

2008 Personnel Report

**FOR THE
ARIZONA UNIVERSITY SYSTEM**



**Arizona State University
The University of Arizona
Northern Arizona University
Arizona Board of Regents Central Office**

OCTOBER 2008

Annual Personnel Report

Arizona Board of Regents



October 2008

Special points of interest:

- Projected Unmet Salary Need for FY 2010
- Faculty Ranking
- Percentage Increase Required to Reach Market
- Faculty Salaries and Retention
- Average Classified Staff Turnover Rate
- Overtime Pay Paid in FY 2008

Projected Unmet Salary Need for FY 2010

FY 2010 PROJECTED SALARY NEED ARIZONA UNIVERSITY SYSTEM (Dollars in Thousands)	
ASU	\$31,409.9
NAU	\$38,396.2
UA	\$67,026.0
Central Office	\$345.5
System Total	\$137,177.6

and in other relevant labor markets. Each university compares its average faculty salaries to the average faculty salaries of its ABOR-approved peer institutions. For all other employee groups, the universities and the ABOR central office compare average salaries with average salaries in appropriate labor markets using the most recent, available data.

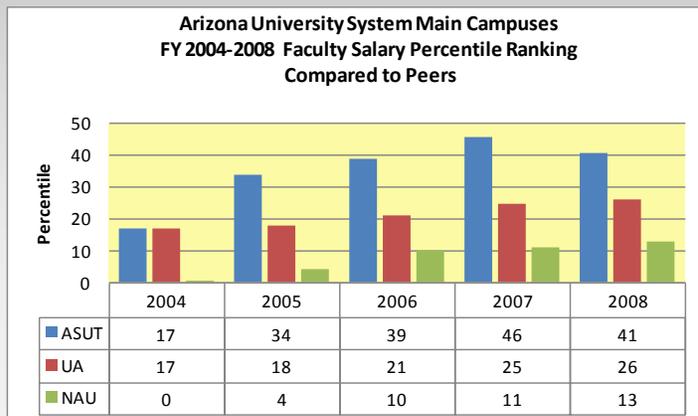
The universities calculate the difference between average market salaries and average university salaries when direct comparative compensation data is available. For jobs without direct comparative data, the universities use the distance from market for similar employee categories.

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 market average.

Each university and the ABOR central office compare employee salaries with salaries at peer institutions

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 percentile rankings, comparing faculty salaries in Arizona to those in peer institutions. These comparisons include all ranked faculty -- professors, associate professors, and assistant professors.



Staff Salaries

Average staff salaries rates, no significant adjustments have been made toward bringing salaries to competitive levels. In FY 2008, the average salary for classified staff at the universities increased 3%, while the Consumer Price Index for the first half of 2008 is about 4.9%, further eroding the little gains made in salaries.

Employees enrolled in the Arizona State Retirement System saw their employee contribution rates more than double in the past few years, from 2% in FY 2004 to 9.1% in FY 2007 and down to 8.95% in FY 2008. These rate increases amount to real reductions to an employee's net pay. While there have been salary adjustments to offset the increase in contribution

rates, no significant adjustments have been made toward bringing salaries to competitive levels. In FY 2008, the average salary for classified staff at the universities increased 3%, while the Consumer Price Index for the first half of 2008 is about 4.9%, further eroding the little gains made in salaries.

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

PERCENTAGE INCREASE REQUIRED TO REACH MARKET FOR CLASSIFIED AND OTHER STAFF

	CLASSIFIED STAFF	
	FY08	FY09
ASU	4.3%	15.5%
NAU	7.2%	12.5%
UA	7.8%	14.2%
ABOR CENTRAL OFFICE	1.0%	1.2%

	ALL OTHER STAFF	
	FY08	FY09
ASU	4.1%	8.4%
NAU	3.9%	6.0%
UA	6.5%	10.7%
ABOR CENTRAL OFFICE	9.2%	20.0%

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Faculty Salaries—Con't

While each university has increased its ranking over the past few years, a large 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:

- 15 of the 28 peer universities pay higher average salaries than ASU; 19 of the 28 peer universities pay higher average salaries than the UA; and 14 of the 17 peer universities pay higher average salaries than NAU.
- Average faculty salaries range from \$1,500 to \$10,500 (1.6%-15.0%) below the peer median (50th percentile) at the three universities and as much as 17%-37% lower than the highest peer institution's average salary.

