

The University of Arizona

Policy Trends on Non-legislated Salary Increases

Based on data For Salaried, Benefits-eligible Employees

Public salary increases are given for many reasons including those that are state legislated for the purposes of keeping up with market forces and those that are initiated internally by management to advance and promote qualified employees and maintain equity. Salary increases initiated by the legislature for market, merit, or general cost of living purposes will be referred to as *legislative cycle* increases in this brief. Salary increases initiated by University management apart from those state legislated will be referred to as *internally funded*. In this study internal refers to the initiator of the increase, the University, not the source of funds (state or local).

It is University policy to give all eligible employees state-legislated raises regardless of how their position is funded. As such, dollar amounts in this brief, unless otherwise stated, are from all fund sources including state legislated salary increases. When the legislature initiates a statewide salary increase, the State adds funds to the agency's base budget for state-funded positions only. The University provides the dollars needed to match the legislated increase for its locally funded positions. While this is a drain on resources, it has always been manageable for the University. However, when the University has to internally provide salary increases, they do so with their existing budget and have to come up with all fund sources, both state and local. This can quickly become an intractable funding problem without sufficient dollars from external sources.

The University of Arizona has been subject to declining State support over the last decade, including the mid 1990's when the nation saw unprecedented economic growth. Raises from State lawmakers have been insufficient to keep up with the local and national markets. The below-market salaries for faculty have been especially evident the past several years. Faculty, as well as other staff, are leaving the University, and in some cases the State, for better-funded futures elsewhere. To off-set the below market salaries, directors and department heads in the University have been giving internally funded salary increases to help stem the departure of top employees.

In the past, internally funded increases were mainly used to promote employees. These include career progression, promotion, re-class up, and title changes. Occasionally, market, equity, and retention salary increases were necessary but these types of increases were not the norm. But with the current economic situation and the University's below-market position with respect to salaries, management has had to internally fund ever-increasing demands for equitable market salaries. When the University has to compete with the market with their existing funds, the internal funding amounts to cutting the beef and now the bones of the institution. Money allocated to these kinds of increases mean that other University activities must be forgone.

While this brief will focus on management-initiated or internally funded salary increases, to first provide some perspective, a comparison of legislated and management-directed increases is in order.

What are the effects of changes in the allocation of salary increases?

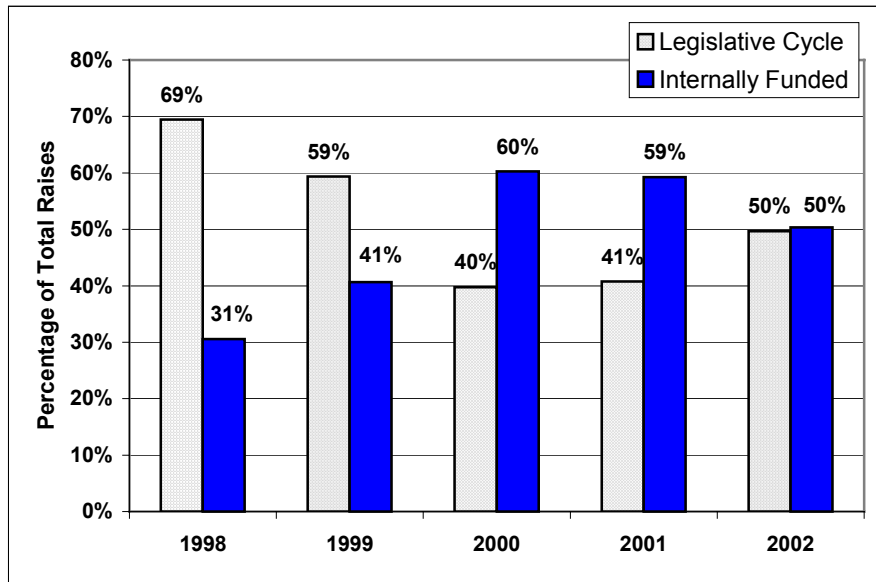
Referring to Table 1, for the last five years, approximately \$19-22 million was spent annually on salary increases for salaried, benefits-eligible employees. Looking at Figure 1, in 1998, almost 70% of the dollars were state-legislated increases and slightly over 30% were internally funded increases. By 2000, the trend reversed with 40% of the dollars based on state legislated merit increases and 60% based on management directed increases. In 2002, the ratio declined slightly to 50/50 primarily because of fund shortages. The amount invested in internally funded increases dropped from a high of \$11.7 million in 2001 to \$10.5 million in 2002.

