

EXECUTIVE SUMMARY

Item Name: 2011 ANNUAL PERSONNEL REPORT

Action Item Discussion Item Information Item

Issue: The Board is requested to approve the 2011 Annual Personnel Report for the Arizona University System.

Background

- ▶ The Board of Regents is required by statute to submit an Annual Personnel Report for the University System to the Governor and the legislature. The report is to include information about employee salary and compensation, turnover and overtime pay.
- ▶ The Annual Personnel Report was first required in 1997 when the legislature established the Joint Legislative Study Committee on State Employee Compensation. The committee was charged with studying state employee compensation and related issues, including salary, benefits, employee turnover, various state personnel systems, and comparisons to other major public and private employers. In addition, the committee was charged with recommending to the Governor and legislative leadership a long-term strategy for addressing state employee compensation. The stated legislative intent was that *“competitive compensation be established by the end of fiscal year 2002-2003.”* This committee was disbanded in 2007, and the legislative time frame to reach market parity has long since passed. The salary adjustments that had been authorized by the legislature were not sufficient either to catch up with the market or to keep pace with upward salary movement in the relative labor markets.
- ▶ There have been no legislatively authorized salary adjustments since July 2007. In order to keep up with inflation alone, salaries would have needed to increase, 2.6 percent a year, on average, since 1998.

**SALARY ADJUSTMENTS AUTHORIZED BY THE LEGISLATURE
FY 2003 -FY 2012**

FY 2003:	\$0
FY 2004:	\$0
FY 2005:	Salary pool (equivalent to \$1,000 per FTE) allocated based on Board-approved salary plans developed by each university president and the central office; and general fund appropriations of \$4.3 million at the UA and \$1.5 million at NAU for key personnel retention
FY 2006:	1.7% across-the-board increases to offset Arizona State Retirement System rate increases, effective July 1, 2005
FY 2006:	\$1,650 per FTE across-the-board increase, effective March 11, 2006; and 2.5% performance funding adjustment, effective March 11, 2006
FY 2008:	Salary pool (equivalent to 3.25% per FTE) allocated based on Board-approved salary plans developed by each university president and the central office
FY 2009:	\$0
FY 2010:	\$0
FY 2011:	\$0
FY 2012:	\$0

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Statutory/Policy Requirements

- ▶ A.R.S.§41-763.01 – Annual report

Strategic Implications

- ▶ Arizona's public universities compete with hundreds of other public and private universities throughout the country to attract and retain talented faculty and staff. Salary competitiveness is the single-most important factor in determining whether an individual accepts other employment or stays with Arizona's universities.
- ▶ Talented faculty and staff are required to achieve Educational Excellence, Research Excellence, and Productivity Goals first presented in the Board's *2020 Vision* and later refined and expanded upon in the Board's Enterprise Plan.

Discussion

- ▶ Since Fall 2007, ASU and the UA have lost ground in faculty salaries (all ranks) compared to their peers. In FY 2007, ASU was virtually on par in average faculty salaries compared to its peers, but since then the gap has widened to nearly 11 percent below their peers. In FY 2007, the UA's average faculty salaries were 5 percent below their peers; in FY 2011 that gap had increased to an average of 6.8 percent below their peers. NAU has ranked at the bottom of its peers for many years, but recently have made a concerted effort in bringing average faculty salaries closer to their respective markets as new faculty are hired. In FY 2007, NAU's average faculty salaries were close to 17 percent below their peers, but since then have made significant gains bringing average faculty salaries to 13.6% below their peers. For the three universities faculty salaries range from \$6,500 to \$10,100 (6.8%-13.6%) below their peer median salaries.
- ▶ Market competitiveness is also a challenge with regard to professional and classified staff. While the market continues to move (albeit at a slower rate – from about 4% movement prior to 2006 to about a 2%-2.5% movement in 2011), no salary increases are expected in the near future, increasing the average percentage required to reach market for classified staff to 21.4% at ASU, 13.9% at NAU, 15.1% at the UA, and 5.5% at the system office. For professional staff, the average salary increases needed to reach market are 16% at ASU, 12.4% at NAU, 10.4% at the UA, and 7.1% at the system office.
- ▶ There are many reasons for employee turnovers at the universities. Turnovers can be due to retirements, voluntary terminations, involuntary terminations, non-renewals, and deaths, with voluntary terminations as the most common. But faculty compensation is an important predictor of retention. Studies have shown that universities with higher average faculty compensation have higher retention rates.

