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Executive Compensation in California Public Higher Education, 2000-2001

Pursuant to legislative directive, this 2000-2001 Executive Compensation Report is the ninth in a series that reviews the policies and resultant compensation levels for executives in California public higher education. The specific language guiding the Commission 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 focuses 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 has historically viewed executive compensation through the following lens:

- 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 relevance in the budget-

ary context of institutions is relatively insignificant; and

- Despite the relative small expenditure of funds on executive compensation, this issue has the potential to generate enormous public relations-related concerns for institutions.

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 public 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 public colleges and universities.

CALIFORNIA COMMUNITY COLLEGES

Compensation for executives in community college districts

Each of the 72 community college districts in California is responsible for setting the compensation of its executives. As such, the policies that guide the setting of compensation vary widely across the state as do the resultant compensation 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) superintendents/presidents of single-college districts. In addition, this display provides information on changes in aggregate compensation levels over the last two years.

The trends presented on Display 1 indicate that the pattern of change since 1999-2000 varies by executive type. While average salaries of the three types of executives in the community college system increased by approximately six to seven percent, wide variations have taken place with respect to the rate of change of lowest paid and highest paid chancellors and presidents in multi-college districts.

DISPLAY 1 Compensation of Executives in Community College Districts, 1999-2000 and 2000-2001

Type of Executive	1999-00	2000-01	Change
Chancellors of Multi-College Districts			
Number	20		
Average Annual Salary	$154,477	$164,818	+ 6.7%
Lowest Salary	$135,000	$122,100	- 9.5%
Highest Salary	$186,200	$220,063	+ 18.1%
Range	$51,200	$97,963	+ 91.3%
College Presidents in Multi-College Districts			
Number	56		
Average Annual Salary	$116,749	$124,910	+ 7.0%
Lowest Salary	$101,160	$89,000	- 12.0%
Highest Salary	$126,911	$167,284	+ 31.8%
Range	$25,751	$78,284	+204.0%
Superintendents/Presidents in Single-College Districts			
Number	52		
Average Annual Salary	$129,676	$137,924	+ 6.4%
Lowest Salary	$99,670	$108,000	+ 8.4%
Highest Salary	$189,140	$211,586	+ 11.8%
Range	$89,470	$103,586	+ 15.8%

- Average compensation of chancellors of multi-college districts increased by 6.7 percent over last year; average compensation of presidents of campuses within multi-campus districts increased by seven percent; and the average compensation for superintendents/presidents in single-college districts increased by 6.4 percent.

- The salary for the lowest paid chancellorial position has decreased by approximately 9.5 percent and the highest paid chancellorial salary increased by 18.1 percent. As a consequence, the difference between the highest paid chancellor and the lowest paid chancellor increased by 91.3 percent since last year.

- For presidents in multi-college districts, the salary for the lowest paid president decreased by 12 percent and that of the highest paid president increased by 31.8 percent; as such, the difference between the salaries of the highest and lowest paid president in multi-college districts increased by 204 percent.

- For superintendent/presidents in single-college districts, the lowest salary increased by 8.4 percent while the highest salary increased by 11.8 percent. The difference between the highest and lowest paid superintendent/president in single-college districts increased by 15.8 percent.

The figures in Display 1 include annual stipends paid to 26 chancellors, presidents, or superintendents at the community colleges. These stipends range from $1,060 to approximately $7,260. The average stipend amount is $1,944, an increase of 18.5 percent over last year.

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 is restricted in its actions by the State bureaucracy in terms of its ability to establish compensation levels for its executive staff.

For the purposes of this report, the executives of the Community College Chancellor's Office include the following 11 positions: 1) Chancellor; (2) Executive Vice Chancellor; (3) Vice Chancellor, Administration and Fiscal Policy; (4) Vice Chancellor, Legal Affairs and Contracts; (5) Vice Chancellor, Human Resources; (6) Vice Chancellor, Educational Services and Economic Development; (7) Vice Chancellor, Policy, Planning, and External Affairs; (8) Vice Chancellor, Student Services and Special Programs; (9) Director, Internal Operations; (10) Director, College Facilities and Fiscal Affairs; (11) Director, Fiscal Policy.

