An Enumeration of Compensation and Other Pressures on the UCSC Budget

UCSC Committee on Planning and Budget

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Abstract

The Committee on Planning and Budget, in collaboration with the Office of Planning and Budget, has estimated the outlay of additional permanent core funds, under various assumptions, that would be needed to fund promised, proposed, and discussed increases to the compensation of various segments of the campus's workforce. These groups include graduate students, Unit 18 Lecturers, non-represented staff, and Senate faculty. A total of $27M of additional compensation needs, and $16M of other expected impacts on the campus permanent budget, are identified. Summed together, this represents 10% of current core funding, and is approximately three-fourths larger than the boost to campus core funding associated with the 2012-2018 rebenching process.

Introduction

Over the course of many years, likely tied strongly to the systematic decline in the per-student funding provided through State and tuition support, there has been a growing sense that the campus's workforce compensation levels have fallen below an optimal, and perhaps as some would even argue, moral point. Our administration has recently instituted a $2500 housing allowance for MFA, Ph.D. and DMA students that will be provided for the current and upcoming academic years, and likely for some time to come. The Executive Vice Chancellor (EVC) has indicated that subsequent evaluation of graduate student need may motivate an increase in this allowance. Unit 18 lecturers are currently bargaining for a new contract; a recent offer[1] by the Office of the President provides for a significant increase in lecturer compensation. While not finalized, it is very unlikely that the renewed contract will establish levels of support below that of the current offer, and could quite possibly establish higher levels. At the same time, while most represented staff are currently working under the terms of established labor agreements, the broad perception that compensation for other staff categories has stagnated in recent years has led to an effort to evaluate non-represented staff compensation practice. To provide a concrete basis for the discussion of non-represented staff, former EVC Tromp convened a Compensation Philosophy Task Force, which released its report in November 2018[2]. Finally, the Office of the President has expressed a commitment to achieving parity in faculty salaries with the UC "Comparison 8" institutions[3] ; the current deficit is estimated to be 6.7%. Together, these impending increases to UCSC workforce compensation create significant pressure on the campus's budget. The purpose of the study reported in this memo is to provide an estimate of the impact on the campus's permanent budget that can be expected as these compensation increases come to bear. A list of other budgetary pressures, compiled from a discussion with the Office of Planning and budget, is also presented.

In authoring this memo, the Committee on Planning and Budget (CPB) wishes to emphasize, in the clearest possible terms, that nothing within it represents a commitment to, or support of, any stated level of compensation, compensation philosophy, or practice on the part of the committee. Rather, this memo merely attempts to provide a broad, rough estimate of compensation-related budgetary pressures based on straw assumptions that will inform deeper discussions about appropriate levels of compensation and support. Those assumptions have been chosen by CPB due to their impending nature (the graduate student housing allowance, the Unit 18 offer) or, when such guidance is unavailable, a clearly-defined and plausible goal.

Compensation Programs for Terminal Degree Students

The Chancellor has committed permanent funding for an annual $2500 housing allowance for terminal (MFA and doctoral) students, as well as to enable the offering of five-year (two-year) packages in all

[1] UCOP Systemwide Labor Relations letter to Unit 18 Lecturers (January 31, 2020).

[2] Campus Welfare Committee (CWC) Compensation Philosophy Task Force Report and Recommendations (November 1, 2018).

[3] The "Comparison 8" institutions are four public and four private universities: University of Illinois, University of Michigan, University of Virginia, SUNY Buffalo, Harvard University, Massachusetts Institute of Technology, Stanford University, Yale University.

doctoral (MFA) programs[4]. These programs are estimated to require $7M of permanent funding, which has already been committed by the Chancellor.

Unit 18 Compensation

While the Office of the President's offer to the Unit 18 bargaining group sets out an explicit prescription for increasing the compensation of Unit 18 lecturers, an analysis is would be required to convert that prescription into a concrete calculation of the impact upon lecturer compensation at UCSC. However, a rough estimate, likely accurate to ±20%, is that once fully realized the increase will amount to approximately 7% of current lecturer compensation. The current expenditure on Unit 18 lecturer salaries is $12M; the expenditure increase is thus estimated to be approximately $0.8M. Including the cost of benefits that scale with salary (approximately 25%, due primarily to the University's contribution to the UCRP retirement fund, and the employer's FICA responsibility), the expected budgetary impact is approximately $1.1M in permanent funding.