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- ▶ Turnover can be extremely disruptive and very costly. Each time a staff member leaves, the universities are faced with the advertising, interviewing, and training costs associated with hiring a new employee. In addition, many indirect, difficult-to quantify costs exist, such as decreased productivity, loss of quality, and lost work hours when the job is vacant and while the new employee learns the job. Or when a position is left unfilled, it puts additional stresses on existing employees who are already asked to do more with fewer staff resources.

- ▶ The cumulative effect of faculty turnover over the past several years is very costly to the universities both in talent and in dollars. In the past 12 months approximately 736 (10.3%) left the Arizona University System.

- ▶ The average turnover rate for all categories of faculty at ASU (all campuses) is 12.3%; Faculty turnover rate at NAU is 8.1%; and at the UA (all campuses), the faculty turnover rate is 7.7%. Average turnover rates for classified staff range from 13.8%-22.3% at the three universities and system office.

- ▶ The cost of turnover is generally estimated at one to two times the salary of a departing employee. While there is no industry standard on turnover rates in higher education, the perceived high turnover rate at the universities is a great concern.

Cost Summary

- ▶ For FY 2013, an estimate of \$143.2 million (salaries + ERE) is needed for salary adjustments to enable the universities and system office to catch up with their respective markets. Due to staffing reductions and a concerted effort to reduce state-funded salaries, the FY 2013 projected salary need is about \$37 million (21.0%) less than the projected unmet salary need in FY 2012.

Recommendation to the Board

- ▶ It is recommended that the Board approve the 2011 Annual Personnel Report for submission to the Governor and the legislature, as presented in this Executive Summary.

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October 2011

Annual Personnel Report

Arizona Board of Regents

Special points of interest:

- Projected Unmet Salary Need for FY 2013
- Faculty Salaries
- Faculty Retention
- Staff Salaries & Average Salary Increase to Reach Market
- Staff Turnover Rate
- Overtime Pay Paid in FY 2011

Projected Unmet Salary Need for FY 2013

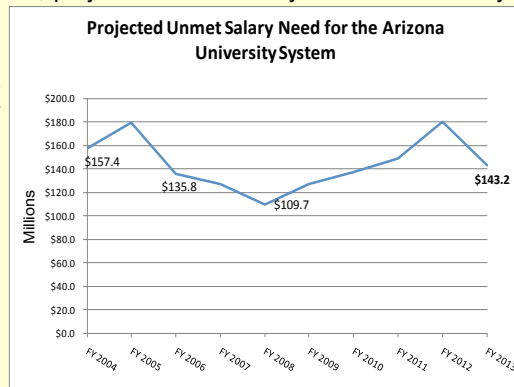
PROJECTED UNMET SALARY NEED FOR THE ARIZONA UNIVERSITY SYSTEM FY 2013 (\$ in Thousands)	
ASU	\$74,323.2
NAU	24,265.0
UA	44,400.0
ABOR	193.1
TOTAL	\$143,181.3

Unmet Salary Need is the amount required to raise average faculty salaries to the median of their peers and to raise other staff salaries to the average in other relevant labor markets.

Due to staffing reductions and a concerted effort to reduce state-funded salaries, the FY 2013 projected unmet salary need for the Arizona University System is

\$143.2 million, a 21.0% decline from FY 2012.

Between FY 2004 and FY 2008 significant progress was made toward closing the salary gap for university employees, but since that time the progress made has eroded. Between FY 2008 and FY 2013, projected unmet salary need increased by about 31.0%, bringing the amount back to roughly the FY 2006 levels.