The salaries for executives in the Community College Chancellor's Office range from $84,228 to $175,520. These positions are comprised of a combination of civil service, exempt positions, and persons hired under interjurisdictional exchange agreements. The Chancellor's current salary is $175,520, an increase of $5,660 or 3.3 percent, since the Commission's 1999-2000 report. Additionally, the Deputy Chancellor earns an annual salary of $121,988, representing an increase of 2.9 percent over last year. The salaries for the six vice chancellorial positions range from $81,687 to $111,934, with an average salary of $101,374. This is a 1.1 percent increase over 1999-2000.

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 shows, this principle has resulted in disparities within the community college system. The disparity in salary levels within each of the three categories has increased significantly over the past year. At least some of this can be explained by turnover in executive positions at the campus and district level that has resulted in new hires being offered lower starting salaries than the salary levels the incumbent had at the time of his or her departure. However, such occurrences do not explain the disparity entirely.

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." The Chancellor's Office continues to use a variety of personnel classifications among its executive staff with some State employees and others serving in their capacity through an Interjurisdictional Exchange. While this makes for a certain lack of clarity with respect to the various classifications and responsibilities of the executive staff, it does provide the Chancellor's Office with the ability to make use of the vast expertise of individuals who have served the system well at the campus level.

CALIFORNIA STATE UNIVERSITY

Current policy on executive compensation

The California State University's policy on executive compensation calls for the State University to set its average compensation for campus presidents at the mean of presidential salaries at an established set of 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 system and national policy leadership.

Merit assessments, according to stated criteria, are also used as well as recruitment and retention experience. These criteria include an assessment of the president's general administrative effectiveness, his or her working relations with the system and with the campus, educational leadership and effectiveness, community relations, major achievements of the campus and the president, and other relevant personal characteristics. Also considered are regional cost of living differentials and the need to maintain a competitive market position.

Compensation for campus presidents

This report differs from past reports on the salaries paid to campus presidents at the California State University in that it includes the salary for the president of its newest campus, California State University, Channel Islands. In October of 2000, the Commission approved the needs study for the development of the Channel Islands campus as the 23rd campus of the State University and forwarded its recommendation to the CSU Board of Trustees, the Legislature, and the Governor. Subsequently, resources have been provided and activities have taken place to ensure the opening of this campus as a stand-alone CSU campus in 2002. As a result, the Commission believes it is appropriate to now include the salary for the president of CSU Channel Islands in the annual Executive Compensation study and has done so here.

Display 2 presents the average compensation level for the presidents of the State University's 23 campuses for the academic year 2000-2001 which is $207,251. All campus presidents received a salary adjustment in the current year, although one recently hired president was provided with a nominal increase only. The salary adjustments ranged from 0.13 percent to seven percent, with the reported average increase at 5.9 percent, or $11,479. The total increase from 1999-2000 in executive compensation for all 23 campus presidents was $264,012 for the 2000-01 fiscal year.

DISPLAY 2 Compensation for Presidents of 23 California State University Campuses, 1999-2000 and 2000-2001

	1999-00	2000-01	Change
Average Annual Salary	$197,206[1]	$207,251[2]	+ 5.0%
Lowest Salary	$162,012	$172,044	+ 6.1%
Highest Salary	$229,440	$244,356	+ 6.5%
Difference between highest/lowest salaries	$67,428	$72,312	+ 7.2%

1. Does not include CSU Channel Islands.
2. Includes CSU Channel Islands for the first time.

During the reporting period, leadership at the California State University, Northridge campus has changed hands. President Jolene Koester began her presidency in July 2000. Two new presidents joined the University this summer when William Eisenhardt replaced Jerry Aspland as president of the California Maritime Academy, effective July 1, 2001. Richard Rush replaced Handel Evans as president of the newest CSU campus, California State University, Channel Islands on June 18, 2001, following the retirement of President Evans.

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 approximately the mean of comparison institutions nationally. For several years, the State University and the Commission have agreed upon a set of 20 institutions that serve 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. The remaining 15 are public universities. Display 3 lists the 20 comparison institutions used for CSU. These institutions are the same as those used by the Commission in its annual faculty salary report.

DISPLAY 3 List of Comparison Institutions for California State University

Arizona State University
Bucknell University
Cleveland State University
University of Colorado
University of Connecticut
George Mason University
Georgia State University
Illinois State University
Loyola University of Chicago
University of Maryland
University of Nevada
North Carolina State University
Reed College
Rutgers State University
State University of New York
University of Southern California
University of Texas at Arlington
Tufts University
Wayne State University
University of Wisconsin

A private consulting firm gathered information on the compensation of the chief executive officers at the 20 comparison institutions for the 2000-2001 Academic Year.

