REGENTS EXECUTIVE COMMITTEE MEETING
ARIZONA BOARD OF REGENTS
2020 N. CENTRAL AVE. SUITE 230
PHOENIX, AZ 85004
Thursday, September 1, 2016
10:00 a.m. - 1:00 p.m.

Committee Members:
Regent Greg Patterson, Chair
Regent Ram Krishna
Regent Jared Gorshe
Regent Bill Ridenour, Vice Chair
Regent Jay Heiler

10:00 a.m. CALL TO ORDER, GREETINGS, AND ANNOUNCEMENTS FROM THE COMMITTEE CHAIR

10:05 a.m. 1. Approval of Minutes

The board office asks the committee to review and approve the committee and executive session minutes from the May 31, 2016, Regents Executive Committee meeting.

10:10 a.m. 2. Annual Personnel Report

The board office asks the committee to review and forward to the full Board for approval of the Annual Personnel Report for the Arizona University System. Required by state statute, the report includes information about employee salary and compensation, turnover and overtime pay.

10:30 a.m. EXECUTIVE SESSION

Pursuant to A.R.S. §38-431.03, the committee will convene in executive session to discuss items identified on the executive session agenda.

1:00 p.m. ADJOURN

PLEASE NOTE: This agenda may be amended at any time prior to 24 hours before the committee meeting. Estimated starting times for the agenda items are indicated; however, discussions may commence, or action may be taken, before or after the suggested times. Any item on the agenda may be considered at any time out of order at the discretion of the committee chair. The committee may discuss, consider, or take action regarding any item on the agenda. During the meeting, the committee may convene in executive session pursuant to A.R.S. § 38-431.03(A)(3) for legal advice regarding any item on the agenda.
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REGENTS EXECUTIVE COMMITTEE
EXECUTIVE SESSION AGENDA
September 1, 2016

NOTE: This agenda may be amended at any time prior to 24 hours before the Committee meeting. The executive session is scheduled for 10:30 a.m. on September 1, 2016. The executive session may be recessed and continued as necessary.

Statutory Authorization

A.R.S. § 38-431.03 Items to be Discussed

(A.1, 3, 4) 1. Legal Advice and Discussion Regarding the Board’s Contract with Northern Arizona University President Rita Cheng

(A.1, 3, 4) 2. Legal Advice and Discussion Regarding the Board’s Contract with University of Arizona President Ann Hart

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A meeting of the Regents Executive Committee was held on May 31, 2016 at the Board Office in Phoenix, Arizona.

Present: Regent Heiler, Regent Patterson, Regent Krishna and Regent Myers

Also present were Regent Ridenour, Regent Penley and Regent Shoopman; President Klein, Nancy Tribbensee, Jennifer Pollock, Mary Adelman and Suzanne Templin from the board office; Jon Dudas and Laura Todd Johnson from the University of Arizona; Christy Farley from Northern Arizona University.

Regent Heiler called the meeting to order at 3:00 p.m.

Approval of Committee and Executive Session minutes for January 20, 2016 (Item 1)
Upon motion by Regent Krishna and seconded by Regent Patterson, the committee approved the January 20, 2016 committee and executive session minutes.

University Foundations and Affiliated Entities (Item 2)
President Klein discussed the board guidelines and best practices for the board and university relationships with affiliated entities. President Klein reported that she is currently meeting with the leads of the Foundations to gain a better understanding of how they operate today and how ABOR can better align common purposes and working relationships. President Klein will prepare a series of talking points, best practices and recommendations for the Regents.

Regent Myers commented that the intent is in the best interest of the universities and the affiliated entities by working to gain a better understanding of how the board and the Foundations can work together.

Executive Session
Upon motion by Regent Heiler, seconded by Regent Patterson, the committee voted to recess the meeting and move into executive session.

The public meeting reconvened at 3:18 p.m.

Investment Service Providers and Lead Recordkeeper for the Arizona Board of Regents (Item 7)
The committee was asked to forward to the full board for approval the investment service providers and lead recordkeeper for the Arizona Board of Regents Optional Retirement Plan. Mary Adelman explained that the Optional Retirement Plan was created in the statute and adopted by the board in 1986. The statute requires that the board approve the companies from which participants in the optional retirement plan may purchase benefits. Per board policy a request for proposal was recently completed for the services for the plan. Proposals were received from 4 vendors: Fidelity, TIAA, VALIC and VOYA. The
proposals were reviewed by a committee with representatives from each of the universities.

