schedule employee will be computed by (1) calculating the ratio of (a) the number of days the employee will have spent in the employee's current rate through the day prior to the day of conversion, to (b) the total number of days in the employee's current waiting period for a regular within-grade increase (364, 728, or 1092 days), and (2) multiplying that ratio by the dollar value of the employee's next within-grade increase, as in effect at the time of conversion.

#### 14. Movement of GS Employees From Other Organizations to the Demonstration Project

GS employees can move into the project from other organizations through transfer, reassignment, promotion, or new appointment. When the movement

is by lateral transfer or lateral reassignment, the employee's GS grade will translate directly to the project's career path/band structure, and the employee's rate of basic pay under the demonstration project will equal his or her current highest rate under the GS pay system (i.e., highest of locality rate or special rate or similar rate). When a lateral transfer or lateral reassignment is accompanied by a geographic move, the employee's GS pay entitlements (including any locality rate or special rate) in the new area will be determined before converting the employee's pay to the demonstration project pay system. When the movement is by new appointment, promotion, reassignment with pay adjustment (through merit assignment plan competition), or transfer to "higher grade" (i.e., to a band higher than the band that corresponds to the employee's current GS grade), the new pay rate is set according to project pay setting flexibilities for new hires and promotions.

#### 15. Pay Setting Upon Movement of an Employee to a Different Pay Area

Employees who move (voluntarily or involuntarily) from one geographic area to another within their operating unit will have their pay adjusted to account for any change in the band maximum rates between the two areas. This adjustment ensures that the employee's relative position in the band (measured as a percentage of the band maximum rate) will be maintained upon movement. The pay rate in the new area will be derived using the following formula:

$$\text{new pay rate} = \text{former pay rate} \times \frac{\text{pay band maximum rate after movement}}{\text{pay band maximum rate before movement}}$$

The new pay rate is calculated before any other simultaneous pay action (e.g., general pay adjustment or promotion effective on the same date). Any reduction in pay solely attributable to a

movement from one pay area to a lower-paying area shall not be considered a reduction in basic pay under the adverse action provisions of 5 U.S.C. 7512(4) or under the pay retention

provisions of 5 U.S.C. 5363. (The employee retains the right to grieve or file a complaint regarding a geographic reassignment if there is an allegation of

a violation of nondiscrimination statutes or a prohibited personnel practice.)

#### 16. Severance Pay

OPM severance pay regulations (5 CFR 550.703) will be applied to the project by substituting "one band" for "two grades" and "two grades or pay levels."

#### 17. Grade and Pay Retention

Grade and pay retention will follow current law and regulations, except as allowed by specific waiver (e.g., "career path and band" for "grade"). Specific waivers are listed in the section entitled, *Authorities and Waiver of Laws and Regulations Required*.

### E. Performance Evaluation and Rewards

#### 1. Introduction

The most important feature of the performance evaluation system is that it is based on the application of a weighted 100-point scoring system in support of pay for performance. As in the current system, each employee has an individual performance plan composed of several performance elements. Through application of benchmark performance standards and a 100-point scoring system, supervisors rank employees by performance within peer groups and grant performance pay increases according to the ranking. Highly ranked employees within a peer group receive relatively high pay increases and lower ranked employees receive relatively lower pay increases.

The performance appraisal process is intended to (1) promote good performance; (2) encourage a continuing dialogue between supervisors and employees on organizational objectives, supervisory expectations, employee performance, employee needs for assistance and guidance, and employee development; and (3) provide a basis for performance-related decisions in employee development, pay, rewards, assignment, promotion, and retention. The system will more effectively communicate to employees how they are performing in relation to their peers, the rewards for good performance, and the consequences of poor performance.

Performance-based pay increases give an operating unit the ability to raise the pay of good performers more rapidly, thus improving retention of good performers. The promise of higher pay increases for good performance will encourage achievement and promote the objective of improved individual and organizational performance.

#### 2. Coverage

All employees covered by the project will be covered by the project

performance evaluation and rewards system, except that the Departmental Personnel Management Board may remove from the system any position not filled by career or career conditional appointment. ST-3104 employees will have their performance evaluated under the structure of the performance evaluation system and may receive bonuses, but do not receive performance pay increases. Members of the Senior Executive Service will remain under the non-demonstration DoC SES performance appraisal, pay, and bonus system.

Upon conversion to the demonstration project, any administrative action already initiated under a previous appraisal program will continue to be processed in accordance with the requirements and procedures of the program in effect when the action was initiated.

#### 3. Performance Cycle

The performance year begins October 1 and ends September 30. The stages of the performance cycle are performance planning, performance review, performance appraisal, and performance-related decisions.

#### 4. Performance Plans

Performance plans will be developed each year by supervisors with input from employees. Critical performance elements will be established for each position. (All elements are critical.) The supervisor weights each element so that the total weight of all elements is 100 points. Benchmark performance standards define the range of performance. A supervisor may add supplemental standards to a performance plan to further elaborate on the benchmark performance standards.

#### 5. Mid-Year Review

A required mid-year review addresses mid-year accomplishments, performance successes and deficiencies, and any need for performance plan modifications. Additional reviews may be held as needed.