Non-Represented Staff Compensation

In the wake of the 2008 Great Recession, compensation levels were largely frozen across the campus, with one notable exception being faculty merit increases. While faculty began to receive cost-of-living adjustments (in addition to merit increases) starting with academic year 2011-2012, no cost-of-living adjustments have been made to non-represented staff salaries since the advent of the Great Recession. Merit programs, amounting to increases in average compensation levels of 3% in a program year, have been afforded to non-represented staff in academic years 2011-2012, and each subsequent year since 2013-2014. The loss of competitiveness with industry standards caused by this suppression of the growth of staff salaries has been documented in the Compensation Philosophy Task Force Report. CPB found this to be captured most understandably in Table 4 of that report (updated for this study by the Staff Human Resources department and reproduced as Table 1 here), in which the fraction of staff below the 25th, 50th, 75th, and 100th percentile (Q1, Q2, Q3 and Q4, respectively) of industry-standard compensation is tabulated for employees in each of 16 employment grades. In this analysis, industry-standard compensation levels, as assessed by the UC Office of the President, have been inflated by 10% to account for the cost of living in the region surrounding the campus[5], as recommended by analysts at the Office of the President. Overall, it is seen that 73% of UCSC staff are currently below the median for their job classification, suggesting significant erosion of salary levels as a consequence of recent compensation practice.

To provide a scale of the corresponding pressure on the campus budget, CPB applied a principle of restoring competitiveness to non-represented staff salaries. Once again, CPB emphasizes that the use of this principle does not represent its endorsement, and imagines that other principles, based for example on stemming turnover or providing a living wage, might be considered instead.

[4] See https://campus-climate.ucsc.edu/graduate-student-compensation/

[5] Campus Welfare Committee (CWC) Compensation Philosophy Task Force Report and Recommendations (November 1, 2018).

As a starting point, the impact on the campus's permanent budget can be estimated directly from Table 1 by, for each grade, calculating the difference between the campus average (Column 5) and mean compensation point (Column 3), multiplying that by the number of employees at the given grade (Column 6), adding the result across all grades, and then multiplying the result by 1.25 to account for benefits that scale with salary (primarily, retirement and FICA). However, only half (49%) of staff compensation derives directly from "core funds" (the funds that that support teaching and learning and associated support functions on our campus); other sources of income include recharge funding, external support and indirect cost recovery, and income from student housing. Still, not all of this 51% can be discounted, since increases to staff compensation in this area will lead to increases in recharge rates and other fees. Thus, for the purposes of this study, it is assumed that the impact on the campus's permanent budget will amount to approximately 2/3 of the increase in staff compensation costs (including additional benefit costs as indicated above) associated with the overall increase in compensation, again expected to be accurate to roughly $\pm$20%. Making use of the information in Table 1, this leads to an estimated impact on the campus's permanent budget of $10.8M.

