ITEM 9 ■ DRAFT

California Postsecondary Education Commission

Faculty Salaries at California Public Universities, 2007-08

March 2007

The Commission has expressed concerns about the preparation of University of California and California State University executive compensation and faculty salary studies. In response to the Commission's direction, a Compensation Study Advisory Committee was convened to explore the utility of salary and compensation studies and suggest improvements. This report summarizes the work of the advisory committee and updates the Commission on plans for a 2007 faculty salary report.

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The Commission advises the Governor and the Legislature on higher education policy and fiscal issues. Its primary focus is to ensure that the State's educational resources are used effectively to provide Californians with postsecondary education opportunities. More information about the Commission is available at www.cpec.ca.gov.

Draft Commission Report

Background

In October 2004 as part of the adoption of the 2003-04 executive compensation study, the Commission expressed concern about preparing salary studies:

> *There are numerous methods for evaluating executive compensation. The method used by the Commission is one that calculates the lag or excess in salary paid to executives at comparable institutions, when compared to UC and CSU executives respectively. However, it does not assess the value of benefits or perquisites as part of a total compensation calculation. The commission has been unable to obtain perquisite and benefit information from the systems. Benefits and perquisites provided to executives can be quite substantial, and hence the Commission's methodology does not present a complete picture of the value of individual compensation packages. For this reason, staff recommends that, if this report is issued in the future, the Commission convene an advisory committee comprised of representation from the University of California, California State University, California Community Colleges, California Postsecondary Education Commission, Department of Finance, and the Legislative Analyst's Office to begin discussions with the goal of identifying a new methodology with a broader scope that encompasses all forms of compensation.*
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> *Because of the linkage between faculty salaries and executive compensation, the Commission recommends that, if the two reports are issued in the future, every effort be made to publish them jointly.*

After adopting this language in conjunction with the executive compensation report, the Commission adopted a resolution (AR/05-01) in December 2005 expressing support for undertaking a comprehensive review of compensation policies within California higher education provided that the necessary authority and resources were provided.

No Legislative Requirement: It is important to note that other than the broad statutory language empowering the Commission to advise lawmakers about higher education, there is no specific statutory requirement that the Commission prepare either faculty or executive compensation studies. The basis for preparing past faculty salary studies was a non-binding Senate Concurrent Resolution (SCR 51 of the 1965 General Legislative Session), and language in the 1992-93 Budget Act (later vetoed) expressing legislative intent that the Commission review and comment on executive compensation.

November 2006 Compensation Study Advisory Committee Meeting: In November 2006, the Commission staff convened a Compensation Study Advisory Committee to examine the utility of Commission compensation studies and to make recommendations for improvements.

At that meeting, representatives of the University of California (UC) and the California State University (CSU) systems indicated they generally see such studies as useful in illuminating the problems of meeting faculty and executive salary needs.

Representatives from the Department of Finance (DOF) commented that there is value in compensation reports, but indicated that the previous studies were not essential to DOF's ability to perform its budget responsibilities.

Representatives from the Legislative Analyst's Office (LAO) found the studies somewhat informative, but noted that previous studies did not provide the means to assess how changes in compensation impact the quality of higher education.

There was also general agreement that the Commission correctly recognizes that these studies do not present a "total compensation" assessment; and are, therefore, limited in their value to accurately depict executive and faculty compensation. Further, there was general agreement that there are significant logistical problems associated with compiling accurate comparative "total compensation" information from higher education institutions outside the UC and the CSU systems in order to make meaningful comparisons.

It was decided that the advisory committee members (DOF, LAO, UC and CSU) would consult with their respective agencies to discuss the utility of Commission compensation studies and that a second meeting would be organized in January 2007 to provide additional input concerning:

1. The value and need for the Commission to continue preparing executive and faculty compensation studies.
2. If the studies are to be prepared in the future, what methodology and content changes will be necessary to optimize the usefulness of these compensation studies.
3. The LAO requested that the discussion focus on clarifying the purpose that compensation studies should further, additional information that would be useful, and what would constitute meaningful comparisons.

January 2007 Compensation Study Advisory Committee Meeting

A second meeting of the advisory committee occurred in January 2007. At that meeting, the UC and CSU representatives explained that they see value in reporting compensation information, but raised

concerns about alternative methods that might be used to assess faculty salary and executive compensation needs.

Representatives from DOF stated that the Commission should focus its attention on identifying methodologies for assessing "total compensation." This position reflects language incorporated in the Governor's proposal for the 2007-08 Budget Act. The proposed Budget Act language would require the Commission to assess total compensation methodologies and report findings by June 2008.

A representative from the LAO indicated that the Commission should collect and present compensation information to inform the Legislature on higher education compensation.

Subsequent to the January advisory committee meeting, the LAO issued its analysis of the 2007-08 Budget Bill and incorporated language recommending that the Legislature "direct CPEC to collect and report specified compensation information, including regular salaries, fringe benefits, vehicle use, housing and mortgage assistance, life insurance and additional forms of compensation." And further, "that the Commission be directed to use these factors to annually measure faculty compensation at the University of California and the California State Universities (by campus and system)."

The cost of doing compensation studies could be substantial.

Next Steps

Commission staff plan the following next steps:

- Prepare a 2007 faculty study, when the CSU and UC supply the faculty salary data necessary to compile this report. So far, the Commission has only received partial faculty data from the CSU and an oral assurance from the UC Office of the President that the necessary data will be provided. The format of the report would be the same as in previous Commission faculty salary studies.
- No executive compensation study is planned in 2007, due to resource constraints imposed on the Commission by previous budget reductions.
- Develop a work plan with input from the Compensation Study Advisory Committee to: (1) assess the value of compensation studies for policy and budget purposes; (2) explore options for improving the methodology and utility of Commission compensation studies, and (3) examine how compensation studies further the goals of the Commission to improve higher education performance, transparency and accountability.

In February 2007, the Commission received a letter from the California Faculty Association expressing their support for the preparation of faculty salary studies.