



## Legislative Fiscal Bureau

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May 23, 2013

Joint Committee on Finance

Paper #676

### **GPR Funding Increase and Compensation Plans (UW System)**

[LFB 2013-15 Budget Summary: Page 477, #2 and Page 478, #3]

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#### **CURRENT LAW**

The Board of Regents recommends a proposal for adjusting the compensation and employee benefits for faculty, academic staff, and certain administrative positions to the Director of the Office of State Employment Relations (OSER). After receiving the Board of Regents recommendations, the OSER Director submits a proposal to the Joint Committee on Employment Relations (JCOER) for adjusting compensation and employee benefits for those employees. By statute, this proposal is based upon the competitive ability of the Board of Regents to recruit and retain qualified faculty and academic staff; data collected as to rates of pay for comparable work in public services, universities, and commercial and industrial establishments; recommendations of the Board of Regents; and any special studies carried on as to the need for any changes in compensation and employee benefits to cover each year of the biennium. The proposal for such pay adjustments may contain recommendations for across-the-board pay adjustments, merit or other adjustments, and employee benefit improvements.

Under 2011 Act 32, the Board of Regents and the UW-Madison chancellor will recommend proposals to the OSER Director for adjusting compensation and employee benefits for all UW employees not covered by collective bargaining agreements beginning July 1, 2013.

Funding for adjustments to compensation and employee benefits for UW faculty, academic staff, and certain administrative positions approved by JCOER is provided to the UW System via supplements from the compensation reserves. Funding for these adjustments is added to the UW System's base budget during the budget process in the following biennium.

In addition, 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 Employment Relations (JCOER); (b) to fund job reclassifications or promotions; (c) to correct salary inequities; and (d) to recognize competitive factors.

## **GOVERNOR**

Authorize the Board of Regents to establish compensation plans for all UW System employees except those employees assigned to UW-Madison and authorize the UW-Madison Chancellor to establish compensation plans for all UW System employees assigned to UW-Madison. Delete the requirement that the Director of the Office of State Employment Relations submit a proposal for adjusting compensation and employee benefits for UW System employees to the Joint Committee on Employment Relations (JCOER). Delete four program supplement appropriations to fund the cost of pay and related adjustments approved by JCOER for UW System employees and related references.

Specify that the Board of Regents would set the salaries of each UW System employee subject to the limitations included in the pay plans approved by the Board of Regents and the UW-Madison Chancellor. Delete current law language limiting the Board of Regents' authority to increase employee salaries employee salaries and a related report. In addition, define "continuous service" as service performed while employed by a state agency or the Board of Regents.

Provide \$32,388,500 GPR in 2013-14 and \$57,056,000 GPR in 2014-15 in the following four appropriations: (1) general program operations (\$31,688,000 in 2013-14 and \$55,982,000 in 2014-15); (2) State Laboratory of Hygiene (\$285,700 in 2013-14 and \$438,000 in 2014-15); (3) Veterinary Diagnostic Laboratory (\$165,100 in 2013-14 and \$253,100 in 2014-15); and (4) UW System Administration (\$249,700 in 2013-14 and \$382,900 in 2014-15).

## **DISCUSSION POINTS**

1. UW leaders have indicated that addressing the gap between faculty salaries at UW institutions and peer institutions is one of their top budget priorities. Table 1 shows the percentage difference between UW faculty salaries and the national average for faculty salaries at other public doctoral, master's, and associate's institutions by faculty rank and institution. As shown in the table, salaries for full professors, generally the most senior faculty, are more than 10% below the national average for full professors at similar institutions at all UW institutions other than UW-Madison and more than 20% below the national average at seven of the 13 four-year institutions. Similarly, salaries for associate professors are more than 10% below the national average for associate professors at similar institutions at all UW institutions other than UW-Madison and UW-Whitewater. The salary gap for assistant professors is generally less than for full and associate professors. Assistant professors are generally new hires and, as such, their salaries are determined by the market instead of by previous pay plans.