Comparisons of total compensation, i.e., the combined value of salary and benefits, provides additional insight into the competitiveness of the University System.

When total compensation is calculated for FY 2008, the percentile rankings increase for ASU and NAU, and decrease slightly for the UA. Specifically, ASU at Tempe ranks at the 50th percentile of its peers; NAU increases to the 15th percentile; and the UA drops to the 25th percentile.

Whether looking at average 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 50th percentile to attract and retain them.

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 or inclement weather also contribute to overtime worked by employees.

FY 2009 OVERTIME PAID (\$ in Thousands)	
ASU	\$219.0
NAU	\$265.3
UA	\$520.5
ABOR CO	\$0

Faculty Retention

The average turnover rate for all categories of faculty at ASU is 10%. At the UA, the faculty turnover rate is 5.2% at the Main Campus and 10.3% at the Health Sciences Center. For NAU, the faculty turnover rate is 11.0%.

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 economic consequences are substantial.

Equally important, educators who are leaders in their fields contribute markedly to the quality of the educational experience for the 135,000+ 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 467 faculty members left the Arizona University System. The continuing loss of faculty weakens the universities, undermines programs and research efforts, and threatens the quality of the educational experience.

The Effects of Faculty Turnover



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. In the past 12 months alone, over 2,150 classified staff and approximately 1,000 professional 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.

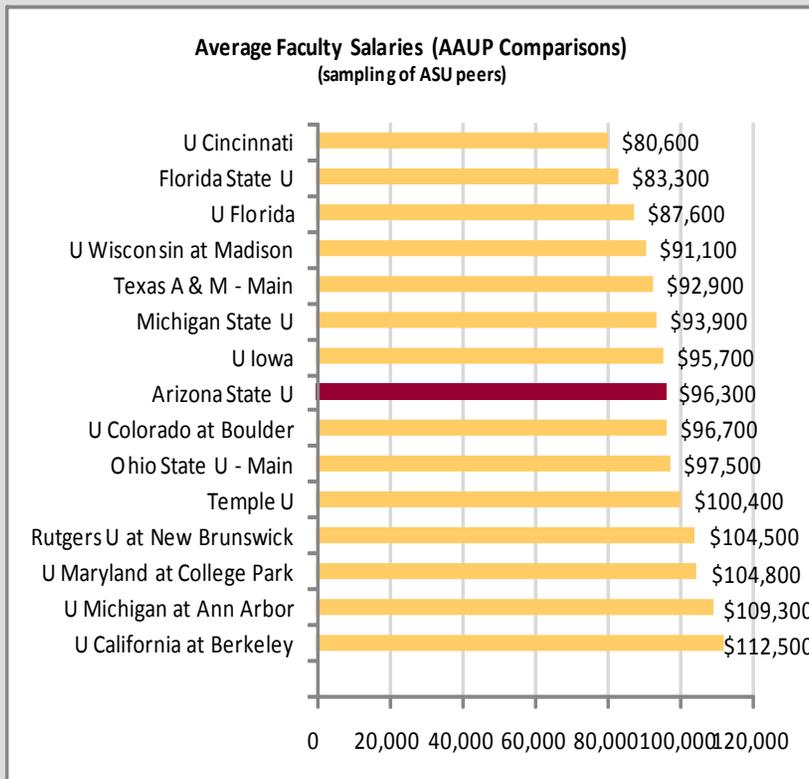
The cost of turnover is generally estimated at one to two times the salary of a departing employee. With such high costs, the persistently high turnover rate

FY 2008 AVERAGE TURNOVER RATE FOR CLASSIFIED STAFF	
ARIZONA STATE UNIVERSITY	17.2%
NORTHERN ARIZONA UNIVERSITY	19.0%
UNIVERSITY OF ARIZONA	14.1%
REGENTS CENTRAL OFFICE	0%

Faculty

To fulfill ASU's vision, it is critical to attract and retain top faculty members. Our peer universities have become increasingly competitive in terms of salaries and additional incentives, such as those associated with start-up costs, early leaves, and other related matters.