Upon motion by Regent Heiler and seconded by Regent Patterson, the committee approved the recommendation to forward to the full board as follows:

- Award contracts to Fidelity and TIAA as ORP investment service providers;
- Award contract to Fidelity as ORP lead recordkeeper;
- Authorize staff to negotiate contracts with Fidelity and TIAA; and
- Authorize the board president to execute the contracts with Fidelity and TIAA subject to review by board counsel.

**Multiple-year Employment Contracts for Head Coach of the Women’s Basketball Team (UA) (Item 3)**

**Multiple-year Employment Contract for Head Football Team Coach (ASU) (Item 4)**

**Multiple-year Employment Contract for Head Coach of the Men’s Basketball Team (ASU) (Item 5)**

**Multiple-year Employment Contract for Head Coach of the Women’s Basketball Team (ASU) (Item 6)**

Upon motion by Regent Patterson and seconded by Regen Krishna, the committee approved forwarding to the full board the multiple-year contract for Adia Barnes, Head Coach of the Women’s Basketball Team at the UA; the one-year extension to the multiple-year employment contract for Michael Todd Graham, Head Football Coach at ASU; the one-year extension to the multiple year employment contract for Robert Hurley, Head Coach of the Men’s Basketball Team at ASU; and the two-year extension to the multiple-year employment contract for Charli Turner Thorne; Head Coach of the Women’s Basketball Team at ASU.

**ADJOURNMENT**

The public meeting adjourned at 3:35 p.m.

Submitted by:

______________________________
Suzanne Templin
Committee Secretary
EXECUTIVE SUMMARY

Item Name: Annual Personnel Report

☐ Action Item
☒ Committee Recommendation to Full Board
☐ First Read of Proposed Policy Change
☐ Information or Discussion Item

Issue: The committee is asked to review and forward to the full board for approval the Annual Personnel Report for the Arizona University System.

Enterprise or University Strategic Plan

☐ Empower Student Success and Learning
☐ Advance Educational Attainment within Arizona
☐ Create New Knowledge
☐ Impact Arizona
☒ Compliance
☐ Real property purchase/sale/lease
☐ Other:

Statutory/Policy Requirements

- A.R.S. §41-751 – Annual report

Background/History of Previous Board Action

- The Board of Regents along with all other state personnel systems is required by statute to submit an Annual Personnel Report to the Governor and the legislature by September 1st of each year. The report is to include information about employee salary, turnover and overtime pay.

- The Annual Personnel Report was first required 20 years ago when the legislature established the Joint Legislative Study Committee on State Employee Compensation. The committee was charged with studying state employee compensation and related issues, including salary, benefits, employee turnover, various state personnel systems, and comparisons to other major public and private employers. In addition, the committee was charged with recommending to the Governor and legislative leadership a long-term strategy for addressing state employee compensation. The stated legislative intent was that “competitive compensation be established by the end of fiscal year 2002-2003.” This

Contact Information: Gale Tebeau, ABOR 602-229-2522 gale@azregents.edu
committee was disbanded in 2007, and the legislative time frame and penchant to reach market parity has long since passed.

- There have been no state-funded salary adjustments for the university system since July 2007 (FY 2008). Consequently, the universities have reallocated funds and used other university-generated revenues to address salary deficiencies and bring salaries to more competitive levels. But in spite of these efforts, the universities still lag behind their peer institutions and relevant markets.

- Each university and the ABOR office compare employee salaries with salaries at peer institutions and in other relevant labor markets.
  - Each university compares its average faculty salaries to the average faculty salaries of its ABOR-approved peer institutions using the latest (Fall 2015) American Association of University Professors (AAUP) data. In addition to salary information, the AAUP survey provides information regarding the value of faculty benefits. This enables comparisons of total compensation, i.e., the combined value of salary and benefits.
  - For all other employee groups (classified and professional staff), the universities and ABOR compare average salaries with average salaries in appropriate labor markets using the most recent, relevant, and available data. Total compensation data is not available for these specific categories of employees. However, employee benefits play an important role in the lives of employees and their families, and have a significant financial and administrative impact on the universities. Employees expect a comprehensive benefits program, and the absence of a program or an inadequate program can seriously hinder the universities ability to attract and keep good personnel.

Strategic Implications

- Arizona’s public universities compete with hundreds of other public and private universities throughout the country to attract and retain talented faculty and staff. Salary competitiveness is a leading factor in determining whether an individual accepts other employment or stays with Arizona’s universities.