Table 1: Distribution of Salary Increases (All Funds):

Type of Increase	Dollars (\$) in Millions										5-year Pct Change
	FY 1998		FY 1999		FY 2000		FY 2001		FY 2002		
	\$	%	\$	%	\$	%	\$	%	\$	%	
Legislative-cycle	15.5	69%	11.3	59%	7.6	40%	8.0	41%	10.3	50%	-34%
Internally Funded*	6.8	31%	7.7	41%	11.4	60%	11.7	59%	10.5	50%	54%
Total	22.3	100%	19.0	100%	19.0	100%	19.7	100%	20.8	100%	-7%

* In 2000, raises for classified staff and professionals increased substantially because the UA internally generated \$1.4 million in Classification Salary Adjustments (CSA) funds

Figure 1: Comparison of Employee Raises Funded Externally (State) versus Internally Over Time

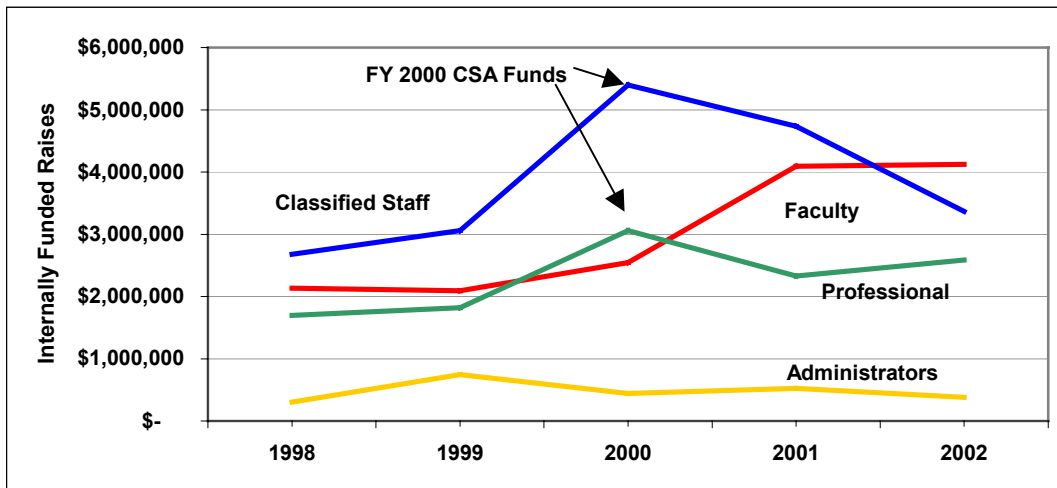


Departmental dollars invested in internally funded salary increases will continue declining unless there is University administrative intervention. The reasons are two fold. State budget shortfalls have left departments struggling to find ways to cut their budgets in some cases 9-10%. Even if the State financial crisis had not occurred, departments may have already exhausted their resources to fund non-legislatively mandated increases. During the past five years, many departments gutted vacant lines to better fund existing positions. This funding strategy can only work for so long before a unit becomes non functional.

How has the allocation of salary increases changed?

Funds devoted to management-directed increases for administrators increased minimally during the five years. The big jump took place among faculty positions with departments devoting funds and effort to retain professors who were receiving better offers elsewhere. The peak of management-initiated salary increases for classified staff and professionals in 2000 was due to internally generated Classification Salary Adjustments (CSA). That year, the University made substantial strides to revamp and fund key technical positions mainly in the computer and telecommunications fields by updating titles and salaries to be comparable to the market.

Figure 2: Internally Funded Salary Increases By Employee Group Over Time



What are the major types of salary increases?

Internally funded salary increases were divided into two categories; (a) those used to promote qualified employees coined *career change*, and (b) those necessary to rectify *market failure* including market, equity, and retention. Career change raises were the sum of career progression, promotion, re-class up, and title change salary increases. As anticipated and shown in Figure 3, career changes were the major reason for internally funded salary increases. Dollars invested in promotions are one of several management tools used to motivate and reward employees for achievement and excellence and would be expected. In 1998, 67% of all internally funded salary increases were for career changes while 33% were directed at market failure. Over time though, the dollars directed at market failure increased. In 2001, market failure increases reached a high of 44% of all internally funded raises and dropped slightly in 2002 to 38%. What does this mean for the University?

