Minutes
COMMITTEE ON FACULTY WELFARE
Meeting of December 4, 2014

Present: Noriko Aso, Adrian Brasoveanu, Ted Holmen, Manfred Warmuth, James Zachos, Roger Anderson

Absent with Notice: David Cuthbert, Andrew Mathews, Nina Treadwell

Chair Announcements and Committee Business

Chair Zachos is unable to attend the University Committee on Faculty Welfare (UCFW) meeting on December 12, 2014. As a substitute from the committee is not available, the Chair may attend remotely.

Chair Zachos reported from the Senate Executive Committee (SEC) meeting of December 2, 2014. The SEC discussed the recent email from CP/EVC Alison Galloway announcing that the current special salary practice or "Merit Boost Plan" will continue through the 2015-16 academic year. CFW members note that the last paragraph of the email announcement suggested that the plan may change in subsequent years and as such, CFW needs to continue to monitor the topic closely.

In light of the Merit Boost Plan, the SEC revisited their discussion of UC faculty total remuneration. At the suggestion of the UC Office of the President, a special meeting will be held on campus with CP/EVC Galloway and the chairs of the Committees on Faculty Welfare, Academic Personnel, Planning and Budget, and Affirmative Action and Diversity, to discuss the recent 2014 Total Remuneration Study for General Campus Ladder Rank Faculty and discuss faculty salaries for the 2015-16 academic year. Chair Zachos will share comments from CFW's discussion on the topic for the upcoming UCFW meeting on December 12th.

Remuneration

The University Committees on Faculty Welfare (UCFW), Academic Personnel (UCAP), Planning and Budget (UCPB), and Affirmative Action and Diversity (UCAAD) have been tasked by the Academic Council to develop principles and recommendations for redressing the total remuneration gap identified by the 2014 Total Remuneration Study for General Campus Ladder Rank Faculty. UCFW has developed a list of principles to guide possible plans of action. UCFW has requested CFW's feedback on the list of principles and welcomes suggestions for closing the gap on remuneration.

Members reviewed the "UCFW DRAFT Propositions Regarding Total Rem" and agreed with UCFW's suggestion that there must be no further deterioration of benefits either in terms of costs to employees or extend of coverage and that problems with total remuneration may best be dealt with in cash salaries. In previous years, salaries were low, but benefits were exceptional. Now, faculty are contributing substantially more for benefits (e.g., 8% toward retirement) and salaries are still well below the comparison 8 and so overall remuneration has declined. Members further noted that there is now a two tier system of benefits and recognized that the total remuneration is even less for those in the second tier of benefits.

The UCFW document proposes a short-term solution of a multi-year across the board range adjustment increase in faculty salaries of 3% per year for 3 successive years to forestall any worsening of the UC's position with regards to the comparison 8, even though it would not correct the overall disparity with the comparison 8. CFW discussed the pros and cons of the proposal. Chair Zachos reported that the Senate Executive Committee felt an across the board increase (on scale and off) would further the salary disparity between campuses. However CFW noted that the continuation of the Merit Boost Plan will help to address campus inequities. Members recognized that faculty salary increases would be an unfunded mandate and there would be no central money from the Office of the President to fund said increases. Such a mandate would impact UCSC more so than campuses such as UC Los Angeles or UC Berkeley. That said, a suggestion was made to fight for a larger increase up front (i.e. 5% increase the first year, 2% the second, and 2% the third year) as promises of future increases can be erased by unforeseen changes in state and UC budgets, recessions, etc. Chair Zachos will share this suggestion with both SEC and UCFW.

The UCFW principles suggest that rather than embark on well-intended new programs, the University should focus its energy and resources on strengthening the faculty infrastructure and staff support. CFW members recognized that if a university supports its faculty, the faculty can pursue their interests and create new programs, etc. In recent years, the Teaching Center for Excellence was cut, and Teaching Assistant (TA) positions have become more funded by soft money than central hard money. The campus's financial support for faculty, grad students, and staff appears to have declined. Members agree that UC should both support faculty and continue to be proactive with new endeavors.

UCFW's also suggested that benefits that might be of particular help to young faculty hires such as housing assistance or childcare warrant further discussion. UCFW is currently looking at childcare at the different campuses and is collecting data. CFW agrees that housing and childcare are of the utmost importance for faculty recruitment and retention and must be addressed, particularly at the UCSC campus, which is currently the only UC campus with no childcare offerings for campus employees.