- Talented faculty and staff help to achieve the goals outlined in the Board’s strategic plan Impact Arizona, and each of the universities’ strategic plans in driving educational excellence and advancing educational achievement, discovering new knowledge, and impacting Arizona through public service activities. Faculty and staff are vital to the university community and their host communities (locally, statewide, nationally and globally). Not only do they contribute to the health of the state through taxes paid, but university faculty and staff assume leadership roles to make the state a better place through education and research. The universities serve all of Arizona’s citizens, and collaborate with partners from around the state and the world to bring knowledge and
discovery home to elevate the quality of lives of Arizonans. All of this begins with recruiting and retaining the best.

Discussion

- Over the past few years, the universities have strategically targeted key market issues which has helped reduce the salary gap in certain positions. But, in spite of these efforts, average faculty salaries remain at or near the bottom compared to each university’s peer institutions, and professional and classified staff salaries have not kept up with the market.

  - The UA has lost ground in bringing average faculty salaries to the median of their peers and continues to rank the lowest in average faculty salaries among its peer institutions. Before the recent economic downturn, the UA was virtually on par (within 5% in FY 2008) in average faculty salaries compared to its peers, but has since fallen to 14.9% below their peers.

  - Since NAU ranked at the bottom of its peers for many years, they are making a concerted effort to bring average faculty salaries closer to their respective markets as new faculty are hired. In FY 2010 (Fall 2009), NAU’s average faculty salaries were 19 percent below their peers, but recently have made gains, bringing average faculty salaries to 8.6% below their peers. However, in spite of these gains, 12 out of NAU’s 15 peer institutions pay higher average salaries than NAU.

  - ASU continues to make progress in bringing average faculty salaries closer to the median of their peers. In FY 2013, average faculty salaries at ASU were 9.3% below its peers. ASU has made significant progress reducing the salary gap to 6.5% below the median of their peers, in FY 2016. However, even with ASU’s marked improvement, 13 of the 15 peer institutions pay higher average salaries than ASU.

  - For the three universities average faculty salaries range from $7,000 to $15,100 below their peer median salaries.

- Comparisons of total compensation provide additional insight into the competitiveness of the university system. According to a recent report by the Bureau of Labor Statistics (BLS)\(^1\), benefits as a percent of total compensation for public colleges and universities in the U.S. is approximately 33.0 percent compared to 29.5 percent paid by private industry employers of education and health services (27.5% in the Mountain Region where Arizona is included). But even when total compensation is taken into consideration, the universities’ faculty still ranks at the bottom percentile compared to their peers. For ASU, 12 of the 15 peer institutions have higher average compensation than ASU. For NAU, 9 of

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the 15 peers have higher average compensation; and for UA, 14 of the 15 peers have higher average compensation.

- Market competitiveness is also a challenge with regard to professional and classified staff. While the market continues to move (albeit at a slower rate – from an average 4% in 2006 to about a 2.5%-3.0% annual movement projected in 2016 and 2017), employees enrolled in the Arizona State Retirement System (ASRS) also have seen real reductions in net pay due to increases in the employee contribution rate. Between FY 2003 and FY 2016, the ASRS employee contribution rate has increased from 2% to 11.34%, and is projected to further increase (slightly) through 2020.
  - For classified staff, the average salary increases needed to reach market in FY 2018 is projected to be between 12% and 27% at the three universities;
  - For professional staff, the average salary increases needed to reach market in FY 2018 is projected to be between 15% and 25% at the universities and ABOR.

- Faculty compensation is an important predictor of retention. Studies have shown that institutions with higher average salaries experience lower faculty turnover rates. There are many reasons for employee turnovers at the universities. Turnovers can be due to retirements, voluntary terminations, involuntary terminations, non-renewals and deaths, with voluntary terminations as the most common.

- Turnover can be extremely disruptive and very costly. Each time an employee leaves, the universities are faced with the advertising, interviewing, and training costs associated with hiring a new employee. In addition, many indirect, difficult-to-quantify costs exist, such as staff members’ time involved in the search process; decreased productivity, loss of quality, and lost work hours when the job is vacant and while the new employee learns the job. Or when a position is left unfilled, it puts additional stresses on existing employees who are already asked to do more with fewer staff resources.

- The cumulative effect of faculty turnover over the past several years is very costly to the universities both in talent and in dollars. In the past 12 months approximately 663 faculty members (approximately 9%) left the Arizona University System. The reasons for faculty leaving are varied, but one of the top reasons is for better career opportunities and higher wages. In addition, for NAU, another top reason is because of the high cost of living in Flagstaff.
EXECUTIVE SUMMARY

- The average turnover rate for all categories of faculty are: ASU (all campuses), 7.8%; NAU, 9.8%; and at the UA (all campuses), 11.4%.

