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Executive Compensation in California Public Higher Education, 1996-97

Pursuant to legislative directive, this report is the fifth in a series that reviews the policies and resultant compensation levels for executives in California public higher education for the 1996-97 year. The specific language guiding Commission activities on this issue is:

> It is the intent of the Legislature that the University of California and the California State University report to the California Postsecondary Education Commission on January 1 of each year, beginning on January 1, 1993, on the level of the total compensation package for executives of the University of California (including the president, senior and vice presidents, and campus chancellors) and the California State University (including the chancellor, senior and vice chancellors, and campus presidents), respectively . . . . It is the intent of the Legislature that the California Postsecondary Education Commission review the information provided and transmit its comments thereon to the Joint Budget Committee, the fiscal committees of each house, the appropriate policy committees of each house, and the Governor on or before March 1 of each year, beginning on March 1, 1993.

In addition, this report includes information on the California Community Colleges.

In responding to the legislative directive, this report will focus on describing changes in the policy or compensation levels over the last 12 months. Additional details and information can be obtained by requesting from the Commission the technical appendix to this report.

The Commission's perspective and responsibility regarding executive compensation

The Commission views executive compensation from the following perspective:

- Because executives play various roles in public colleges and universities -- educational leader, corporate administrator, and public servant -- the development of policy and the resultant setting of compensation levels is a complex undertaking that requires an understanding of the myriad responsibilities assumed by these executives at the campus and systemwide levels;
- College and university executives can contribute immeasurably to the quality of educational environments in which they function;
- Because the amount of funds allocated for executive compensation is small with respect to an institution's resource base, its position in an institutional budgetary picture is relatively insignificant; and
- Despite the smallness of executive compensation expenditures, the potential of this issue to generate public relations difficulties for institutions is enormous.

Because the governing boards of the two public university systems and the local boards of trustees of community college districts set the compensation levels for their executives, the Commission's specific responsibilities with respect to the issue of executive compensation are to provide information on: (1) the policies that guide the setting of compensation levels; (2) the levels set each year; and (3) the relationship between the compensation paid to California's higher education executives and their national comparators. Additionally, Commission staff participate in discussions about the appropriateness of the set of comparators for the California State University and University of California. In discharging these responsibilities, the Commission has continued to focus its attention on the contribution that strong executive leadership makes to educational quality in California's colleges and universities.

CALIFORNIA COMMUNITY COLLEGES

Compensation for executives in community college districts

Each of the 71 community college districts in California has the responsibility to set the compensation of its executives. As such, the policies that guide the setting of compensation vary widely across the state as do the resultant levels. Display 1 presents summary information for three types of executives in community college districts: (1) chancellors of multi-college districts; (2) campus presidents within multi-college districts; and (3) superintendent/presidents of single-college districts. In addition, this display provides information on changes in aggregate compensation levels over the last three years.

The trends presented on this display indicate that the pattern of change since 1994-95 varies by executive type:

- The salary for the lowest paid chancellorial position has increased substantially, while the highest paid chancellorial salary remained relatively constant. As a consequence, the salary range for the position of chancellor has decreased over this time period.
- For presidents in multi-college districts, the salary for the lowest and highest paid presidents has increased; the salary range has contracted only slightly.
- For superintendent/presidents, the lowest salary remained relatively constant but the highest salary increased significantly which expanded the salary range among this category of executives.
- Average compensation of community college executives has increased between seven and nine percent during the last three years depending on the category of executives.

DISPLAY 1 Compensation of Executives in Community College Districts, 1994-95 and 1996-97

Type of Executive	1994-95	1996-97	Change
Chancellors of Multi-College Districts			
Number	19	19	N/A
Lowest Salary	$ 90,084	$ 111,430	+ 23.7%
Highest Salary	$ 145,000	$ 150,000	+ 3.4%
Salary Range	$ 54,916	$ 38,570	- 29.8%
Mean Base Salary	$ 118,509	$ 126,839	+ 7.0%
College Presidents in Multi-College Districts			
Number	54	54	N/A
Lowest Salary	$ 77,784	$ 87,253	+ 12.2%
Highest Salary	$ 111,912	$ 119,974	+ 7.2%
Salary Range	$ 34,128	$ 32,721	- 4.1%
Mean Base Salary	$ 92,523	$ 100,263	+ 8.4%
Superintendents/Presidents in Single-College Districts			
Number	52	50[1]	N/A
Lowest Salary	$ 83,120	$ 85,980	+ 3.4%
Highest Salary	$ 138,166	$ 156,723	+ 13.4%
Salary Range	$ 55,046	$ 70,743	+ 28.5%
Mean Base Salary	$ 99,680	$ 106,972	+ 7.3%

1. The salaries for the Superintendent/Presidents of the Santa Clarita and Siskiyous Districts are omitted from these calculations because they have not provided the information to the Chancellor's Office.