**TABLE 1****Percent Difference between UW Salaries for Full-Time, Nine Month Faculty and National Averages for Similar Public Institutions by Institution and Faculty Rank, 2012-13**

<u>Campus</u>	<u>Professor</u>	<u>Associate Professor</u>	<u>Assistant Professor</u>
Madison	-3.7%	8.1%	5.9%
Milwaukee	-21.3	-14.1	5.1
Eau Claire	-19.1	-15.4	-3.1
Green Bay	-22.7	-19.6	-8.2
La Crosse	-13.4	-13.5	-4.1
Oshkosh	-17.0	-14.4	-4.6
Parkside	-16.1	-10.1	-8.4
Platteville	-23.3	-22.3	-14.6
River Falls	-20.3	-12.9	-9.5
Stevens Point	-24.3	-19.5	-14.4
Stout	-21.1	-15.6	-9.3
Superior	-24.5	-19.1	-12.1
Whitewater	-13.6	-9.7	2.3
Colleges	-17.9	-29.5	-27.0

Source: American Association of University Professors Annual Report on the Economic Status of the Profession.

2. UW officials have stated that the significant difference between faculty salaries at UW institutions and those at other public institutions makes it difficult for them to retain high-quality faculty and to recruit new faculty in high-demand fields such as nursing and engineering. These differences in faculty salaries may have the effect of lowering the overall quality of UW institutions and may have a direct impact on the quality and level of instruction and advisement that students receive as well as the amount of extramural research funding the institutions are able to attract.

3. In general, the salary increases provided for UW faculty and academic staff in JCOER-approved pay plans have been the same as salary increases approved by JCOER for all other state employees. If JCOER continues this practice in the future, it seems unlikely that the gap between salaries for UW faculty and average faculty salaries at similar public institutions will be reduced as JCOER is unlikely to provide the significant salary increases required to address this gap for all state employees. Authorizing the Board of Regents and the UW-Madison chancellor to approve compensation plans for UW employees would allow them to provide greater salary increases to UW employees than are provided for all other state employees. UW officials have argued that this flexibility is necessary to address the significant compensation issues that exist at UW institutions. Pay plans approved by the Board of Regents and the UW-Madison chancellor would be funded with the institutions' own resources including base GPR funding, tuition, gifts and grants, and other resources.

4. The Special Task Force on UW Restructuring and Operational Flexibilities similarly

recommended that the Board of Regents not be included in the state compensation plan. The Task Force recommended that the Board of Regents request funding for adjustments in employee compensation and benefits in its biennial budget request. The Task Force also recommended that the Board of Regents be granted the authority to provide merit-based salary increases to UW employees using base resources.

5. Under current law, the Board of Regents may only provide merit-based salary increases to faculty and academic staff when authorized to do by the JCOER-approved pay plan. The pay plans approved by JCOER for the 2009-11 and 2011-13 biennia did not include any funding for salary increases for faculty and academic staff, thus prohibiting the Board of Regents from providing merit-based salary increases in those biennia. The JCOER-approved pay plan did provide salary increases of 2% in 2007-08 and 1% in 2008-09 for UW faculty and academic staff; however, Board of Regents policy requires that pay plan increases of 2% or less be distributed across-the-board on the basis of strong performance. As a result, the Board of Regents have not authorized merit-based salary increases for UW faculty and academic staff in any of the last six years.

6. Statutes authorize the Board of Regents to provide salary increases to faculty and academic staff to address competitive factors. In past years, UW institutions have used this authority to make counteroffers to faculty and academic staff members who have received employment offers from other institutions and to proactively adjust the salaries of faculty and academic staff who are the most likely to be recruited by other institutions. More recently, UW institutions have used this authority to provide salary increases to employees whose salaries are significantly below those of their peers at other institutions. For example, in June, 2012, UW-La Crosse provided salary increases of \$2,000 to more than 70 faculty and academic staff members whose salaries were less than 80% of the median salary for their position at peer institutions. In the same month, UW-Madison announced that it would provide increases of at least 5% to one-third of its faculty and academic staff to address salaries that were below market. The salary increases at UW-La Crosse and UW-Madison, like all salary increases awarded to address competitive factors, were funded with the institution's base resources. (Previous biennial budgets provided additional GPR funding and tuition revenue to support salary increases for high demand faculty and academic staff. In 2005-07, \$2,500,000 GPR was provided for this purpose; in 2007-09, \$6,922,900 GPR and \$3,077,100 tuition revenue was provided; and in 2009-11, \$9,750,000 GPR and \$5,250,000 tuition revenue was provided. However, no such funding was provided for this purpose in the 2011-13 biennium or in the Governor's proposed 2013-15 biennial budget.)

