



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #806

Recruitment and Retention of High Demand Faculty and Academic Staff (UW System)

[LFB 2009-11 Budget Summary: Page 655, #5]

CURRENT LAW

By statute, the UW Board of Regents is permitted to grant salary increases to recognize competitive factors. Under 2005 Act 25, the UW System was provided with \$1,667,000 GPR in 2005-06 and \$3,333,000 GPR in 2006-07 to support supplemental salary increases to faculty whose services are in high demand by other higher educational institutions. Under 2007 Act 20, the UW System was provided with \$2,307,600 GPR and \$1,025,700 PR in 2007-08 and \$4,615,300 GPR and \$2,051,400 PR in 2008-09 to support competitive compensation of faculty in high-demand academic disciplines. The Board must submit an annual report concerning the amounts of any salary increases granted to recognize competitive factors and the institutions at which they were granted to the Joint Committee on Finance, the Secretary of the Department of Administration (DOA), and the Director of the Office of State Employment Relations (OSER).

GOVERNOR

Provide \$3,250,000 GPR and \$1,750,000 PR in 2009-10 and \$6,500,000 GPR and \$3,500,000 PR in 2010-11 to support competitive compensation for faculty and academic staff in high-demand disciplines.

DISCUSSION POINTS

1. Under current law, the Board of Regents may only increase faculty and academic staff salaries under the following circumstances: (a) as provided under the pay plan approved by the Joint Committee on Employee Relations (JCOER); (b) to fund job reclassifications or promotions;

(c) to correct salary inequities; and (d) to recognize competitive factors. In past biennium, JCOER-approved pay plans have allowed the Board to distribute increases in payroll to be used for merit, retention, across-the-board, or other pay increases. Under current Regent policy, when pay plan exceeds 2%, institutions must distribute the increase as follows: (a) not less than one-third distributed on the basis of merit and market factors; (b) not less than one-third distributed on the basis of solid performance; and (c) the remainder distributed to address other compensation needs. When pay plan increases are 2% or less, the increase must be distributed across-the-board on the basis of strong performance unless the institution receives a waiver from the Board of Regents.

2. Table 1 shows annual increases in pay plan for UW faculty and academic staff from 2003-04 to 2008-09. Due to the relatively small increases in pay plan that have been provided during the previous three biennia, institutions have had limited ability to provide merit-based salary increases.

TABLE 1

**Faculty and Academic Staff Pay Plan
2003-04 to 2008-09**

2003-04	0.0%
2004-05	1.1
2005-06	2.0
2006-07	4.3
2007-08	2.0
2008-09	1.0

3. In addition, due to pay plan increases that were less than those of peer institutions, salaries for UW System faculty and academic staff have decreased with respect to their peers since 2002-03. Table 2 shows the average salaries for full professors (the highest faculty rank) at UW System institutions and their respective peer institutions in 2002-03 and 2007-08. As shown in Table 2, the average salary for full professors at UW-Madison was 5.1% less than the average salary for a full professor at peer institutions in 2002-03; by 2007-08, this gap had increased to 13.4%. Similarly, the gap in average salary between Milwaukee and its peers has increased from 6.0% in 2002-03 to 13.0% in 2007-08. The gap in average salary between the comprehensives (the 11 four-year institutions) has grown from 7.9% in 2002-03 to 14.6% in 2007-08. In addition, when ranked based on the average salary of full professors, Madison and the comprehensive institutions ranked last among their peer groups and Milwaukee ranked 13th out of 14.

TABLE 2

**Average Salaries for Full Professors at UW System Institutions and Peers
2002-03 and 2007-08**

	2002-03			2007-08		
	Average <u>Salary</u>	Peer Average <u>Salary</u>	Percent <u>Difference</u>	Average <u>Salary</u>	Peer Average <u>Salary</u>	Percent <u>Difference</u>
Madison	\$96,400	\$101,300	5.1%	\$107,000	\$121,300	13.4%
Milwaukee	83,600	88,600	6.0	92,200	104,200	13.0
Comprehensives	67,300	72,600	7.9	71,900	82,400	14.6

4. While the salaries of UW associate and assistant professors also trail those of their peers, the salary gap is generally smaller than for full professors. At the associate professor level, the gap between the UW average salary and the peer average salary is 6.6% at UW-Milwaukee and 12.3% at the comprehensive institutions. The average salary for an associate professor at UW-Madison is at the peer median average. At the assistant professor level, the salary gap is less than 5% in all three sectors (2.7% at UW-Madison, 1.6% at UW-Milwaukee, and 4.9% at the comprehensive institutions).