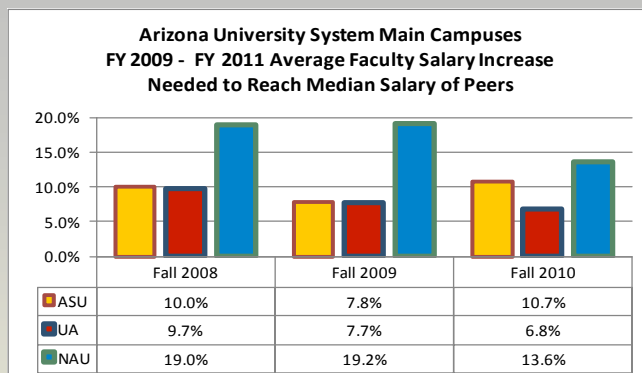


Faculty Salaries

Arizona's public universities compete with hundreds of other public and private universities throughout the country to attract and retain talented faculty. In spite of quality of life arguments made for Arizona, salary competitiveness is still the single most important factor in determining whether an individual accepts other employment or stays with Arizona's universities. To assess how competitive Arizona's salaries are compared to the national marketplace, the universities calculate average and median salaries, comparing faculty salaries in Arizona to those at peer institutions. These comparisons include all ranked faculty -- professors, associate professors, and assistant professors. The table shows the average faculty salary increase needed for the universities to reach average faculty salaries of their peer institutions.

The majority of the comparator universities pay higher average salaries to their faculty than Arizona's universities pay, demonstrating that Arizona's standing is still lacking competitiveness. Specifically:

- 13 of the 15 peer universities for ASU pay higher average salaries than ASU; all 15 of NAU's and the UA's peer universities pay higher average salaries than NAU and the UA.



- Average faculty salaries range from \$6,500 to \$10,100 (6.8%-13.6%) below the peer median at the three universities. Specifically, UA faculty salaries are \$6,500 (6.8%) below; ASU, \$8,000 (8.4%) below; and NAU \$10,100 (13.6%) below peer median salaries.

Whether looking at salaries or total compensation, the three universities find it difficult to compete seriously for faculty in the national arena. Moreover, the universities are not adequately positioned to attract or retain faculty of the highest national quality -- those educators, researchers, and scientists who are foremost in their fields. Such individuals, who are able to raise the quality and stature of the universities' programs, can and do command top dollar. Accordingly, Arizona's public universities must have the capacity to meet the salary requirements of these scholars and to pay beyond the median to attract and retain them.

Faculty Retention

Faculty turnover provides both benefits and costs:

- Benefits of faculty turnover include the ability to hire new faculty members with fresh ideas, and at sometimes lower salaries with previously committed salary funds, the ability to reallocate resources across program areas, and to provide the opportunity for the institution to diversify its faculty.
- Associated costs of faculty turnover include disruptions and the loss of continuity in teaching and research programs, in graduate and undergraduate advising, and in departmental and institutional management and cohesiveness. Moreover, in many research intensive disciplines, the start-up package for a new faculty member can often run into the hundreds of thousands of dollars. Additional costs of faculty turnover are not as quantifiable such as faculty morale or university reputation.

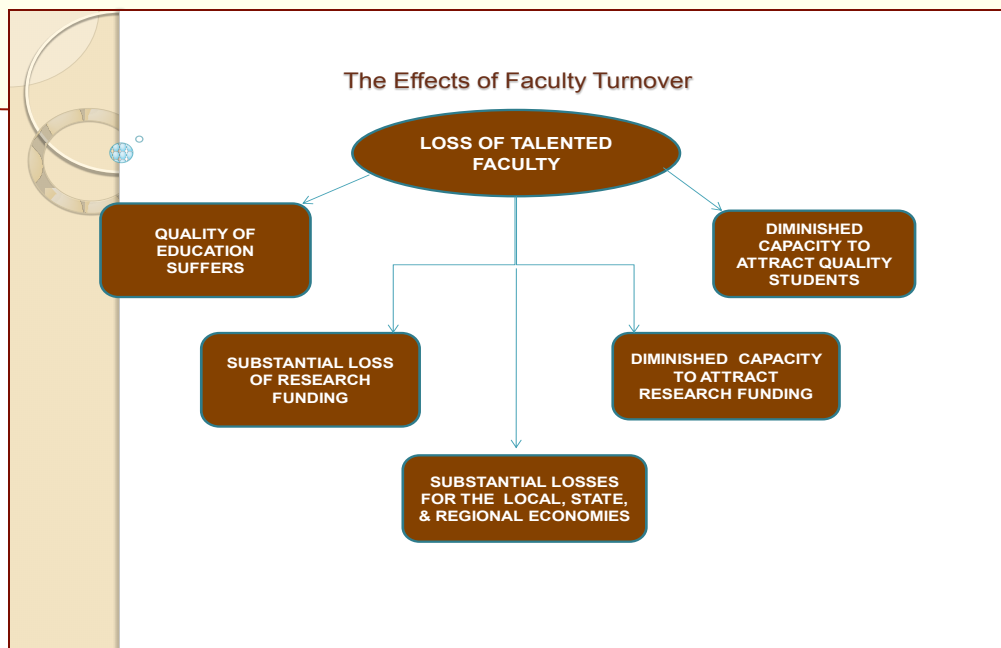
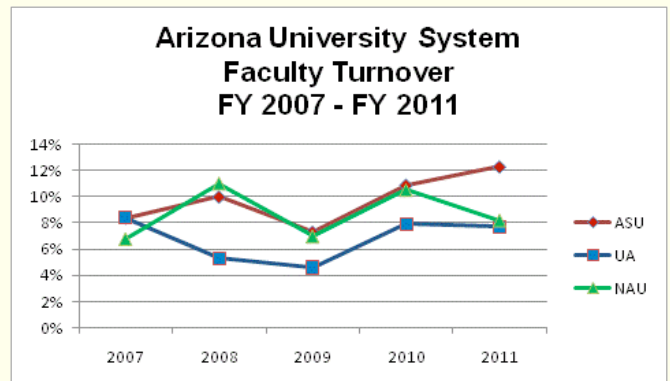
The average turnover rate for all categories of faculty at ASU is 12.3%; 8.1% at NAU, and 7.7% at the UA . With a static state economy, and few employment opportunities, turnover rates continue to be an issue depending on the geographic area of the state.

