SENATE COMMITTEE ON EDUCATION
Senator Connie Leyva, Chair
2019 - 2020 Regular

Bill No:	AB 930	**Hearing Date:**	July 10, 2019
Author:	Gloria		
Version:	May 16, 2019		
Urgency:	No	**Fiscal:**	Yes
Consultant:	Lynn Lorber		

Subject: California State University: executive compensation: campus budget quarterly reporting.

SUMMARY

This bill prohibits the California State University (CSU) from approving an increase in executive compensation in a year in which there is a tuition increase, requires a proposed increase in executive compensation or change to compensation policies or procedures to be included as an informational item on the Board of Trustees meeting agenda and voted on publicly in a subsequent meeting, and requires biennial reporting to compare the budgets of each campus to actual spending levels.

BACKGROUND

Existing law:

1) Establishes the CSU administered by the Board of Trustees, and confers upon the CSU Trustees the powers, duties, and functions with respect to the management, administration, and control of the CSU system. (Education Code § 66606 and § 89030, et seq.)

2) Requires the CSU Trustees to take action in open session on a proposal for the compensation package of the following executive officers, including a disclosure of the compensation package and rationale for the action:

   a) The CSU Chancellor.

   b) The president of an individual campus.

   c) A vice chancellor.

   d) The treasurer.

   e) The general counsel.

   f) The Trustees' secretary. (EC § 66602.7)

ANALYSIS

This bill:

Increase in compensation or change to policies and procedures

1) Prohibits an executive compensation increase from being approved in a year in which there is a tuition increase.

2) Prohibits a compensation increase, or a change to policies and procedures relating to executive compensation, from being adopted unless all of the following conditions, as applicable, are satisfied:

   a) The proposed increase is included as an informational item on the Board of Trustees' meeting agenda, including the amount of the increase, the course of funding for the increase, and the rationale for the increase.

   b) The proposed change to policies and procedures relating to executive compensation is included as an informational item on the Board of Trustees' meeting agenda, including the source and rationale for the change.

   c) A proposed increase or change to policies and procedures is placed on the agenda at the next consecutive quarterly Board of Trustees meeting, and is subject to a public vote.

Reporting

3) Requires the Office of the Chancellor of the CSU to require each campus to annually prepare a comparison of the campus' budget to is actual spending levels, including a summary report of its expenditures of state appropriations received for the academic year.

4) Requires each campus to submit two years of comparisons and summary reports to the Chancellor's office by January 15, 2022, and by January 15 biennially thereafter.

5) Requires the Chancellor's office to compile each of these campus-based reports, prepare a systemwide report, and submit the report to the Legislature and the Department of Finance by March 31, 2022, and by March 31 biennially thereafter.

STAFF COMMENTS

1) ***Need for the bill.*** According to the author, "This bill would promote college affordability by prohibiting the CSU Board of Trustees (BOT) from increasing executive compensation in years when student tuition is increased. The BOT voted to increase tuition by five percent for the 2017-18 fiscal year. Additionally, in July 2018, the BOT voted to increase salaries for presidents by three percent, despite the Governor's urge to reject the augmentations. The proposal included 10 to 31 percent increases in salaries to some highly paid executives. This accounted for individual raises of several tens of thousands to one hundred thousand dollars. Public higher education institutions went through multiple and massive budget cuts during the 2008-12 era of global economic recession. During that time, the Legislature slashed the CSU budget extensively and as a result, a large portion of the financial burden fell on students. Since then, the

CSU has continued to increase the cost of tuition, regardless of economic recovery, without ever reversing the previous drastic increases."

2) ***How is executive compensation determined?*** As described in the background section of this analysis, the CSU Trustees have the powers, duties, and functions with respect to the management, administration, and control of the CSU system. Although it is currently the purview of the CSU Trustees to set the compensation levels for executive personnel, such levels typically reflect compensation levels paid at comparable institutions nationwide. According to information provided by CSU, it groups its campuses into three separate groups, with each group having its own set of comparative institutions. Additionally, executives in the Chancellor's Office are in their own group, with its own comparative institutions. *Is the national marketplace the best standard for this purpose? Does comparative survey methodology assess the value of benefits or perquisites (perks)?*

