

**STATE SENATE EDUCATION COMMITTEE
AND SENATE BUDGET COMMITTEE SUBCOMMITTEE ON EDUCATION
INFORMATIONAL HEARING ON UC COMPENSATION**

**Robert C. Dynes, President, University of California
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Mr. Chairman and members, thank you for inviting me here today to address the Committee on the issue of compensation at the University of California. I appreciate the opportunity to address the Committee directly, to listen to your questions, and to engage in some constructive dialogue.

I am going to make an opening statement, and then I will introduce Regent Joanne Kozberg, who is co-chair of the Task Force on UC Compensation, Accountability, and Transparency. The Regents convened this task force, which is independent of the UC administration, to give us a clear, straightforward assessment of how our compensation policies and practices need to be revised at the University, and Regent Kozberg will be giving you an update on its progress. The other co-chair of the task force, former Assembly Speaker Bob Hertzberg, had planned to be here today but unfortunately was taken away by travel commitments. I should also note that at your second hearing on February 22nd, you will have an opportunity to talk with Regents' Chairman Gerald Parsky and Judith Hopkinson, chair of the Regents' new Committee on Compensation.

I want to begin this morning by stating a couple of things very plainly.

First of all, I take responsibility for the fact that the University of California has not always met its obligations to public accountability in matters of compensation and compensation disclosure. And I believe I owe you, the members of the Legislature, an apology for that shortcoming.

Those of us who lead the University hold the University in trust for the people of California. We must earn their confidence by being clear about our policies, making sound decisions consistent with those policies, and being open in communicating the actions we've taken under our policies.

It is with real regret that I have come to acknowledge that we have not always met the standards others hold us to in matters of compensation and compensation disclosure. And we have not always met the expectations we have in ourselves as stewards of a great public institution.

I believe we must do a better job of simplifying and clarifying our policies, some of which are overlapping, confusing, and contradictory. I believe we must demand and expect full institutional compliance with the policies we establish. I believe we must do a better job of publicly disclosing the compensation of our senior managers in a timely and complete manner.

And I believe it is time to renew our spirit of dedication to the public interest in the management of the University. We have never lost sight of our public mission. But I think it's fair to say that, on some occasions, we have not tended sufficiently to all of the responsibilities that public mission entails.

The Regents and I have announced a series of reviews to provide a full accounting of where our shortcomings have been and to recommend improvements in our policies and practices, and we are fully cooperating with the Bureau of State Audits in its review of these same issues.

I will have more to say about these issues of accountability and transparency in just a moment.

The second thing I'd like to say is that the University of California is very dear to my heart. I came to California because of the University's greatness, and I am committed to sustaining the University's quality. As president, I have been entrusted with the responsibility of ensuring that the University remains a world-class center of teaching and research – a place where the very best minds come together, with the very best support structure, to tackle the great questions and the great problems facing California, the nation, and the world.

This is not something that just happens. Look around the nation today and you will see that a number of public land-grant universities, facing budgetary and competitive challenges, frankly have gone into freefall in recent years. Others have made a conscious decision to move toward a more privatized model of higher education. The University of California has remained the world's top university, and we also have managed to retain a focus on our public mission of contributing to the economy, health, broad educational attainment, and quality of life of the people of California.

Providing competitive compensation is critical to what we are doing. It is fundamental to getting and keeping the best people here in California, doing the best work anywhere in the world. They don't come just for the weather, and they certainly don't come for the cost of living. The competition for people is fierce, and the packages we put together – including things like housing assistance and relocation allowances – do make an important difference in recruiting and retaining people.

A quick look at the national databases compiled by the Chronicle of Higher Education will help you see our compensation levels relative to the market we operate in. Total compensation, as the Chronicle of Higher Education defines it, for university heads around the country includes amounts of \$724,000 at the University of Michigan; \$720,000 at the University of Delaware; \$693,000 for the University of Texas system; and \$625,000 at Rutgers University, to cite just a few examples of public institutions. As a point of comparison, the UC president's total compensation, using the Chronicle of Higher Education definition, is listed at \$423,000. The point here is not about me, but about the nature of the competition we face – and that competition is apparent throughout the ranks of the University.

Failing to compete for the best people at UC would be disastrous for California. It would erode the state's global competitiveness, diminish its research base, compromise California's health and quality of life, and diminish the quality of the educational experience we offer our students.