Faculty compensation is an important predictor of retention. Studies have shown that universities with higher average faculty compensation have higher retention rates. Faculty retention is a continuing problem for Arizona's universities. Notwithstanding the economic situation throughout the country, an increasing number of faculty members left for positions in other organizations, often receiving much higher salaries and benefits and exceedingly better resources for research and program development.

The universities and the communities they serve suffer dramatically when faculty leave Arizona. Top scientists and researchers may take millions of dollars in grants and contracts with them when they depart, setting university progress back by years and diminishing the university's ability to attract additional research funding. Moreover, when the universities' research efforts are curtailed, the results include significant negative impact to the local, state and regional economies.

Equally important, educators who are leaders in their fields contribute markedly to the quality of the educational experience for the 130,000+ students in the Arizona University System. When the universities lose these leaders, the students lose the immeasurable opportunity to learn from them.

The cumulative effect of faculty turnover over the past several years is very costly to the universities both in talent and in dollars. In the past 12 months, approximately 736 (10.3%) faculty members left the Arizona University System. The continuing loss of faculty threatens the quality of the educational experience, weakens the universities, undermines programs and research efforts, and negatively affects statewide economies.

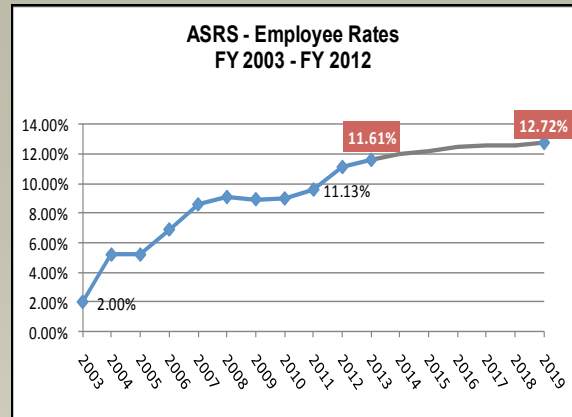


Staff Salaries

With no significant salary adjustments in the past ten years, average staff salaries continue to lag market rates. Between 2003 and 2009 overall market movement averaged about 2.3%, and is expected to be about 2.5% in 2011.

Employees enrolled in the Arizona State Retirement System saw their employee contribution rates increase nearly six-fold, from 2% in FY 2003 to 11.13% in FY 2012, and further increases are expected each year through FY 2019.

These rate increases amount to real reductions to an employee's net pay. The Consumer Price index for the first half of 2011 is about 3.3%, which further erodes and provides additional stresses on stagnate salaries.



The following table reflects the percentage increases required for average staff salaries at each university and the ABOR system office to reach market.

