Email from Andy Watson to @Subscribers
December 9, 2009

Dear All,

As I continue to study the survey, I have to say that the responses on the "salary freeze" section were the most thoughtful I've seen. The major themes:

1) Morale -- a number of respondents underlined the obvious point that freezing salaries over a period of several years will likely impact the morale of faculty and staff. The backdrop of the broader economy and the jobs picture certainly connects to this in many ways.

2) Jobs vs Raises -- the most common response was along the lines of "I certainly would prefer a raise, but keeping jobs (including mine) is the highest priority."

3) Looking out for others -- many responses pointed to the need to support employees on the lower end of the pay scale if raises aren't possible across the board.

4) Cost of living -- the second most common response had to do with the cost of living and loss of buying power if salaries aren't increased. This is absolutely true. I worry greatly when I read forecasts about how inflation might increase significantly in the future due to the federal budget deficit and current spending. If such an era comes, and faculty/staff salaries are stagnant, there could be a significant decrease in living standards for everyone at the school. What might be somewhat misunderstood, though, is that CPI is currently running very flat. And if we actually end up with deflation for a year or two, frozen salaries will support increased living standards.

The backdrop here is that salary and benefits are the biggest line items in our budget, hence all the topics connected to this area in the survey and in our thinking (hiring chill, workloads, salaries, benefits, retirement incentives . . .). As we drop from this year's $10.6 million to $9.1 million next year in endowment spending, the probability of being able to raise our salary line item (currently around $16 million in this year's budget, along with $6 million for benefits) is low and an increase in the line item probably isn't sustainable as we, most likely, have to cut endowment spending again for FY 12. Though the salary line item probably can't increase without cutting programs and/or jobs, there is still the possibility of added compensation as we consolidate positions after departures and increase teaching and work load. Not all added productivity (in the economic sense of the word) can translate completely into increased compensation, but there are increased compensation possibilities if we do decrease the overall size of our faculty and staff through voluntary departures.

The most likely scenario here is that base salaries will remain flat (with adjustments for added responsibilities in some cases). However, if we manage to balance the budget or have a positive variance I would quickly consider a bonus to employees, probably around August of next year after the final numbers are in from this year's spending, to offset the absence of base salary raises. Such a bonus would be a temporary model, but it might provide compensation relief/support until the budget starts to grow again. I would exclude some number of our highest paid employees from those getting this bonus (in fact, a number of them have already approached me about foregoing any raise for next year), including myself.

Some might argue that any available funds could be spent in increasing base salaries; they could, but given current conditions I can't see adding to the base until there is some certainty about the ability to maintain the increase in the years ahead. This reflects my thinking about preserving the endowment and about not every having to ask employees to take pay cuts in future years. **(A repetitive note here: there is a real liquidity challenge for us as we spend around 11% of our liquid assets this year from the endowment for educational purposes and another percent or so for endowment management expenses and debt service. This spending will result in a decrease in the endowment unless we earn more than the final percentage, 12.5%+, on our liquid investments in the coming years, not at all a good bet, or if the real estate market improves and High Desert can again provide**

funding to the school. This latter scenario is possible, but not in the short run. As we continue to decrease endowment spending to a sustainable rate, our target will move away from us and become more difficult to reach if the endowment decreases due to current spending.)

All the topics before us are tough, but this one is "closest to home" for all of us -- please stop by or drop me an email if you have any thoughts or reactions you would like to share.

Thanks,

Andy