Testimony before the Assembly Budget Subcommittee on Education Finance

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Good afternoon, my name is Claudia Preparata, and I am the Research Director at AFSCME 3299—the University of California's largest employee union, which represents more than 22,000 workers at UC's 10 campuses and 5 medical centers. Thank you for the opportunity to speak in front of you today.

Like the Governor, Legislature, UC students and other stakeholders, AFSCME 3299 strongly opposes UC's proposed tuition hikes. While we support more state investment in higher education beyond the Governor's January budget blueprint, we believe that this reinvestment needs to be tied to improved transparency and accountability for how UC spends its money. This is particularly true for UC executive compensation and growth in middle management—both of which have come at a real cost not only to our members but also to UC students, faculty and California taxpayers.

The lack of transparency obscures a 'redirection' of money that *used to* fund instruction and other student services to increasingly funding six- to seven-figure salaries and a growing army of middle managers. And, while not a recent phenomenon, it is one that accelerated after 2009.

The numbers speak for themselves. In 2008, just 293 UC employees received gross pay in excess of $400,000 at a total cost of just $160 million. By 2013, after years of budget cuts and tuition hikes, 793 employees received these paychecks at a total annual cost of $452 million. During this same time period, the cost of extra perks that 250 of UC's highest paid employees receive—including housing and car allowances, moving costs, and cash bonuses— swelled from $17 to $24 million per year.

This phenomenon can be better understood in the context of UC's adoption of the Funding Streams Initiative[1] in the face of state budget cuts. This policy decentralized decision-making and allowed campuses to retain revenues they generated, incentivizing local administrators to find efficiencies and reduce costs. Arguably, the merits looked good on paper. Yet, the reality is that it effectively transformed UC campuses into independent profit centers, with unintended consequences that have allowed such executive excess to flourish.

This puts better into better focus why campuses with a stronger brand have a greater incentive (and ability) to increase enrollment of out-of-state students—to help fund exorbitant executive salaries, and the rising ranks of UC middle managers. At the same time, the staff that actually provides student instruction and other support services (administrative, custodial or food service) has been cut the most. We see this, whether its academic administrators growing at a rate of 21% since 2009 vs. a 5% growth of all other academic staff, or, for our members, the replacement of career jobs with low-wage contractors under the guise of cost cutting. The reality is that privatization is not the panacea, and it has actually cost UC millions of dollars more than if the work was done in-house. Our research has proven that much.

This decentralized decision-making is also all but eliminating transparency and public reporting around executive compensation for UC's top brass—170+ executives who make up UC's Senior Management (SMG) Personnel Group. And, while criticism of UC's executive compensation is not new, a newly revamped system in September 2012 makes it even more alarming.

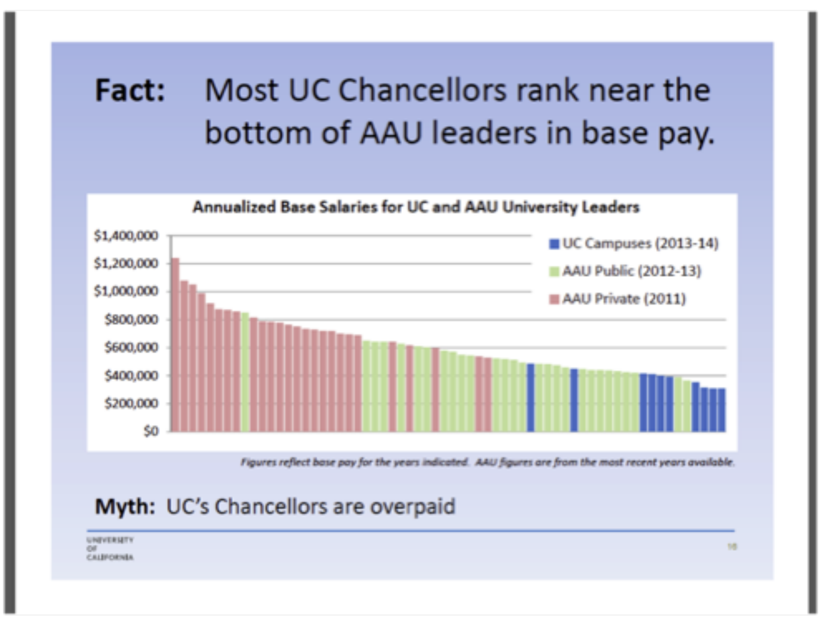
Today, only the compensation of UC's top 15 SMG titles (or, approx. 27 individuals) automatically require Regental approval, replacing a system where compensation for <u>all</u> UC executives were brought to the Regents for public review. This means that the salaries for the remaining SMG executives—91 SMG titles (or, approx. 144 individuals)—are approved at the campus level away from the public eye if it is within a "market zone" as deemed by UC.[2] Not suprisingly, since the system was implemented two years ago, 43% of these executives received salary adjustments on top of their across-the-board salary increases two years in a row.

So, this begs the question, how does UC determine what is a competitive salary for its SMG titles? Specifically, *who* does UC compare itself to, and *what* does it compare?

In the past, we know UC looked to major private sector companies to make the case that its executives were paid below market, including Boeing Corp., Chevron, HP, Wells Fargo, among others. Today, the University pulls from 16 market surveys[3] considered "proprietary" and "confidential." Given UC's history and the explosion of salaries more fit for a Fortune 500 company, the lack of transparency is particularly problematic.

And, the *what* that is being compared is just as important.

My testimony includes a chart that UC distributed at the September 2014 Regents meeting to argue for a 20% increase in base salary for its Chancellors. "Fact: Most UC Chancellors rank near the bottom of AAU[4] leaders in base pay." Or "Myth: UC Chancellor's are underpaid."