Figure 3: Internally Funded Salary Increases By Type of Increase Over Time

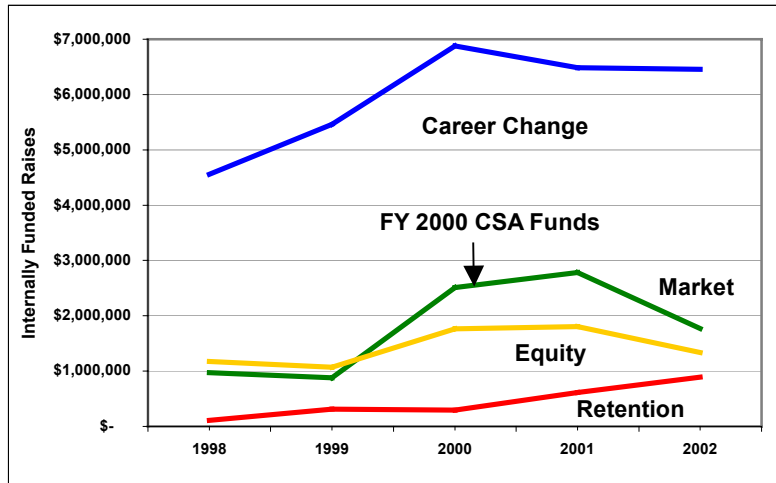
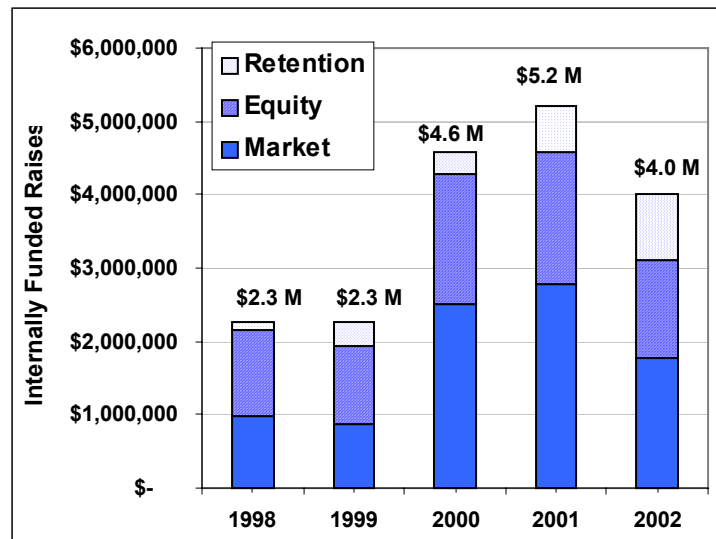


Figure 4: Comparison of Retention, Equity, and Market Salary Increases



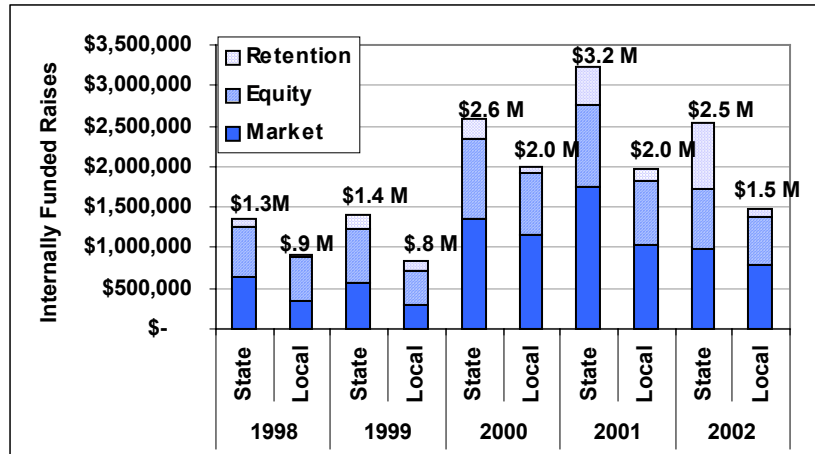
This implies that scarce dollars are being redirected to correct market inequities taking away from the University’s ability to fund workload and capital projects elsewhere. Overall, there was more than a 50% increase in University spending for internally funded salary increases the past five years. During that same time, though, University dollars allocated for market failure grew over 70%, as illustrated in Figure 4 (\$2.3 M in 1998 to \$4.0 M in 2002). Over the last five years, approximately \$18 million has been internally reallocated to bring salaries to market.

The University increased expenditures the past five years for market raises 82%, for equity 14% and for retention over 720%. Yes, over 720% for retention. In 1998 the University spent \$108,000 for retention and in 2002 increased that spending to \$894,000 – and this amount was still insufficient to meet the needs of all departments.

Do fund sources for various types of salary increases differ?

