Salaries, Enhancement and Reallocation

Financial Affairs Committee

Faculty Senate

December, 2002

Introduction

In the summer of 2002, the Chancellor of the University of Alabama System directed the Interim President of The University of Alabama to award pay raises for the coming year against a one-time source of money. He further directed the President to begin a five-year sustained effort to increase faculty salaries at The University of Alabama to the SUG average. According to the Chancellor and President, the funds to pay for the five-year effort are to be derived from the following sources:

1. Tuition Increases (8% per year for five years has been suggested)
2. Increased Enrollments (each additional 100 students brings about $300k)
3. Increased State Allocations (3% per year has been assumed)
4. Gifts/Endowments
5. Budget Reallocation

The last category implies a redistribution of current resources from areas where they are underutilized to areas where they are needed more. It is this last category which is expected to pay for the FY2003 raises (already awarded) since the other sources cannot be tapped in this time frame.

The Interim President appointed an ad hoc committee – the Budget Reallocation Committee (BRC) – and requested a report from them by the end of the year. The Faculty Senate had hoped that the Interim President would seek broad faculty input into this committee's work; however this was not part of his plan for the process. At the behest of the Faculty Senate, three faculty members were appointed to the BRC, providing limited faculty input.

The purpose of this report is to summarize the state of faculty salaries at The University of Alabama and to provide <u>some</u> faculty ideas and opinions on the budget reallocation process. This report does not offer a comprehensive plan for dealing with faculty and staff salary issues.

Current State of Faculty Salaries by Division

Since 1987, faculty salaries have barely kept pace with inflation (see Figure 1). This is because Academic Affairs and Student Affairs are the two divisions that have been consistently shortchanged in response to reduced funding for the University overall.

The attached bar graph (Figure 2) illustrates the present situation for faculty salaries by rank across campus. This chart is based on the 2001-2002 UA salary data and the corresponding SUG data. (Data are not yet available for the current academic year and will not be available until late Spring 2003). The bars in the chart show the percent deviation of each division from the 50th percentile salary of their SUG counterpart. Note that all salaries are at least 5% below the regional average.

The stated goal of the University to "bring faculty salaries to the SUG average" should be interpreted as bringing each division (or sub-division in the case of A&S) to their respective SUG average.

Note that the basis for salaries used in Figure 1 and 2 excludes any administrative supplements, but DOES include salary enhancements for professorships (teaching or research).

Recommendations for Revenue Enhancement and Reallocation

The Faculty Senate affirms its Reallocation Resolution of Sept 17, 2002, which calls for the Governor, the Legislature, and the Board of Trustees, and the administration to seek additional sources of revenue for education (K-Graduate) in the State of Alabama. However, no action taken in this arena will have an impact on the immediate shortfall of funding at The University of Alabama. The following suggestions are made in addition to the Reallocation Resolution and are intended to address the impending reallocation action by the Administration.

Any budget reallocation recommendation is potentially targeted at one of three levels

A. System (out of reach and ineffective for the present)

B. University

C. Division (includes department level)

Furthermore, such recommendation can be broadly classed into one of two types:

1. Revenue Enhancements
2. Resource Reallocation

The Faculty Senate recommends that reallocation be "top down" in the sense that University-level actions be completed before division level reallocations begin.

The Faculty Senate further recommends that revenue enhancements be exhausted before resource reallocations are initiated.

Specific Suggestions for Enhancement and Reallocation

Some faculty fear that the "budget reallocation" process will proceed much like the "budget proration" process has in the past whereby each division shoulders a pro-rata portion of the overall "debt". In these circumstances, open faculty lines are indiscriminately and reflexively closed, and department budgets are curtailed across the board. This kind of "reallocation" of funds is demoralizing and never achieves a solution.

This extraordinary process of "reallocation" to achieve parity in faculty salaries with peer institutions should not be handled in an ordinary manner. Extraordinary efforts must be made and extraordinary results must be obtained for this process to be successful.

The following suggestions constitute a collection of ideas that have been voiced in various discussions among faculty regarding "reallocation". This list of suggestions is not exhaustive and is not meant to preclude other ideas. However, it is intended to put forward ideas that have been discussed and which some faculty support. Many of the suggestions are explicitly endorsed by the Faculty Senate.