The reality is that this chart only compares base salaries, and not the more than $700,000 in other cash compensation, benefits and pensions UC paid on behalf of its Chancellors in 2013. This fact is especially noteworthy, since according to the Administrators in Higher Education Survey, which lists UC as a participant, 66% of comparable institutions do not provide any deferred compensation for its Chancellors. And yet, at UC, not only do Chancellors receive a pension benefit, but a handful of them also receive a supplemental pension equal to 3 or 5% of their base salary.

These omissions —matched with raw numbers, policy directives, and a corresponding decline in transparency—raise the issue of accountability and need for more legislative oversight of executive pay.

An equally disturbing diversion of resources away from UC's core mission has to do with management bloat—specifically, growth in UC's Management and Senior Professional (MSP) Personnel Group, which is comprised of about 10,000 individuals.

The data shows that the MSP group has grown by 24% —or by more than 2,000 employees—between 2009 and 2014.[5]

UC refutes these numbers because it asserts that many professional titles are also embedded in this personnel group. Yet, why is it so difficult for the public to tease out the number of managers? The answer is that UC intentionally obfuscates its reporting of its middle management. Personnel data on UC's website[6] allows the public to observe trends for faculty, lecturers or other occupational groups, and yet, UC executives are lumped together with this obscure but rapidly growing MSP group.

This obscurity prompted us to dig deeper—scouring four different data sources, some of which are publically available and others only attainable through a Public Records Act request. In the course of this incredibly time-consuming exercise, we isolated an Occupational Subgroup Category in UC's personnel reporting system called "Managers" (or "M10") comprising of 5,300 MSP titles[7] primarily in generic "Director" and "Manager" titles.[8]

We didn't land too far from where we started.

We found that as UC staff has grown by approx. 8% since 2009, this layer of middle management has increased by 14% —or by 700 individuals. And, based on preliminary 2014 payroll data, the associated payroll costs in gross pay alone for this group are approx. $765 million, almost a 30% increase since 2009.[9] And, these numbers actually <u>underestimate</u> the growth in (and cost of) this middle management as we identified at least an additional 500 "Director," "Manager" & "Supervisor" titles dispersed in other occupational categories within the MSP personnel group.[10]

We also see similar trends amongst the University's academic staff. While (non-administrator) academic staff grew by 5%, the number of Academic Administrators increased by 21%— more than four times as much. At the same time, the number of ladder and acting rank faculty only increased by only 2.1%.

Ultimately, these figures tell us that UC is not only becoming less transparent—but also less accountable as it diverts more and more scarce resources away from its mission. This is not only unsustainable but it also shortchanges the needs of students, patients and the taxpaying public.

In conclusion, we welcome the Legislature's increased scrutiny of UC spending alongside a reinvestment in higher education. AFSCME stands ready to support legislation that can arrest this growing diversion of funds. We believe this scrutiny should not be limited to the explosion of executive compensation and middle management, but it should also extend to policy directives that paved the way for decentralizing financial decision-making, eliminating transparency, and enabling campus administrators to squander scarce resources, including outsourcing UC career jobs to the lowest-bidder with no public accountability. Before us is the opportunity to make real and lasting structural change at the University of California.

Thank you for your consideration.

[1] The Funding Streams Initiative was adopted in 2011 allowing campuses and medical centers to retain the funds they generate locally (tuition, patient care revenues, auxiliary revenues), while paying a flat assessment fee to the UC Office of the President. It replaces the previous system where revenues were dispensed *from* UC Office of the President (UCOP) *to* the campuses.

[2] For Level Two SMG members, Regental approval is only required if base salary plus an administrative stipend is (1) at or above the 75th percentile of the position's Market Reference Zone, or (2) an increase of 10% or more is being proposed.

[3] This includes the Radford Executive Benchmark Survey, or Towers Watson CDB General Industry Executive and Top Management Compensation Survey, to list a few.

[4] AAU is the Association of American Universities.

[5] Interestingly, some of this increase can be explained by the reclassification of some SMG titles into the MSP Personnel Group. Specifically, the number of UC executives (SMG) decreased from approximately 280 to 170 employees – with the largest decline some time between 2009 and 2011. For example, UC Provosts and Assistant Vice Chancellors were re-classed into the MSP personnel group, with no apparent decrease in their salary. At the same time, as the number of SMG individuals declined, the MSP increased by about 270 individuals.

[6] Semi-Annual Statistical Summary and Data on UC Students, Faculty & Staff.

[7] Of the 5,300+ titles in the "M10" Subgroup, 7 titles are grouped into UC's Professional & Support Staff (PSS) personnel group. They are not included in this analysis.

[8] Other titles include Audit Manager, Admin Manager, Planning Manager, Events Manager, Financial Analyst Manager, Customer Service Manager, Comms Manager, Media Comms Manager, Info Systems Manager, and Treasury Manager.

[9] According to both UCpay and UC Public Pay data, in 2013, cash compensation—not including perks and other benefit costs—for the "M10" subgroup exceeded $700 million. The associated payroll costs increased by 21% between 2009 and 2013, an annual increase of more than $121 million. Although full year 2014 UC compensation data is not yet publically available, a preliminary analysis based on comparisons of monthly snapshots suggests that costs associated with this management subgroup grew another 8% last year (derived by comparing gross earnings in Oct. 2013 and Oct. 2014). If full-year values confirm this trend, another $54 million in gross cash compensation was added to UC's payroll for this generic Middle Management subgroup, bringing cash compensation costs associated to $765 million—or, almost a 30% increase since 2009.

[10] In UC's 2013 Compensation Report, it reports that gross compensation for its managers was $685 million, a difference of approx. $25 million from data in both its UC Pay or UC Public Pay data sets. We will look into this discrepancy more closely.