

PRELIMINARY REPORT ON 2005-06 EMPLOYEE COMPENSATION
University of California
November 2006

Summary

- **UC compensation “above base pay” increases in 2005-06, reflecting workforce growth and market realities in recruiting and retaining faculty and staff**
- **Nearly 80% of such pay goes to academic employees, and particularly to health sciences faculty in connection with their patient care responsibilities**
- **Nearly 50% of the funding for this compensation comes from professional fees, clinical revenue, and other activities associated with UC teaching hospitals**
- **Compensation “above base pay” to senior managers increases slightly in 2005-06 but still represents less than 1% of the total**
- **UC continues reforms to compensation programs to provide for policy compliance and appropriate public disclosure**

Total compensation for many University of California employees is made up of several different components. Some nurses and other employees in UC teaching hospitals, for instance, are compensated with a combination of base pay and shift differential for working evening or night shifts. Clinical faculty members who treat patients often negotiate total compensation packages that may include incentive payments under the terms of the University’s Health Sciences Compensation Plan, approved by The Regents. Other faculty salaries typically are made up of a combination of base pay, research funds, and summer teaching salary payments. Staff and administrators receive most of their income from base pay but can also earn stipends for performing additional temporary responsibilities.

Any compensation other than base salary and overtime is known as **“above base pay”** compensation. In many cases, these payments are an integral part of an employee’s annual total compensation. But this taxable income also can be temporary, such as stipends; or one-time, such as a housing allowance for a faculty member or administrator recruited to the University of California or a payout of accrued vacation for an employee leaving the University.

Preliminary analysis has now been completed on a new year’s worth of payroll data at the University of California. This preliminary analysis shows that this “above base pay” compensation to *senior managers* at the University of California increased from \$7 million in the 2004-05 fiscal year to \$7.17 million in 2005-06. (By contrast, nearly \$93 million in “above base pay” compensation was paid to union-represented UC staff employees in 2005-06.)

For the *total UC workforce, not including employees at the national laboratories*, \$843 million¹ in such “above base pay” compensation was paid in 2004-05, and that figure increased to \$916 million in 2005-06. (The University’s total annual payroll is approximately \$8 billion.) This growth is likely a result of several factors, including continued growth in the University’s workforce, currently composed of more than 170,000 employees; increases in employee base salaries, to which “above base pay” compensation is often tied; and the need for the University to continue using multiple elements of compensation in many cases to remain competitive in the market for talented faculty and staff.

It is important to note that this \$916 million total does not represent “inappropriate” compensation or “executive perks,” as the compensation in this category is provided to a wide range of employees, and the majority of it is provided to faculty, particularly health sciences faculty, consistent with their teaching and clinical care responsibilities and in accordance with the University’s Health Sciences Compensation Plan. External and internal audits of last year’s payroll data revealed that *some* payments within the category of “above base pay” compensation were not provided consistent with University policy and/or were not appropriately disclosed publicly. The Regents have responded aggressively by adopting new policy compliance mechanisms and oversight positions at the Office of the President, new policies for public disclosure of compensation information, open-session committee votes of The Regents on compensation items, and new requirements governing separation agreements, among other actions. The University has begun consistent public reporting of total compensation for those positions approved by The Regents and has committed to full annual reporting of total compensation for the entire senior leadership group.

Consistent with its commitment to transparency and public accountability, the University is making this summary of the 2005-06 data and preliminary analysis of it broadly available to the public as it is being delivered simultaneously to news media. The University had already committed to annual disclosures of compensation information to The Regents, the Legislature, and the public, consistent with the principles outlined by the Task Force on UC Compensation, Accountability, and Transparency. The University has been working to produce the first such disclosure in early 2007. However, the *San Francisco Chronicle* has requested immediate access, under the California Public Records Act, to this specific set of payroll data for the 2005-06 fiscal year. The University is complying with that request and making this summary of the data available broadly.

This analysis is preliminary. A more complete analysis of the 2005-06 payroll data is currently underway and is expected to be completed in mid-December.

¹ The widely reported \$871 million figure included employees at the UC-managed national laboratories, who have not yet been accounted for in the 2005-06 payroll data analysis. The \$843 million figure is used here to ensure an accurate year-to-year comparison between 2004-05 and 2005-06.

Background and Context

In 2005-06, the State of California provided \$3 billion in state funds to support the University's mission. This represented 20% of the University's \$15 billion in total revenue that year, excluding that associated with the Department of Energy national laboratories. The state government pays for the core of the University's instructional program, but costs for many other functions are supported by other revenue sources. This represents a tremendous benefit to the state and to California taxpayers, who receive the full educational, economic, and societal benefits from the University's activities while only paying a small fraction of the costs.