Compensation for systemwide executives

The Chancellor's Office of the California Community Colleges is a State agency that operates under the rules, regulations, and procedures set by the Department of Personnel Administration, the State Personnel Board, and the Department of Finance. Unlike its public higher education counterparts, the Board of Governors currently has minimal influence over compensation paid to its systemwide executives, although the Board recently negotiated an adjustment to the Chancellor's salary with relevant State agencies, as discussed below.

In the Chancellor's Office, there are 11 executive positions. Currently, five of these positions are filled on a permanent basis; one has an "acting" incumbent; one has a staff member on an Interjurisdictional Exchange (IJE) from a campus; and, four positions are vacant. As of January 1, 1997, the Chancellor's salary is $126,695, an increase of $11,627 since the Commission's last report. The salaries for the four vice chancellorial positions that are filled on a permanent basis range from $90,792 to $73,308, with an average salary of $81,315. No changes in the salaries for these positions have occurred in the last year.

Commission Comments

As the Commission has discussed in the past, the basic principle underlying executive compensation among community college districts continues to be autonomy and flexibility. Each district makes a determination presumably based upon its financial condition, performance of the incumbent, local living costs, and board prerogatives. As Display 1 evidences, this principle has resulted in disparities within the community college system. However, the disparity among multi-college districts has decreased, to some extent, over the last three years. Among single-college districts, that disparity has grown since 1994-95. Nevertheless, despite perhaps solid reasons for these differences, the community colleges continue to appear to be less than the system envisioned by Assembly Bill 1725.

As previously noted, the Chancellor's Office is part of State Government and salaries are set by administrative State agencies. The current salary for the Chancellor's position has risen recently to $126,695 -- an action that the Commission supported in its last report in this series and in correspondence with the Board of Governors. Despite this progress, however, the salary for this position continues to be below the compensation paid to 10 of the 19 chancellors of multi-college districts and two of the 52 superintendent/presidents of single-college districts. Further, the chancellors of three of the larger community college districts in the country -- but districts considerably smaller than the California Community Colleges -- each earn significantly more annually than California's chancellor. Consequently, because the Commission views this position as directly related to the educational quality of the community colleges and integral to the capacity of higher education to contribute to the State's future, the Commission will continue to be supportive of the Board of Governors' efforts to raise the compensation for the Chancellor to an amount that will attract and retain highly qualified and respected educators for the position.

The Commission commented in its 1993-94 report in this series that "the combination of exempt, Career Executive Appointments (CEA), and Interjurisdictional Exchanges creates a complex and perhaps overly complicated configuration of personnel and salary levels." Since that time, little has occurred to simplify this personnel maze or to establish parity among the vice chancellors in terms of compensation levels. Based upon the current number of vacancies and the lack of permanent appointments at the vice chancellorial level, the Commission perceives that the time may be propitious for the Chancellor to reconsider the nature of his executive staff in terms of its number, the responsibilities of each position, the manner in which positions are filled, and the extent to which parity in compensation among executives at this level can be achieved.

The Commission established an Ad Hoc Committee on Community Colleges a year ago based upon the recommendation in *The Challenge of the Century* to identify ways by which to improve statewide coordination through enhancing the policy and governance capacity of the community colleges. The Board of Governors also has been discussing ways to enhance the operations of the Chancellor's Office through a proposal to reconsider its funding structure and placement as part of State government. The Commission remains committed to collaborating with the community college governing board to achieve the mutually agreed upon goal of enhancing the effectiveness of the community colleges at the state level.