The chief executive officers of the comparators will earn an average of $227,678 in this academic year; the corresponding figure for the 23 State University presidents is $207,251. Three of the State University presidential salaries exceed the mean of the comparators.

Lag in salaries at the presidential level: In the mid 1990s, the Commission's executive compensation reports revealed a growing gap in the salaries of the presidents of the California State University campuses and those of the presidents of their national comparison institutions. The lag between the average salary of State University presidents and its national comparators over the past eight years is presented in Display 4. In 1994-95, the salary lag doubled from 11.1 percent to 22.5 percent and continued to rise to 31.9 percent in 1995-96. The average salaries for the CSU presidents rose by 19.1 percent between 1993-94 and 1997-98, while those of its comparison institutions rose by over 32 percent.

DISPLAY 4 Average Compensation for California State University Presidents and Their National Comparators, 1993-94 to 2000-01

	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%
1997-98	$191,426	$155,360	- 23.2%
1998-99	$200,684	$174,412	- 15.1%
1999-00	$214,811	$197,206	- 8.9%
2000-01	$227,678	$207,251	- 9.8%
8-Year Average	57.1%	58.8%	

Because the Board of Trustees viewed the gap in compensation levels between its presidents and the national comparators as increasingly problematic to the system's ability to recruit qualified executives -- a concern which the Commission shared -- 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. This committee reported in 1997 and recommended that the lag of 30 percent that existed at that time be substantially reduced over the next three years.

The first phase of the multi-year recommendation was implemented in September of 1997 with the Board of Trustees approving salary adjustments for the presidents that averaged 10 percent for the 1997-98 academic year. The second phase of the multi-year recommendation was implemented in September of 1998 with Board approval of salary increases for the presidents that averaged approximately 12 percent. The third and final year of the recommendation was implemented in September 1999 with Board approval of salary increases for the presidents that averaged 13 percent. The result of this three-year effort was to reduce the lag significantly to 8.9 percent as reported by the Commission in last year's report.

As a result of the actions taken by the Board of Trustees in 1997 through 1999, the rate of change in salaries of CSU presidents exceeded slightly that of its comparison institutions. During the most recent eight-year period beginning in 1993-94, the average salaries at the national comparison institutions has risen by 57.1 percent; the corresponding change at the State University for this time period has been approximately 58.8 percent.

While the Trustees' plan did not ultimately result in the elimination of the gap entirely, the substantial salary adjustments made over the previous three years have clearly contributed to reducing the lag by 70 percent -- from 30 percent in 1996-97 to 8.9 percent in 1999-2000. Unfortunately, despite efforts of the CSU Board of Trustees to keep pace, the presidential salary lag increased again this year to 9.8 percent.

Compensation for systemwide executives

There are six positions that constitute the executive staff at the Chancellor's Office of the California State University. They are: (1) the Chancellor; (2) the Executive Vice Chancellor and Chief Academic Officer; (3) the Executive Vice Chancellor and Chief Financial Officer; (4) the Vice Chancellor, University Advancement; (5) Vice Chancellor, Human Resources; and (6) General Counsel. The position of Vice Chancellor, University Advancement is currently vacant as a result of the retirement in January 2001 of Dr. Douglas Patino. Recruitment for that position is underway currently.

The compensation level for the Chancellor is $305,340 which represents a seven percent increase over the 1999-2000 level. The Executive Vice Chancellor and Chief Executive Academic Officer's salary increased by seven percent to its current level of $230,592. The salaries for the remaining executives now range from $188,664 to $230,592, representing increases ranging from 4.4 percent to 8.7 percent.

Non-salary perquisites for campus presidents and for executives

The benefits package for California State University executives varies only slightly from other management within the system. CSU executives receive the same general health, welfare, and retirement employee benefits package as other management within the system with the exception of an enhanced life insurance program of $150,000 and an annual physical examination. The paid-time program including vacation, sick leave, and holidays is also the same. CSU provides mandated benefits to executives in the areas of industrial and non-industrial disability, workers compensation, and employment insurance. While the university provides a fee-waiver program to dependents of faculty employees, executives as well as other employees are not offered this same benefit.