7. Under current law, the Legislature, through the JCOER process and limits included in state statute, controls the salaries of all UW employees even though many such employees are paid with revenues other than state GPR and tuition. As of April 1, 2013, 39% of UW-Madison employees were funded through a combination of state GPR and tuition revenues; 35% were funded with tuition and other program revenues including gifts and nonfederal grants and contracts; and 26% were funded with federal funds. By comparison, 66% of all other UW System employees were funded through a combination of state GPR and tuition revenues; 26% were funded with tuition and other program revenues including gifts and nonfederal grants and contracts; and 7% were funded with federal funds. Because a large number of UW employees, particularly at UW-Madison, are funded with revenues other than state GPR and tuition, it may be reasonable to grant

the Board of Regents and the UW-Madison Chancellor more flexibility in the area of compensation than other state agencies.

8. The compensation reserves under the bill do not include reserve amounts for the UW System. Instead, the bill would provide \$32,388,500 GPR in 2013-14 and \$57,056,000 GPR in 2014-15 directly to the UW System. Although this additional funding has not been allocated for specific purposes, the administration has indicated that these amounts have been provided to fund increases in fringe benefit costs and salaries for UW employees. According to DOA staff, these amounts were calculated using the same methodology as was used to calculate the amounts in the compensation reserves for all other state agencies. The UW System would not receive supplements from the state's compensation reserves under the bill. If the Committee decided to delete the language permitting the Board of Regents and the UW-Madison Chancellor to approve pay plans for UW employees without JCOER approval, the funding provided under the bill for increases in fringe benefits costs and salaries for UW employees could be transferred to the compensation reserve.

9. It should be noted that the majority of the funding provided to the UW System for compensation increases would fund projected increases in fringe benefit costs. According to data provided by DOA, an estimated \$65.2 million of the \$89.4 million provided under the bill for compensation increases for UW employees would be used to fund increases in fringe benefit costs. If these funds are not provided, the UW System would have to make reductions elsewhere in its base budget to fund these cost increases. Because fringe benefits costs are determined by the Department of Employee Trust Funds (ETF), not the Board of Regents or the UW-Madison chancellor, the UW has little control over these costs.

10. Although the Governor's budget does not specify an amount of tuition revenues that would be required to fund the compensation increases for which GPR funding has been provided, JCOER-approved compensation plans for UW employees have traditionally included a tuition revenues component. It is estimated that tuition revenues of \$15,278,200 in 2013-14 and \$23,922,100 in 2014-15 would be required to fund the compensation increases included in the Governor's budget. In the case of a tuition freeze, the UW System could fund the tuition portion of these compensation increases with funds from its tuition appropriation balance.

11. Under current law, all agencies, including the UW System, receive pay plan supplements through the compensation reserves to fund salary and fringe benefit increases approved by JCOER during the biennium. Agencies request full funding of salaries and fringe benefits as a standard budget adjustment through the biennial budget process. GPR funding provided to the UW System for full funding of salaries and fringe benefits in recent biennia has been significant. The UW System received \$45,707,400 in 2007-08 and \$47,163,000 in 2008-09 for full funding of salaries and fringe benefit costs; \$37,552,600 annually for these costs in 2009-11 biennium; and \$61,586,200 annually for these costs in the 2011-13. The bill would similarly provide the UW System with \$9,550,500 annually for these costs during the 2013-15 biennium. Under the bill, the UW System would not receive pay plan supplements during the 2013-15 and future biennia and would not request standard budget adjustments for full funding of salaries and fringe benefits beginning in the 2015-17 biennium as pay plan funds would be provided in the UW System's base budget.

12. One concern that legislators may have regarding authorizing the Board of Regents and the UW-Madison Chancellor to approve compensation plans for UW employees may be the effect of doing so on tuition rates. While tuition revenues currently fund a significant portion of the UW System's payroll and may be used to fund compensation increases in the future, the Legislature could limit tuition increases by law as it did during the 2011-13 biennium. Legislators may also be concerned that this provision would reduce legislative oversight of UW pay plans. While compensation plans for UW employees would no longer be approved by JCOER, the Legislature would continue to determine the amount of state GPR funding provided to the University and could control tuition increases if it so chooses. Because the Legislature would have substantial control over these funds, which make up 35% of UW-Madison's budget and 60% of the budgets of all other UW institutions combined, the Legislature would still have substantial influence in regards to pay plans for UW employees. In addition, eliminating the JCOER process for UW employees could allow pay plans and tuition rates to be discussed during the budget process possibly increasing the level of transparency and legislative oversight.