CALIFORNIA STATE UNIVERSITY

Current policy on executive compensation

Since publication of the Commission's last report on executive compensation, the State University's policy has remained unchanged. In short, it calls for the State University to set its average compensation for campus presidents at the mean of presidential salaries at comparable institutions in the nation. Further, the policy recommends that the specific compensation for each president be based on the "mission, scope, size, complexity, and programs of each campus" and an appraisal of individual performance and experience as well as recruitment and retention experience.

Compensation for campus presidents

Display 2 presents the compensation levels for the presidents of the 22 State University campuses that were part of the system during the last Commission report. Since that time, an acting president of a prospective campus in the Oxnard-Ventura area has been named, but the following discussion omits that salary in order to maintain comparability between the two years.

DISPLAY 2 Compensation for Presidents of 22 California State University Campuses, 1995-96 and 1996-97

	1995-96	1996-97	Change
Lowest Salary	$ 120,288	$ 120,288	0.0%
Highest Salary	$ 153,660	$ 161,352	+ 5.0%
Salary Range	$ 33,372	$ 41,064	+ 23.0%
Mean Base Salary	$ 135,870	$ 141,865	+ 4.4%

At the Board of Trustees' meeting in September of 1996, salary adjustments were approved for presidents -- retroactive to July, 1996 -- that averaged 4.4 percent across the 22 campuses that had been part of the system in the 1995-96 year. The resultant increase in executive com-

pensation in the system totals $131,890 for the 1996-97 fiscal year. Only the two newest presidents to the system did not receive a salary adjustment for the 1996-976 year.

In addition to their base salaries, all presidents receive assistance with housing. Seven presidents live in houses provided by the State University; the other presidents receive an annual housing allowance ranging from $12,000 to $30,000, depending upon cost-of-living differentials within the system. Further, campus presidents have access to State-owned automobiles for business purposes and are reimbursed for entertainment expenses incurred as part of University-related activities in accordance with the system's rules and regulations.

Salary comparisons between the State University and similar institutions nationally

As indicated above, the State University's policy stipulates that its average presidential salary should be set at the mean of comparable institutions nationally. For several years, the State University and the Commission have agreed upon a set of 20 institutions that serves as the State University's comparators for the purpose of gauging the extent to which its salaries are similar to those of institutions with which it competes for executives. Five comparators are independent institutions.

A private firm gathered information on the compensation of the chief executive officer at the 20 comparable institutions for the 1996-97 Academic Year.

The chief executive officer of the comparators will earn an average of $184,415 in this academic year; the corresponding figure for the 22 State University presidents was $141,865 -- a lag of 30.0 percent. Further, none of the State University presidential salaries equals that of the mean of the comparators. Finally, participation in a deferred compensation program is not an available option for State University presidents.

Compensation for systemwide executives

There are now eight positions that constitute the executive staff at the Chancellor's Office of the State University. However, only six of those positions are currently occupied -- the Vice Chancellor for External Relations and National Affairs and the Vice Chancellor for Human Resources/ Operations are presently vacant.

At its September, 1996, meeting, the Board of Trustees approved a salary adjustment for five of the current systemwide executives. The Chancellor's salary is now $197,232 -- an increase of 3.8 percent -- and he receives $20,000 in deferred compensation from non-State funds. The Executive Vice Chancellor's salary increased by five percent to $162,888. The salaries for the Vice Chancellor positions now range from $131,502 to $149,460; last year, that span was $130,296 to $141,000.

In addition to their base salaries, the Chancellor and Executive Vice Chancellor either live in University-provided housing or they receive a housing allowance. Automobile allowances or use of State-owned vehicles for University business are part of the compensation package for the systemwide executives. Finally, executives are reimbursed for entertainment expenses incurred in conjunction with University-related activities in accordance with the system's rules and regulations.

Commission comments

As in the past, Commission comments about executive compensation at the State University center on changes in the development and implementation of its policies and the lag in compensation between this system and its national comparators.

Policy development and implementation: The State University continues to make progress in implementing an understandable and coherent executive compensation policy. Adjustments in compensation to incumbent campus presidents ranged from three to six percent -- a span that reflects movement in the direction described in the policy in which determinations are made on an individual basis that take into consideration myriad institutional and performance factors. Moreover, changes by which campus presidents are assessed reflect both a commitment to inclusiveness in the process and an intention to take the process seriously.