This year, in response to these increasingly competitive pressures, ASU has substantially increased the salary adjustment for faculty members who become associate or full professors. We also are addressing issues of salary compression among long-serving, high-performing faculty. These are positive steps, but ASU has much more to do to ensure ASU salaries remain competitive.



Compensation

ASU increased average faculty salaries by 4.5% from FY 2007 to FY 2008. Despite this increase, ASU continues to lag behind its peers in faculty pay. Fifteen of the 28 peer universities pay higher average salaries than ASU. The average faculty salary at ASU is \$1,500 below the median of its peers. Furthermore, the average ASU faculty salary is 14.4% lower than the highest peer institution's average faculty salary.

Diversity

ASU is committed to increasing the diversity of its faculty. In Fall 2002, 309, or 18.5%, of tenured and tenure-track faculty were racial/ethnic minorities. This percentage increased to 22.8% by Fall 2007, with a record 416 tenured and tenure-track minority faculty. ASU also has increased the number of female faculty members—from 39% in Fall 2002 to 42% in Fall 2007. Of particular note, the female share of tenured faculty increased from 27% to 30% during this five-year time period.

Turnover

The turnover rate for tenured and tenure-track faculty increased from 4.3% in FY 2007 to 5.5% in FY 2008. Of the 101 faculty who did not return, 84 resigned or retired from ASU. Twenty-nine, or 34.5%, of those faculty members left to take positions elsewhere, but not all gave a reason for leaving.

Service Professionals & Classified Staff

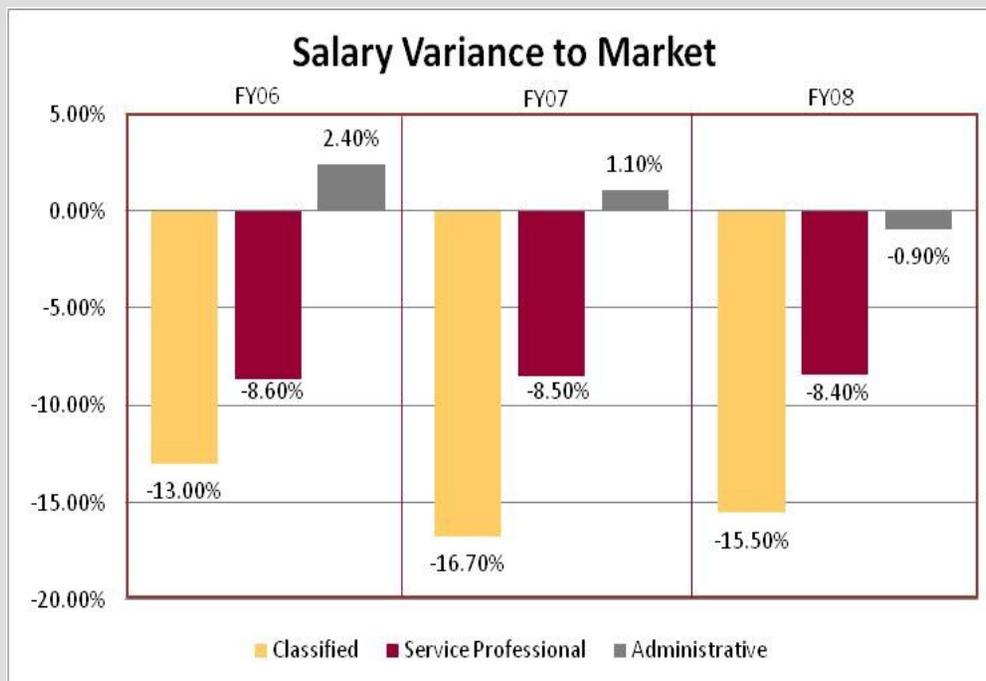
Compensation

As ASU continues to pursue its vision of access, excellence, and impact, it also is critical to attract and retain quality administrative support staff.