The CSU maintains a Policy on Compensation and updates this policy periodically. The most recent iteration of this policy was adopted by the CSU Trustees on September 20, 2017. This policy states that, among other things, "it is the intent of the Board of Trustees to compensate all CSU employees in a manner that is fair, reasonable, competitive, and fiscally prudent in respect to system budget and state funding. The goal of the CSU continues to be to attract, motivate, and retain the most highly qualified individuals to serve as faculty, staff, and executives, whose knowledge, experience, and contributions can advance the university's mission. … The CSU will consistently evaluate competitive and fair compensation for all employees based on periodic market comparison surveys and the depth of skill and experience of an individual employee. In addition, the CSU will maintain and update annually a tiered list of CSU comparison institutions for applicable employee groups. … When a presidential vacancy occurs, the successor president's salary should not exceed the incumbent's salary by more than 10 percent. Any amount in excess of the incumbent's salary shall be based upon criteria such as extraordinary circumstances, knowledge and/or experience or ability to contribute to and advance the university's mission. Additionally, as of January 1, 2018, a president's salary can only be funded with state funds."

3) ***Increases in executive compensation.*** According to CSU Executive Compensation Summaries provided on CSU's website, which are a "snapshot in time," executive compensation over the past few years is as follows:

	March 2019	January 2018	2017	2016
Chancellor	$463,855 (plus a housing allowance of $95,004)	$450,345 (housing was provided)	$420,345 (housing was provided)	$400,746 (housing was provided, plus $30,000 annual supplement from CSU Foundation
Executive Vice Chancellor & Chief Financial Officer	$350,720	$340,505	$340,505	$325,686

Executive Vice Chancellor & General Counsel	$350,720	$340,505	$340,505	$325,686
Executive Vice Chancellor for Academic & Student Affairs	$350,720	$340,505	$340,505	$325,686
Vice Chancellor of Human Resources	$297,546	$288,880	$288,880	$276,308
Vice Chancellor of University Relations and Advancement	$297,546	$263,617	$263,617	$252,144
Vice Chancellor & Chief Audit Officer	$259,755	$252,189	$252,189	$241,214

In March 2019, the highest paid campus president (San Diego) had a salary of $441,504 with housing provided; the lowest paid campus president (Maritime Academy) had a salary of $282,839 with housing provided.

According to the salary summaries, the salary of every campus president increased in 2019 and 2017; four campus presidents had a salary increase in 2018; no campus president had a salary increase in 2016.

4) ***Why just executives, and who are they?*** This bill affects the compensation for select executives, which are the Chancellor of the CSU, the presidents at each campus, vice chancellors, the treasurer, the general counsel, and the Trustees' secretary. This appears to account for a total of 30 positions. There are numerous assistant or associate vice chancellors, for example, who would *not* be affected by this bill. According to information provided by CSU these 30 positions are <u>not</u> all of the highest paid CSU employees (compensated with state funds). For example, the fourth highest-paid person is the men's basketball coach at CSU Northridge ($399,996 annually). *The CSU Trustees make the decision about tuition levels, yet are not affected by this bill (other than the CSU Chancellor) as they are not compensated. Is the issue high salaries, or which CSU employees are receiving those salaries? Should athletic coaches be prohibited from receiving a salary increase in any year in which tuition is increased?*

5) ***How are tuition levels determined?*** The CSU Trustees set the mandatory enrollment student tuition levels. However, this appears to be more administrative rather than an executive function. Specifically, the level of tuition at CSU has a direct correlation to the Budget process, in which both the Governor and Legislature play a significant role. It does not appear that CSU has adopted a tuition level that differed from the one assumed by the Legislature and Governor as part of the annual Budget Act. *Is it reasonable to tie executive compensation to an index (student tuition) that is, in essence, set by the Legislature and Governor? Should executives receive salary increases when student tuition increases, regardless of the nexus?*

6) ***Past tuition increases.*** The CSU last increased tuition in fiscal year 2017-18, from $5,472 to $5,742 (a 5 percent increase). The rationale provided by the CSU

for this tuition increase was to support the services and programs associated with CSU's Graduation Initiative 2025, among other things.

Tuition was *not* increased in fiscal years 2012-13 through 2016-17. The state's General Fund contribution to CSU increased by about 60 percent, from roughly $2 billion to $3.2 billion, during these years.

Tuition increased in the following recent fiscal years:

a) From $4,440 to $5,472 (23 percent increase) in 2011-12.

b) From $4,026 to $4,440 (10 percent increase) in 2010-11.

c) From $3,048 to $4,026 (32 percent increase) in 2009-10.

d) From $2,772 to $3,048 (10 percent increase) 2008-09.