Lag in salaries at the presidential level: The lag between the average salary of State University presidents and its national comparators over the last four years is presented in Display 3. During this time, the average salaries at the national comparison institutions has risen by over 27 percent; the corresponding change at the State University has been less than nine percent, or only one-third of the average increase at universities with which it competes for executives leaders. Moreover, that gap has continued to rise

DISPLAY 3 Average Compensation for California State University Presidents and Their National Comparators, 1993-94 to 1996-97

	National Comparators	California State University	Salary Lag
1993-94	$ 144,908	$ 130,462	- 11.1%
1994-95	$ 162,728	$ 132,796	- 22.5%
1995-96	$ 179,180	$ 135,870	- 31.9%
1996-97	$ 184,415	$ 141,865	- 30.0%
4-Year Average	27.3%	8.7%	

since 1993-94, with a slight leveling in the last two years at the unacceptably high level of 30 percent or more.

Because the Board of Trustees views this gap as increasingly problematic to the system's ability to recruit qualified executives, it established a committee in January, 1997 to examine this situation in a comprehensive manner and to make recommendations about actions that it could take in the future. Because it regards executive compensation as an influence on educational quality, the Commission shares the concerns of the Trustees**.** The lag discussed in this report is clearly moving in a direction that is counter to the State's interest; if permitted to continue, the gap may hamper the State University's ability to continue to diversify its leadership cadre -- a high priority for the system, the Commission, and the State. Therefore, the Commission will be interested in learning the results of the deliberations of the Trustees' Committee. In the meantime, the Commission supports the continuing efforts of the State University to commit a reasonable amount of additional resources such that it can recruit and retain executives with the capacity to lead their campuses and this State in the future.

UNIVERSITY OF CALIFORNIA

Current policy on executive compensation

Since the significant changes in the University of California's policy on executive compensation in the early 1990s, the policy has remained constant. Specifically, this policy calls for the Board of Regents to set the average compensation level for chancellors at the mean of its national comparators, with the actual level paid to each chancellor a function of "the scope, size, complexity, and quality of each campus" as well as the performance and experience of the incumbent. This policy is expected to both "maintain a competitive market position and recognize individual performance". A hallmark of the policy is the establishment of an internal alignment among and between the set of chancellor positions and executives in the systemwide office.

Compensation for University chancellors

Display 4 presents information on the aggregate changes in compensation levels over the last two years for the nine chancellorial positions in the University. The 1996-97 figures reflect the average 5.5 percent salary adjustments adopted by the Board of Regents effective October 1, 1996. Chancellors received an average of a four percent merit adjustment and an average of 1.5 percent market-based equity adjustment. The adjustments total $69,971 for the nine months of the 1996-97 year in which they are effective.

In addition to their base salary, University chancellors live in an University-provided house or, in the case of two chancellors, receive a housing allowance. University-leased vehicles are provided to chancellors for their use on campus business and they receive reimbursement for expenses incurred in conjunction with University business through procedures consistent with University Administrative Fund guidelines. In addition, the UCLA chancellor will receive a lump-sum payment for participation in a Special Supplemental Retirement Program upon his retirement at the end of June, 1997.

DISPLAY 4 Compensation for Chancellors at the University of California, 1995-96 and 1996-97

	1995-96	1996-97	Change
Lowest Salary	$ 173,300	$ 182,000	+ 5.0%
Highest Salary	$ 212,100	$ 222,700	+ 5.0%
Salary Range	$ 38,800	$ 40,700	+ 4.9%
Mean Base Salary (includes San Francisco)	$ 195,867	$ 206,233	+ 5.3%
Mean Base Salary (excludes San Francisco)	$ 189,300	$ 199,413	+ 5.3%

Salary comparisons between the University and similar institutions nationally

As with the State University, the executive compensation policy calls for the University of California to set its average chancellorial salary at the mean of its national comparators. The University has two sets of national comparators: (1) the All-University Set of 26 institutions and (2) its comparison Eight Faculty Salary Set.

The All-University Set: The All-University set consists of 14 public and 12 independent universities. When a private consulting firm analyzed information from 23 of these institutions, the lag between the compensation paid to University of California chancellors and their comparators was 3.9 percent in 1996-97: comparators earned an average of $214,209 and the nine chancellors earned an average of $206,233. When excluding the salary of the chancellor at San Francisco because of the uniqueness of this health science campus, the average salary for University chancellors fell to $199,413 and the lag increased to 7.4 percent -- a figure that better reflects the gap that exists between the compensation for chancellors at the University and their national comparators.