Definitions

Below, two different but similar service units of the University are mentioned. Non-academic units and auxiliary units are defined as follows:

Non-academic units: Units attached to divisions for which the *primary* function is not instruction or education; rather it is to provide service *outside the University*. As such, they have clients which are (or can be) charged fees for their services. Faculty and/or students may be involved in such units.

Auxiliary Enterprises (a.k.a. **auxiliaries**): Units not attached to any specific academic division which provide service *inside the University and/or outside it*. These are business units with a customer base; they generate revenue, and may be thought of as "wholly owned subsidiaries" of The University.

A. System Level

Although some economies of scale can be achieved through skillful negotiations and cooperation with the other campuses in The System, these enhancements are long-term and cannot impact the immediate FY2003 or FY2004 budget problems.

The Faculty Senate recommends that the System office continue their efforts to economize by negotiating for the three campuses. One area that offers special promise is in technology and software: many vendors offer substantial discounts when their products are sold across multiple campuses.

B. University

There are several recommendations for revenue enhancement in this section. *To reiterate, we recommend that all revenue enhancements be exhausted before reallocations are considered.*

1. Revenue Enhancements
   a. Critically evaluate non academic units and wean them from the state budget. Simply put, if a non-academic unit does not contribute to the teaching and research missions of The University or significantly contribute to good public relations for The University, then they should not be affiliated with The University. In any case, these units have the potential to pass their costs on to their customers and they should be required to do so wherever feasible. Potential revenue: $10 M/yr.
   b. Excise an explicit "ticket tax" on all public events held on the University campus. The most conspicuous and potentially profitable of these would certainly be athletic events, but other divisional events would also be impacted (theatre performances, music concerts, etc.).
   Potential revenue: $2 M/yr.
   The estimated revenue is based on 10% - 15% tax on an estimated $16.8M revenue from football and basketball tickets for 2002-2003. Thus, this represents a conservative estimate.
   c. Recalculate the administrative overhead cost charged to auxiliaries in light of current costs and charge ALL auxiliaries the same administrative cost rate.
   d. Excise an explicit "gross receipts tax" from University Supply Store based on gross revenues. Potential revenue: unknown, perhaps $ 0.2 M/yr.
   This suggestion is controversial because many departments buy directly from the supply store, and the proposed tax would creep back to the departments as increased costs. However, the bookstore generates a significant amount of revenue each year and none of it is earmarked for academics. We favor earmarking of some amount of the receipts of the supply store to support academics directly.
   e. Redirect efforts of the Development Office away from brick-and-mortar projects onto professorships and scholarships. The reward structure for the development office presently encourages solicitation of donations for buildings. We have more buildings than we can maintain now. A bonus system should be implemented in the

Development Office to encourage donations to fund named or chaired professorships and scholarships. This effort should be especially directed toward those areas of campus that can't raise funds themselves (humanities, social sciences, arts, libraries, etc.). Obviously, funds donated for professorships can be used to enhance salaries and move toward the SUG goal. Presently there is about $6M in the operating budget to fund scholarships. The Development Office should secure endowments to replace this source of scholarship funds.

   f. Development of renewable energy sources, e.g., solar panels on University buildings, to reduce electrical power requirements and costs in areas where such sources are economically feasible.

2. Resource Reallocation
   a. Scrutinize and reduce administrative costs.
   b. Offer an early retirement option for senior staff who presently earn the maximum (or more than the maximum) allowed for their position.

C. Division

Faculty are concerned that divisional "reallocations" will be business-as-usual with each division and department absorbing a pro rata share of the burden.

This reallocation process is an opportune time to critically assess courses, programs, and departments to ensure that they contribute to the mission of their division and The University. It is time to make difficult decisions, and full faculty participation in this process is essential.

1. Revenue Enhancements
   a. Most divisions have possibilities of generating revenue through external grant and research activities. *While all 9 month appointments should be totally funded out of state funds*, an acceptable ceiling of salary above the 9 month salary should be defined to allow PIs to enhance their salary during the academic year. This will encourage more faculty to solicit external funding for their research and in turn generate more revenue for the University and the division.
2. Resource Reallocation
   a. Most divisions have possibilities of generating revenue through external grant and research activities. Presently 60% of the overhead on contracts is retained at the University level. More of this money should be made available to the generating division. It has been suggested that some of this overhead money might be earmarked for enhancement of the library system, which seems reasonable since research relies heavily on the libraries. *The Faculty Senate supports this notion.*
   b. Most divisions have possibilities of generating revenue through external grant and research activities. Presently monies for salaries and fringe benefits for academic year release time are retained by the division. These monies should be returned to the originating department.
   c. The Faculty Senate recommends that, if division level reallocations become necessary, guidelines be established so that this process can be made as uniform as possible across campus. Metrics with norms for the process should be defined.
   d. *The Faculty Senate recommends that, if division level reallocations become necessary, divisional faculty committees be established to advise the dean. This will*

afford needed faculty input to the process and build consensus for the eventual outcome.