State funding for CSU declined during these fiscal years because of the economic downturn, and CSU increased tuition to offset reductions in state support. *Has CSU allocated funds derived from student tuition appropriately (see Comment # 9)?*

7) ***Infrequent but larger tuition increases?*** The Maddy-Dills Act previously required fees to be: (1) gradual; moderate and predictable; (2) limited fee increases to not more than 10 percent a year, and (3) fixed at least ten months prior to the fall term in which they were to become effective. The policy also required sufficient financial aid to offset fee increases. However, even with this policy, when the state faced serious budgetary challenges the statute was "in-lieued" in order to provide the institutions some flexibility in dealing with the lack of state General Fund support. The Maddy-Dills Act sunset in 1996 and since then, the state has had no long-term policy regarding the way in which mandatory student fees are determined. Although the state currently has no student fee policy, prior policy was predicated on the philosophy that student fee increases be gradual, moderate, and predictable. *Could this bill have the opposite effect, whereby student tuition remains the same for several years -- thereby allowing annual compensation increases in each of those years -- and then be increased by a substantial amount in a single year?*

8) ***Is this the right solution*?** This bill would eliminate the discretion of the CSU Trustees to determine appropriate compensation for specified executive level positions by placing compensation restrictions in statute rather than leaving these decisions to the CSU Board of Trustees. As currently drafted, the bill raises a number of questions:

a) The tuition levels set by the CSU are historically tied to the funding decisions made in the annual Budget Act by the Legislature and the Governor. Should the discretion of the CSU Trustees to identify and compensate appropriate leadership be tied to budget related decisions of the Legislature and the Governor, factors which they do not control?

b) Should tuition levels be the controlling basis upon which compensation decisions are made? How do tuition levels link to the management and leadership needs of the CSU?

c) Will these provisions affect CSU's ability to attract and/or retain the caliber of professionals necessary to fill these positions?

9) ***Prior informational hearings*.** In July 2011, the CSU approved an increase in tuition while it also approved a salary for the incoming president of San Diego State that was $100,000 above the prior president's salary. In response, several bills were introduced at the end of the legislative session to statutorily implement conditions and limitations on the compensation paid to university executives. As a result, this Committee held an informational hearing on *Executive Compensation Policy and Practices at the University of California (UC) and the CSU* on September 28, 2011, to more thoughtfully consider this issue. Among the items raised by this Committee were concerns about the appropriateness of the comparison institutions used for setting salaries, whether the definition of compensation being used to determine "comparability" to other institutions was broad enough to capture non-salary benefits, and whether the compensation being paid to executives was tied to any outcomes relative to the state's goals and objectives for its four year universities. https://sedn.senate.ca.gov/hearings

In 2006 and 2007, this Committee held several hearings on the subject of UC and CSU executive compensation. These hearings largely focused on the issues of transparency, accountability and adherence to stated policies.

10) ***Why just CSU?*** Issues related to executive compensation and tuition are not unique to the CSU. Prior legislative attempts to regulate executive compensation have addressed other or all three segments of public postsecondary education.

11) ***Recent state audit.*** The California State Auditor released a report on June 20, 2019, titled *California State University: It Failed to Fully Disclose Its $1.5 Billion Surplus, and It Has Not Adequately Invested in Alternatives to Costly Parking Facilities.* According to this report, "CSU has accumulated a surplus of more than $1.5 billion, which consisted primarily of unspent tuition revenue. During the same decade that this surplus was growing, the annual tuition for students attending CSU campuses nearly doubled, and the State increased annual appropriations to CSU as a result of additional voter-approved taxes. Although the Chancellor's Office considers CSU's surplus to be necessary reserves that it has designated for specific purposes, the $1.5 billion in these outside accounts is available for CSU to spend at its discretion to support instruction and other operating costs. By failing to disclose this surplus when consulting with students about tuition increases or when projecting CSU's resources and needs to the Legislature, the Chancellor's Office has prevented legislators and students from evaluating CSU's financial needs in light of its unspent financial resources."

CSU Chancellor Timothy P. White issued a statement in response, a portion of which reads:

"The California State University is transparent in its financial operations, and detailed information about monies held by the university is readily available for review by Californians and our state's lawmakers. We have gone to great lengths to publicly report information about investment balances, net assets and reserves.

"We are disappointed that the audit report misrepresents CSU practices, concerned that it might mislead the public, and are perplexed that the report's recommendations are so disconnected from the language used in the headline.

"The report's incorrect claim that the CSU failed to fully inform its stakeholders about fund balances overlooks dozens of presentations of publicly available reports that included information about these funds.