AVERAGE SALARY INCREASES NEEDED TO REACH MARKET FOR CLASSIFIED AND OTHER STAFF			
	CLASSIFIED STAFF		
	FY12	FY13	
ASU	20.2%	21.4%	
NAU	13.9%	13.9%	
UA	12.2%	15.1%	
ABOR	2.0%	5.5%	
OTHER STAFF			
	FY12	FY13	
ASU	11.9%	16.0%	
NAU	12.4%	12.4%	
UA	8.2%	10.4%	
ABOR	8.9%	7.1%	

STAFF TURNOVER AND RETENTION

Classified staff turnover is a chronic problem, with the universities losing far too many staff in positions that are critical to the operation and success of the institutions. Even in an economy with a high unemployment rate, in the past 12 months alone, over 1,450 classified staff left their employment at Arizona's three universities.

Turnover is extremely disruptive and very costly. Each time a staff member leaves, the universities are faced with the advertising, interviewing, and training costs associated with hiring a new employee. In addition, many indirect, difficult-to-quantify costs exist, such as decreased productivity, loss of quality, and lost work hours when the job is vacant and while the new employee learns the job. When a position is left unfilled, it puts additional stresses on existing employees who are already asked to do more as a result of reduced staffing levels.

The cost of turnover is generally estimated at one to two times the salary of a departing employee. With such high costs, the persistently high turnover rate in the universities is a significant concern.

FY 2011 AVERAGE TURNOVER RATE FOR CLASSIFIED STAFF	
ARIZONA STATE UNIVERSITY	22.3%
NORTHERN ARIZONA UNIVERSITY	13.8%
UNIVERSITY OF ARIZONA	14.7%
ABOR	16.7%

COST OF OVERTIME PAY

A.R.S.§41-763.01 requires the reporting of state-funded overtime pay paid. The majority of overtime paid is for positions associated with facilities management and campus police. Special events and inclement weather also contribute to overtime worked by employees. In addition, overtime pay has increased due to reduced staffing levels.

FY 2011 OVERTIME PAID (Dollars in Thousands)					
	STATE-FUNDED			OTHER SOURCES	TOTAL
	COMP	CASH	TOTAL		
ASU	\$93.1	\$119.8	\$212.9	\$761.8	\$974.7
NAU	13.0	214.1	227.1	\$151.3	378.4
UA	336.9	672.1	1,009.0	\$1,548.8	2,557.8
ABOR	2.8	-	2.8	\$0.0	2.8
TOTAL	\$445.8	\$1,006.0	\$1,451.8	\$2,461.9	\$3,913.7

Appendix

University Peer List

ARIZONA STATE UNIVERSITY	NORTHERN ARIZONA UNIVERSITY	THE UNIVERSITY OF ARIZONA
University of California-Los Angeles	University of Akron Main Campus	University of California-Davis
University of Connecticut	The University of Alabama	University of California-Los Angeles
Florida State University	Bowling Green State University-Main Campus	University of Florida
University of Illinois at Urbana-Champaign	George Mason University	University of Illinois at Urbana-Champaign
Indiana University-Bloomington	Georgia State University	University of Iowa
University of Iowa	Kent State University-Kent Campus	University of Maryland-College Park
University of Maryland-College Park	University of Maine	Michigan State University
Michigan State University	University of Nevada-Las Vegas	University of Minnesota-Twin Cities
University of Minnesota-Twin Cities	University of North Carolina at Greensboro	University of North Carolina at Chapel Hill
Ohio State University-Main Campus	Northern Illinois University	Ohio State University-Main Campus
Pennsylvania State University-Main Campus	Ohio University-Main Campus	Pennsylvania State University-Main Campus
Rutgers University-New Brunswick	Old Dominion University	Texas A & M University
The University of Texas at Austin	Southern Illinois University Carbondale	The University of Texas at Austin
University of Washington-Seattle Campus	Western Michigan University	University of Washington-Seattle Campus
University of Wisconsin-Madison	Wichita State University	University of Wisconsin-Madison

The salary surveys used:

- American Association of University Professors (AAUP)
- Association of American Medical Colleges
- Association of American Universities Data Exchange
- State Higher Education Executive Officers (SHEEO) Staffing and Salary Survey
- Council on Teaching Hospitals Housestaff Stipends
- Association of Research Libraries
- Arizona Compensation Survey
- College and University Professional Association for Human Resources (CUPA - HR)
- Other local and job-specific survey data