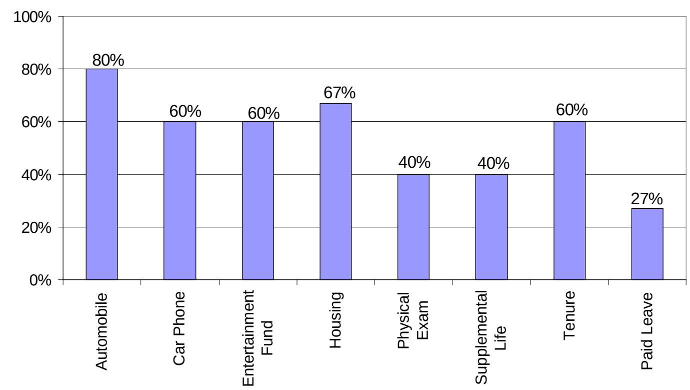
In addition to their base salaries, all presidents receive assistance with housing. Ten presidents live in houses provided and maintained by the State University; the other 13 presidents receive an annual housing allowance ranging from $23,004 to $36,804, depending upon cost-of-living differentials -- with the highest allowances provided for presidents located in the high priced markets of San Francisco Bay area, San Jose and Sonoma. Increases in housing allowances of approximately 15 percent were reported for this period. Previously, housing allowances had ranged from $20,000 to $32,000. Further, campus presidents have access to either a State-owned automobile for business purposes or are provided an automobile allowance of $750 per month in lieu of a university vehicle to support university related business travel requirements. In addition, presidents are reimbursed for entertainment expenses incurred as part of University-related activities in accordance with the system's rules and regulations.

With respect to systemwide executives**,** in addition to a base salary, the Chancellor lives in University-provided housing. 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.

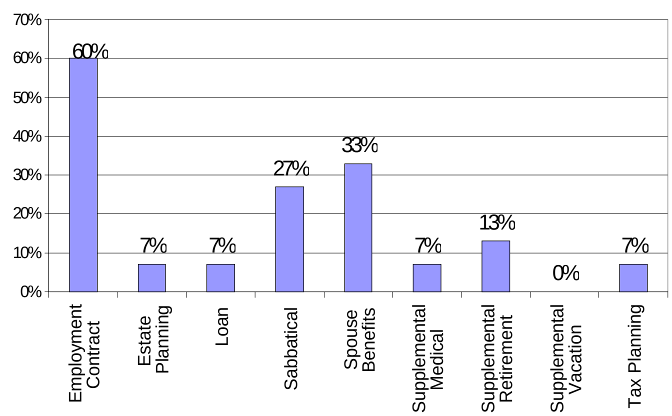
The private consulting company surveyed comparison institutions to determine the type of perquisites for which their presidents are eligible as contrasted with those offered to presidents of the California State University system. In sum, the California State University offers its presidents eight perquisites including: (1) an automobile or automobile allowance; (2) a car phone; (3) use of an entertainment fund; (4) housing or a housing allowance; (5) physical exam (6) supplemental life insurance; (7) tenure; (8) and paid leave. Display 5 illustrates the percentage of comparison institutions who offer these particular perquisites.

With the exception of the physical exam, supplemental life insurance, and paid leave, the majority of institutions offer their presidents the same perquisites. In addition, some institutions offer their presidents additional perquisites that are not available to CSU campus presidents. Those perquisite types reported were employment contracts, estate planning, loans, sabbatical, spousal benefits, supplemental medical, supplemental retirement, supplemental vacation, and tax planning. Display 6 illustrates those perquisites not offered to CSU Presidents and the percentage of comparison institutions reporting that they offer their campus presidents that particular perquisite.

DISPLAY 5 Percentage of Comparison Institutions that Offer Perquisites for which CSU Presidents are Eligible



DISPLAY 6 Perquisites Not Offered to CSU Presidents Offered by Comparison Institutions



Retirement

All CSU executive employees participate in a benefit retirement plan provided by the Public Employees' Retirement System (PERS). However, there is concern about retirement benefit limitations that impact newly hired executives as a result of Section 401 (a) (17) of the Internal Revenue Code which limits the compensation used to calculate benefits payable to members of tax-qualified plans. The indexed limit, effective January 1, 2001, is $170,000 annually. This restriction applies only to employees newly participating in PERS on or after July 1, 1996.