One might argue that we need to be competitive for the best faculty, but not necessarily the best administrators. I happen to believe that it is all one package – that the faculty must be supported by the very best staff and administrative structure available if they are to be fully successful – and that a waning commitment to providing competitive compensation for staff and administration ultimately will influence our views on compensating faculty as well. Among UC's ten chancellors and one president, we have one Nobel Prize winner, three members of the

National Academy of Sciences, three members of the National Academy of Engineering, and two members of the Institute of Medicine. These are mostly academics who have transferred into administration, and their academic credentials are central to the leadership they provide.

I say all of this not to make excuses or to divert attention from the very legitimate issues that the Committee has identified for discussion today. I say it because I believe this commitment to quality is passionately held by many at the University, including myself, and as a result is very likely at the heart of many of the issues we might discuss today. It is perhaps true that at times we have been so committed to competitiveness and excellence that we have not been as mindful of the other responsibilities that come with being stewards of a public institution. That does not excuse anything we have done improperly, but it is an important piece of context.

Let me summarize, very briefly, the actions we have taken to get on top of the concerns that have been identified regarding compensation policies and practices at the University.

First, as I mentioned at the beginning, we have a task force, independent of the UC administration, that is reviewing our compensation policies and practices and will be making recommendations to the Board of Regents shortly on improvements in those policies and practices. Regent Kozberg will be updating you on the progress of that task force in just a few minutes.

Second, the Regents have launched an independent external audit of senior management compensation at the University.

Third, the Regents have created a new compensation committee to provide oversight of compensation matters on an ongoing basis.

Fourth, the Regents have adopted a new policy governing separation agreements at the University.

And fifth, I am announcing today that on an interim basis, any exceptions to employment-related policies for members of the Senior Management Group will require approval by the President, in consultation with the Regents, until we have had an opportunity to more fully examine our practices related to exceptions to policy. This examination will occur through the work of the external audits and the task force. The University strives to make hiring and compensation decisions with great care and consideration, but I believe this action is a necessary step until the results of those reviews are available.

The goal of all of these efforts is improved accountability – to the Regents, to the Legislature, and to the people of California. Let me be clear: I want to know where we have gone astray, and I want to know what we need to do to fix the problems we have.

I also believe it is time to use these initiatives to inspire some cultural change at the University – to make some fundamental changes so that our institutional culture more fully embraces, at every level, the notion of public responsibility and public accountability. We live in an era in which corporations and large institutions of all kinds are wrestling with senior-level compensation and issues of accountability – whether to the public or to shareholders. And I believe we have an

opportunity to be a leader in the accountability movement in academia, and hopefully a model for how other public institutions can balance their competitive needs with openness.

More than just policies and procedures, ethical behavior is important to me. Doing the right thing is important to me. And that, too, is what we're going to focus on.

I also want to emphasize this morning that the issue of compensation at UC does not end at our consideration of senior management compensation. Our salary levels lag the competitive marketplace throughout the ranks of the staff and faculty, and we are committed to rectifying that situation for everyone. The Regents have adopted a 10-year goal of bringing all employee groups to market-competitive compensation levels, and we hope to do that in partnership with the Legislature. Ten years may sound like a long time, but it reflects the additional resources we need to secure to make progress on this issue, given the size of our employee population.

I am very cognizant that it takes everyone in the University community to build a successful institution – custodians, administrators, groundskeepers, professors, lecturers, clerical employees, researchers, deans – and we need to make sure everyone who contributes to the University's success is properly compensated for their contributions.

I of course will be available throughout this morning to address the Committee's questions, but I would like to conclude my opening statement by addressing one of the questions we have heard over and over as we have talked with many of you here in Sacramento. That question is, "How can we in the Legislature be assured that the University is putting in place procedures that will actually be followed? How can we have confidence this won't happen again?"

Let me be clear that we intend to put in place reforms that do stick. When the University dealt with matters of senior management compensation in the early 1990s, it adopted a number of policy reforms. This time, we intend to go beyond policy reforms and focus also on compliance, monitoring, and oversight.

As I mentioned a moment ago, the Regents have established a Committee on Compensation to provide close, ongoing oversight of compensation practices at the University. That committee will commission periodic audits to ensure compliance with University policies and with the recommendations we ultimately adopt from the task force review and the audits by the State Auditor and our external auditors. Those periodic audits will be provided to you in the Legislature. The Regents' committee also will receive annual reports on the total compensation arrangement and any outside professional activities for senior leadership, and those reports also will be made available to the Legislature and to the public.

And we will seek additional ideas for reporting and monitoring compliance to fully ensure appropriate oversight. The bottom line is that we're going to work to ensure that we resolve these issues in fundamental ways and make these fixes stick.

At this time, I would like to invite Regent Kozberg to discuss the work of the Task Force she co-chairs, with Bob Hertzberg, on these matters. Thank you.