Table 4. Annual Staff Compensation Summary -- by Salary Grades

Grade	Min	**Mid**	Max	**Average**	# EE's	% EE's	Q1	Q1 %	Q2	Q2 %	Q3	Q3 %	Q4	Q4 %
30	156,741	**239,030**	321,319	**260,031**	6	0%	0	0%	3	50%	2	33%	1	17%
29	138,816	**209,613**	280,409	**221,614**	5	0%	0	0%	1	20%	4	80%	0	0%
28	123,069	**183,988**	244,906	**188,316**	22	1%	4	18%	4	18%	9	41%	5	23%
27	109,010	**161,335**	213,660	**161,639**	33	2%	3	9%	16	48%	9	27%	5	15%
26	98,302	**144,013**	189,723	**142,166**	93	5%	13	14%	40	43%	27	29%	13	14%
25	88,716	**128,638**	168,559	**123,271**	137	8%	28	20%	57	42%	33	24%	19	14%
24	79,929	**114,698**	149,466	**108,976**	120	7%	27	23%	57	48%	22	18%	14	12%
23	72,111	**102,398**	132,684	**95,638**	285	16%	68	24%	143	50%	57	20%	17	6%
22	65,075	**91,430**	117,785	**79,282**	249	14%	133	53%	66	27%	34	14%	16	6%
21	58,845	**81,795**	104,745	**74,202**	202	12%	79	39%	70	35%	44	22%	9	4%
20	54,045	**74,313**	94,580	**64,009**	177	10%	89	50%	58	33%	26	15%	4	2%
19	49,517	**67,343**	85,168	**59,208**	240	14%	122	51%	77	32%	32	13%	9	4%
18	45,572	**61,295**	77,018	**53,006**	155	9%	74	48%	40	26%	33	21%	8	5%
17	41,925	**55,760**	69,595	**53,211**	28	2%	9	32%	7	25%	10	36%	2	7%
16	38,428	**50,533**	62,637	**62,164**	2	0%	0	0%	0	0%	1	50%	1	50%
15	35,402	**46,023**	56,643	**N/A**	0	0%	0	0%	0	0%	0	0%	0	0%
ALL					**1754**		**649**	37%	**639**	36%	**343**	20%	**123**	7%

** Aged Pay Data by 3% for Merit and 2021 Range

** Data Pull Date: February 2020

Table 1: Annual non-represented staff compensation summary, by salary grades (from Compensation Philosophy Task Force Report (November 2018), with February 2020 updates).

Competitive Faculty Salaries

To close the gap between UC faculty salaries and those of comparators, the University will be required to increase overall faculty salaries by 6.7%. For the sake of this estimate, CPB will assume that the campus would continue its practice of only incrementing the on-scale portion of faculty salaries, which CPB expects to be approximate 90% of the $105M currently allocated for ladder-rank and teaching professor compensation. The resulting increase in the outlay for faculty salaries is thus estimated to be $6.3M;

including the portion of benefits that scales with compensation would increase this amount to approximately $7.9M.

Summary of Budgetary Impacts Associated with Compensation Pressure

A summary of estimated increases in the campus's permanent budget associated with compensation pressures is displayed in Table 2. The total of all estimated impacts, expected to be accurate to within 10-20% under the various assumptions discussed above, is approximately $27M.

Compensation Need	Estimated Permanent Budget Increase
Graduate Student Support	$7.0 M
Unit 18 Lecturer Contract	$1.1 M
Non-Represented Staff Salaries	$10.8 M
Senate Faculty Salaries	$7.9 M
Total	**$26.8 M**

Table 2: Summary of budgetary impacts associated with various sources of compensation pressure.

Other Budgetary Pressures

A number of other existing or impending conditions and initiatives will put pressure on the campus budget. The University is expected to be required by the Regents to increase its contributions to the UC Retirement Program (UCRP) from 14% to 17% of gross salary over the next few years. On the campus's $380M of benefit-covered compensation, this will require a reallocation of $11.5M in permanent funding, of which perhaps 80% ($9.2M) might come from core funds. The Graduate Division, which provides significant amounts of funding that materializes as direct support for graduate students (for example, the Block Grant Allocation) has been in deficit by approximately $3M in recent years. Other units and divisions have been experiencing structural deficits, totaling approximately $2M, include the Social Sciences Division, the Monterey Bay Education, Science and Technology (MBEST) Center, and the Arboretum. The roll-out of the mandated UC Path system is expected to require additional support-staff permanent funding of $1.5M. New sustainability programs nearing the deployment phase are expected to require $0.6M in permanent funding when enacted.

Inflation provides an additional threat to UC campus budgets. Over the past several years, for a fixed level of effort, campus costs have risen at a pace greater than inflation, although the pressures causing this difference in the rate of growth of costs may be just those leading to the forces enumerated above. Even in a scenario for which the campus's costs rise in step with inflation, however, a rate of future tuition increases less than that of inflation would place an additional pressure on the budget. The rate of inflation (Consumer Price Index) over the past 5 years has averaged 2.2%; on a current income of $210M from tuition, an additional $4.7M will be effectively lost in permanent funding for each year tuition is not increased, assuming rate-of-inflation increases to State support over the same period.