Faculty Salary Set: The comparison faculty salary set of eight institutions is evenly divided between public and independent institutions. When the San Francisco campus is included, the lag between the faculty salary set of comparators and the University of California is 16.1 percent. Excluding the San Francisco campus, that lag increases to 20.1 percent.

Caveat about these comparisons: The comparisons both between the All-University set and the Faculty Salary Set of institutions presented above probably underestimates the lag that currently exists with respect to salaries for the chancellors of the University of California. The figures used to compute the gap are taken from two different points in time: the University of California salaries reflect upward adjustments made as of October 1, 1996; figures for the comparators were effective as of July 1, 1996. As such, the differences in salary setting schedules between the University and some of its comparators may, to some extent, change the magnitude of the gap displayed above.

Compensation for systemwide executives

The University of California regards 10 positions in the Office of the President as constituting its executive staff. As of October 1, 1996, the President's salary is now $253,300 -- an increase of four percent since last year. For the other nine positions, the Board of Regents approved an average salary adjustment of 3.9 percent, effective on October 1, 1996. Salaries for the Vice Presidents now range from $182,000 to $204,000; the previous range was $175,000 to $194,100.[1]

In addition to his base salary, the President lives in University-provided housing. All executives have University-leased automobiles or are reimbursed for expenses incurred in conjunction with the conduct of University business. Further, executives are reimbursed for appropriate University expenses in conjunction with the discharge of their University responsibilities and in accordance with Administrative Fund guidelines.

Commission comments

In its last report, the Commission noted that the University was continuing its efforts to: (1) enhance the simplicity and comprehension of its executive compensation policies; (2) establish greater equity in benefits between executives and other University staff; and (3) reduce executive compensation levels. Significant policy changes with respect to enhancing equity of benefits have occurred and the University has made strides in equalizing the salary gap between campus chancellors and their national comparators while acknowledging its commitment to hold compensation levels stable. Both of these trends are discussed below.

Equity in benefits: The University has implemented a new personnel system that is governed by one set of policies rather than its past system that was guided by different policies for different major staff categories. In so doing, the University has completed its goal of equalizing benefits among executives, faculty, and staff in different categories and classifications.

Stabilization of executive compensation levels: The University of California has balanced the commitment to reduce or stabilize compensation levels with the realities of continuing to be competitive in recruiting and retaining educational leaders. The University has continued to hire new executives at the same or less base salary as their predecessors at both the campus and systemwide level, as was the case with the appointment of new chancellors at San Diego and Santa Cruz and the Vice President for University and External Relations.

In terms of overall trends in compensation for chancellors over the last five years, Display 5 shows the average salary paid to chancellors in the University and at their national comparison institutions.

DISPLAY 5 Average Compensation for University of California Chancellors at the Eight General Campuses and Their National Comparators, 1992-93 to 1996-97

	All University Set[1]	University of California	Salary Lag
1992-93	$ 183,600	$ 182,243	- 0.7%
1993-94	$ 193,300	$ 181,950	- 6.2%
1994-95	$ 203,100	$ 181,413	- 12.0%
1995-96	$ 215,600	$ 189,300	- 13.9%
1996-97	$ 214,209	$ 199,413	- 7.4%
5-Year Average	16.7%	9.4%	

1. Includes the comparison institutions who reported information in all five years.

During this time period, salaries at the comparison institutions have increased by 16.7 percent; at the University, the corresponding increase has been 9.4 percent. As a result, the near comparability of the average salaries between the two sets of institutions in 1992-93 rose to approximately 14 percent last year; it has been nearly reduced in half this year because of both the salary adjustments made by the Regents in October of 1996 and the slight decrease in the average salary at the comparison institutions. Nevertheless, the 7.4 percent disparity that currently exists -- when coupled with significant disadvantages in terms of the benefits package that the University is able to offer to prospective new chancellors -- continues to present difficulties for the system.

1. The University has added a Vice President for Clinical Services Development to its executive staff over the last year -- a position uniquely linked to its medical schools. Because of the uniqueness and newness of that position, its compensation has not been included in the salary range presented above.