The Regents of the University of California

COMMITTEE ON COMPENSATION
COMMITTEE ON FINANCE
September 19, 2007

The Committees on Compensation and Finance met on the above date at Mondavi Center, Davis campus.

Members present: Representing the Committee on Compensation: Regents Blum, Dynes, Hopkinson, Moores, Parsky, Pattiz, Preuss, and Varner; Advisory members Cole and Brown
Representing the Committee on Finance: Regents Blum, Brewer, Dynes, Garamendi, Gould, Hopkinson, Island, Kozberg, Moores, Parsky, Preuss, and Wachter; Advisory member Croughan; Staff Advisors Brewer and Johansen

In attendance: Regents Allen, Bugay, Johnson, and Ruiz, Regents-designate Scorza and Shewmake, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Provost Hume, Executive Vice Presidents Darling and Lapp, Vice Presidents Broome, Foley, and Sakaki, Acting Vice President Standiford, Chancellors Birgeneau, Bishop, Block, Fox, Kang, Vanderhoef, and Yang, Acting Chancellors Blumenthal and Grey, and Recording Secretary Smith

The meeting convened at 9:40 a.m. with Committee on Compensation Vice Chair Moores presiding.

APPROVAL OF PLAN TO ADJUST FACULTY SALARY SCALES

The President recommended approval of the plan for new faculty salary scales, effective October 1, 2007, and further approval of the overall budgetary strategy for the remaining three years of a four-year program to improve faculty salaries.

Provost Hume and Executive Vice President Lapp presented for approval new faculty salary scales that will preserve the University of California's rigorous system of merit review and restore faculty salaries to market levels over the next four years. The new scales, effective October 1, 2007, are the first step in a four-year plan to restore the integrity of the rank and step system of faculty advancement, in which regular merit and promotion reviews are directly linked to faculty compensation.

In the first year (2007-08), the plan is estimated to cost about $52.7 million in General Funds. This amount includes 2006-07 continuation costs, merit increase funding equivalent to 1.78 percent, the 2.5 percent cost-of-living adjustment (COLA) effective October 1, the additional market adjustments effective October 1, and additional payroll costs. Approximately $45.2 million is covered by the Compact and student fee increases, leaving $7.5 million to be reallocated from other resources. In the second and later years, the cost will rise as the faculty salary scales are adjusted upwards. As in the first year, it is anticipated that increases in State funding under the Compact and anticipated student fee increases will cover the majority of the cost of the plan. The remaining additional costs in years two, three, and four – approximately $20 million each year – will again require reallocation of both systemwide and campus resources.

Mr. Hume explained that the plan to restore faculty salary scales is based on two principles derived from a report of the Academic Senate’s Committee on Academic Personnel, and the recommendations developed by a systemwide workgroup on faculty salaries. The first principle is that the rank and step system of determining faculty salaries must be fair, defensible, and transparent. In order to maintain merit-based compensation with faculty oversight, the new scales must bring the majority of faculty back on scale. The second principle is that ladder-rank faculty salaries must be restored to competitive market levels in order to sustain the academic excellence of the University of California system as a whole.

The action plan has three primary goals; first, to increase faculty salaries to market levels; second, to reduce the fraction of faculty whose salaries do not even approximate that associated with their rank; and third, to reduce the number of faculty retention cases and losses of valuable faculty to competitor institutions. Data will be gathered in each of these areas to measure the success of the plan.

The proposal is for a four-year action plan to restore the health and competitiveness of faculty salary scales. In all four years, there will be continued funding of merit increases at the same levels as in the past. Faculty are reviewed for merit increases once every two to four years, and they advance up the scales through this process.

In years one and two of the plan, there will be a 2.5 percent COLA, raising the scale by 2.5 percent and thus will raise the salary of every individual faculty member by at least 2.5 percent. The COLA, combined with the merit funding at 1.8 percent, will raise the average faculty salary by 4.3 percent. In addition, there will be a market adjustment to create a new set of scales. Mr. Hume noted that the new scales will not raise the salary of every faculty member, as many are presently off-scale. The new scales will affect those individuals whose salaries presently lag behind the market. In years three and four, there will be an additional 4.5 percent invested in a combination of cost-of-living and market adjustments.