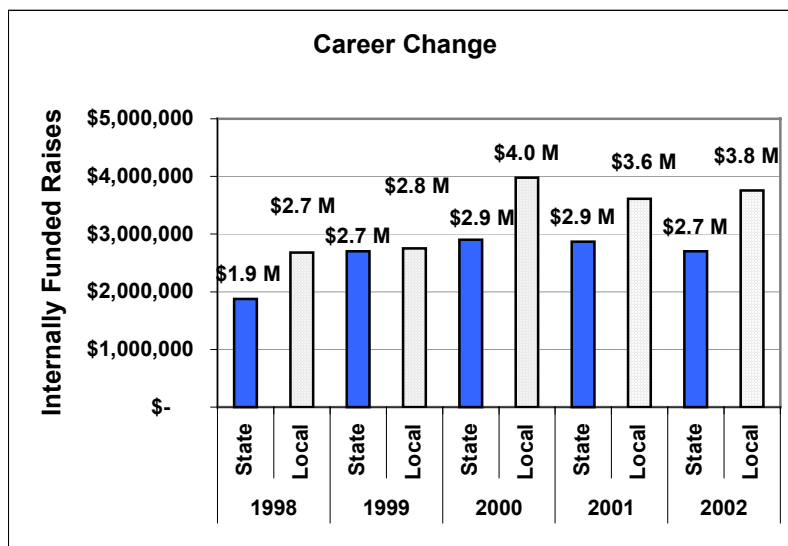
The University finances salary increases out of two major pools of money – state and local funds. Local funds include agency, auxiliary, designated, loan, plant, restricted and sponsored research dollars. Figures 5 and 6 compare the nominal dollar amounts the University has expended to fund market failure and career change raises.

Figure 5: Comparison of Internal Fund Sources Financing Retention, Equity, and Market Increases



In the case of market, equity, and retention salary increases, more state than local dollars were allocated to the raises. The opposite occurred with career changes; more local dollars were allocated to salary increases than state dollars. Differences in funding patterns between career change and market failure increases though were largely a function of which employee group received the raises. In the cases of retention, equity, and market, except for 2000, over 60% of the increases went to faculty and administrators whose salaries were more heavily funded by state dollars. In the case of career change, more than 60% of the dollars went to classified staff and professionals whose salaries were more heavily funded by local dollars.

Figure 6: Comparison of Internal Fund Sources Financing Career Changes



Conclusion:

Career change increases are a natural part of any human resource program, public or private. The University of Arizona is no exception. The lion's share of the non-legislated salary increases is indeed for career changes. However, since 1998, the University has had to rely more and more on using its scarce resources to correct salary market problems through retention, equity, and market increases. This growth in market-failure increases is a result of meager salary raises from the state that were insufficient to keep up with national and local salary markets. As a result, the University has had to use existing program funds to keep qualified and valued employees.

With the current fiscal crisis in Arizona, and the rest of the nation as well, recession has once again taken its toll on higher education. The University of Arizona has suffered budget cuts multiple years in a row, with no end in sight. This, added to previous years of insufficient State funding, has left the University's primary asset, human capital, vulnerable to market forces. Even in this down-turned economy, employees are seeking and obtaining positions elsewhere.

The State will be unable to help the University of Arizona rectify below-market salaries for several years to come. If the University is to have a successful future, it will have no choice but to continue internally funding market-type salary increases while maintaining ongoing financial support for career changes. As the practice of "gutting lines" has been going on for several years, individual departments may well be scrapping the bottom of the barrel to come up with funds in the future to financially support internal raises.

From an institutional perspective, the ever-increasing amounts directed at the internal funding of salary increases means that other institutional activities must be forgone. The University of Arizona will need an institution-wide policy to resolve an institution-wide salary market inequity problem.

Methodology:

While all categories of employees can receive state legislated and management initiated increases, only *salaried, benefits-eligible* employee salary increases were included in this study. Student worker, graduate teaching/research assistants ancillary employees, and all wage positions were excluded.

For the sake of timeliness, it was necessary to exclude benefits-eligible wage positions. Considerable more time and research is necessary to produce reliable and valid measures for those mainly classified staff that are on wages. Approximately 10% of the benefits-eligible classified staff are wage employees and approximately 3% of all benefits-eligible employees (administrators, faculty, professional, staff) are paid on an hourly basis. The two areas that were most affected by this exclusion were the College of Agriculture and Life Sciences and Campus Life. These two areas have the largest proportion of wage-based positions compared to the rest of the University.

The dollar amounts include the salary portion of compensation only and exclude employee related expenses. The summary amounts are from all fund sources unless otherwise stated.

Changes in employee compensation were broken out into two types of increases

- Legislative -cycle – includes general adjustments, merit, the one-time teaching incentive increase (TIP) and COLA/CSA market increases.
- Internally Funded – includes career progression, equity, promotion, re-class up, retention, title changes and market increases not legislatively mandated.

The separation between legislated and internally funded market increases was estimated at best. Market increases occurring only on the dates stipulated in legislation, October 1, 1997 and 1998 were associated with the legislative cycle while market increases occurring at all other times of the year were considered internally initiated.

Appendices

- Salary Increases By Employee Group
- Salary Increases By Type of Salary Increase
- Salary Increases - By Type of Salary Increase and Fund Source
- Pay Increase Definitions