The CSU reports that five CSU executives are currently denied full retirement benefits through PERS due to the IRC restrictions. For the Chancellor and Executive Vice Chancellor, two of the five impacted by this limit, annuity plans are provided which offset the benefit lost through PERS as a result of the IRC limit. Because this restriction will continue to affect new executive hires to the CSU system, the University is currently exploring options to ensure retirement equity for executives impacted by the IRC restrictions. This particular issue is a concern of many institutions of higher education throughout the nation, and universities are exploring various options to address the issue.

Commission comments

The Commission continues to support the efforts of the Board of Trustees to ensure that executive compensation is adequate to recruit and retain capable future campus leaders, provided additional resources allotted are considered in conjunction with other pressing demands for university resources.

In subsequent versions of this annual report, at the request of Commissioners, Commission staff will attempt to include the estimated monetary value of the non-salary perquisites received by State University executives relative to the value of such benefits provided to executives at the State University's comparison institutions.

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 with one exception that was acted upon by the Board of Regents last year related to retirement benefits for some UC executives. 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 7 presents information on the aggregate changes in compensation levels over the last two years for the chancellorial positions in the University. Effective October 1, 2000, the University of California Board of Regents approved an average 3.5 percent merit salary adjustment for its chancellors, plus rounding alignments ranging from 0.4 percent to 0.7 percent for the Chancellors at UC Irvine, UC Merced, UC Riverside, and UC Santa Cruz. Unlike the previous two years, no equity adjustments were provided. Excluding the chancellor at UC San Francisco because of its unique focus, salary increases for the nine general campuses ranged from 3.5 percent to 4.2 percent, and averaged 3.8 percent.

DISPLAY 7 Compensation for Chancellors at the University of California, 1999-2000 and 2000-2001

	October 1999	October 2000	Change
Lowest Salary	$235,000	$245,000	+4.3%
Highest Salary (excluding UCSF)	$294,500	$304,800	+3.5%
Difference between highest/lowest salaries	$59,500	$59,800	+0.5%
Average Annual Salary (includes San Francisco)	$270,500	$280,610	+3.7%
Average Annual Salary* (excludes San Francisco)	$263,333	$273,267	+3.8%

*Of the nine general campuses only. Excludes the Chancellor of the University of California, San Francisco because of the uniqueness of the campus.

Since the Commission's last report, no new chancellors were appointed. Last year's report included the chancellor for the UC Merced campus for the first time.

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 university campuses or systemwide offices, and (2) its Comparison Eight Faculty Salary Set. Display 8 lists the institutions of higher education that comprise both the All-University Set of 26 campuses or systemwide offices, and the Comparison Eight Faculty Salary Set.

DISPLAY 8 Institutions Comprising the All University Set of Comparison Institutions and the Comparison Eight (in italics) institutions for the University of California

Brown University
California Institute of Technology
University of Chicago
University of Colorado
Colorado, Boulder
Columbia University
Cornell University
Harvard University
University of Illinois
Johns Hopkins University
Massachusetts Institute of Technology
Northwestern University
University of Michigan
University of Minnesota (system)
University of Minnesota (Duluth)
University of Minnesota (Twin Cities)
Northwestern University
University of Pennsylvania
Stanford University
State University of New York (Buffalo)
State University of New York (Stony Brook)
University of Texas
University of Virginia
University of Washington
University of Wisconsin
Yale University

The All-University Set: Of the 26 university campuses or systemwide offices for which data were obtained, 14 are in public universities and 12 are in independent universities. Display 8 provides the list of the institutions in the all university set of 26 institutions. A private consulting firm analyzed information from all comparison institutions with the exception of two universities – one that had a vacancy at the time of the survey and the other which declined to participate. The salary adjustments that became effective for the 10 University of California chancellors as of October 1, 2000 results in a current average salary of $280,610 as contrasted with the average salaries at their comparison institutions as of July 1, 2000, of $323,030. In this instance, the lag between UC chancellors and their comparators is 15.1 percent. However, when the salary of the chancellor at the UC San Francisco health science campus is excluded, the average salary of the nine UC chancellors falls to $273,267, and the lag is 18.2 percent.

