

## **COMMITTEE ON UNIVERSITY AND FACULTY PERSONNEL**

### **Compensation Policy**

#### **Presentation By**

Charles B. Reed  
Chancellor

Gail Brooks  
Interim Vice Chancellor  
Human Resources

#### **Summary**

It is timely to have the trustees adopt a compensation policy for the California State University.

#### **Background**

Because it has been over a decade since the trustees adopted a formal policy on executive compensation, it is recommended that the trustees approve a policy of executive compensation for the record so that new members of the Board of Trustees, the CSU community, and state law and policy makers have a context for decisions about compensation by the Board of Trustees. Although the intent of the policy is to address executives, the proposed policy extends to all CSU employees so that stakeholders understand that all employees are valued for their contributions for their work assignment and are compensated accordingly. Over the past two years, the Committee on Collective Bargaining has discussed the merits of a multi-year plan to improve compensation for represented and non-represented employees to recognize marketplace competition.

The CSU competes nationally for well-qualified individuals to serve as executives, faculty members, senior administrators, and other staff. It also competes in local markets for its employees. In some situations the pool of well-qualified individuals is limited. The compensation program, i.e., salaries and benefits, must be able to recruit, develop, and retain the highest quality workforce to serve the interests of the CSU in fulfilling its mission in the state, nationally, and globally. It also must recognize California's cost of living.

On annual basis, as directed by the Legislature, the California Postsecondary Education Commission (CPEC) oversees studies of faculty and executive compensation. The methodology has been agreed to by CPEC, the Department of Finance, the Legislative Analyst's Office, the CSU, and the University of California. These analyses have been conducted by Mercer Human Resource Consulting, a consulting group that has conducted CSU faculty and presidential

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compensation surveys at the request of CPEC since 1995. Since the studies began in 1981/82, they have been recognized by the Department of Finance and the Legislative Analyst's Office as providing illuminating information on salary lags or excesses when compared to a national pool. These surveys utilize a comparison group of 20 institutions from four regions of the United States, comprised in the majority by public universities. The same group is utilized to obtain data on faculty and executive compensation. In practice, because it has been complicated to obtain accurate information on benefits provided by other institutions, the survey results have been limited to salary data. In the 1980s the faculty salary lag in the CSU was a single digit; by 1991/92 it was 4.1% and by 2006/07 the actual lag was 15.2%. For executives, the lag varies by year; in 1994/95 the lag for presidents was reported as 11.1% and by 2006 it increased to 46.0%.

### **The California State University Comparison Institutions**

#### Northeast Region

Bucknell University\*

Rutgers, the State University of New Jersey, Newark

State University of New York, Albany

Tufts University\*

University of Connecticut

#### North Central Region

Cleveland State University

Illinois State University

Loyola University, Chicago\*

Wayne State University

University of Wisconsin, Milwaukee

#### Southern Region

Georgia State University

George Mason University

North Carolina State University

University of Maryland, Baltimore County

University of Texas, Arlington

#### Western Region

Arizona State University

Reed College\*

University of Colorado, Denver

University of Nevada, Reno

University of Southern California\*

\* Independent institution

Complicating the creation of a rational salary distribution for presidents are factors such as an individual's compensation history prior to CSU executive employment, compaction with vice presidents and others, a retirement cap by the Internal Revenue Service for employees hired during the last 12 years, and local and state tax environments of past employment.

- Because the CSU needs to pay competitive salaries to recruit successfully, newer employees tend to be better compensated than existing employees. Individuals hired into the CSU executive ranks from outside the CSU, for example, arrive with higher compensation histories. Thus, their placement within the CSU executive pay ranges can be inconsistent with existing presidential compensation in terms of size of campus and length of executive service. This has been occurring prominently for the past six years.
- Internal compensation compaction is another sensitivity. The national marketplace for provosts, chief financial officers, vice presidents for advancement, and chief information officers is highly competitive. The pool of available talent for recruitment is finite. Experienced senior administrators are often well-compensated by current employers. As a result of compensation history and the cost of housing in California, some newly hired vice presidents are paid in the lower range of the presidential salaries.
- Newly appointed executives from outside of the CSU are penalized because their salary used to determine retirement contributions to CalPERS is capped by federal tax law and regulations; the Internal Revenue Service (IRS) cap for 2007 is \$225,000. The cap was \$150,000 on July 1, 1996, when the cap was first implemented. The IRS has the ability to make very modest increases in the cap each year. Therefore, the presidents who have come to the CSU since July 1, 1996 do not get their full CalPERS retirement benefit and there are no other employer provided retirement contributions on their behalf.

Factors used to determine executive salaries in the CSU include the mission, scope, size, complexity and programs of each campus, system and national policy leadership, length of executive experience, performance, and market competition. The direction of the trustees should continue to have as its target the average cash compensation for presidents as being the mean for comparable positions in the 20 California Postsecondary Education Commission (CPEC) comparison institutions, the same group of institutions used for faculty salary studies.

Regarding performance, the trustees have a formal and rigorous review policy originally adopted in the 1980s, revised in 1994, and amended in 2001. In addition to on-going performance monitoring by the chancellor, trustee policy requires a formal evaluation on approximately a three-year interval. These periodic review reports are presented to the trustees in closed session meeting throughout the year as needed. These reviews assess the individual's ability to effectively manage resources, diversify the workforce and student body, communicate, plan, innovate, advance the academic programs, conduct community relations, and raise external funds.

Faculty members undergo formal review when seeking promotion and tenure decisions, when seeking recognition for merit, and in other ways as defined by the collective bargaining agreement.

In recognition that the external marketplace surveys conducted by CPEC are limited to faculty and executives and to implement the vision of the Committee on Collective Bargaining to implement a five-year plan, this item recommends all employment categories be subject to periodic market comparison surveys to determine competitiveness and that demonstrated salary lags be eliminated.

The following resolution is recommended for adoption:

**RESOLVED**, by the Board of Trustees of the California State University, that the compensation policy of the California State University includes the following:

1. It is the goal of the CSU to attract, motivate, and retain highly qualified individuals as faculty, staff, administrators, and executives whose knowledge, experience, and contributions advance the university's mission.
2. It is the intent of the Board of Trustees to compensate CSU employees in a manner that is fair, reasonable, competitive, and fiscally prudent.
3. It is the direction of the Board of Trustees to attain parity with the average of the 20 comparator institutions identified in the annual analyses for CSU faculty and for CSU executives conducted on behalf of the California Postsecondary Education Commission by 2010-11. To implement this policy, the Chancellor is directed to recommend appropriate salary adjustments for CSU executives phased over the next four years, beginning in 2007-08. Individual executive salary proposals are to be based on performance, complexity of assignment, years of executive experience, advancement of campus and institutional goals, leadership within the CSU system and national settings, and market competition. Faculty salary adjustments are made in accord with collective bargaining agreements and individual consideration is given to promotion in rank and merit.
4. In order to provide competitive and fair compensation for all CSU employee classifications, the Chancellor is also directed to conduct periodic market comparison surveys for employees not addressed in the annual CPEC analyses. Annual funding for compensation will be consistent with all other uses of resources within the annual budget.

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