The remaining 80% of University revenue comes from a variety of sources, including the federal government, which provides grants and contracts for faculty research and also provides Medicare and Medicaid funding for patient care; HMO and private insurer payments to teaching hospitals, also for patient care; student fees, which are used for instruction-related costs, student financial aid, and student services; private funds that are designated to specific purposes; and income from self-supporting enterprises within the University, such as housing, parking, and bookstore operations. The University's largest expenditure is compensation for its employees, which totaled \$8 billion in 2005-06. The University negotiates compensation for its employees and then pays them from these separate revenue sources in proportion to the time and effort that they devote to their respective activities.

For example, a tenured professor of medicine may receive a total compensation package made up of several components: a base salary from state funds to pay for teaching medical students, compensation from one or more federal research grants for conducting research projects, and compensation from a UC faculty medical practice plan for the time the professor devotes to providing medical care to patients. The proper portion of the professor's time is charged to each of these revenue sources to ensure that each revenue source is paying the proportionate share of expenses, as required by accounting standards governing not-for-profit institutions.

Most non-medical faculty are compensated by the University, using state funds, for teaching students for the 9-month academic year. The faculty devote their time and effort during the remaining three summer months to research and scholarship that is typically paid with non-state funds. So, for many faculty, their summer salaries are paid from federal funds, from private foundations, or from other fund sources for research projects funded by those organizations. Additionally, with the huge increase in UC enrollments this decade, the University is now teaching approximately 67,000 students in the summer to utilize classrooms year-round. Faculty on 9-month appointments who teach summer session courses receive additional compensation, according to University policy, to teach these courses.

This structure of compensation "layers" applies to many staff employees as well. Some staff employees, particularly in the UC medical centers, receive "differential pay" on top of base salary for working night or weekend shifts. Other employees may earn stipends for performing additional temporary responsibilities. And bonus and incentive programs intended to reward employee performance also end up in the category of additional compensation "above base pay."

Key Points and Analysis

1. The 2005-06 data: Total compensation grows

- As previously reported, in the 2004-05 fiscal year \$871 million in “above base pay” compensation was provided to University of California employees. This figure reflected total compensation, minus base pay and overtime, for all UC employees. **Removing those employees at the national laboratories, who as yet have not been included in the 2005-06 payroll data set, the 2004-05 figure is \$843 million.**
- The next year’s worth of payroll data indicates that for the 2005-06 fiscal year, \$916 million was paid in compensation above base pay, excluding overtime, to UC employees other than those employed at the national laboratories. **Thus, the \$843 million in compensation beyond base pay in 2004-05 has grown in 2005-06 to \$916 million.**
- **Why has this increase occurred?** A fuller answer will require completion of a comprehensive analysis of the 2005-06 payroll data, an analysis now underway. But some likely factors are:
 - UC’s **employee workforce grew** 1.4% (more than 2,000 employees) between fall 2004 and fall 2005, driven by increases in services provided by the University:
 - Student enrollments grew by 2% between 2004-05 and 2005-06
 - Federal research expenditures at UC grew 2.3%
 - Inpatient days at UC medical centers grew 1%
 - **Base pay increased** for UC employees between 2004-05 and 2005-06, and many forms of “above base pay” compensation are tied to base pay.
 - The University continued to operate in a **marketplace in which multiple forms of compensation are required** in many employee categories in order to recruit and retain the most talented faculty and staff.
- **It is important to note that the implementation of compensation reforms at UC should not create an expectation that the \$916 million figure will decrease over time.** The vast majority of this compensation “above base pay” has not been called into question by the audits and reviews of UC compensation. Reforms to specific UC policies and practices may affect a small fraction of “above base pay” dollars over time, though these reforms began toward the end of the 2005-06 fiscal year and would have little impact on the 2005-06 payroll. Furthermore, as the services provided by the University continue to expand and the University’s workforce of more than 170,000 continues to grow in order to better serve more California students, more hospital patients, and more of the state’s research needs, dramatic reductions in the total amount of non-base pay compensation should **not** be expected.