- Average turnover rates for classified staff and professional staff range from 11%-18% at the three universities and ABOR. About one out of every seven classified and professional staff leaves the system each year.

- The cost of turnover is generally estimated at one to two times the salary of a departing employee. While there is no industry standard on turnover rates in higher education, the perceived high turnover rate at the universities is a great concern because of the high cost of training and professional development required for most positions.

Cost Summary

- For FY 2018 an estimated $257.9 million (salaries + ERE) is needed for salary adjustments to enable the universities and system office to catch up with their respective markets.

Recommendation to the Committee

It is recommended that the committee review and forward to the full board for approval the Annual Personnel Report for submission to the Governor and the legislature, as presented in this Executive Summary.
Special Points of Interest:

- Projected Unmet Salary Need for FY 2018
- Faculty Salary Compared to Peers
- Faculty Retention
- Staff Salaries
- Staff Turnover
- Overtime Pay in FY 2016

Talented faculty and staff are necessary to achieve the goals presented in ABOR’s Impact Arizona plan. The need to attract and retain the caliber of faculty and staff who are able to successfully meet the challenges of higher education is of utmost importance, and the success of these recruitments and retention efforts is dependent upon the ability to offer competitive salaries.

FY 2018 PROJECTED UNMET SALARY NEED

Unmet salary need is the amount needed to raise average faculty salaries to the median of their peers and to raise other staff salaries to the average in other relevant labor markets. For FY 2018 the projected unmet salary need for the Arizona University System is $257.9 million, an increase of $16.1 million from the current FY 2017 estimate.

University employees’ salaries are projected to remain considerably lower than those at peer institutions and in other relevant markets through 2018. The cost to raise the average salaries of current faculty and staff to the targeted levels will further increase as the market continues to move, impacting Arizona’s universities ability to catch-up and keep-up with salary needs.

FACULTY SALARIES

Arizona’s public universities compete with hundreds of other public and private universities throughout the country to attract and retain talented faculty. In spite of quality of life arguments made for Arizona, salary competitiveness is still a leading factor in determining whether an individual accepts other employment or stays with Arizona’s universities. To assess how competitive Arizona’s salaries are compared to the national marketplace, the universities calculate average and median salaries, comparing faculty salaries in Arizona to those at peer institutions. These comparisons include all ranked faculty -- professors, associate professors, and assistant professors. The table on the following page shows the average faculty salary increase needed for the universities to reach average faculty salaries of their peer institutions.
The majority of peer institutions\(^1\) pay higher average salaries to their faculty than Arizona’s three universities pay, demonstrating that Arizona’s standing is still lacking competitiveness. Specifically:

- All three universities’ average faculty salaries rank at or near the bottom of their peers. For ASU, 13 of the 15 peer universities pay higher average salaries; For NAU, 12 of the 15 peer universities pay higher average salaries; and the UA has the lowest average salaries compared to its peer institutions.

- Average faculty salaries range from $7,000 to $15,100 (between 6.5%-15%) below the peer median at the three universities.

When total compensation is calculated, Arizona university faculty still rank at the bottom percentile compared to peer institutions. So, whether looking at salaries or total compensation, the three universities find competing nationally to recruit and retain the best faculty members to be a continual challenge. Individuals who are able to raise the quality and stature of the universities’ programs, can and do command more competitive salaries. Accordingly, Arizona’s universities must have the capacity to meet the salary requirements of these scholars and to pay beyond the median to attract and retain them.

Studies have shown that institutions with higher average salaries experience lower faculty turnover rates.

There are many reasons for faculty turnover such as retirement, end of assignment or resignation. Resignations for positions in other organizations is the primary factor for faculty leaving the institution, often receiving much higher salaries and benefits and greater resources for research and program development.

The effects of faculty turnover are often unpredictable and result in the loss of continuity in teaching and research programs, disruptions in graduate and undergraduate advising, and a negative impact on departmental and institutional management and cohesiveness. Moreover, in many research-intensive disciplines where the start-up package for a new faculty member can often run into the hundreds of thousands of dollars, the lost investment made by the institution can be substantial and can include losses in external funding and grant competitiveness. Additional negative effects are harder to quantify, such as loss in program reputation and faculty morale.

The universities and the communities they serve suffer when faculty leave Arizona. Top scientists and researchers may take millions of dollars in grants and contracts with them when they depart, setting university progress back by years and diminishing the university’s ability to attract additional research funding. Moreover, when the universities’ research efforts are curtailed, the results include significant negative impact to the local, state and regional economies.

