

UNIVERSITY OF VIRGINIA  
BOARD OF VISITORS AGENDA ITEM SUMMARY

BOARD MEETING:           October 4, 2003

COMMITTEE:               Full Board

AGENDA ITEM:           Policy Discussion on Compensation and  
Research Initiatives

BACKGROUND: During the discussion of the 2003-2004 operating budget in June 2003, the Finance Committee asked the administration to determine the cost of moving faculty salaries to the 60<sup>th</sup> percentile of the SCHEV rankings and to identify potential funding sources. This request was addressed at a meeting of the Finance Committee on July 7 by Leonard Sandridge. The Finance Committee report led to a broader discussion and the identification of eleven questions focused on attracting and retaining strong faculty, particularly in high priority areas. These points were further considered at the Board's retreat on July 14. At the Retreat, the Board concluded that total compensation of faculty and staff must be competitive with peer institutions in the national marketplace. The Board requested additional data and analysis as a first step in developing a compensation policy that reflects institutional priorities, builds on institutional strengths, and leads to a measurable return on investment.

On August 29, the Educational Policy Committee heard a presentation from Gene Block and Ariel Gomez about an initiative to enhance research programs at the University, with a request for resources to advance the University's and Governor's research goals over the next five years. The Educational Policy Committee also asked Leonard Sandridge to develop a plan to fund the Medical Research Building #6 (MR-6) component of the five-year plan so the project could be started promptly.

The Board has asked the President and Executive Vice President to discuss the policy issues associated with compensation and research and make appropriate recommendations at the October Board of Visitors meeting.

DISCUSSION:

COMPENSATION

The Board heard in presentations to the Finance Committee and at the Retreat in July that average faculty salaries have declined seriously relative to our national peers over the last decade. In 2000-2001, UVa faculty ranked at the 46<sup>th</sup> percentile in our SCHEV peer group with the state's objective to fund average faculty salaries at the 60<sup>th</sup> percentile; in 2002-2003, the percentile ranking had declined to 27<sup>th</sup>. Over the same period of time, the University's ranking among AAU institutions dropped from 21<sup>st</sup> to 30<sup>th</sup>. In 1989-1990, the University ranked 18<sup>th</sup> among its AAU peers.

The performance of both faculty and staff is reviewed annually by the University. Each faculty member develops a performance report for the relevant department chair, manager, or dean which addresses progress toward performance goals, scholarship and research activities, professional activities and recognition, administrative and committee service, and paid consulting days. The report also establishes new performance goals for the next reporting period. In a similar process, supervisors review the performance of classified staff on an annual basis.

Faculty salary increases at the University are based on merit. The Provost allocates funds to school deans for faculty salary increases based upon the increase approved by the General Assembly and authorized by the President and the Board of Visitors. Often, the dean will retain some portion of the pool to provide supplemental increases to faculty who recently have been promoted or tenured. The remaining funds are allocated to faculty based on performance and productivity. The equity issues that appear in a compensation program after years of under funding of salaries also must be addressed with these remaining funds.

Salary increases for classified staff are routinely allocated on an across-the-board basis. However, the Commonwealth's new classified pay and performance plan established in 2000 provides a mechanism to allocate limited funds on the basis of merit.

Factors other than salary often influence a faculty member's decision to continue employment or join the University faculty. Professional strength of colleagues and potential

mentors, the opportunity for research collaboration, the presence of excellent research facilities, the quality of graduate students, the availability of sufficient staff support, and an atmosphere of collegiality all contribute to a faculty member's job satisfaction. Personal or quality of life considerations include the presence of a vibrant, local community, the quality of schools, and the cost and availability of housing. Cost-of-living factors often are considered important in assessing the real value of salaries but, in practice, it is the junior faculty who seem to pay the most attention to what it costs to live in a particular area.

Faculty resources must be invested strategically to maintain strengths and build on priorities. This investment often differs among academic ranks. As an example, junior faculty tend to be more mobile since they are early in both their professional and family lives. As they advance through the academic ranks, establish a teaching and research base, and settle in the community, they become less mobile. At the associate professor level, the University seeks to reward those who show exceptional promise and who are making excellent progress to the full professor rank. Many outstanding associate professors are identified by other universities as "up-and-coming," and it is important for the University to be proactive in addressing the salary issues with this group of individuals it wishes to retain. For senior faculty, it is more critical to focus on strategic disciplines and on faculty who have achieved recognized academic excellence.