#### 6. Performance Appraisal

Performance appraisals bring supervisors and employees together to discuss performance and accomplishments during the performance year. The appraisals lead to decisions by supervisors and Pay Pool Managers on performance scores, performance ratings, performance pay increases, and bonuses. Performance appraisal is scheduled for the final weeks of the performance year. However, at any time of the year, a supervisor may determine that an

employee's performance is not satisfactory on one or more critical elements and place the employee on a Performance Improvement Plan.

#### 7. Performance Ratings

The demonstration project performance ratings of record are *Eligible* (for performance pay increase, bonus, and annual adjustment to basic pay) and *Unsatisfactory*. The *Eligible* rating of record covers the same performance range as the former ratings of Marginal, Fully Successful, Commendable, and Outstanding. *Unsatisfactory* covers the same performance range as the former ratings of Unsatisfactory and Unacceptable. An employee whose performance is not satisfactory is placed on a performance improvement plan and given an opportunity to improve before a final rating of record is assigned.

#### 8. Performance Scores

Each element is evaluated individually against the benchmark performance standards and any supplemental standards. If a single element in an employee's plan is rated *Unsatisfactory*, the rating of record is *Unsatisfactory* and there is no performance score. If all elements meet at least the minimally acceptable benchmark, the rating of record is *Eligible*. Rating Officials score the performance of employees rated *Eligible* on a 100-point scale, which corresponds to the 100-point element weighted scale. An individual element score may be as high as the weight of that element. The total performance score is the sum of the element scores. A perfect score on each element would produce a total score of 100 points.

#### 9. Performance Ranking

Employees are ranked, by performance score, within a peer group. A peer group may involve no more than one career path, but may be otherwise organized by any combination of organization, occupation, band, or appointment type. Rating Officials rank their own employees, then Pay Pool Managers interleave the rankings of subordinate Rating Officials to produce peer group rankings at the pay pool level. A Pay Pool Manager is a line manager who manages his or her organization's pay increase and bonus funds and has final decision authority over the performance scores, performance pay increases, and bonuses of subordinate employees.

#### 10. Performance Pay Decisions

The Performance Pay Table divides each band into three segments or

*intervals.* Each interval is linked to a range of potential percentage pay increases beginning at zero and progressing to a maximum percentage pay increase. The maximum performance pay increase an employee may receive, therefore, depends on the interval into which the employee's salary falls. The Pay Pool Manager makes a performance pay decision for each employee in a peer group, based on the Pay Pool Manager's ranking and the pay increase ranges in the Performance Pay Table. Within a peer group, an employee may not receive a higher proportion-of-range than a higher-ranking employee or a lower proportion-of-range than a lower-ranking employee. Proportion-of-range is the percentage of the maximum pay increase allowed for a particular interval of a pay band, i.e., a percent of a percent. For example, if the pay increase range for the pay interval is 0–12 percent, and the employee receives a 9 percent increase, that employee receives a proportion-of-range that equals 75 percent of the maximum 12 percent.

#### 11. Performance Bonuses

Bonuses are the only cash awards directly linked to the project performance appraisal system, and are awarded at the end of the performance year in conjunction with decisions on performance pay increases. A Pay Pool Manager may award a bonus to any employee with an *Eligible* rating. The OPMBs will determine the bonus authority to be delegated to their pay pool managers.

Bonuses address two objectives. First, the ability to reward the accomplishments of good performers will make them more likely to remain, thus improving the retention of high achievers. Second, the promise of bonuses for achievement will encourage improved individual performance.

#### 12. Action Based on Unsatisfactory Performance

If, after an opportunity to improve, an employee's performance is still not satisfactory, the operating unit will give a rating of *Unsatisfactory* and must take action to reassign or remove the employee, or place the employee in a lower band, in accordance with performance action provisions in law and regulation.

#### IV. Conversion or Movement From a Project Position to a General Schedule Position

If a DoC Demonstration Project employee moves to a General Schedule position, the following procedures will be used to convert the employee's

project pay band to an equivalent GS grade and the employee's project rate of pay to an equivalent GS rate of pay. The converted GS grade and rates of pay must be determined before movement out of the project and any accompanying geographic movement, promotion, or other simultaneous action. For lateral reassignments and lateral transfers, the converted GS grade and rates of pay will become the employee's actual GS grade and rates of pay, unless immediately affected by a simultaneous geographic movement or another pay action. For non-lateral transfers, promotions, and other actions, the converted GS grade and rates of pay will be deemed to be the employee's grade and rates of pay at the time of movement out of the project and will be used in applying applicable pay setting rules (e.g., promotion rules.)

##### A. Grade-Setting Provisions

An employee in a band corresponding to a single GS grade is converted to that grade. An employee in a band corresponding to two or more grades is converted to one of those grades according to the following rules:

1. The employee's project basic rate of pay is compared with step 4 rates in the highest applicable GS rate range (including a rate range in the GS base schedule, a rate range in the applicable locality rate schedule, or a rate range in a special rate schedule for the employee's occupation). If the series is a two-grade interval series, only odd-numbered grades are considered below GS-11.

2. If the employee's pay rate equals or exceeds the applicable step 4 rate of the highest GS grade in the band, the employee is converted to that grade.

3. If the employee's pay rate is lower than the applicable step 4 rate of the highest grade, the pay rate is compared with the step 4 rate of the second highest grade in the employee's band. If the employee's pay rate equals or exceeds step 4 of the second highest grade, the employee is converted to that grade.