With regards to looking into new or expanded benefits that might help retain mid-career faculty, members noted that some mid-career faculty appear to be disadvantaged at the UCSC campus in terms of salary whereas junior faculty have done well as they were hired in amidst a competitive market with high off-scale salary components. Members considered whether the discrepancy could be addressed with salary or retirement benefits and whether such benefits could be extended only to mid-career faculty, possibly on a case by case basis. The committee determined that the Career Equity Review system might be the best way to address the issue.

Housing Consultation

CFW invited Steve Houser of Colleges, Housing, and Educational Services (CHES) and John Thompson of Faculty and Staff Housing to consult with the committee on the topics of faculty housing, the Re-Pricing Program, and Ranch View Terrace. Houser presented a Re-Pricing Program power point briefing to orient CFW to the overall program.

From its beginning in 1986, the Employee Housing For-Sale Program has had many over-arching goals and issues of concern that are shared with CFW including recruitment, retention, unit affordability, availability and integrity of facilities. After the housing program began, it was soon apparent that many of the over-arching goals of the program were antagonistic and it was hard to balance and achieve all of the goals at the same time. Houser reported that over time, due to a number of factors, availability for new faculty became an issue. More units were built to meet needs. However, in 2006, there was a huge disparity between the cost of units, and the cheapest units (Cardiff Terrace) had the longest wait lists, which consisted of tenured faculty looking for a housing deal. In effect, new faculty had to either pay more for housing or wait a very long time for the chance to purchase a cheaper unit.

The Re-Pricing program was created in 2007 to address the pricing disparity and wait list issues and is based on a pricing formula used on all units except Ranch View Terrace and Laureate Court. Houser remarked that due to the program, prices are roughly the same between units, demand for units in all campus neighborhoods has equalized, and new faculty are buying into Cardiff Terrace, which never happened before. Under the program, sellers sell directly to the campus instead of to an individual buyer. The campus then renovates and sells to a buyer. The campus acts as an intermediary between the seller and buyer and is able to have more control over the condition of the units being sold, thereby creating more equity between units.

Demographics of Campus Housing
Houser reported that currently, campus housing is occupied by 66 Professors, 41 Associate Professors, 20 Assistant Professors, and 8 retirees, totaling 135 total Senate Faculty.

Fees
Monthly fees for campus units varies from $160/month for custom homes to $355/month for Hagar Court. The higher costs at Hagar Court are due to common sewer and trash whereas others pay it separately. Dues cover common area/building maintenance and reserves. Exterior maintenance is up to the individual in Ranch View Terrace. Every unit in the housing program pays the same amount for lot lease, which is $80 per calendar year. The program allow for up to an 8% increase each calendar year. Typically this fee has only increased by 3-4% /year, with the funds being used on the operational budget and campus space assessment.

Appreciation of Campus Units
Houser reported that governing documents control how units are priced when faculty buy in. The re-pricing formula for the maximum resale price equals the (purchase price x inflation) + capital improvements - deferred maintenance. Inflation is gauged using either the Consumer Price Index (CPI) or the faculty salary index, whichever is the greater of the two. If the CPI goes down, the value of the unit goes down. The CPI currently exceeds local construction costs and the local housing market costs exceed CPI. Houser mentioned that although unusual, problems may arise if someone purchases a home at $300k and CPI moves up 4% but resale pricing is only 3%.

Houser also noted that the program may cost the campus if the repurchase price cannot be fully recouped through sale. The resale price indexing to the CPI is set by the UC Academic Council, so cannot be modified. This benefits owners during times when the off-campus market is in decline. The interpretation of the policy is a bit different on each campus, although Houser reported that all campuses have the same problem. Some units will make money and other will lose money, but it all balances out. Houser commented that if pricing costs were cut, it could magnify these problems and put the program in jeopardy.

The current market price per square foot in the 95060 zip code where the majority of faculty want to live is $481/square foot (according to the 2014 comps). Market homes sold in 2014 averaged 1550 square feet and were 44 years old. The campus housing average cost/square foot under the re-sale pricing program as of July 1, 2014 assuming no capital improvements and a 17.1% inflation increase was $293/square foot for Hagar Court units, $223/square foot for Hagar Meadow units, and $164/square foot for Cardiff Terrace units. Ranch View Terrace (RVT) ranges from $325 to $488/square foot with the wide range due to individual upgrades and capital improvements.