Periodically, the University performs a segmentation analysis of the salary and compensation of teaching and research faculty, reviewing average salaries by school, discipline, and rank as compared to our public and private peer institutions. These analyses often focus on AAU institutions and all salary sources, unlike the SCHEV peer analysis. For classified staff, University Human Resources uses employee performance evaluations and a new Watson Wyatt external market assessment product to conduct an institutional compensation review of all classified positions as compared to the external labor market and assign a market survey comparator to assess internal and external equity.

### RESEARCH

One of the University's, and the Commonwealth's, highest priorities is to grow and strengthen the research enterprise. As reported to the Educational Policy Committee on August 29, it

is critical, in building a top-ranked research university, to attract and retain the most promising scientists by addressing a) faculty salaries which lag behind those at peer institutions, b) the acute shortage of laboratory space, and c) inadequate graduate student stipend packages.

This is a unique time to invest in the research enterprise. We have special strengths in the biological sciences, nanosciences, and information technology. An investment in the sciences will lead to opportunities for our students and faculty as well as national visibility. At the same time, we are contributing to the economic development of the Commonwealth through technology transfer.

Provost Gene Block described on August 29, his view of where we are now and where we must be in ten years relative to our research program. He suggests that we attract ten National Academy-level faculty teams to the University. Mr. Block pointed out that we must consider increasing the size of the faculty in targeted scientific areas and providing new and up-to-date research space. His report to the Educational Policy Committee described the investment that is needed.

#### RECOMMENDATIONS

We recommend a four-part program to invest strategically in our people and to secure our place as a meaningful player among major research universities.

1. Compensation Adjustments: We propose a supplemental faculty salary adjustment to become effective on November 25, 2003, in an amount equal to 1.75 percent of the base faculty salaries budget. This amount is to be awarded to individual faculty on the basis of merit and in addition to the 2.25 percent increase that is authorized by the State.

For classified employees, we recommend that the Board authorize a pool of \$250,000 plus benefits, available November 25, 2003, for strategic base salary adjustments through the Classified Compensation Plan's In-Band Adjustment program. We propose a second pool in the amount of \$200,000 plus benefits, available annually, for one-time bonuses and awards payable to outstanding performers under the State Rewards & Recognition Plan.

The annual supplemental investment needed to fund the above proposals for all categories of faculty (teaching and research, administrative and professional, and graduate teaching assistants (GTAs)) and classified staff is shown below.

<u>Annual Supplemental Investment Needed</u>		
	2003-2004	2004-2005 and forward
Faculty and GTA	\$ 1,583,044	\$ 2,497,896
Classified	370,125	540,250
<b>Total UVa Investment</b>	<b>\$ 1,953,169</b>	<b>\$ 3,038,146</b>

For 2003-2004, we propose that the nearly \$2 million investment required be funded as follows:

<u>2003-2004 Investment</u>	
State Reserve (Classified)	\$ 370,125
Budget Defense Fund (1/2 T&R faculty and GTAs)	668,191
Taylor Fund (1/2 T&R faculty and GTAs)	668,191
Local General Fund (A&P faculty)	246,662
<b>Total</b>	<b>\$ 1,953,169</b>

For 2004-2005 and forward, we propose that the \$3 million investment required be funded through a tuition increase of approximately 2.5 percent in Fall 2005 on undergraduates and Medical students (given that graduate tuition nets minimal revenues after financial aid requirements and Darden and Law will increase their tuition as needed to fund their salary increases).

2. Commitment to Medical Research Building #6: We recommend that \$20 million be allocated to address the unmet funding needs associated with Medical Research Building #6. The remainder would be funded from School of Medicine sources and General Obligation Bond proceeds. This proposal responds to the request made by members of the Educational Policy Committee meeting on August 29. This one-time commitment will be funded through an allocation of institutional indirect cost recoveries and investment earnings.
3. Competitive Compensation: We recommend that the Board approve in concept a commitment to restore nationally competitive faculty compensation over the fiscal years 2004-2007 as measured by appropriate peer comparisons and

institutional priorities. Not later than April 2004, we will suggest to the Board a policy on faculty compensation. The policy will guide our compensation decisions over the next three fiscal years. Potential fund sources were presented to the Finance Committee at its July 7 meeting, and consist mainly of revenue from increased tuition and investment earnings. Each year as part of the annual budget process, we will recommend specific salary adjustments and funding plans for the Board's consideration for the upcoming fiscal period. The compensation policy will call for specific performance measures and milestones to ensure appropriate progress over time.