4. This process is repeated for each successively lower grade in the band until a grade is found in which the employee's rate of basic pay equals or exceeds the applicable step 4 rate of the grade. The employee is then converted at that grade. If the employee's rate of pay is below the step 4 rate of the lowest grade in the band, the employee is converted to the lowest grade.

5. Exceptions: (1) If the employee's pay rate exceeds the maximum rate of the grade assigned under the above-described "step 4" rule but fits in the rate range for the next higher applicable

grade in the band (i.e., between step 1 and step 4), then the employee shall be converted to that next higher applicable grade; (2) An employee will not be converted to a lower grade than the grade held by the employee immediately preceding a conversion, lateral reassignment, or lateral transfer in the project unless since that time the employee has undergone a reduction in band; (3) In Band I of the ZP and ZA Career Paths, students without a bachelor's degree or comparable experience are converted no higher than GS-4.

##### B. Pay-Setting Provisions

An employee's pay within the converted GS grade is set by converting the project rate to GS pay rates in accordance with the following rules:

1. The pay conversion is done before any geographic movement or other pay-related action that coincides with the employee's movement out of the demonstration project.

2. An employee's project rate is converted to a rate on the highest applicable rate range for the converted GS grade (including a rate range in the GS base schedule, a rate range in the applicable locality rate schedule, or a rate range in a special rate schedule for the employee's occupation).

3. If the highest applicable rate range is a locality pay rate range, the project rate is converted to a GS locality rate of pay. If this rate falls between two steps in the locality-adjusted schedule, the rate must be set at the higher step. The converted GS rate of basic pay is the GS base rate corresponding to the converted GS locality rate (i.e., same step position). (If this employee is also covered by a special rate schedule as a GS employee, the converted special rate will be determined based on the GS step position. This underlying special rate will be basic pay for certain purposes for which the employee's higher locality rate is not basic pay.)

4. If the highest applicable rate range is a special rate range, the project rate is converted to a special rate. If this rate falls between two steps in the special rate schedule, the rate must be set at the higher step. The converted GS rate of basic pay will be the GS rate corresponding to the converted special rate (i.e., same step position).

5. Exception: If an employee's project rate exceeds the maximum rate of the highest applicable rate range upon conversion to the General Schedule, the affected employee's project rate will be converted to a retained rate under 5 U.S.C. 5363. If an employee is entitled to a special rate under the General Schedule, the project rate is converted

directly to a retained rate. If an employee is only entitled to locality pay under the General Schedule, the retained rate is derived by dividing the project rate by the applicable locality pay factor (i.e., 1 plus the locality payment percentage). Thus, the locality-adjusted retained rate will equal the project rate the employee had been receiving before conversion. Since the employee's total rate of pay is not reduced upon conversion, this change to converted rates under the General Schedule will not be considered a reduction in basic pay under 5 U.S.C. 5363 or 7512.

6. After conversion or movement out of the demonstration project, an employee's converted GS rates will be used in applying GS pay administration rules, as necessary, in lieu of using his or her demonstration project rate. Thus, for example, the converted GS rate of basic pay (or converted special rate, if applicable) will be used in applying GS rules for promotions, maximum payable rate determinations, and pay retention, as appropriate. For conversions upon termination of the project and for lateral reassignments, the converted GS rates will become the employee's GS rates immediately after movement out of the demonstration project (before processing any accompanying geographic move).

### C. Equivalent Increase Determination

Service under the demonstration project is creditable for within-grade increase purposes upon conversion back to the GS pay system. Performance pay increases (including a zero increase) under the demonstration project are equivalent increases for the purpose of determining the commencement of a within-grade increase waiting period under 5 CFR 531.405(b).

### V. Budget Discipline

Each project operating unit will maintain compensation during the project at the level it would have reached under the current system. Current costs will be reallocated to cover project costs. To ensure appropriate carryover of costs from pre-project to project years, a base assessment will be made using three base years: Fiscal Years 1994, 1995, and 1996. Budget discipline will be required and achieved by imposing specific funding principles (described in detail in the section on Funding Pools for Performance Pay Increases and Bonuses). Finally, both longitudinal and site comparisons will be used to ensure that spending remains within acceptable limits.

### A. Reprogramming Costs

The following actions and their costs will be eliminated by the new system:

1. Promotions from one grade to a higher grade where both grades are now in the same broad band. For example, because Band III of both the ZP and ZA career paths will cover the same pay range as current grades GS-11 and GS-12, there will be no more promotions from GS-11 to GS-12.

2. Regularly scheduled Within-Grade Increases and Quality Step Increases. There are no steps in the broad band system. These actions will be eliminated.

3. Cash awards related to the performance appraisal cycle. (These funds will be applied to bonus pools only—not to pay pools).

The cost savings from eliminating these actions will be used to finance the following new actions:

- Performance-based pay increases within bands, including the ability to increase the pay of supervisors, through performance-based pay increases, to a higher level than under the current system. There is no guaranteed performance pay increase in the proposed system, however, for *Eligible* performance; and
- Performance bonuses.

### B. Base Cost Assessment

In order to determine whether project costs are being maintained at acceptable levels, a base assessment of pre-project costs will be needed. Costs will be computed as annual averages over three pre-project years: Fiscal Years 1994, 1995, and 1996. The costs of all personnel actions of types that are being replaced by project systems will be totaled and averaged.