In 1997, a campus home cost $151k, whereas a comparable home in the market cost $266k. Both costs have increased, but the market is increasing at a much faster rate. In 2007, that same home on campus cost $193k whereas the market home was $724.5k. The more time that passes, the bigger the gap will be between campus and market housing costs. Houser noted that when Phase I of Ranch View Terrace (RVT) was created, the units seemed expensive. However, the price of the units (relatively new) are now a relative bargain compared to an equivalent property in town.

For this reason, committee members feel on campus housing should be expanded in order to bring in new inventory, locked into a lower price, recognizing that the current inventory will be insufficient to meet demand should off campus prices continue to rise (as in the past). Houser agreed but noted that in 2008 when they were attempting to do so with Phase I of RVT, the resulting units were said to be too expensive and the long term goal of creating affordable inventory was overlooked.

Re-Pricing Program
CFW expressed interest in the revenue created from the Re-Pricing Program. The latest Re-Pricing Program Financial Report (10/01/14) listed projected net proceeds upon the sale of all units as $1,095,094. CFW questioned what the current net revenue accumulated from previous sales (without projected sales) and how the proceeds (both projected and actual) will be used.

Houser reported that the current Re-Pricing net revenue is $1,401,906 not including RVT and that Cardiff and Hagar Court are leading the program with lots of equity that creates cash flow. Due to an issue with Fannie Mae, a leading source of liquidity for housing in the United States, units in Laureate Court can only be sold to faculty with Mortgage Origination Program (MOP) loans or buyers with cash. Due to this issue, 6 units are still available for sale, and are either being rented or carried by the program. These might go quickly in the near future. Hagar Court is at an equilibrium with some turnover and people who are ready to buy. Until there is no more availability at Hagar Court, faculty will likely not buy at Laureate Court as Hagar Court is a bigger unit for a comparable price. The campus could drop the price at Laureate Court to entice buyers, but this would put a significant burden on the current debt. Therefore, the campus is trying to cover carry costs by renting the 6 unsold units until there is more demand.

Every month that the campus owns a unit, they are paying debt and covering home owner's dues. When RVT launched, the cost to carry 13 units that didn't originally sell incurred $1,270,000 in debt for the overall housing program.

Houser noted that in 2006, housing program guidelines required that 40% of the resale proceeds were to support the Low Interest Option Supplemental Home Loan Program (LIO-SHLP), and 60% was to be seed money for the development of new inventory. The LIO-SHLP program is now on hold (by OP). Once the RVT sales ended, 100% of proceeds were to be seed money for new units. This is a problem for every campus except UCI, as seed funds are required upfront to plan and build. With RVT UCSC used a third party for the construction and ran into problems/delays that drove up the costs, and ultimately the home prices. For RVT, Phase II, there is a site design, but a strategy for moving forward is still required.

With regards to how the campus debt affects the construction of additional housing on campus, Houser informed the committee that the campus debt model is driven by the Office of the President (OP) and is managed by the Campus Capital Planning and Space Management and not CHES. OP has recently revised the model, which is highly complicated. The UCSC campus is near its debt limit with existing and future planned projects. There is a current campus plan that clearly lines up the next approved construction projects.

Consideration of How to Proceed
In its letter of April 22, 2014 to CP/EVC Galloway re: UCSC Employee Housing Re-Pricing Program Recommendation (2014-2015), CFW proposed some ideas for how best to further the program's goals, and find other ways to cover the program operating costs of further expansions. Houser noted that turnover was a huge problem in the past and campus housing was once looked at as a retirement community, however, the Re-Pricing Program has helped to increase turnover. As the campus acts as an intermediary and now buys from sellers and then sells to a buyer, units can close in 30 days with cash, which greatly helps those who are looking to buy off campus. In the past, faculty could use the LIO-SHLP loan to purchase in the market. The loan program (created in 2005-06) use to be a ten year interest only loan at 3%. Last fall, as people were not making payments, changes were made and the loan is now a 10 year note with principle and interest and is fully amortized in 10 years. The payments are accelerated and there is a higher cost for the user. The loan is now less enticing and the LIO-SHLP program is basically dead.