5. Assistant professors are generally new Ph.D.'s who have recently been hired by the University. As such, their salaries are determined by the market, instead of previous pay plans. As a result, the salaries of assistant professors and associate professors, who are one rank above the assistant professor level, tend to be closer to the peer average than those of full professors who are mid- to late-career professionals. As new professors are hired in at market rates, salaries become compressed, meaning that the difference in salary between senior faculty and their younger counterparts shrinks, and in some cases inverted, meaning that the salaries of new faculty members exceed those of more senior faculty members. This creates morale issues that when not addressed may increase the number of senior faculty who actively seek outside offers in order to increase their salaries.

6. The UW System argues that these salary issues have led to an increase in the number of faculty and academic staff who receive job offers from other universities. Data from UW-Madison, the only campus which has consistently tracked the number of outside offers received by faculty, shows that outside offers have more than tripled since 2002-03. In that year, 52 faculty members, or 2.3% of the total faculty, received outside offers. In 2007-08, 167 faculty members, or 7.6%, received outside offers.

7. While the decline in salaries relative to peer averages has certainly contributed to the increase in outside offers, it is also possible the statutory language limiting the Board of Regents' ability to grant pay increases has also contributed to this increase. Under current law, other than provided in the JCOER-approved pay plan or to recognize job reclassifications or promotions, the

Board of Regents may only increase the salary of a faculty or academic staff member to correct salary inequities or competitive factors. In practice, competitive factors include outside offers received by the faculty or academic staff members or the likelihood that a faculty or academic staff member may receive an outside offer. As a result, these restrictions on the Board of Regents' ability to increase salaries may encourage faculty and academic staff members to actively seek job offers from other institutions to elicit a counteroffer by the UW as a means of increasing their salary.

8. On the other hand, faculty may leave for other, non-salary related reasons. A study of a small sample of faculty members who left UW-Madison, which was prepared by a UW-Madison faculty member at the request of the Vice Provost, showed that faculty members chose to leave the University for a number of reasons, including that their research was not supported or understood, the feeling that they would not be offered tenure within their department, a lack of mentorship by more senior faculty, lack of recognition by colleagues, discrimination or harassment in the workplace, and family issues. The study also identified the effect of budget reductions on faculty, staff, and students as a reason for leaving. With the exception of this last reason, these non-salary related issues can be addressed by UW administration and would not be mitigated by the provision of additional recruitment and retention funds.

9. In addition, as in all markets, there is a certain amount of ebb and flow that occurs as faculty members move from university to university to pursue their own interests. Presumably, it is normal to have a certain number of faculty members accept outside offers in any given year. Although no data is available, the UW System itself fills vacancies by hiring faculty from other universities on occasion. For this reason, additional funding for the retention of high demand faculty may be unnecessary.

10. Full professors often produce large amounts of federal and private research grant and contract revenue. In 2007-08, approximately half of all faculty members received federal and private research grant awards. Of those who received grant awards, the average research award for a full professor at UW-Madison was \$548,000. By comparison, assistant professors received research awards averaging \$236,000. Full professors are also the most likely to receive outside offers. According to the UW-Madison, approximately 60% of faculty members who receive outside offers are full professors, which is the highest rank of faculty.

11. The loss of a full professor is costly to the University both in terms of the funds required to replace the faculty member and the loss of research grant funding. Generally, it takes one year for UW-Madison to recruit and hire a replacement. When a new faculty member is hired, he or she may be provided with a start-up package. This package, which may consist of funds to retrofit laboratory space, purchase equipment, support graduate assistants or laboratory technicians, is meant to support the faculty member's research until he or she can secure sufficient extramural grant funding. For new faculty members in fields where future grants awards are likely, these start-up packages average \$500,000.