A final, and difficult-to-quantify, pressure on the permanent budget is the growing need for maintenance of the campus's physical and information-technology infrastructure, especially in view of seismic mandates due to come into force in 2030. Including both deferred maintenance ($370M) and seismic safety ($900M), the liability associated with degrading and/or non-conforming physical infrastructure on our campus is estimated to be approximately $1.3B. There has been hope that a series of statewide bond measures, promoted by the legislature and backed by the governor, will provide significant assistance in this arena. However, the first such measure, which appeared on the ballot March 3 of this year and would have provided in excess of $250M towards meeting mandated seismic safety requirements, appears unlikely to pass. No alternative source of funding has been identified should these measures continue not to be to the taste of the California electorate.

Summary and Committee Reaction

Overall, CPB estimates that the various impending sources of compensation pressure, if realized, will require an increase in the annual outlay for campus faculty and staff of approximately $27M per year. Other identified budgetary pressures will require an additional $16M in permanent funding. Lacking additional State support beyond inflation, flat tuition will effectively reduce campus income by an additional $5M for every year tuition is not increased. Finally, the aging state of UCSC buildings and infrastructure (excepting housing, which is required by State law to be self-supporting) threatens to apply a burdensome additional level of further pressure to campus budgets.

To provide some scale of the magnitude of these pending budgetary obligations, the $43M in enumerated impending calls on the campus budget needed under these various assumptions to maintain our current level of effort, represents approximately 10% (6.5% from compensation pressures and 3.9% from other liabilities) of the $413M "core" budget (net of undergrad financial aid) that supports teaching and learning and associated support functions on our campus. It can also be compared to the "rebenching bump" (total increase in funds awarded to UCSC over a five-year period beginning in 2012-2013 as a result of a consideration of systemwide equity) of $24.3M.

CPB has evaluated the potential impact of increases provided by the 2019-2020 (enacted) and 2020-2021 (proposed) State budgets[6]. The Committee estimates that, of the $249M increase in State support provided in the 2019-2020 budget, an additional $140M is available for use in 2019-2020 at the 2018-2019 level of effort, representing a 4% increase relative to the $3,476M of State support provided in 2018-2019. However, this increase was provided in lieu of increasing tuition; since approximately 40% of our campus's core funding is provided by State support, the 4% boost to state support amounts to an increase in the campus's core funding approximately equal to inflation. For the proposed 2020-2021 State budget, the Committee estimates the increase to general campus budgets would be 4.5% (an increase of $169M to a current budget of $3742M), but with an as-of-yet unspecified amount earmarked to fund enrollment growth. If the Regents allow tuition to be increased to track inflation (an action that is looking fairly likely), the 3.5-4% increase in State support for the current level of effort will translate to a corresponding increase of approximately 1% in campus core funds, above inflation, to support our current level of effort.

[6] See http://www.ebudget.ca.gov/

However, under the President's current plan to restore competitiveness with the Comparison 8 institutions, this augmentation would be effectively earmarked for Senate faculty salary increases.

Thus it is clear that, as an institution, UCSC faces oppressive budgetary headwinds; alarmingly, these pressures beset us in the midst of a time of documented statewide affluence. Compounding this, the likely failure of Proposition 13, the Higher Education General Obligation Bond, places an additional burden of mandated seismic projects that CPB guesses to be equivalent to $15-25M per year, over the next 10-20 years, on the campus budget. It seems to CPB, then, that increasing employee compensation will need to be instituted with the utmost care, likely not meeting the full level accounted for in this study, and almost certainly accompanied by significant cuts to core functions, including the number of terminal degree students served by our campus. It will be of the utmost importance for the most expert guidance to be provided to us by the Office of the President and Board of Regents as to how we might best weather the next few years, and we urge the campus administrative and Senate leaders to do what it can to instigate an immediate conversation within and between these groups, including additional emergency Regents meetings if needed. The campus should initiate a frank dialog among its stakeholders about the challenges we face, and warn the community that material contractions of daily functions will be endured as compensation is increased, and noting that in some areas, those increases have already been implemented. If these consequences are to be mitigated, increased levels and additional sources of support will need to be pursued with the most aggressive possible approaches, with support and leadership from the Board of Regents likely being an essential ingredient in this pursuit.