2. The 2005-06 data: How the \$916 million breaks down

- A comprehensive analysis of the payroll data is now underway and is expected to be completed by mid-December.
- However, a preliminary analysis of the \$916 million in compensation “above base pay” to non-lab UC employees in 2005-06 indicates the following:
 - **By type of employee, nearly 80% of the compensation “above base pay” went to employees directly engaged in the academic mission.** These include professors, clinical professors, other teaching faculty, research titles, and a variety of other academic titles. (See accompanying Table 1 for details.)
 - **By fund source, nearly 50% of the funding for this compensation came from professional fees, clinical revenue, and other activities associated with the University’s teaching hospitals.** Approximately 9% of the funding came from State of California funds. Another 7% came from student fees, the majority of it from fees for summer sessions and University Extension courses. (See accompanying Table 2 for details.)
 - **The “top 10 earning” employees at the University in 2005-06 based on total compensation were either members of the health sciences faculty – typically world-renowned specialists in their fields – or athletic coaches.**
 - As described below, **less than 1% of the “above base pay” compensation (\$7.17 million) went to members of the Senior Management Group.** (See accompanying Table 3 for the detailed elements of compensation for the 31 employees holding the senior-most leadership positions at UC in 2005-06. See accompanying Table 4 for the total compensation figures contained in the 2005-06 payroll data set for all members of the Senior Management Group.)

3. The 2005-06 data: Senior managers still represent less than 1% of the total

- **Preliminary analysis of the 2005-06 payroll data indicates that members of UC's Senior Management Group received \$7.17 million of the total \$916 million in compensation "above base pay" provided to UC employees. This is slightly above the \$7 million figure for 2004-05.**
- The \$7.17 million paid to senior managers in 2005-06 breaks down in the following way:

Performance/incentive/bonus pay	\$1,678,000
Health Sciences Compensation Plan	\$1,136,000
Relocation	\$1,089,000
Payout of unused vacation upon separation	\$876,000
Severance pay ²	\$762,000
Stipends for additional job responsibilities	\$714,000
Research/teaching ³	\$517,000
Automobile allowance	\$394,000
TOTAL	\$7,166,000

- Of the \$1,678,000 total for performance/incentive/bonus pay to senior managers, \$921,414 was paid as performance awards to employees in the UC Treasurer's Office, and \$656,362 was paid as clinical enterprise incentive awards to employees at certain campuses with medical centers.
- The Senior Management Group consists of the senior leadership of the University, including the president, other officers of The Regents, chancellors, vice presidents, vice chancellors, associate and assistant vice presidents, some associate and assistant vice chancellors, some executive directors, and senior academic administrative titles such as deans. The \$7.17 million in the 2005-06 payroll data set was provided to 185 members of the Senior Management Group.

² Includes payments made to eligible administrators under the Senior Management Supplemental Benefit Program and other severance payments to employees.

³ An academic appointee may receive additional compensation for services in connection with extramurally funded research projects undertaken by the University unless the terms of the University appointment prohibit acceptance of additional compensation. In addition, faculty members under certain conditions may receive additional compensation for specified additional University teaching activities, including University Extension courses, other continuing education programs run by the University, and self-supporting University degree programs.

4. A look at last year: What last year's comprehensive analysis of the 2004-05 data showed

- For context and comparison, in 2004-05, the \$871 million in UC compensation “above base pay,” which included national laboratory employees, consisted of the following⁴. (Again, removing national laboratory employees from this calculation would have resulted in a total figure of \$843 million):
 - \$600 million (69%) was paid to **health sciences faculty** for treating patients or conducting research, and to **campus faculty** for additional teaching and research they performed during the summer, beyond their normal appointments.
 - \$70 million (8%) was “**differential pay**” provided to UC employees, most of them union-represented and most of them at the University’s medical centers, for evening, night, weekend, holiday, “on call” or other shifts.
 - \$54 million (6%) was **payout of accrued vacation** to employees leaving UC.
 - \$57 million (7%) represented a wide variety of compensation “**by agreement**,” including pay for students and postdoctoral fellows, adjunct and visiting professors, University Extension faculty, staff physicians, and other categories.
 - \$58 million (7%) represented **special performance, incentive, or bonus** pay.
 - \$30 million (3%) represented either **stipends** for employees taking on additional, temporary responsibilities or one-time **honorarium** payments.
 - \$9 million (1%) was for employee **automobile and housing allowances**.
 - The above were offset by a -\$7 million in savings from a University program that offered employees a temporary reduction in time and pay during 2004-05.
- Of the \$871 million total, \$7 million went to senior managers at UC in 2004-05.
- The University is now working on a comprehensive analysis that should provide, by mid-December, a comparable breakdown of the 2005-06 data.

⁴ “University of California Compensation: Breakdown of \$871 Million Figure Cited by the San Francisco Chronicle,” January 2006, <http://www.universityofcalifornia.edu/news/compensation/chronicle/871million.pdf>.