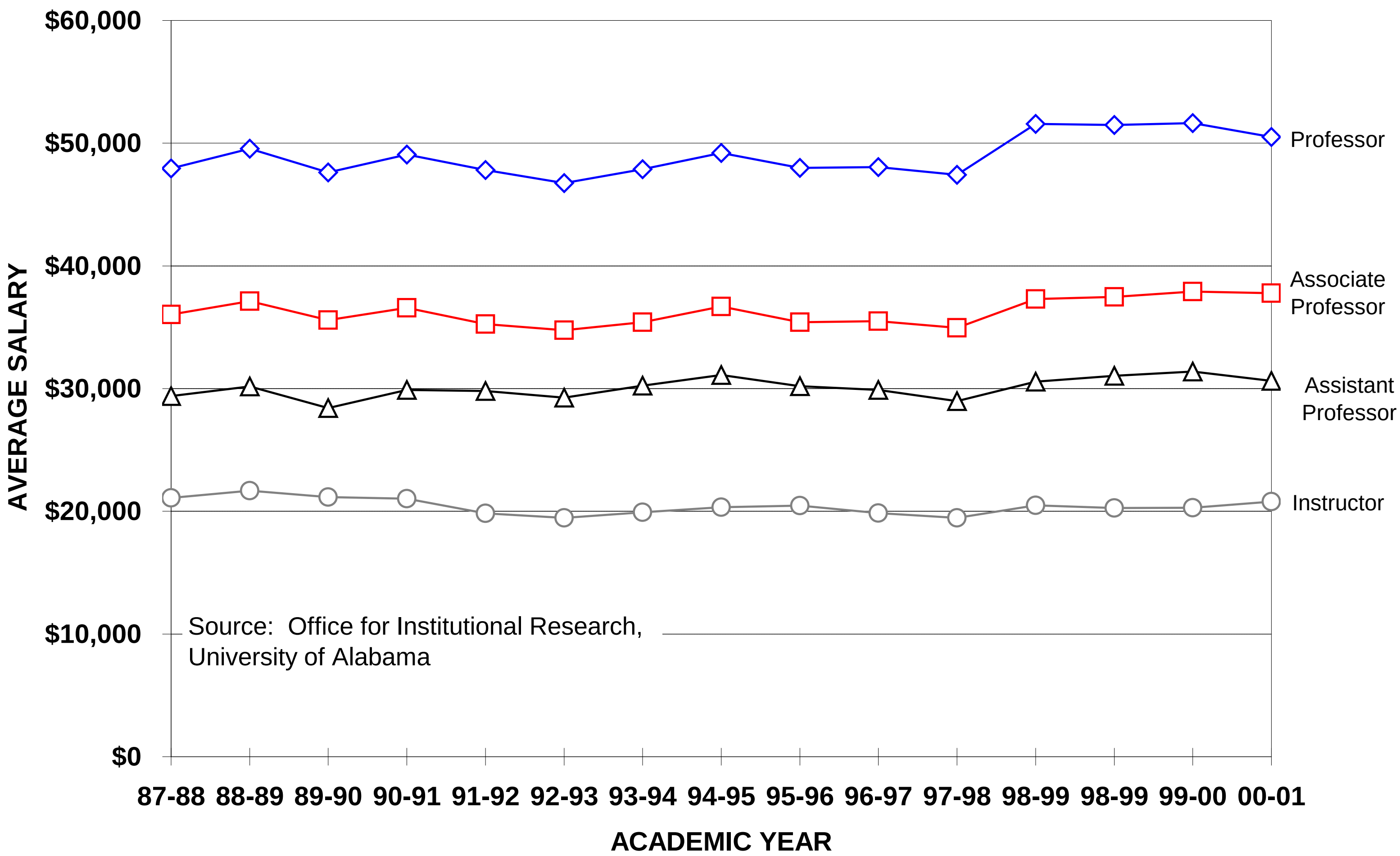

Figure 1 Average faculty salaries by rank 1987-2001, adjusted for inflation using the December CPI for All Urban Consumers (1987=100)

