

**STATE SENATE EDUCATION COMMITTEE AND
SENATE BUDGET COMMITTEE SUBCOMMITTEE ON EDUCATION**

**INFORMATIONAL HEARING
ON HIGHER EDUCATION EXECUTIVE COMPENSATION**

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March 21, 2007**

TESTIMONY AS PREPARED FOR DELIVERY

Mr. Chairman and members, thank you for this opportunity to address the Committee on the issue of compensation at the University of California. I will make a brief opening statement to leave as much time as possible for your questions.

A year ago, I made the commitment that the University of California would lead the nation in public disclosure of our compensation policies and practices. I also pledged that the quality and integrity of the University would be preserved throughout this process.

Today, I am here to tell you that we have made significant progress in carrying out that commitment. As I promised, we have positioned the University of California as a leader among public research institutions in this area.

We are working through all issues associated with disclosure to the public and to the Legislature, with consistent policies and with compliance and accountability. We have put processes in place to ensure transparency. We are using exceptions only in truly exceptional cases.

At the same time, the University has continued to recruit the best people in a fiercely competitive market, and it remains the best research university in the world.

Let me summarize what we have achieved in our overhaul of compensation procedures, and what remains to be done.

Disclosure and Approval of Total Compensation

We have made the greatest strides in establishing new practices and procedures for reporting compensation information, consistent with the recommendations of the Hertzberg-Kozberg Task Force on UC Compensation, Accountability, and Transparency.

The cornerstone of the new reporting requirements is a template that displays all elements of total compensation for all appointments approved by the Regents: annual base salary and stipends; incentives; one-time payments, such as moving expenses; and all benefits and perquisites, including any possible future benefits.

The template is depicted in your handouts. As you can see, it designates whether each element of compensation is an exception to policy. All forms of compensation must be included on this form.

To my knowledge, this represents the most extensive reporting of total compensation by any public institution. It is proving to be a valuable tool for meeting our obligations to public disclosure, transparency, and accountability. It also is proving valuable for institutional governance in allowing University officials and the Regents to monitor any and all exceptions to policy.

This template provides a foundation for meeting other reporting requirements that we have adopted on executive compensation, on corporate board service, and on other forms of compensation. The annual reports that we are preparing on these topics are arguably the most thorough and detailed reports of their kind in the country.

In addition, we are providing the following:

- First, an **annual report of salaries for all UC employees**, including total compensation for senior executives and analysis of all compensation above base salary. In future years, we will verify this information against W-2 data to ensure a far more accurate picture of UC compensation.
- Second, **Web-posting of all compensation actions** immediately following action by the Regents at their regularly scheduled meetings and within one week of so-called “interim” actions taken between meetings. These items are reported through the template I just described. We have also created a public Web site for posting compensation information.
- Third, we have adopted new policies requiring that **all press releases on appointments approved by the Regents** include full compensation information, including any exceptions to policy.

In addition, UC is making available to the media and the public all proposed compensation actions before they are acted upon, in open public session, by the new Regents’ Committee on Compensation. This action goes beyond what is required under existing open meeting laws and under a recent related court ruling.

Accountability and Governance

Along with disclosure, the University has also made significant changes in the way it governs compensation.

First, the Regents are providing significant and appropriate new oversight, through the Committee on Compensation, and also through new policies requiring board approval of any compensation package exceeding \$200,000 for any senior executive-level position.

This means not just base salary, but all cash components of compensation and all exceptions to policy.

Second, we are achieving new levels of accountability through policy reforms, including those involving oversight and delegations of authority. For instance, with respect to capital projects undertaken for Chancellors’ residences and offices, we have tightened approvals, controls, and accounting procedures. As President, I now must approve any improvements in excess of \$25,000, and these improvements must be reported annually to the Regents.

Third, exceptions to policy are becoming just that – exceptions. Under a new interim policy, all exceptions to employment-related policies for senior executives now require approval by the Regents and by me. They must be fully documented and reported to the newly established chief compliance and audit officer, who is responsible for reporting any exceptions to policy that do not meet the appropriate standards.

A complete description of our progress in these matters is contained in the report we recently submitted to the Legislature. I believe you all have received a copy.

Compensation Reforms Still in Process

I now want to focus on three areas that are still under construction.

The first area is **information systems**. We must have, and we will have, comprehensive and integrated information systems. An organization of our size cannot meet its disclosure and reporting requirements through a manual human resources process.

The first phase of creating a warehouse for senior leadership compensation data is complete. It is the basis for the 2006 annual report on compensation that we recently released. Now we must move beyond senior leadership to a more comprehensive systemwide human resources database. But I must be honest with you: This will be very costly.

The second area has to do with our **policies**. Many policies have been developed ad hoc over the years. We need a comprehensive and far-reaching outside review and overhaul. That review is underway. We will develop policies that are clear, discrete, consistent, transparent, and easily understood. Those policies will provide specific guidance on when and how exceptions are to be made.

The review will also address conflicts between policies for senior managers and policies for academics, and it will help us bring clarity to the policies governing senior managers who also hold academic appointments.

The third area is **corrective actions**. There have been two major developments in this area:

- First, several key decision-makers have left the University. As a result, we have had the opportunity to reorganize and to bring in new talent, including a new executive vice president for business operations and a new general counsel.
- Second, we have engaged in an exhaustive process to review every individual case identified in the audits and to determine who was responsible for any policy violations. In different cases, the solution will involve corrective actions across the entire system, or on individual campuses, or with individuals. We are proceeding with due process and appropriate review, and we will emerge shortly with recommendations.

Conclusion

The University of California is the world's top public university in large part because we have recruited and retained the best people. But the competition remains fierce, and the packages we put together – including offerings like housing assistance and relocation allowances – make an important difference.

I think you will remember the powerful testimony about market conditions given last year by David Longanecker of the Western Interstate Commission for Higher Education. And I think you will agree that, if the University of California fails to compete in that market, we will erode California's global competitiveness, diminish its research base, compromise the health and the quality of life of our citizens, and reduce the quality of the educational experience we offer our students.

I know the Committee has expressed interest in other more specific topics, and I would be happy to discuss those with you in the Q&A session. Let me conclude this opening statement by assuring you that my commitment to quality remains undiminished, and so does my commitment to transparency and accountability. I am confident that in this area, as in so many others, the University of California will lead the way for the rest of the nation.

Thank you.