

January 17, 2006

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Dear Colleagues:

As you know, Chairman Parsky has called for the creation of a Regents' Special Committee on Compensation. The Board will be asked to authorize this new committee at our Wednesday meeting, and if such authorization is granted, the new committee will meet that morning. Chairman Parsky has asked me to chair the new committee, and it is in this capacity as incoming chair that I write to you regarding Items 3C and 1CXX on the committee's agenda.

I am writing for two reasons. First, I believe it is important to summarize and clarify the actions the committee will be considering on Wednesday. Second, I wish to propose two changes to the items to the Regents:

1. First, two amendments to the committee's proposed actions relating to procedures in order to ensure appropriate continuing Regental oversight of compensation under Regents' Resolution RE-61. Please see paragraph II for the specific recommendations.
2. Second, that the priorities recommended by the President as shown in paragraph I-B-3 be approved.

As you know, The Regents adopted RE-61 in November 2005. Briefly, RE-61 calls for the Regents' creation of a salary structure for employees in the Senior Leadership Compensation Group, which includes management positions in which salaries exceed the Indexed Compensation Level (\$168,000 per year in 2004-05) along with certain designated Officer positions. The structure is to be based on the recommendations of an external consultant and consist of salary ranges that provide salary opportunities competitive with those offered by other employers with which UC competes for talent. The objective is to enhance The Regents' oversight of, and participation in the creation of, an overarching structure to guide salary-setting for the University's senior leadership.

For the top 32 most senior administrative positions in the University, The Regents under RE-61 will continue to approve individual salaries and salary adjustments within this new structure. For others above the \$168,000 level but not among the top 32, the Regents will approve the ranges and the initial placement of every position in one of 16 ranges. Annually the Regents will approve:

- Adjustments of the ranges based on a comparability study by an outside consultant.
- The funds available for salary increases.
- Priorities for use of funds.

The Regents will receive a report annually (or more frequently if desired) of all compensation for the SMG. The report will include:

- The distribution of salary increases within the overall constraint of the salary increase budget the Regents established for the period;
- The resulting salaries compared to the salary range midpoints before and after the increases; and, how the salary grade midpoints and UC actual salaries compare to salaries paid for comparable positions in the external marketplace.
- Total compensation for each position within the Senior Management group.

These slotting actions proposed in this agenda item will not provide salary increases; they will simply place positions into the new structure at their current salary level.

Some background and the two specific recommendations I am proposing are as follows:

I. PRIORITIES FOR FUNDING SALARY INCREASES FOR 2005-06

A. Faculty and Staff

A 4% average salary program for members of the University's faculty and staff, excluding Senior Management Group, was approved by the Regents in July 2005 as a part of the approval of the University's budget and implemented in October 2005. This increase totaled approximately \$261,035,000, consisting of a 3.5% merit pool and approximately 0.5% for market parity and equity adjustments.

B. Senior Management Group (SMG)

1. A 2.5% average salary program for the University's Senior Management Group, excluding DOE-funded national laboratory positions, was approved by The Regents in November 2005 and implemented in October 2005. These increases totaled \$1,283,800.
2. The remaining 1.5% pool totaling \$770,000 (2.5% + 1.5% = the same 4% pool as for all University employees) was to be allocated based on identified priorities. The presentation of specific recommendations, justifications, and any individual increases will be made to The Regents at the March 2006 meeting.
3. **RECOMMENDATION FOR PRIORITIES:**
The priorities recommended by the President for the use of the \$770,000 is to address the positions furthest below parity for those whose performance merits adjustment.

II. RECOMMENDATIONS FOR PROCEDURES FOR SETTING SALARIES IN 2005-06

At our Wednesday meeting, I will recommend that the Special Committee on Compensation recommend to The Regents approval of Items 3C and 1CXX, which detail the position slotting as required by RE-61, subject to the following additional procedures

which I believe are necessary to ensure appropriate Regental oversight of the process in addition to the constraints and controls already in RE-61 and described above:

1. That salary actions for 2005-2006 for all individuals subject to RE-61 that would result in base salary, plus any bonus or stipend, exceeding \$200,000 shall be individually approved by The Regents.
2. That for 2005-06, any increase in excess of 7.5%, for any individual in the SMG subject to RE-61, and those whose compensation is in excess of the Indexed Compensation Level, shall be approved by The Regents.

Again, I wish to reiterate that these actions we will be considering in Items 3C and 1CXX ***do not provide salary increases to senior managers, but rather put in place a rational structure for The Regents to monitor senior compensation on an ongoing basis.***

Increases that will be considered in March will be proposed in a targeted way, based on identified priorities, and will use the same pool of funding for salary increases available to all University employees.

I look forward to discussing these issues further with you at our meeting in San Diego.

Sincerely,

Judith L. Hopkinson

Enclosure

Attachment I

Current Number of Employees Grouped by Base Salary Proposed for
Slotting in January 2006

<u>Base Salary</u>	<u>Number of Employees</u>
Under \$200,000	168
\$200,000 to \$249,000	59
\$250,000 to \$299,000	26
\$300,000 to \$399,000	11
\$400,000 +	4 (President, UCB Chancellor, UCSF EVC, and VP of Clinical Services)
vacant positions	<u>16</u>
Total	284¹

¹ Includes 252 Senior Management Group (SMG) campus and OP positions and 32 Management and Senior Professional (MSP) campus positions.