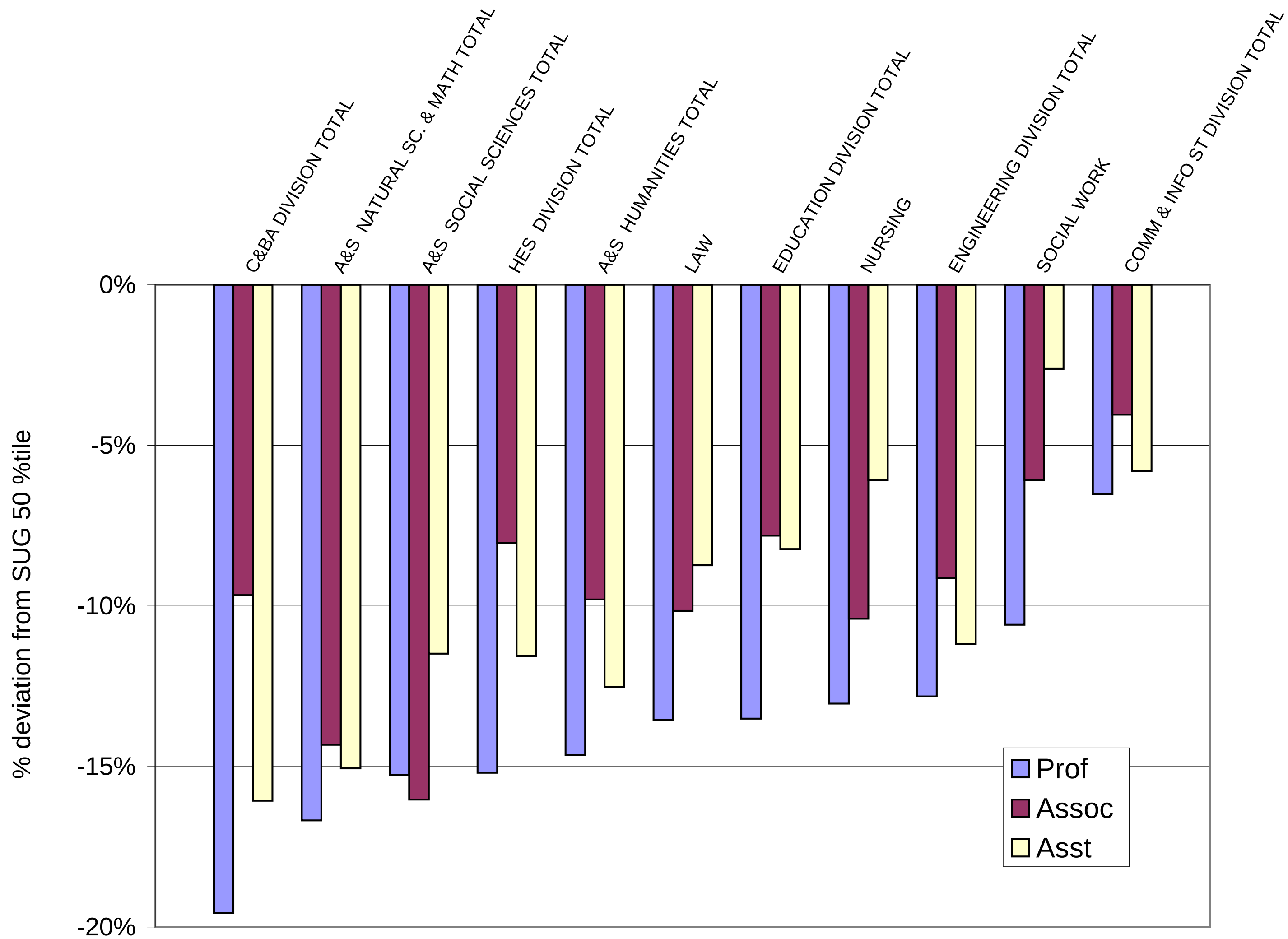

Figure 2. Deviation of salary by rank and devision from 50th percentile of SUG counterpart.