13. The Governor's budget would permit the UW-Madison Chancellor to approve compensation plans for UW-Madison employees separate from the compensation plans approved by the Board of Regents for all other UW employees. One could argue that a separate pay plan for UW-Madison is necessary because that institution competes for talent in a different market than the other institutions. In particular, UW-Madison has a much bigger research program than any of the other UW institutions and must recruit and retain top research faculty in addition to the instructional faculty employed by all UW institutions. According to the Chronicle of Higher Education, UW-Madison ranked tenth nationally in terms of federally funded research and development expenditures in 2010. In that year, federal research and development expenditures at UW-Madison totaled \$545.2 million. This far exceeds the federal research and development expenditures at UW-Milwaukee, the UW institution with the second largest research program, which were budgeted at \$47 million in 2012-13.

14. However, the salary data shows that UW-Madison is the least far behind other similar public institutions in terms of faculty salaries which may indicate that UW-Madison has been able to address salary issues within the parameters of current law. In that case, providing UW-Madison with flexibilities in this area that are beyond what are provided to all UW institutions may be unnecessary.

15. Under the bill, the Board of Regents would establish compensation plans for all UW System employees except those employees assigned to UW-Madison and the UW-Madison Chancellor would establish compensation plans for all UW System employees assigned to UW-Madison. Granting the Board of Regents this authority may be appropriate. The Board of Regents is established by statute as the governing board of the UW System; 16 of the 18 members of the Board are appointed by the Governor and approved by the Senate; and the Board holds regular open meetings and is subject to open meetings law. By contrast, the UW-Madison Chancellor is appointed by the Board of Regents; the appointment of the Chancellor does not require approval by the Governor, the Legislature, or any other elected official. To avoid vesting considerable authority in a single, unelected person, it may be appropriate require to Board of Regents, as the governing board of the UW System, to approve compensation plans proposed by the UW-Madison Chancellor for UW System employees assigned to UW-Madison.

16. While national data shows that salaries for UW faculty are below those for faculty at other public institutions, it is less clear whether and to what extent the salaries of UW academic staff are less than the salaries of academic staff at other public institutions. The American Association of University Professors (AAUP) collects and publishes faculty salary and compensation data annually; however, no such data source exists for academic staff titles.

17. The UW System provided salary comparisons for select academic staff titles in the report of the Competitive University Workforce Committee (CUWC), released in June, 2010. According to that report, the average salaries for academic staff with the title of "lecturer" and "researcher" were 23.7% and 12.2%, respectively, behind salaries for academic staff with the same titles at peer institutions in 2008-09 based on data from the U.S. Department of Education and the College and University Professional Association for Human Resources. While the CUWC report showed that salaries for certain academic staff titles were significantly below those at peer institutions, employees in those titles represented only 18% of all academic staff positions budgeted in the 2008-09 academic year.

18. UW officials have argued providing greater salary increases to UW employees than to all state employees is justified because UW institutions compete in a national market, and sometimes an international market, for talent whereas the state is generally able to hire the employees it needs from the local talent pool. While this may be true for faculty and certain academic staff positions, UW classified staff positions and many academic staff positions perform duties similar to those performed by state employees at other agencies and are similarly drawn from the local talent pool. (Under 2011 Act 32, UW classified staff positions would be transferred to the proposed UW personnel systems and be referred to as "university staff.") For this reason, the Committee may wish to modify the Governor's recommendation to authorize the Board of Regents to approve compensation plans for faculty only.

## ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to require the UW-Madison Chancellor to submit proposed pay plans to the Board of Regents for approval.
3. Modify the Governor's recommendation to grant the Board of Regents and the UW-Madison Chancellor authority to approve pay plans for faculty only. Transfer the amount provided for compensation increases for academic and classified (university) staff to the compensation reserve. [-\$18,404,900 GPR and \$18,404,900 GPR compensation reserves in 2013-14 and -\$21,441,500 GPR and \$21,441,500 GPR compensation reserves in 2014-15]

<b>ALT 3</b>	<b>Change to Bill Funding</b>
GPR	- \$39,846,400
GPR-Comp Reserves	<u>39,846,400</u>
Net Change	\$0

4. Delete provision. Transfer the GPR funding provided for compensation increases for UW employees to the compensation reserve. [-\$32,388,500 GPR and \$32,388,500 GPR compensation reserves in 2013-14 and -\$57,056,000 GPR and \$57,056,000 GPR compensation reserves in 2014-15]

<b>ALT 4</b>	<b>Change to Bill Funding</b>
GPR	- \$89,444,500
GPR-Comp Reserves	<u>89,444,500</u>
Net Change	\$0

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