Per the OP Council, pricing of existing units cannot be raised without triggering a retroactive taxable event for all owners (to date of purchase). So prices cannot be raised to incentivize people to sell. Further, Houser noted that basing fees on salary would not be feasible as the recorded governing documents for all for-sale units direct that each unit pay its proportional share of Homeowners Dues. Additionally, Housing lacks the resources to monitor household income, etc. Shifting costs to the seller for damage instead of the campus handling remodeling would be a struggle, and Houser noted that the Architectural Review Boards have not been successful in resolving issues related to depreciation of all items in units. Apparently, all campuses have issues with depreciation. Unlike market where it pays for owners to make repairs and do upgrades, campus sellers are reluctant to make fixes that don't necessarily add to the equity of the home (i.e., the resale price).

When the campus renovates units, costs are at a premium due to university regulations regarding contracting at union rates. If owners renovated on their own, it could be done at lower cost, but it would be hard to regulate for quality control. Problems with non-uniform renovations (i.e. was the work done to code, etc.) could prove to be costly to remedy. When the campus does the renovations, the quality is consistent and to code, and the cost is folded into the purchasing price and thus the mortgage.

CFW questioned whether the buyer's price of a home could be adjusted based on the buyer's financial situation. Houser replied that such an adjustment would not be feasible for many reasons as currently a buyer can determine what pricing and what unit they can afford, buyers want to compare campus pricing vs. market, delaying pricing until a financial situation is fully vetted would be impractical and costly, and selling units based on a buyer's financial situation could confuse title companies, appraisers, tax assessors, etc.

When asked if the percent increase could be lowered, Houser said that it could be, but the Employee Housing Program is trying not to be in a deficit. The campus cannot change the CPI, and is locked into a certain increase in cost. On the program side, they could reduce the part of the increase, but that would mean no right of first refusal, a reduction in remodeling quality, and less flexibility for buyers and sellers with closing dates.

Units are currently full and there is now a wait list. Houser noted that the wait list for a 3 Bedroom Hagar unit is long, but people are waiting a year or less for a 2 Bedroom unit or for Ranch View Terrace. The wait lists are likely to get longer as housing prices off campus get higher. The more hires, the higher the market, the higher the demand for on-campus housing.

CFW, Houser, and Thompson considered whether the revenue from Re-Pricing could be used to increase the turnover rate now that LIO-SHLP program is not being used. All agreed that new financing needs to be looked into and must be attractive for a seller to get into the market. It would not be optimal for the revenue to be used as a stipend, as a loan is regenerative and a stipend goes away. A stipend would be a short term fix and would not solve the problem long term. If, however, the revenue was used to build new homes, the money would come back and there would be new inventory under price control. There would be more product, more options, and the price could be maintained in the long term.

Ranch View Terrace

Although Ranch View Terrace Phase I was created specifically to provide an opportunity for current owners in smaller units on campus to move to the larger RVT units and open up the smaller units for new faculty (many families in 2 bedroom units welcomed the opportunity to move into a 3 bedroom unit), Houser noted that the same might not be true if Phase II is built. It is possible that all current owners who were interested in a larger unit already moved into Phase I. After the difficulty that came along with the planning and construction of RVT Phase I, followed by a recession, Houser does not look forward to breaking ground on a Phase II development. However, he admitted that if more inventory will be added, Phase II is the way to go. There is a accumulated debt from the building of Phase I that needs to be addressed. Houser reported that the CP/EVC has given a window of $8 million that could be paid down in order to move forward. A suggestion was made that if the campus continues to build, the pre-existing debt will go away over time and units may be constructed and sold below market. If the campus does not continue to build, the debt will sit and collect interest. The focus should be on the long term.

As previously noted, CFW proposed several solutions to increase the availability and affordability of campus housing to the CP/EVC in their letter of April 22, 2014. At the conclusion of the consultation, CFW requested that Houser and Thompson similarly explore options that could be further discussed in a meeting with a CFW Housing Subcommittee during the winter quarter. Houser and Thompson welcomed the opportunity to collaborate and mentioned a few existing options including creating a campus standard for recruitment housing allowances. Thompson stated that many interested buyers can afford the monthly payments of ownership, but struggle to provide the initial down payment. It appears that housing allowances are at the discretion of divisional deans and vary greatly between divisions. Thompson suggested that a campus standard would greatly assist junior faculty purchases.