In June 2007, the Arizona Legislature approved a competitive pay increase for state employees, a greatly needed investment in the workforce. Despite this increase, salaries continue to fall behind comparable jobs in ASU's competitive marketplace based on results of the annual salary survey report.

An analysis of compensation data for FY 2008 shows that 71.9% (up from 67.4% last year) of the benchmark jobs were not market competitive; for all jobs, the overall average salary variance was -11.7% (-9.5% last year) from market. Additionally, ASU (for the first time since 2003), implemented recommendations to adjust the structure of selected classified jobs, which resulted in an improved structural relationship to the market from -18.5% to -14.3%.

A continued, unintended consequence of the lack of dollars for salary adjustments is continued salary compression. Salary compression occurs when new employees' salary offers result in little or no differentiation from experienced, seasoned, and strong performers. Alternatively, efforts to maintain that differentiation, recognizing compression concerns, could result in applicants receiving less than market-competitive offers.



Turnover

Due in large part to the challenges of providing competitive wages in a very tight labor market, ASU's turnover in 2007/2008 has continued to rise. For classified staff, turnover has risen from 16.8% in 2006/2007 to 17.7%. The trend for Service Professionals is similar, rising from 13.3% in 2006/2007 to 16.9% for 2007/2008. Overall, ASU's turnover rate for all segments of the workforce is 14.9%.

Turnover is a costly expense that affects the efficient, effective operation of the University. Talent retention is critical to the entire university to fulfill the mission and objectives established by the Arizona Board of Regents and ASU President Michael Crow.



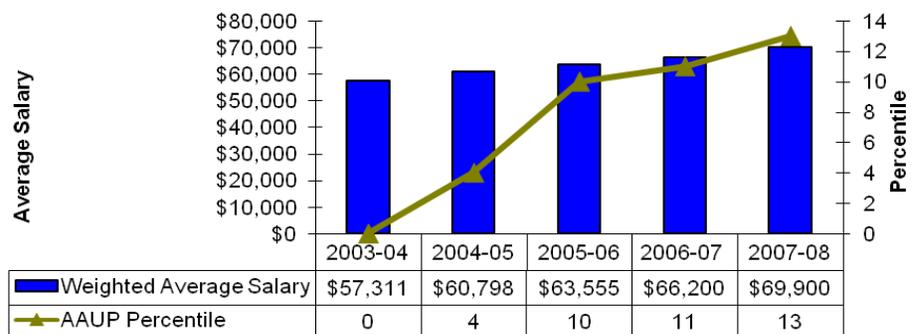
Tenured/Tenure-track faculty comprised 51% of the benefits-eligible faculty who will not return for the 2008-09 academic year. Of the 44 tenured/tenure-track faculty who left NAU this year, 25 retired and 19 resigned. Seven of the 19 moved on to positions at other institutions, and three left to pursue other career opportunities. Those who cited one or more reasons for their resignation identified personal, career, and salary as one of the causes. The 44 tenured/tenure-track faculty consisted of 3 administrative faculty, 21 professors, 9 associate professors, and 11 assistant professors.

89 faculty and academic professionals left NAU			
Tenured/Tenure-Track	Multi-Year Lecturers	Academic Professionals	Total
44	43	2	89

Northern Arizona University has shown steady progress as compared with the Arizona Board of Regents approved peers in the last five years, but still lags considerably below its goal of reaching the peer median or 50th percentile.

PROGRESS

Northern Arizona University Progress on Faculty Salaries



Faculty Salary Increases

Peer Institution	% Increase Continuing Professors	% Increase Continuing Associate Prof.	% Increase Continuing Assistant Prof.	% Increase Continuing Instructors
U Montana	8.2	8.4	12.0	10.8
Northern Arizona U	8.1	8.6	7.6	10.5
U Wyoming	7.7	7.2	5.7	3.9
U Delaware	6.1	5.3	6.3	6.9
U Vermont	6.0	6.8	7.0	12.2
Ohio U-Main	5.1	5.8	6.5	10.6
U Nevada-Las Vegas	4.4	5.5	6.3	7.1
U Minnesota-Duluth	4.2	4.1	4.2	4.3
U Nevada-Reno	4.2	5.4	7.0	6.7
Ball St U	3.6	4.3	4.4	4.6
Bowling Green St U	3.5	3.8	5.1	3.8
Miami U	3.4	3.8	4.7	3.3
Oakland U	3.0	4.6	5.1	4.7

Northern Arizona University improved its position vis-à-vis its Arizona Board of Regents approved peers as predicted after the July 2007 faculty salary increases. Northern Arizona University provided significant faculty salary increases in July 2007, but made less progress than hoped because of the general public doctoral university increase of 4-4.5%.