Eight Faculty Salary Set: UC compares less favorably to the Comparison Eight Faculty Salary Set than the All-University Set. The comparison faculty salary set of eight institutions is evenly divided between public and independent institutions. The average salary of the presidents/chancellors at these institutions is $341,716. As a result, when the San Francisco campus is included, the lag between the faculty salary set of comparators and the University of California is 21.8 percent. Excluding the San Francisco campus, the lag increases to 25 percent.

Caveat about these comparisons: The comparisons between both the All-University set and the Eight Faculty Salary Set of institutions presented above possibly underestimates the lag that exists currently with respect to salaries for the chancellors of the University of California. The figures used to compute the gap are taken from two different times: the University of California salaries reflect upward adjustments made as of October 1, 2000; figures for the comparators were effective as of July 1, 2000. As such, the differences in salary setting schedules between the University and some of its comparators may, to some extent, minimize the magnitude of the gap.

Compensation for systemwide executives

As has been noted in earlier reports, the University policy calls for the salaries for executive positions at the systemwide office to be aligned in a specific manner with those of the chancellors for the various campuses. Effective October 1, 2000, eligible University senior managers received merit increases averaging 3.5 percent (with an additional .25 percent available for non-base building incentive compensation). Equity adjustments to promote internal alignment ranged from 0.2 percent to 1.7 percent.

The salary of the President of the University of California is $349,000, effective October 1, 2000. This represents an increase of 3.5 percent since last year.

The annual base salary for the Senior Vice President, Business and Finance is now $282,000 which represents an 8.5 percent salary increase. The salary for the Provost and Senior Vice President Academic Affairs is $272,000 which represents a 3.8 percent salary adjustment from last year, and the Senior Vice President, University and External Relations earns $235,000 which represents a 5.6 percent salary increase from 1999-2000.

Five of the six vice presidents earn an annual base salary ranging between $200,000 to 289,800. These salary levels represent an average annual increase of 10.2 percent. Because of the uniqueness of the position, the Vice President for Clinical Services Development earns considerably more than the other vice presidents at an annual base salary of $389,200, which is an increase of 3.5 percent over last year. In addition, this position is eligible for an additional non-base building incentive of up to $75,000 annually.

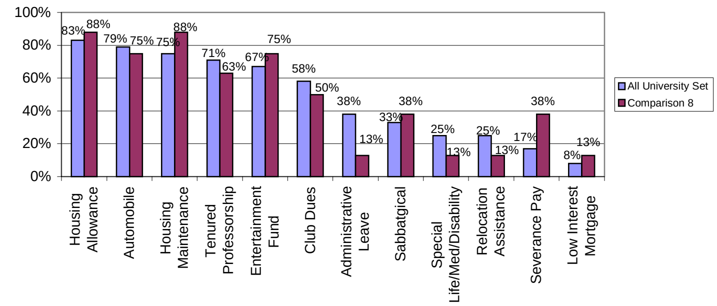
Non-salary perquisites for campus chancellors and systemwide executives

In addition to a base salary, University chancellors live in University-provided housing. Additionally, 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.

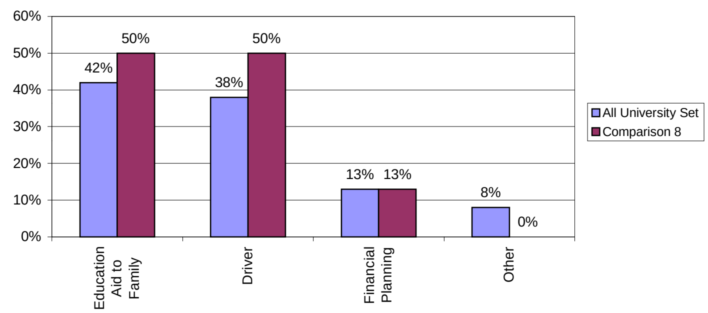
The University of California President lives in University-provided housing. All executives have University-leased automobiles or are reimbursed for expenses incurred in conjunction with the conduct of University business. Further, they are reimbursed for appropriate University expenses in conjunction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

The private consulting firm surveyed the comparison institutions to determine which comparison institutions offer similar perquisites to their executives. In sum, the University of California offers its Chancellors 12 perquisites. These are: (1) a housing allowance or university-owned home; (2) automobile; (3) housing maintenance; (4) tenured professorship; (5) access to an entertainment fund; (6) club dues; (7) administrative leave; (8) sabbatical; (9) special life/medical/disability; (10) relocation assistance; (11) severance pay; and (12) low interest mortgage. Display 9 illustrates the percentage of those institutions in the All-University Set of comparison institutions as well as the percentage of institutions in the Comparison Eight Faculty Salary Set institutions that offer their executives these same perquisites. In addition, some of the comparison institutions offer their executives additional perquisites including educational aid to their families, a driver, and financial planning services. These same perquisites are not offered by the University of California to its Chancellors. Display 10 illustrates the percentage of comparison institutions offering these three perquisites.

