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Faculty Representative to the Board of Regents
University of California
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July 18, 2006

ROBERT C. DYNES
PRESIDENT

Dear President Dynes:

The Academic Council has continued its discussion of the senior management "slotting" plan developed by Mercer Consulting and continues to identify serious problems with it. This letter presents our current view of these problems and our recommendation for reform. The Council approved the substance of this letter at its meeting on June 21, 2006.

As presented in detail under cover of my letter to you of May 15, 2006 (copy attached), the Council generally supports the recommendations of The Regents' Task Force on UC Compensation, Accountability, and Transparency and the need for implementation of a rational and equitable system for senior management compensation decision-making. However, the Mercer system is seriously flawed and we are concerned that the recommendation that "The Regents should regularly benchmark the University's compensation against peer institutions" will lead again to the delegation of this task to outside consultants without input from the Senate, which, in turn, will lead to more – not less – of the types of problems that we have identified in the Mercer report on executive compensation.

Stratification of Campuses

One of the great strengths of the University of California is that it strives to function as a single, integrated system. Though there are obvious differences between campuses in terms of their orientations and levels of progress towards building world class programs, it is important that all aspire to the same high standard and be treated equitably in terms of systemwide policies.

Perhaps out of a lack of appreciation of this fact, the Mercer slotting scheme for executive compensation has the effect of institutionalizing a clear stratification of the campuses. The appended table summarizes job grades for a variety of academic leadership positions that are common to many of the campuses. For instance, though the precise functions of the EVC/Provost positions may vary from campus to campus, the positions are still roughly comparable. To help understand the table, it is important to note that the position grades start at 102 and go to 117. Each increasing grade comes with a range of acceptable salaries, and each grade is approximately 12% above the next lower grade. For instance, grade 107 is associated with salaries that range from $163,000 to $251,000, while grade 108 is associated with salaries that range from $182,000 to $281,000.

It is clear from the table that the campuses are ranked from right to left. So, for instance, a position at UC Merced is slotted at a lower salary grade than the same position at UC Berkeley. Mercer made this decision because it concluded that the position at Berkeley involves greater complexity, justifying a higher salary grade. On the other hand, it could be argued that building the level of excellence expected at a new campus, such as the University of California at Merced, is an equally challenging and complex job.

This stratification is counter to our fundamental conception of the University of California as an integrated whole, and is divisive. It points to the need for a restructuring of the entire executive slotting system to reflect the fact that the positions are common to all campuses. To this end, there should be job titles such as "Chancellor," "Executive Vice Chancellor," "Dean," and so forth, with salary ranges established for these positions (probably with some consideration of discipline) such that these ranges can be applied on all campuses, and with ranges wide enough to accommodate differences in the seniority and experience of the different individuals occupying the positions.

The Relationship of Executive Compensation to that of other University Employees

Analysis of the data in the PricewaterhouseCoopers audit showed that the compensation for executives increased at an average compounded rate of about 6.4% a year. This is much faster than the growth of compensation for faculty, graduate students, and staff during that period. It is also clear from the material that is now available that in most cases the base salaries reported by Mercer substantially understate the actual compensation that these administrators receive. This pattern of compensation is inconsistent with the Academic Senate's Compensation Principles (adopted by the Academic Assembly on February 8, 2006), which recommend giving priority to increases for faculty, students and staff so that salaries for administrators will follow rather than lead the rest of the University.

We recommend that the slotting plan for executives be revised so that it is based on all compensation (except for benefits available to all University employees). If the applicable cash salary is insufficient compensation for a senior manager, we believe that additional cash compensation should be granted instead of perquisites such as the Senior Management Severance Pay Plan, supplemental retirement programs, or/and specialized health benefits. Cash compensation is more transparent and equitable than such programs which, by their obscure nature, are subject to abuse of discretion.

Next Steps

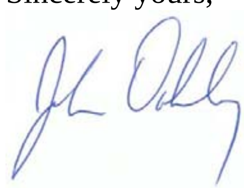
The senior management compensation system that was presented to The Regents in January was the work of outside consultants. No case has been made to the University community for employing a benchmarking method other than that historically employed by the California Postsecondary Education Commission. Nor has a case been made for using different comparison groups for senior managers than are used for other University employment groups. Consequently, the Mercer methodology is a significant departure from established procedures and should be thoroughly vetted by University constituents.

Because The Regents expressly adopted the Mercer slotting as an "interim" measure and have in most cases delegated authority to deal with executive compensation to the President, we believe it would be appropriate for you to take the lead in moving to a second phase of slotting executive salaries at UC. We specifically request that in consultation with The Regents you set up a task force including Office of the President, Academic Senate, and campus representatives to develop a more appropriate salary scale for senior management that addresses the issues raised in this letter.

The Mercer data on senior management compensation, combined with the information on other compensation provided in the audits, should allow this process to be completed in an expeditious manner. The task force's second-phase slotting scheme, with its underlying principles and justification, should be disseminated widely for comment to the campuses (including the campus administrations), revised appropriately, and submitted to The Regents before any administrative salaries are increased in reliance on the Mercer study and the first-phase, interim slotting ranges Mercer defined.

We also request that you formally share this letter with The Regents and keep them informed of the work of the task force that the Council hereby urges you to create.

Sincerely yours,



John Oakley, Chair
Academic Council

Copy: Academic Council
Senate Director Bertero-Barcelo

Enclosures*: Academic Senate Resolutions on UC Employee Compensation, November 15, 2005
Assembly of the Academic Senate's Recommended Compensation Principles for the University of California, February 14, 2006
Compensation for the Senior Management Group, February 26, 2006
Additional Recommendations on Senior Management Pay, April 27, 2006
Point-by-Point Responses of the Academic Council to the Recommendations of the April 2006 Report of the Task Force on UC Compensation, Accountability, and Transparency, May 15, 2006
Recommendations on Consultation with the Academic Senate on UC Compensation Issues, May 30, 2006
Assembly of the Academic Senate Proposed Principles on Private Funding for Senior Leadership Salaries at the Level of Dean and Above, July 10, 2006

JO/bf

* URLs listed in lieu of enclosure in electronic copies of this letter.