AAUP provides information on the average percentage increases of continuing faculty by rank; and as the table above shows, NAU provided some of the highest continuing faculty increases.

Nearly 30% of the faculty who resigned or retired from tenured/tenure-track positions were female; seven of these were tenured faculty and 6 were tenure-eligible. Eighteen percent of those who resigned or retired from tenured/tenure-track positions were from minority groups (Hispanic/Latino, American Indian, and African American).

NAU has witnessed first-hand increasing numbers of retirements over the past few years. This year 25 tenured/tenure-track faculty retired, which constitutes 57% of our tenured/tenure-track losses for the year. This compares with 23 retirements in 2006-07 and 26 in 2005-06. The peak of the retirements may hit in 2011, as the oldest 'baby boomers' reach the traditional retirement age of 65.

Cost of living issues in Flagstaff continue to be an issue, particularly in today's difficult economy. According to the AACRA Cost of Living Index for the second quarter of 2008, the average home price in Flagstaff was \$527,150. This is 42% higher than the average Phoenix home price of \$306,317 and 48% higher than the national median of \$270,235.

The College of Social and Behavioral Sciences saw the largest loss this year with 12 full-time tenured/tenure-track faculty leaving. The College of Engineering and Natural Sciences lost 11 faculty, and the College of Arts and Letters lost 10. Recruitment of new faculty continues to be difficult, resulting in lengthy and costly searches. It is not uncommon for departments to make an offer to their fourth or fifth candidate choice because NAU is unable to be competitive.

The original Higher Education Price Index issued for 2008 showed an increase of 3.6% over 2007; the new HEPI at 4.6% better reflects rising utility costs seen in recent months. As institutions like NAU try to absorb these inflationary costs, improvement in faculty salaries and overall compensation, recruitment, and retention become even bigger challenges.

Classified and Service Professional Analysis Trends in Market Competitiveness by Pay Group

Percent off Market

	FY 04	FY 05	FY 06	FY 07	FY 08	5 Year % Change
Classified Staff	-10.4	-10.2	-7.4	-5.9	-10.3	.1
Service Professionals	-7.7	-6.6	-2.9	-1.1	-5.8	1.9

Average Salaries

	FY 04	FY 05	FY 06	FY 07	FY 08	5 Year % Change
Classified Staff	31,124	32,292	34,672	35,887	35,231	13.2
Service Professionals	52,848	55,304	58,756	60,176	59,771	13.1

While significant progress in comparison to the market had been made over the last few years in staff salaries, attributable to legislated salary packages and consistent targeted salary efforts at NAU, this momentum has been lost. With the national market movement of approximately 3.8%, and no overall salary adjustment for staff planned for FY2009, salaries continue to fall further behind the market, at a rate of about 4.5% this year. The positive trend in average staff salaries has reversed this year. NAU faculty and staff continue to enjoy a broad range of rich benefit plans at relatively low cost – this is a positive part of the competitiveness picture. Staff turnover remains steady, at just under 20%, with compensation as the second highest stated reason for leaving.

From a National Public Radio report, *Around Resorts, Boomlet Towns Thrive Too*, August 20, 2008:

In August 2008, National Public Radio interviewed former NAU tenure-track professor Baylor del Rosario for their 'Poverty with a View' series. "I was aware it was much more expensive, but I was a little 'deer caught in headlights' when we actually moved there," said del Rosario, a special education professor. He came to Flagstaff for a tenure-track job at NAU, but left after only one year.