### C. Funding Pools for Performance Pay Increases and Bonuses

The results of the base cost assessment will provide a basis for: (1) setting maximum spending limits; and (2) constructing performance pay increase and bonus funding pools by organization, career path, band, and salary. Performance pay pools for project employees will be subject to the same budgetary constraints and reductions imposed on other Department funding allocations. Neither allocations nor authorizations convey funding. Therefore, managers will be required to make payout decisions tied to their individual budgets, within allocations. The following principles will be observed:

1. In terms of career paths and bands, costs will be kept for the most part where they are found in the base

assessment. That is, base costs for promotions, within-grade increases, and cash awards in a particular band and career path will form the basis for project spending in the same band and career path.

2. Formulas will be devised to authorize pay increase and bonus pools up to the limits calculated from base-year spending. For each pool, the authorized spending ceiling will depend on the number of employees in the pool by career path, band, and salary.

3. No allocation will be placed in performance pay increase pools for employees who are not eligible for a performance pay increase, such as those who have insufficient time in the position to be rated and those whose salaries are at the ceilings of their bands. No money will be placed in bonus pools for employees not eligible for a bonus, such as those not eligible for a performance rating or who are not on the payroll the last day of the performance cycle.

4. The potential size of performance pay increases will be relatively high for employees whose salaries are near the minimum rate of the band and relatively low for those whose salaries are near the maximum rate of the band. This arrangement imposes a reduced rate of salary increases as an individual advances in the band, similar to the reduced rate of within-grade increases in a General Schedule grade imposed by the one-year, two-year, and three-year waiting periods.

5. There will be no guaranteed performance pay increase in the proposed system. An employee with an *Eligible* performance rating may, if ranked at or near the bottom of a peer group, get no performance pay increase.

6. Although Pay Pool Managers will not be allowed, under normal circumstances, to exceed their allocated pay increase and bonus pools, they will be allowed to spend less than the full amounts of their pools.

7. Funds previously used to pay cash awards will be applied to bonus pools only—not to performance pay pools.

### D. Budget Monitoring

These procedures permit changes in operating unit expenditures which result from legislatively mandated program changes and changes in Federal pay and benefits. The operating units may offset selected salary increases with savings by reducing turnover, eliminating unnecessary overhead, and cutting other personnel costs.

The operating units will measure their adherence to cost control by preparing budget estimates based on prescribed Federal budget processes and



monitoring actual spending under the project against these budget estimates. Two cost comparisons will be used:

1. Longitudinal Comparisons

- a. Project costs will be calculated on an established schedule.
- b. Costs will be compared against the spending limits calculated from the base years to ensure that budget limitations are not being exceeded.
- c. Each year, the funding of the performance pay increase and bonus pools will be used as an opportunity to "balance the books." That is, the funding of the pools will be limited to the amount that is judged to maintain budget discipline.

2. Site Comparisons

- a. A number of non-project units will be selected from within the Department to serve as comparison sites. The comparison sites will be selected to reflect, as nearly as possible, the

missions and workforces of the project units.

- b. Periodically, the rate of increase in salaries in the project units will be compared to the rate of increase in salaries in the comparison units.
- c. When it is found that salaries in project units are outpacing salaries in comparison units, and the differences cannot be explained by non-project variables, appropriate adjustments will be made in project funding.

**VI. Project Evaluation**

The Department will arrange for annual evaluations of the project under an OPM-approved evaluation plan. The evaluation will be designed to determine whether the interventions are achieving the goals and objectives of the project within acceptable cost limits. (See *Costs*.)

The following table lays out the project evaluation model, beginning with and flowing from the objectives

that the project is designed to achieve. The *Objectives* column and the *Interventions* column together serve as the project hypotheses; i.e., the hypotheses to be tested are that the objectives will be achieved by the interventions linked to them. Most objectives are linked to more than one intervention. Each intervention is associated with at least one expected result. The *Measures* column lists means by which actual results will be measured. Other measures of results may be used in order to fully evaluate the hypotheses. The *Data Sources* column shows where data required for the measurements can be found.

A hypothesis will be supported—that is, the intervention will be deemed to have achieved the objective—when actual results are found to match expected results. Tests of hypotheses will be made by comparing results to appropriately defined comparison groups.

TABLE 5.—PROJECT EVALUATION MODEL

Objectives	Interventions	Expected results	Measures	Data sources
Increased quality of new hires; improved fit between position requirements and individual qualifications; greater likelihood of getting a highly qualified candidate.	Agency-Based Staffing .....	Hiring officials will be able to focus on more relevant recruiting sources and avoid losing candidates who grow impatient with long hiring processes.	<ul style="list-style-type: none"> <li>• Hiring officials' judgments of the improvement in the quality of new hires.</li> <li>• Hiring officials' judgments of improvements in the fit of qualifications of new hires.</li> <li>• Rate of acceptance of offers.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> <li>• HRM office records on offers and acceptances.</li> <li>• Periodic employee/supervisor surveys.</li> <li>• Exit interviews.</li> </ul>
	Direct Examination .....	For skill areas in which well qualified individuals are hard to find, managers will be able to hire good candidates as they find them, thus avoiding the loss of well qualified individuals through delays.	<ul style="list-style-type: none"> <li>• Hiring officials' judgments of the improvement in the quality of new hires.</li> <li>• Hiring officials' judgments of improvements in the fit of qualifications of new hires.</li> <li>• Rate of acceptance of offers.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> <li>• HRM office records on offers and acceptances.</li> <li>• Periodic employee/supervisor surveys.</li> </ul>
	Broad-band Classification System, in conjunction with Flexible Entry Salaries.	Broad bands and flexible entry salaries within bands provide a more competitive range of entry salaries for managers to use in negotiating with candidates, thus increasing the ability to hire highly qualified candidates.	<ul style="list-style-type: none"> <li>• Hiring officials' judgments of the improvement in the quality of new hires.</li> <li>• Hiring officials' judgments of improvements in the fit of qualifications of new hires.</li> <li>• Rate of acceptance of offers.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> <li>• HRM office records on offers and acceptances.</li> <li>• Periodic employee/supervisor surveys.</li> </ul>
	More Flexible Paid Advertising.	Managers will be able to make greater use of paid advertising, thus expanding the scope of recruiting efforts or focusing the recruitment effort on specialized sources.	Number of selections resulting from paid advertising.	HRM office records.