DISPLAY 9 Percentage of Comparison Institutions Offering Same Perquisites as those Offered to UC Chancellors



DISPLAY 10 Perquisites offered by Comparison Institutions, Not Offered to UC Chancellors



Retirement

As discussed in the section on the retirement benefits for State University executives and as discussed in the Commission's report last year for the University of California, limitations contained in section 415 (b) of the Internal Revenue Code establishes a cap on the amount of salary that can be used to calculate retirement benefits. In February 1999, the University of California Board of Regents approved plans to restore the University retirement plan benefits earned but denied to University faculty and staff because of these limitations. In January 2000, the University established the University of California 415 (m) Restoration Plan to provide payment of earned retirement benefits that would not otherwise be payable due to the annual payment limitation of Internal Revenue Service Section 415 (b). The program applies to some University faculty, staff, and retirees, and became effective January 1, 2001.

Commission comments

In previous reports, the Commission noted that the University was continuing its efforts to enhance the simplicity of its executive compensation policies, to facilitate a better understanding of them by others, and to establish greater equity in benefits between executives and other University staff. It has commended the University for simplifying their executive compensation policies such that they are more understandable to both policy makers and the general public.

The University continues to be mindful of the overall structure it has put in place for executive compensation. For example, the University notes that at some campuses, market salaries well above the UC average are necessary to recruit candidates. Such is a situation the University claims was necessary at the new campus at Merced with respect to its recruitment for a Chief Academic Officer and an Administrative Vice Chancellor. These higher salaries offered to secure the candidates of choice, the University notes, will require another significant adjustment in the salary levels for the Executive Vice Chancellors and Vice Chancellors for Business and Finance in order to reestablish alignment.

Display 11 presents the trend in compensation paid to the University's campus chancellors and their national comparators over the last eight years. Over that period, the average compensation increased by approximately 49,7 percent while the salary levels for UC Chancellors increased by 50.2 percent. The salary lag in 1993-94 was 18.6 percent. In 1997-98, the gap had reached a high of 24.4 percent -- a trend the Commission concluded in previous reports was alarming and potentially detrimental to the University's ability to compete nationally for its executive leadership. However, the actions taken by the Board of Regents to implement both merit salary increases as well as market based equity adjustments in recent years reversed this trend significantly. The actions undertaken by the Board of Regents for the 1998-99 and then again for the 1999-2000 year reduced the lag by approximately one-half and, as a result, has significantly improved the University's position to recruit and compete for executive leadership. Unfortunately, however, despite increases in salaries for 2000-2001, the lag has once again increased to 18.2 – slightly below the 1993-94 level.

DISPLAY 11 Average Compensation for University of California Chancellors at the General Campuses and Their National Comparators, 1993-94 to 2000-2001

	All University Set[1]	University of California (excludes UCSF)[2]	Salary Lag
1993-94	$ 215,765	$ 181,950	- 18.6%
1994-95	$ 202,580	$ 181,413	- 11.7%
1995-96	$ 214,546	$ 189,300	- 13.3%
1996-97	$ 214,209	$ 199,413	- 7.4%
1997-98	$ 257,791	$ 207,238	- 24.4%
1998-99	$ 284,116	$ 244,363	- 16.3%
1999-00[3]	$296,284	$263,333	-12.5%
2000-2001	$323,030	$273,267	-18.2%
8-Year Average	49.7%	50.2%	

1. Figures as of July 1 each year.
2. Figures for 1993-96 are reflective of salary levels taken at different points during the year. 1997-2001 figures are as of October 1.
3. Figures for 1999-2000 include the salary for the Chancellor of the University of California, Merced.

In subsequent versions of this annual report, at the request of Commissioners, Commission staff will attempt to include the estimated monetary value of the non-salary perquisites received by University executives relative to the value of such benefits provided to executives at the University's comparison institutions.