"I wasn't joking when I said, 'Well, to even enter the real estate market here in Flagstaff I would need to be paid twice what I was getting – about \$100,000,'" he said. Instead, del Rosario took a job with the Las Cruces, New Mexico Public School District. It paid about the same, but there he was able to buy a house. Salaries at NAU are the lowest in the state system. Every year, dozens of employees leave because of the cost of living .

THE UNIVERSITY OF ARIZONA

October 2008

As the leading public research university in the American Southwest and one of the top 20 public research universities in the United States, the UA is creating the knowledge necessary to transform the human condition while serving as a vital economic power for the State of Arizona. UA researchers bring in more than a half a billion dollars of external funding each year, creating thousands of jobs for Arizona residents and supporting businesses throughout the state.

The UA's ranking and continued economic impact are inextricably linked to the quality of its faculty, and attending to the factors that support faculty retention has been a major priority. While we are pleased that turnover of ranked faculty has decreased since last year, there are indications that this is a function of a soft real estate market that has made relocating prohibitively expensive. Once the economy improves, we may see this situation reverse unless we take proactive measures to enhance our total compensation program.

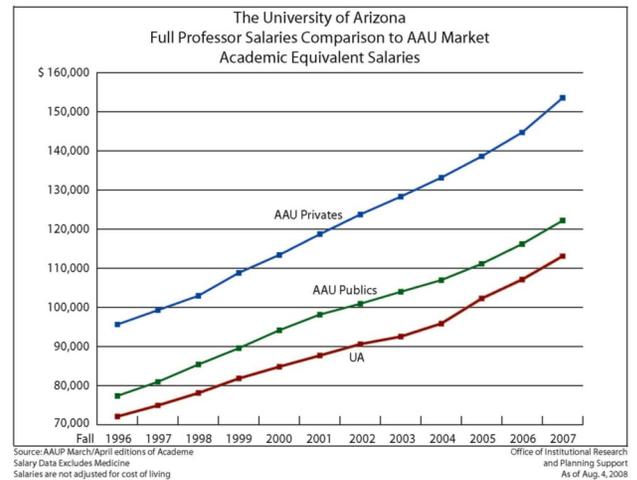
Despite a favorable legislative salary package last year, our market position for ranked faculty remains largely unchanged. Because there was no legislated salary package for FY 2009, we will see significant slippage in the year ahead. Last year ranked faculty salaries were collectively 5% below the market; but without raises to maintain or enhance our position, our faculty are being paid 11% less than their peers as they begin the new academic year.

WEALTHIER UNIVERSITIES ARE RECRUITING IN ARIZONA

The UA finds itself in a particularly vulnerable position, as noted very publicly in national higher education publications. A July 2008 *Inside Higher Ed* article on "faculty poaching" -- aggressive attempts to recruit outstanding faculty from universities in cash-strapped states -- pointed to the UA as an institution especially susceptible to faculty losses. A similar *Chronicle of Higher Education* article noted the UA's situation and described efforts other states are employing in order to bolster faculty retention at a time when we are unable to offer to provide even modest salary increases.

While the UA has long been a recruiting ground for prosperous private universities, we are increasingly threatened by better funded public institutions that are able to offer higher salaries, more significant retirement contributions, greater research support, larger travel budgets, and more generous laboratory and office space. When we compare UA salaries to those offered by our peers within the Association of American Universities (AAU), it is easy to understand why our faculty are viewed as ripe for recruitment. Our assistant professor salaries are close to our AAU public peers, but 20% below private AAU peers, while our full professors -- our most productive and distinguished faculty -- average 8% less the average salaries for AAU public peers and 36% less than AAU private peers.

Table 1: FULL PROFESSOR SALARIES COMPARED TO AMERICAN ASSOCIATION OF UNIVERSITIES PEERS



AN AGING FACULTY

More aggressive "faculty raiding" is occurring against a backdrop of an aging UA faculty. 11% of our faculty are 65 or older and 26% are at least 60 years of age. Fifty-four (54) faculty members retired this year and we stand to lose close to 500 faculty members in the next five years.

The Arizona Board of Regents adopted a phased retirement policy this year and we are hopeful that this program will enable us to delay the departure of some of our most productive senior faculty.