TABLE 5.—PROJECT EVALUATION MODEL—Continued

Objectives	Interventions	Expected results	Measures	Data sources
Increased retention of good performers.	3-Year Probationary Period for Scientists and Engineers.	Greater likelihood that scientists and engineers who are retained after probation will be capable of the full range of R&D functions.	Number of scientists and engineers released during probation after the first year.	<ul style="list-style-type: none"> <li>• Automated history file data.</li> <li>• HRM office records.</li> </ul>
	Local Authority for Recruitment Payments.	The ability of managers to grant recruitment payments during negotiations with highly qualified candidates will increase competitiveness.	Number of selections made for which the recruitment payment was instrumental in attracting the candidate.	<ul style="list-style-type: none"> <li>• HRM office records.</li> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
	Broad-Band Classification System.	Broad-banding gives an operating unit the ability to raise the pay of good performers to higher and <i>more competitive levels</i> , thus improving retention of good performers.	Turnover rates among good performers. Turnover rates of low performers.	Automated history file data.
	Performance-Based Pay Increases.	Performance-based pay increases give an operating unit the ability to raise the pay of good performers <i>more rapidly</i> , thus improving retention of good performers.	Turnover rates among good performers.	<ul style="list-style-type: none"> <li>• Automated history file data.</li> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
	Bonuses .....	The ability to reward the accomplishments of good performers will make them more likely to remain.	Turnover rates compared to size of bonus.	Automated history file data.
	Local Authority for Retention Payments.	The ability of managers to grant retention payments will improve their ability to retain employees in critical skill areas in a job-related course of study.	A count of the instances in which a retention payment is instrumental in retaining an employee who would otherwise have left.	<ul style="list-style-type: none"> <li>• HRM office records.</li> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
	Supervisory Performance Pay.	The ability to raise the pay of high-performance supervisors to higher levels will make their salaries more competitive, improving retention.	Turnover rates among supervisors in relation to pay and performance.	Automated history file data.
	More Flexible Pay Increase Upon Promotion.	Flexible pay increases upon promotion gives an operating unit the ability to raise the pay of high-performing employees and employees in critical skill areas to higher and <i>more competitive levels</i> , thus improving their retention.	Turnover rates in relation to pay and performance.	Automated history file data.
Improved individual and organizational performance.	Two-Level, 100-Point, Peer Group Performance Appraisal System.	This system will more effectively communicate to employees how they are performing in relation to their peers, the consequences of poor performance, and the rewards for good performance.	Judgments of Pay Pool Managers, Rating Officials, and Employees.	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Periodic employee/supervisor surveys.</li> <li>• Focus groups.</li> </ul>
	Pay Increases Linked to Performance.	The promise of higher pay increases for high achievement will encourage improved performance.	Judgments of managers, supervisors, and employees.	<ul style="list-style-type: none"> <li>• Periodic employee/supervisor surveys.</li> <li>• Focus groups.</li> </ul>