Mr. Hume provided examples of new academic and fiscal year scales for the professor and business/economics/engineering ladder-rank scales. Currently, the health sciences scale is the same as the professorial series, but the salary levels of health science faculty are set through the health science compensation plan, which includes scale plus clinical income. The health sciences scale will be adjusted to accommodate the market data and the specific salary funding formula for the health sciences compensation plan. The law and veterinary medicine scales are not currently tied to the professorial series scale; these scales will be adjusted by an across-the-board figure of approximately 8 percent in order to address the particular off-scale salary practices and market needs in those fields.

Mr. Hume explained that the current 2006 professorial scale is significantly below the actual average salary at each step; this gap will be closed as the new salary scales are implemented. The California Postsecondary Education Commission estimates that the average of UC faculty salaries currently lags the average of UC's comparison eight institutions by approximately 9.6 percent. The first goal of the four year plan is to bring faculty scales back in line with comparison institutions in four years. Currently, 75 percent of faculty salaries are off-scale, 15 percent are on-scale, and 10 percent – UC's most distinguished professors – are above-scale. The market adjustments proposed in the first two years are projected to reduce the proportion of off-scale salaries to 30 percent by 2008-09, accomplishing the goal of restoring the integrity of the faculty salary scale system. Some proportion of off-scale salaries will be necessary on an ongoing basis to address extraordinary recruitment and retention opportunities; the proportion of above-scale faculty will not change as a result of the plan.

Ms. Lapp explained that the budget options for achieving a four-year faculty salary plan by redirecting funding from other uses is being assessed carefully. The first option is to withdraw and redirect some faculty recruitment and retention funds that have been held in previous years; with the enrollment growth expected to slow in the next decade, some of this funding that was reserved to address student-teacher ratios can be withdrawn and redirected to help the accelerated faculty salary plan. This proposed amount totals roughly $14.5 million. The second option is to used flexibility created by the additional Compact funding for 2008-09, allowing funds to be freed for this accelerated faculty plan. This additional 1 percent adjustment to the base budget would provide $30 million over three years to help fund the faculty salary plan. The University will also need to identify additional funding sources, and the campuses will need to use some of their own funds for the proposal. Ms. Lapp reiterated that progress on the initiative will be monitored, requiring campuses to report back to the Office of the President on their achievements, and an annual report will be provided to the Board on the progress of the proposal.

Mr. Hume discussed the significant challenges associated with executing the plan; first, assessing the fairness of fund allocation between campuses; second, ensuring that high performing faculty continue to receive competitive salaries during the transition; and third, addressing a small number of faculty who are low-performing.

Regent Preuss raised the issue of unintended consequences regarding faculty who are presently at the bottom of the salary scales for good reason, many of whom may leave the University at some point. Under the plan, these individuals would be raised to market levels by as much as 25 percent, which then gives them the incentive to not leave the University for the next three years due to the affect the adjustment will have on their pension plan. This proposal, then, hinders the campuses' ability to improve the quality of faculty. Another issue is that this plan does little to improve the salaries of above-scale, exceptional faculty. Regent Preuss asked how UC can address the uneven distribution of income to faculty who will not benefit the most based on performance.

Mr. Hume noted that other mechanisms exist to address low-performing faculty. While the University may not have applied those mechanisms rigorously as the scales slipped, he maintained that not taking action to restore the scales will only make the problem worse. A major challenge is to ensure that excellent faculty are compensated appropriately. Off-scale salaries have been used to accomplish this objective, with the result that many of high-performing faculty are compensated at or close to market. With the initiative to move all faculty salary scales closer to market, the number of off-scale salaries will be reduced.

Faculty Representative Brown noted that one of the greatest threats to the quality of the University is salary scales that are unusable with respect to hiring and promoting faculty. The post-tenure review process is one of the prized aspects of ensuring that quality, and the process is dysfunctional when the scales are inappropriate.

Faculty Representative Croughan explained that exceptionally performing faculty are often slated for accelerated advancements or reviews, allowing them to be moved to a higher salary than others. Faculty at UC are unique in that their performance undergoes a merit review every two or three years for promotion. In terms of sub-par performing faculty, it was Ms. Croughan’s opinion that these faculty members are very small in number. Most often the reason faculty do not move through the merit review process after reaching tenure is due to their becoming administrators, since academic personnel guidelines do not reward administrative roles for faculty. Other mechanisms exist to reward such faculty through administrative stipends. Ms. Croughan strongly argued that such faculty are people that the University would not want to lose, and they should be eligible for the market increase via the revised faculty scales. In order to address actual underperforming faculty, it will be necessary to assess the number of people who have had an unsatisfactory review at five years, but which did not result in mechanisms coming into place to release that person from employment in the University. The Academic Senate and the Office of the President will be working to address how those mechanisms can come into play in such an event in order to improve the integrity of all faculty.