12. New hires are generally junior faculty members who generate a lesser amount of outside research funding. According to the UW System, it may take as many as seven years for a

newly-hired junior faculty member to reach his or her full grant earning potential. Every year that a faculty position is vacant or held by a faculty member who receives less grant funding than his or her predecessor represents a loss in grant funding for the University. Between the cost of hiring a replacement and the loss of grant funding, it is estimated that the loss of a full faculty member at UW-Madison costs the University \$1.2 million.

13. By statute, the Board of Regents can provide salary increases to faculty to correct salary inequities or to recognize competitive factors. Prior to the provision in 2005 Act 25, which provided funds for this purpose, these increases were funded solely through base budget reallocations. Table 3 shows the total number of unclassified staff members, which includes faculty and academic staff, who received salary increases to correct salary inequities or to recognize competitive factors in the three years prior to 2005 Act 25 (2002-03 to 2004-05) when no recruitment and retention funds were provided and the three years after 2005 Act 25 (2005-07 to 2007-08). As shown in Table 3, the number of staff members who have received salary adjustments to recognize competitive factors in the three years during which funding was provided for this purpose is more than double the number who received such increases in the three years prior when increases were funding entirely through base reallocations.

TABLE 3

Salary Adjustments to Address Competitive Factors

	<u>2002-03 to 2004-05</u>			<u>2005-06 to 2007-08</u>		
	<u>Number</u>	<u>Cost</u>	<u>Average Award</u>	<u>Number</u>	<u>Cost</u>	<u>Average Award</u>
Madison	333	\$3,958,299	\$11,887	764	\$7,190,922	\$9,412
Milwaukee	27	191,880	7,107	402	1,397,269	3,476
Comprehensives	17	88,986	5,234	862	2,431,667	2,821
Other*	<u>661</u>	<u>611,974</u>	<u>926</u>	<u>704</u>	<u>645,048</u>	<u>916</u>
Total	1,038	\$4,851,139	\$4,674	2,732	\$11,664,906	\$4,270

*Includes UW Colleges, UW-Extension, and UW System Administration.

14. Under 2005 Act 25 and 2007 Act 20, all UW institutions received recruitment and retention funds. During the 2007-09 biennium, the funds were distributed to UW institutions based on each institution's all-funds faculty and research academic staff salary base. As shown in Table 3, prior to the provision of recruitment and retention funds under 2005 Act 25, salary adjustments to recognize competitive factors were rare at UW-Milwaukee and the comprehensive institutions. In total, UW-Milwaukee and the 11 comprehensive institutions granted 44 salary adjustments to recognize competitive factors from 2002-03 through 2004-05. From 2005-06 to 2007-08, this number was 1,264. At UW-Madison, where such adjustments were more common prior to 2005 Act 25, the number of adjustments provided has more than doubled since recruitment and retention funds were first provided in 2005-06.

15. UW-Madison and UW-Milwaukee have generally used recruitment and retention funds to provide salary adjustments to faculty and academic staff members who are highly productive in the area of research. The comprehensive campuses, however, have used these funds in a couple of different ways. UW-Parkside and UW-Stevens Point report that these funds have been used to supplement salary offers to job candidates in academic fields in which the institution has had difficulties attracting qualified candidates in the past or has had one or more failed searches. Similarly, UW-River Falls and UW-Whitewater have used these funds to increase the salaries of faculty members in highly specialized disciplines where there are generally few applicants in an effort to retain faculty in these areas. As part of its plan for the use of these funds, UW-Eau Claire specified that 25% of its allotment of recruitment and retention funds should be used to provide salary adjustments to nursing faculty. Likewise, UW-Green Bay has targeted awards to junior faculty members in science departments, whose salaries have been shown to be least competitive with those at peer institutions, and mid-career business faculty, whose salaries lag behind some of the more recently hired faculty in that department.

16. Data from UW-Madison, which is the only campus for which detailed information regarding outside offers made to faculty members has been provided, suggests that the funding appropriated under 2005 Act 25 and 2007 Act 20 has increased the University's effectiveness in retaining faculty. In the three years prior to the 2005 Act 25 provision, a total of 250 faculty members received outside offers of which 154, or 61.6%, were retained. By comparison, from 2005-06 to 2007-08, when recruitment and retention funds were available, 352 faculty members received outside offers of which 266, or 75.6%, were retained.