TABLE 5.—PROJECT EVALUATION MODEL—Continued

Objectives	Interventions	Expected results	Measures	Data sources
	Supervisory Performance Pay.	The promise of higher pay levels for effective supervision will encourage improved supervisory performance.	Judgments of higher-level managers.	<ul style="list-style-type: none"> <li>• Management interviews.</li> </ul>
	Bonuses Linked to Performance.	The promise of bonuses for good performance will encourage improved performance.	Judgments of managers, supervisors, and employees.	<ul style="list-style-type: none"> <li>• Periodic employee/supervisor surveys.</li> <li>• Focus groups.</li> </ul>
	Hiring interventions (listed above).	By improving the quality of new hires, the hiring interventions will gradually produce a higher-performing workforce.	Judgments of managers and supervisors.	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
	Retention Interventions (listed above).	By improving the retention of good performers, the quality of the workforce will be higher than it otherwise would be.	Judgments of managers and supervisors.	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
More effective human resources management.	Broad-Band Classification	The broad-band classification system will be simpler to use, more understandable to managers and employees, and more accurate.	Judgments of managers, supervisors, and employees.	<ul style="list-style-type: none"> <li>• Interviews with managers.</li> <li>• Periodic employee/supervisor surveys.</li> </ul>
More effective human resources management (cont.)	Delegated Classification Authority to Managers.	Line managers understand the organizational mission and the work related to the mission and are therefore better prepared to classify the work.	Judgments of managers and supervisors.	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Periodic employee/supervisor surveys.</li> </ul>
	Delegated Pay Authority to Managers.	Line managers are in a better position to understand the labor market forces related to the work they manage and will therefore be more effective pay managers.	Judgments of managers and supervisors.	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Focus groups.</li> </ul>
More efficient human resources management.	Automated Broad-Band Classification System.	The broad-band classification system will be simpler, faster, easier to automate, require fewer resources to operate, and involve fewer classification decisions.	<ul style="list-style-type: none"> <li>• Judgments of managers and supervisors.</li> <li>• Time required to produce position descriptions and classify positions.</li> <li>• Number of classification decisions.</li> <li>• Increases in the numbers of minorities hired.</li> </ul>	<ul style="list-style-type: none"> <li>• Interviews with hiring officials.</li> <li>• Periodic employee/supervisor surveys.</li> <li>• Focus groups.</li> <li>• HRM office records.</li> <li>• Automated history file.</li> </ul>
Support for EEO/Diversity goals in recruiting, rewarding, paying, and retaining minorities; providing opportunities for a diverse workforce; and in maximizing contributions of all employees.	Hiring Interventions (listed above).	Managers will be able to hire good minority candidates as they find them, thus avoiding the loss of well qualified minorities through delays.	<ul style="list-style-type: none"> <li>• Increases in the numbers of minorities hired.</li> </ul>	<ul style="list-style-type: none"> <li>• HRM and EEO records on offers and acceptances.</li> </ul>
	Performance-Based Pay Increases.	Performance-based pay increases give an operating unit the ability to raise the pay of good performers.	Comparisons between pay of minorities and non-minorities.	<ul style="list-style-type: none"> <li>• HRM records.</li> </ul>
	Bonuses .....	The ability to reward good performers will allow managers to more easily recognize the performance of minorities.	Comparisons between the bonuses received by minorities and non-minorities.	<ul style="list-style-type: none"> <li>• HRM records.</li> </ul>

TABLE 5.—PROJECT EVALUATION MODEL—Continued

Objectives	Interventions	Expected results	Measures	Data sources
	Pay Interventions (listed above).	Supervisory pay bands, flexible pay increases upon promotion, and flexible entry salaries will allow managers greater flexibilities in paying minorities at competitive salaries.	Comparisons between the salaries of minorities and non-minorities.	<ul style="list-style-type: none"> <li>• HRM records.</li> </ul>
	Retention Interventions (listed above).	Broad-banding, flexibilities in setting pay, performance pay increases, and bonuses, will make it easier for supervisors to retain good performing minorities.	Turnover rates of minorities in relation to pay for performance.	<ul style="list-style-type: none"> <li>• Automated history file data/EEO records.</li> </ul>

**VII. Project Management**

The Office of Personnel Management will oversee the project under its demonstration project authority in 5 U.S.C. 4703. The DoC Departmental Personnel Management Board will manage the project at the Department level. Each major operating unit will have its own Operating Personnel

Management Board to oversee local operations.

The Director of NIST will chair the Departmental Personnel Management Board through the first cycle. After the first cycle, chairmanship of the Board will be assumed by one of the members of the Board. The DPMB members will be senior managers of the operating units in the project. The DoC Director

for Human Resources Management will serve as Executive Secretary. Each OPMB will typically be chaired by the senior manager designated to serve on the DPMB. The operating units will appoint other key managers to their boards as they think appropriate.

The following table lists the separate responsibilities of these three bodies.

TABLE 6.—PROJECT AUTHORITIES

Arena	Project authorities		
	OPM	DPMB	OPMB
General .....	<ul style="list-style-type: none"> <li>• Final approval authority for the Project Plan, operating procedures, and any future changes to the plan or operating procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval authority within the Department for the Project Plan and operating procedures.</li> <li>• Approval authority within the Department for proposing changes in the Project Plan or operating procedures to OPM.</li> <li>• Monitoring the success of project interventions so as to propose appropriate mid-course corrections to OPM.</li> <li>• Setting project policies within the parameters of the Project Plan and operating procedures.</li> <li>• Delegating authority to OPMBs, including the withdrawal of authority when warranted.</li> <li>• Exercising the authority to make exceptions to normal project procedures on a case-by-case basis when it believes an exception is warranted (the OPMBs will not have this authority).</li> <li>• Assuring adequate resources for designing, implementing, and operating the project.</li> <li>• Establishing a training plan to train managers, employees, and support staff in project policies and procedures.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit project guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Management of authorities outlined below and any additional authorities delegated by the DPMB.</li> <li>• Delegating authority to managers within the operating unit, including the withdrawal of authority when warranted.</li> <li>• Assuring adequate resources for implementing and operating the project within the operating unit.</li> <li>• Overseeing training of operating unit managers, employees, and support staff in project policies and procedures.</li> </ul>