Ms. Croughan also noted the cost-savings associated with improving faculty salary scales. She recalled that four years ago it was estimated that the costs to a campus associated with the loss of a faculty member ranged between $350,000 to $2 million, given the resources, search, and lost productivity. From a campus perspective, then, it is certain that this proposal will improve retention and recruitment of faculty. Cost savings will be the reality of the program, despite the impossibility of ultimately knowing the magnitude of that savings. Ms. Croughan also pointed out that faculty have agreed to give up the 4.5 percent COLA that was approved for the current year; above-scale faculty have declined their higher COLA in an effort to bring their faculty colleagues closer to market.

Regent Preuss requested that information be provided to The Regents regarding specific mechanisms to address the issues of salaries for exceptional and sub-par performing faculty.

Regent Hopkinson recalled that in late 2006, Regents requested information regarding how money allocated at the Regental level for faculty salaries was used. Ms. Lapp has attempted to garner this information, but without great cost and energy expended, it is unlikely that this information can be attained. Regent Hopkinson was greatly concerned that Regents are not aware of how money allocated for faculty salaries over the past two years has been spent. Going forward, she pointed out that Ms. Lapp has initiated a reporting format for information to come to The Regents, and Regent Hopkinson wants to ensure that such reporting happens.

Regent Parsky stressed the deficiency of the processes of budgeting and of having the Regents set priorities based on knowledge of revenue sources. He asked for details regarding the funding sources that will provide the $7.5 million in the first year and the $20 million each of the three subsequent years for the proposed plan. Ms. Lapp stated that the $7.5 million for the current year will come from a reallocation of resources, both at the campuses and systemwide; she expressed confidence that the funds needed will be covered. The additional $20 million next year will come from the additional 1 percent the University is expecting from the Compact. Regent Parsky asked if some of the resources needed would be sought from the $260 million budget for the Office of the President. Ms. Lapp anticipated that savings would be revealed throughout the system, including in the Office of the President, in order to fund this and other initiatives.

In response to a question from Regent Parsky regarding the number of years for the new faculty salary scales plan, Mr. Hume reasoned that the proposal was as aggressive as possible given other priorities. General staff salaries must also be addressed.

Regent Gould reiterated that this plan relies upon complete funding of the Compact, including the additional 1 percent, which may be the biggest challenge. It also depends upon identifying savings within the University, including within the Office of the President.

Regent Brewer pointed out that vacant faculty positions have been used to help retain certain professors, and asked if those open positions will remain so or if the new scales will enhance the University's ability to improve student-faculty ratios. Mr. Hume replied that while student-faculty ratios continue to be of concern, these will not be restored as quickly due to the higher priority of improving faculty salary scales.

Regent Island asked about the amount of student fees that will be required to fund the shortfall, and if that component is at the level assumed in the Compact. Ms. Lapp clarified that in years two, three, and four, Compact funding in addition to student fees will assist the University to meet the funding requirements of the program.

Chairman Blum spoke of his eagerness to improve faculty salaries at a faster rate, since a more rapid increase would contribute to optimism, and cautioned that funds from the Compact may not be forthcoming given the difficulties facing the State in the coming fiscal year. He strongly reiterated that funds need to be found through cost-cutting measures and through other sources of revenue. The Omnibus Scholarship Fund should also be developed in order to mitigate the impact of student fee increases. Reinvesting the Short Term Investment Pool is another, potentially large, source of income. Chairman Blum believed that a four-year plan will be viewed with skepticism.

Regent Moores asked if there was any dissent regarding the proposed plan for revising faculty scales. Mr. Hume noted concern among the chancellors about the equity of fund distribution; the Office of the President will work with campuses to achieve the most equitable solution. He explained that campuses have responded to faculty salaries in different ways since at each of the campuses there are different proportions of faculty off-scale. A second concern is whether the University will continue to be able to adequately compensate exceptional faculty; and a third is how the University will aggressively and appropriately address the very small proportion of faculty who are underperforming. Recognizing that those issues exist, Mr. Hume reported that there is consensus and support for the plan.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 10:30 a.m.

Attest:

Secretary and Chief of Staff