17. In past biennia, the Board of Regents have recommended pay plan increases for faculty and academic staff that would reduce or eliminate current salary gaps. However, given the state's fiscal condition, it is unlikely that any pay plan increases will be provided for UW faculty and academic staff in the 2009-11 biennium. The Governor indicated in his budget address that salaries for all state employees, including UW faculty and academic staff, would remain frozen during the 2009-11 biennium. More recently, the Governor announced that the 2% pay increases scheduled to take effect in June, 2009, would be rescinded and that all state employees, including UW faculty and academic staff, would be required to take eight days of furlough, which amounts to a 3% pay reduction, in each year of the 2009-11 biennium. If these measures are approved, it is anticipated that UW salaries will fall further behind their peers in the 2009-11 biennium, although it is possible other states will also reduce salaries for faculty and staff during this economic downturn.

18. While it is anticipated that salary increases at peer institutions will be small during the 2009-11 biennium, certain institutions will be less affected by the current economic crisis than others. These institutions will be in a particularly strong position to attract new talent while other institutions, including many in the UW System, may be particularly vulnerable. With salaries that are already significantly below peer medians and the proposed 2009-11 salary freeze and furloughs, UW faculty and academic staff may receive an increased number of outside offers. In addition, UW institutions would have limited ability to match counteroffers or provide preemptive salary adjustments if additional recruitment and retention funds are not provided due to the proposed \$120 million GPR base budget reduction. While the provision of recruitment and retention funds is not a

long-term solution to the UW System's salary issues, it may increase faculty retention during this difficult economic period.

19. Generally, UW faculty and academic staff members are supported by a combination of state general purpose revenue (GPR) and tuition revenue. Similarly, the proposed recruitment and retention funds are split funded utilizing both GPR and PR (tuition) resources. However, in the 2001-03 biennium, the JCOER-approved pay plan deviated from this approach to allow the Board of Regents to provide greater pay plan increases through the use of tuition revenues. In addition, certain undergraduate differential tuition plans approved by the Board of Regents in recent years, including those for the UW-Madison's School of Business, UW-La Crosse, UW-Madison's College of Engineering, and, most recently, the UW-Madison Initiative for Undergraduates, fund additional faculty and academic staff positions entirely with tuition revenues. As an alternative, the Committee could delete the GPR funds provided for recruitment and retention and replace those funds with additional tuition revenue authority. As it is estimated that a 1% increase in resident undergraduate tuition would generate an additional \$6 million in tuition revenue, it is anticipated that tuition would increase by an additional 0.5% in each year of the biennium if this provision were funded entirely through tuition revenues instead of funded using the traditional GPR/tuition split.

20. However, both Madison and Milwaukee generally use their recruitment and retention funds to provide salary adjustments to faculty and academic staff based on their research contributions. Generally, only instructional activities are funded using tuition revenues. If the Committee were to fund this provision entirely with tuition revenues, the Committee may wish to specify that the funds may only be used to recruit and retain faculty and instructional academic staff in disciplines in which the number of qualified instructors is low.

21. Another provision of the Governor's budget that has been approved by the Committee would give UW faculty and academic staff collective bargaining rights. If this provision were to become law and certain faculty and academic staff members elected to form a collective bargaining unit, future collective bargaining agreements and contracts may limit the ability of the Board of Regents to grant salary adjustments to address competitive factors.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to provide \$3,250,000 PR and delete \$3,250,000 GPR in 2009-10 and provide \$6,500,000 PR and delete \$6,500,000 GPR in 2010-11 to support the recruitment and retention of high-demand faculty and academic staff. Specify that these funds, which would be generated by an increase in tuition, would be used to recruit and retain faculty and instructional academic staff in disciplines in which the number of qualified instructors is low.

ALT 2	Change to Bill
	Funding
GPR	- \$9,750,000
PR	<u>9,750,000</u>
Total	\$0

3. Delete provision.

ALT 3	Change to Bill
	Funding
GPR	- \$9,750,000
PR	<u>- 5,250,000</u>
Total	- \$15,000,000

Prepared by: Emily Pope