TABLE 6.—PROJECT AUTHORITIES—Continued

Arena	Project authorities		
	OPM	DPMB	OPMB
Position Classification .....	<ul style="list-style-type: none"> <li>• Approval of the project Classification Interventions.</li> </ul>	<ul style="list-style-type: none"> <li>• Setting project classification policy within the Project Plan and operating procedures.</li> <li>• Approving automated classification systems and classification standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit classification guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Delegating classification authority to operating unit managers.</li> <li>• Establishing career ladders.</li> <li>• Ensuring proper classification of positions within the operating unit.</li> <li>• Resolving issues in operating unit classifications.</li> <li>• Approving or delegating the approval of new specialty descriptors.</li> </ul>
Staffing .....	<ul style="list-style-type: none"> <li>• Approval of the project Staffing Interventions.</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project staffing policies.</li> <li>• Establishing policy and criteria for recruiting and retention payments.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit staffing guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Approving or delegating the approval of individual recruiting and retention payments.</li> <li>• Establishing career ladders.</li> <li>• Approving use of recruiting services.</li> <li>• Delegating and overseeing use of paid advertising.</li> <li>• Overseeing the application of the three-year probationary period.</li> <li>• Establishing operating unit practices on vacancy distribution, opening timeframes, and similar local issues.</li> </ul>
Reduction in Force .....	<ul style="list-style-type: none"> <li>• Approval of the project reduction-in-force Interventions.</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project reduction-in-force policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit reduction-in-force guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Establishing procedures on operating unit competitive levels.</li> <li>• Establishing guidelines for, and overseeing, reductions in force within the operating unit.</li> </ul>
Pay Administration .....	<ul style="list-style-type: none"> <li>• Approval of the project Pay Administration Interventions.</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project pay administration and pay for performance polices.</li> <li>• Approving project pay tables ....</li> <li>• Approving performance pay increase ranges.</li> <li>• Approving automated performance pay increase systems.</li> <li>• Approving formulas used to develop performance pay increase pools.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit pay guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Establishing operating unit performance pay increase pools.</li> <li>• Establishing operating unit guidelines and delegating approval authorities for setting pay levels for new hires and promotions.</li> </ul>
Performance Evaluation .....	<ul style="list-style-type: none"> <li>• Approval of the project Performance Evaluation Interventions.</li> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project performance evaluation policies.</li> <li>• Approving project-wide forms for performance plans and appraisals and for recording outcomes.</li> <li>•</li> <li>•</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit performance evaluation guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Overseeing the operating unit annual performance appraisal process, from development of plans to individual pay increases and bonuses.</li> <li>• Establishing operating unit guidelines on performance elements.</li> <li>• Delegating rating, review, and pay pool management authorities.</li> </ul>

TABLE 6.—PROJECT AUTHORITIES—Continued

Arena	Project authorities		
	OPM	DPMB	OPMB
Bonuses .....	<ul style="list-style-type: none"> <li>• Approval of the project Bonus Interventions.</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project bonus policies.</li> <li>• Delegating bonus limits to OPMBs.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing operating unit bonus guidelines within the Project Plan, operating procedures, and DPMB policies.</li> <li>• Delegating bonus limits to pay pool managers.</li> <li>• Establishing operating unit bonus pools.</li> </ul>
Costs and Budget Discipline .....	<ul style="list-style-type: none"> <li>• Approval of the project cost plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Approving project budget policies.</li> </ul>	<ul style="list-style-type: none"> <li>• Establishing and overseeing operating unit budget procedures.</li> <li>• Assuring operating unit budget discipline.</li> <li>• Designating pay pool managers.</li> <li>• Establishing and overseeing the use of operating unit performance pay increase and bonus pools.</li> </ul>
Project Evaluation .....	<ul style="list-style-type: none"> <li>• Approval of the project Evaluation Model.</li> <li>• Approval of evaluation reports ..</li> </ul>	<ul style="list-style-type: none"> <li>• Approving the approach for selecting an evaluator to carry out the annual project evaluation.</li> <li>• Assuring adequate resources for project evaluation.</li> <li>• Approving project policies for internal Departmental assessments.</li> </ul>	<ul style="list-style-type: none"> <li>• Overseeing and assuring operating unit participation in project evaluations, including data collection, focus group participation by operating unit employees, and availability of managers for interviews.</li> <li>• Approving objectives and procedures for internal operating unit assessments.</li> </ul>

**VIII. Training**

The project operating units will schedule training for managers, supervisors, employees, and support staff.

*A. Manager and Supervisor Training*

The operating units will give managers and supervisors general training in the overall features of the project and specific hands-on training in the new authorities they are to exercise. Computer training facilities will be used to teach managers and supervisors how to use the automated classification system to produce position descriptions. The classification training will emphasize principles of project classification, such as the classification logic embedded in the automated classification system, career path coverage criteria, occupational series definitions and coverage, proper classification by bands in accordance with project classification standards, sound titling practices, and economic and effective position management.

Managers and supervisors will also be given specific training in performance appraisal and pay for performance. A key part of this training will be a simulation of the performance evaluation and rewards system prior to the actual end-of-year performance evaluation. Prior to the simulation, each

Rating Official and Pay Pool Manager will be trained in the automated performance pay increase system. During the simulation, Rating Officials and Pay Pool Managers will carry out the appraisal, scoring, rating, and performance pay increase process just as they would at the end of a performance year, but for training purposes only. The results will not be official and will not be communicated to employees. This training exercise was used in the first year of the NIST project and was found to be an effective approach to revealing and correcting problems and misunderstandings prior to the real end-of-year process.

*B. Employee Training*

Through general presentations, handouts, and direct training from supervisors, employees will be given an understanding of project systems and how those systems affect them.

In the general presentations scheduled for everyone covered by the project, employees will be led through all project systems, from classification to pay administration to pay for performance. As each system is presented, it will be contrasted with the General Schedule system so employees can see how the system is changing and how the changes affect them. The presentations will also cover employee

rights and grievance procedures. Employees will be given ample opportunity to ask questions at the presentations and will be given the names and numbers of individuals to call if they have questions later.