TABLE 2: FACULTY AGE DISTRIBUTION AS OF SPRING 2008

Age	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64	65+
Number	11	122	197	218	261	315	312	279	205
Percentage	1%	6%	10%	11%	14%	16%	16%	15%	11%

A ROADMAP FOR GREATER COMPETITIVENESS

The UA is committed to maintaining a world-class faculty and we are confident that the Governor and State Legislature appreciate the vital link between a strong university system and Arizona's long-term success. We are encouraged that they will support our efforts to retain our exceptional faculty and attract new talent required to fill vacancies left by those who choose to retire. We believe a multi-pronged approach is required.

STRATEGY: REGULAR SALARY INCREASES

While the Arizona Legislature allocated increases during the last two years, there is no salary package this year. There have been several years in which increases have been nonexistent or well below those offered by our peers, which have programs in place and funding available to provide annual salary increases.

We have traditionally cannibalized faculty lines to offer retention packages, but repeated budget cuts have eliminated this option. We can no longer hope to compete for talent when our annual increases are 50% or less than those offered by our peers.

Because there is no salary package this year, our unmet salary need has moved from \$48.2 million to \$67 million for all state-funded employees. A legislative commitment to market equity is essential for us to establish and maintain a competitive market position.

STRATEGY: COMPETITIVE BENEFITS

With the exception of our retirement programs, our benefits package is particularly compelling. Health insurance premiums are very affordable and faculty and staff are largely satisfied with access to providers. The UA's Life&Work Connections programs are nationally recognized and thousands of faculty and staff take advantage of our services ranging from nutritional counseling to eldercare referrals. The UA also launched a long-term care insurance program and enrolled 700 individuals in its first 60 days. We view these programs as strategic retention tools.

STRATEGY: ADEQUATE SPACE

The Chronicle of Higher Education and the Great Places to Work Institute partnered to produce a national study on faculty satisfaction earlier this year and the results were published in July. A finding that surprised study analysts was the degree to which office and lab space are correlated with faculty satisfaction.

The UA has long recognized that adequate and well-designed research and office space are essential to attract and retain productive faculty. Our investments in creative design, exemplified by spaces such as the expansion of the Meinel Optics Building and Thomas W. Keating Bioresearch Building that houses BIO5 reveal our commitment to creating spaces that fuse aesthetic appeal with exceptional functionality. While our space constraints are considerable and include a deficit of 1.1 million square feet, resources available from the Stimulus Plan for Economic and Educational Development (SPEED) will alleviate some of our most acute issues.

STRATEGY: RESEARCH SUPPORT

We cannot overstate the power of research support to nurture and sustain faculty research agendas. An increasingly tight and competitive federal funding environment makes it all the more important for the UA to provide seed money to support new projects, offer matching funds to attract research grants, and fund the lab renovations and equipment necessary to support faculty success. When we consider that a new assistant professor in the experimental sciences typically requires several hundreds of thousands in start-up costs and a senior recruit can often command more than a million dollars, it is clear that modest investments in existing faculty are a prudent and cost effective strategy to manage both costs and retention.

CLASSIFIED STAFF AND SERVICE PROFESSIONAL RETENTION

Classified staff and appointed professionals contribute significantly to The University of Arizona's mission and there is a correlation between adequate staffing and faculty productivity and satisfaction. We view competitive compensation for our staff as an essential strategy for reducing turnover and supporting faculty success.

While the Arizona Legislature's FY 2007 and FY 2008 salary packages increased our competitiveness, the lack of dollars for FY 2009 has compromised our market position and we worry that our success in reducing turnover will be reversed. Among classified staff, turnover dropped from 17.7% in FY 2006 to 14.1% in FY 2008 and we credit more competitive salary packages for this positive trend. Still, salaries for classified staff lag the market by 14.2% and are especially behind in academic and student support positions.

Recently announced budget reductions will impact these employee groups most significantly, increasing workloads as layoffs occur and vacancies are left unfilled. The promise of competitive compensation will be required for us to retain these employees who provide critical teaching, research and student support.