4. Investment in the Research Enterprise: We recommend that the Board approve in concept a plan to invest \$40 million (\$60 million less \$20 million for MR-6) in the research enterprise over the period 2004-2009 consistent with the proposal made to Education Policy Committee in August 2003. Endowment resources tentatively have been identified to fund this concept.

Not later than April 2004, Provost Block and Vice President Gomez will bring to the Board a written five-year plan including commitments from other sources of funds identified by the Provost at the August 29th Educational Policy meeting. The five-year plan will outline the specific goals and required investments needed to position the University as a top-ranked research university. This detailed plan will reflect the concept and investment amounts outlined at the August 29th Educational Policy Committee meeting. The actual commitments will be made as part of the annual budget approval process subject to confirmation that appropriate measures and milestones are in place and that progress is being made consistent with the plan to be presented for the research program.

ACTION REQUIRED: Approval by the Finance Committee and by the Board of Visitors

APPROVAL OF INVESTMENT IN THE UNIVERSITY'S RESEARCH ENTERPRISE

WHEREAS, the Board has reviewed the status of the research program within the University with the intention that the University build its research enterprise in support of its goals and the Governor's goals for teaching, knowledge creation, technology transfer, and economic development; and

WHEREAS, the University's research program requires an investment in facilities and faculty to achieve and maintain the national standing it seeks; and

WHEREAS, the Educational Policy Committee has asked the President and the Executive Vice President to propose a plan to proceed promptly with the construction of Medical Research Building #6; and

WHEREAS, the Educational Policy Committee also has requested a detailed five-year plan for research based on preliminary information provided by the Vice President and Provost in August 2003, calling for a total investment of \$128.5 million and a Board of Visitors commitment of \$60 million over the period 2004-2009;

RESOLVED that \$20 million be allocated to complete the funding required for Medical Research Building #6 from institutional indirect cost recoveries and investment earnings, subject to funding of the remainder from School of Medicine sources and General Obligation Bond proceeds; and

RESOLVED FURTHER that it is the intent of the Board to invest an additional \$40 million from institutional funds in the research enterprise over the five-year period 2004-2009 to fund, along with other monies provided by the schools and Vice President for Research, ten "National Academy caliber" faculty teams and an Advanced Research and Technology Facility, subject to the submission of an acceptable five-year plan for research not later than April 2004; and

RESOLVED FURTHER that such investment will be made as part of the annual budget approval process over the five-year period 2004-2009 subject to confirmation that funding is available, that appropriate measures and milestones are in place, and that progress is being made consistent with the plan to be presented for the research program.

APPROVAL OF COMPENSATION ADJUSTMENTS AND INTENT TO ACHIEVE  
COMPETITIVE COMPENSATION FOR FACULTY AND STAFF

WHEREAS, the Board has reviewed the compensation provided to faculty and staff of the University; and

WHEREAS, the Board intends to pay people what they are worth in the marketplace based on individual qualities and

measured by appropriate indices that are tested regularly and disclosed publicly; and

WHEREAS, the University's faculty and staff compensation has fallen over the last decade in all major surveys including those used by the Commonwealth to determine the desired funding of faculty salaries; and

WHEREAS, it is the expectation of the Board of Visitors that the state meet its obligation to restore faculty and staff salaries in the institutions of higher education in Virginia as quickly as possible; and

WHEREAS, it is the intent of the Board to restore faculty compensation at the University by the end of Fiscal Year 2007 to nationally competitive levels compared with peer institutions as measured by appropriate compensation surveys and institutional priorities;

RESOLVED that funding be provided from institutional resources to supplement state faculty salary increases effective November 25, 2003, by an average of 1.75 percent to be allocated on the basis of merit; and

RESOLVED FURTHER that two compensation funds be established effective November 25, 2003, for classified staff consisting of a) \$250,000 plus benefits to provide strategic base salary adjustments through the Classified Compensation Plan's In-Band Adjustment program and b) \$200,000 plus benefits for one-time bonuses and awards payable to outstanding performers under the State Rewards and Recognition Plan; and

RESOLVED FURTHER that the President and Executive Vice President propose a policy on compensation to the Board not later than April 2004, that achieves the Board's intent to restore faculty compensation to nationally competitive levels by the end of fiscal year 2007 and preserve market driven/performance based compensation for classified staff subject to annual budget review processes, specific performance measures, milestones, and funding strategies to ensure accomplishment of the compensation objectives.