Equally important, educators who are leaders in their fields contribute to the quality of the educational experience for the nearly 170,000 students in the Arizona University System.

The cumulative effect of faculty turnover over the past several years is very costly to the universities both in talent and in dollars. There are significant costs associated with recruitment and hiring. In addition to advertising expenses there are direct costs of interviewing and bringing candidates to campus, and the indirect costs of faculty and staff members’ time in the search process. In the past 12 months, approximately 663 (9.4%) faculty members left the Arizona University System.

The chart shows average faculty turnover by university.

The continuing loss of faculty threatens the quality of the educational experience, weakens the universities, undermines programs and research efforts, and negatively affects statewide economies.
FACULTY RETENTION

Although the universities are proactive in retention efforts and bringing new faculty into the institutions, the actions taken also create some negative consequences, such as the reallocation of limited resources for salaries and relying more on part-time faculty and instructional faculty who are not tenured/tenure-track to meet the growth in student population.

A major problem that results from having limited salary dollars when hiring new employees (who often command more competitive rates), is properly addressing salary equity (both in terms of salary compression and salary inversion) in order to retain key faculty.

STAFF SALARIES

Average staff salaries continue to lag market rates. Annual market movement has averaged around 3.0% the past few years, and is expected to continue at the range into 2017.

Employees enrolled in the Arizona State Retirement System have seen their employee contribution rates increase nearly six-fold over the years, from 2% in FY 2003 to 11.34% in FY 2017. These employee contribution rate increases amount to real reductions to an employee’s net pay. The additional costs to fully fund the ASRS continue to erode gains made in salaries.
Although inflation has remained relatively low, averaging less than 2.0 percent since 2010, the effects of inflation erode the real value of an employee’s salary. Each time prices increase, an employee’s wage loses some of its value. This coupled with increases in the ASRS contribution rate, further reduces from the competitiveness of salaries offered to staff employees at Arizona’s public universities.

The following table reflects the percentage increases required for average staff salaries to reach market at each university and the ABOR office.

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<th>FY17</th>
<th>FY18</th>
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<tbody>
<tr>
<td>ASU</td>
<td>27.6%</td>
<td>11.6%</td>
</tr>
<tr>
<td>NAU</td>
<td>20.0%</td>
<td>21.4%</td>
</tr>
<tr>
<td>UA</td>
<td>24.5%</td>
<td>26.8%</td>
</tr>
<tr>
<td>ABOR</td>
<td>2.4%</td>
<td>3.2%</td>
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Each time a staff member leaves, the universities are faced with the advertising, interviewing, and training costs associated with hiring a new employee. The cost of turnover is generally estimated at one to two times the salary of a departing employee. When a position is left unfilled, it puts additional stresses on existing employees, already asked to do more as a result of increased demands and fewer personnel resources, and often at lower than competitive salaries. This cycle can exacerbate turnover and the universities’ ability to attract and retain high quality staff.

When staff turnover increases, losing the human resources that are essential to the operation and success of the institutions creates reductions in productivity, the potential for diminished services, and stalls important institutional initiatives.

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<thead>
<tr>
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<th>FY16 OVERTIME PAID (Dollars in Thousands)</th>
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<tr>
<td>STAFF SALARIES</td>
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<tr>
<td>AVERAGE PROJECTED SALARY INCREASES TO REACH MARKET FOR CLASSIFIED AND OTHER STAFF</td>
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<tr>
<td>CLASSIFIED STAFF</td>
<td>FY17</td>
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<tr>
<td>ASU</td>
<td>27.6%</td>
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<tr>
<td>NAU</td>
<td>20.0%</td>
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<tr>
<td>UA</td>
<td>24.5%</td>
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<tr>
<td>ABOR</td>
<td>2.4%</td>
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</table>

| OTHER STAFF | FY17 | FY18 |
| ASU | 24.5% | 15.2% |
| NAU | 20.4% | 25.0% |
| UA  | 19.6% | 18.1% |
| ABOR | 15.1% | 21.5% |

A.R.S.§41-763.01 requires the reporting of state-funded overtime pay paid. The majority of overtime paid is for positions associated with facilities management and campus police. Special events and inclement weather also contribute to overtime worked by employees, as well as the effects of a reduced work force. Total overtime paid from all sources remained fairly constant from $4.0 million in FY 2015 to $4.07 million in FY 2016.

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<tr>
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<tr>
<td>STATE-FUNDED</td>
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<tr>
<td>COMP</td>
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<tr>
<td>ASU</td>
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<tr>
<td>NAU</td>
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<td>UA</td>
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<tr>
<td>ABOR</td>
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