In addition to the general presentations that will be scheduled for all employees, supervisors will be instructed to pass along more individualized information about the system in conjunction with the implementation of those systems. For example, at the time supervisors give employees their new project position descriptions, the supervisors will explain the position descriptions, the process that produced them, and the process for keeping them current. Also, at the time of the performance appraisal simulation, supervisors will explain to employees how they fit into the performance scoring and peer-group ranking process and how the process leads to decisions on performance pay increases.

*C. Support Staff Training*

There are three categories of support staff: (1) Personnel specialists in the various HRM offices serving project operating units; (2) budget specialists in operating unit budget offices assigned to monitor and advise on budget discipline issues and specifically to assist in

establishing performance pay increase and bonus pools; and (3) administrative officers in the operating units, who will assist in processing personnel actions, distributing local performance pay increase and bonus pools, and electronically transmitting Pay Pool Manager decisions to the automated payroll system.

Two of the HRM offices that will serve project operating units have served the NIST Demonstration Project since its implementation in 1988. These two offices will help train personnel specialists in the other HRM offices. Budget specialists in the operating units, besides receiving the general employee training, will receive advice from a NIST budget specialist and will receive further training on the distribution of performance pay increase and bonus pools during the simulation of the performance evaluation and rewards system. Administrative officers will be invited to take part in the supervisory training sessions and will also receive further training during the simulation of the performance evaluation and rewards system.

#### **IX. Experimentation and Revision**

Many aspects of a demonstration project are experimental. Modifications must be made from time to time as experience is gained, results are analyzed, and conclusions are reached on how the system is working. The DPMB, with OPM approval, will authorize minor modifications, such as changes in the occupational series in a career path, without further notice. Major changes, such as a change in the number of career paths, will require OPM approval and will be published in the **Federal Register**.

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

The following waivers of law and regulation are necessary:

##### *Title 5, U.S. Code*

Section 3308 Competitive Service; examinations, educational requirements prohibited; exceptions

Section 3502(a)(4) Order of retention (Waiver is applicable to allow the use of "performance scores" in lieu of "efficiency or performance ratings.")

Chapter 51 Classification

Section 5303 Annual adjustments to pay schedules

Section 5304 Locality-based comparability payments  
Section 5305 Special Pay Authority  
Subchapter III of chapter 53 General Schedule Pay Rates  
Subchapter VI of chapter 53 Grade and Pay Retention

(Waiver is applicable only to allow the following modifications: (1) Using bands in lieu of grades; (2) providing no band retention if reduction in band is caused by employee's pay being exceeded by band minimum rate; (3) providing no pay retention upon reduction in pay caused solely by geographic movement; (4) providing no pay retention upon conversion to the General Schedule as long as the employee's total rate of pay is not reduced; and (5) providing no pay retention upon cancellation of supervisory performance pay.)

Section 5753-5754 Recruitment and relocation bonuses; Retention allowances (except that relocation bonuses under Section 5753 continue to apply)

Section 7512(3) Actions covered

(Waiver is applicable only to use bands in lieu of grades and to exclude from section 7512(3) reductions in band not accompanied by a reduction in pay, due to the employee's pay being exceeded by the band minimum rate.)

Section 7512(4) Actions covered

(Waiver is applicable only to allow the following modifications: (1) Exclude reductions in pay that are solely due to recomputation upon geographic movement; (2) exclude conversions to GS pay that do not result in a reduction in the employee's total rate of pay; and (3) exclude reductions in pay due to the cancellation of supervisory performance pay.)

##### *Title 5, Code of Federal Regulations*

Section 315.801 Probationary period; when required

(Waived only for research and development positions in the Scientific and Engineering Career path).

Section 315.802 Length of probationary period

(Waived only for positions in the Scientific and Engineering Career path).

Section 351.401 Determining retention standing

Section 351.402 Competitive area in RIF

Section 351.403 Competitive level in RIF

Section 351.504 Credit for performance

Section 351.701 Assignment involving displacement

Part 511 Classification under the General Schedule

Part 530 Subpart C, Special salary rate schedules

Part 531 Pay under the General Schedule

Part 536 Grade and Pay Retention

(Waived only to allow the following modifications: (1) Using bands in lieu of grades; (2) providing no band retention if reduction in band is caused by employee's pay being exceeded by band minimum rate; (3) providing no pay retention upon reduction in pay caused solely by geographic movement; (4) providing no pay retention upon conversion to the General Schedule as long as the employee's total rate of pay is not reduced; and (5) providing no pay retention upon cancellation of supervisory performance pay.)

Section 550.703 Definition of reasonable offer

(Waiver is applicable only to allow substitution of (1) "one band" for "two grade or pay levels" and "two grades" and (2) "band" for "grade.")

Part 575, Subpart A, Recruitment bonuses

Part 575, Subpart C, Retention allowances

Section 752.401(a)(3) Coverage, Reductions in grade

(Waiver is applicable only to use bands in lieu of grades and to exclude reductions in band not accompanied by a reduction in pay due to the employee's pay being exceeded by the band minimum rate.)

Section 752.401(a)(4) Coverage, Reductions in pay

(Waiver is applicable only to exclude reductions in pay that are solely due to recomputation upon geographic movement; (2) exclude conversions to GS pay that do not result in a reduction in the employee's total rate of pay; and (3) exclude reductions in pay due to the cancellation of supervisory performance pay.)

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