"To be clear, the auditors did find that the CSU has established appropriate practices to safeguard the university's outside accounts and in fact suggests that the CSU 'should establish minimum sufficient level of reserve levels for economic uncertainty.' Additionally campuses are spending parking fines and revenue appropriately, and the earnings from parking revenue investments was disbursed appropriately.

"However, the audit report's reference to a 'discretionary surplus' mischaracterizes the essential role that these reserve funds play. It is irresponsible to imply that these one-time funds could have been used in lieu of ongoing revenue sources, such as state funding or student tuition, for on-going costs. Reserve funds are like a family savings account or the much acclaimed state of California's Rainy Day Fund which is built up gradually over time and used to pay for one-time necessary expenses or protect against uncertainties – not ongoing expenses today.

"CSU's reserve policy encourages campuses to build operating reserves to deal with cyclical state recessions and to support year-to-year operations. The reserve policy target for economic uncertainties is five to six months of operating costs. Bond rating agencies Moody's, Standard & Poor's and Fitch periodically assess reserves when evaluating CSU's debt program. Operating reserves also improve the university's debt-to-equity ratio, which is one of the key measures of financial viability, and contribute to CSU's relatively high bond ratings resulting in lower borrowing costs."

The Auditor refutes many issues addressed in the Chancellor's response. https://www.auditor.ca.gov/pdfs/reports/2018-127.pdf

12) ***Fiscal impact.*** According to the Assembly Appropriations Committee, this bill would impose ongoing General Fund cost pressures, likely in the hundreds of thousands of dollars annually, to CSU campuses and the CSU to report information as required by this bill.

13) ***Prior legislation.*** AB 1317 (Salas, 2015) requested the Regents of the University of California (UC) to refrain from using public funds to increase the compensation of any executive officer when the amount of mandatory

systemwide student fees and tuition has been increased at any time in the immediately preceding two years. AB 1317 was subsequently amended to relate to the Labor Code Private Attorneys General Act and was never heard in the Senate.

AB 837 (Hernández, 2015) prohibited the UC from paying any employees or officers a salary in excess of $500,000 in any fiscal year and requires reporting regarding employee salaries. AB 837 was held in the Assembly Appropriations Committee.

SB 8 (Yee, 2013) established conditions on granting executive compensation increases by CSU for any employment contract after January 1, 2014; the UC was requested to comply with these provisions. SB 8 was never heard.

AB 1561 (Hernández, 2012) limited compensation increases for certain executive-level positions at UC and CSU. AB 1561 was held in the Assembly Appropriations Committee.

AB 1684 (Eng, 2012) limited the pay of California Community College Chancellors to no more than twice the highest faculty member salary. AB 1684 was held in the Assembly Appropriations Committee.

SB 952 (Alquist, 2012) prohibited the CSU Trustees from entering into, or renewing, a contract that provides for a compensation increase for a CSU employee whose annual salary exceeds $200,000 from General Fund sources and student fee revenues. SB 952 was held in the Assembly Appropriations Committee.

SB 967 (Yee, 2012) prohibited the CSU Trustees from increasing the monetary compensation of any executive officer for two years if there was a systemwide fee increase or a decrease in the General Fund appropriation in the immediate preceding fiscal year. SB 967 failed passage in this Committee.

SB 1368 (Anderson, 2012) limited the annual rate of salary of a state officer or employee to the annual salary authorized to be received by the Governor. SB 1368 failed passage in the Senate Governmental Organization Committee.

ABx1 39 (Hernández, 2011) was substantially similar to SB 967. ABx1 39 was never heard.

SB 217 (Yee, 2009) and SB 86 (Yee, 2009) were similar to SB 967. SB 217 was held in the Assembly Appropriations Committee, and SB 86 was vetoed by Governor Schwarzenegger whose veto message read:

> ***This bill would limit the ability of the UC and the CSU to continue to provide a high level of quality education that our students deserve when they choose to attend California public universities. A blanket prohibition limiting the flexibility for the UC and CSU to compete, both nationally and internationally, in attracting and retaining high level personnel does a disservice***

> ***to those students seeking the kind of quality education that our higher education segments offer. The Regents and the Trustees should be prudent in managing their systems, given the difficult fiscal crisis we face as a state, but it is unnecessary for the State to micromanage their operations.***

SUPPORT

California Faculty Association (sponsor)
California State Student Association
Fresno State Associated Students, Inc.
Howard Jarvis Taxpayers Association
Service Employees International Union (SEIU California)
United Auto Workers (UAW) 2865

OPPOSITION

California Chamber of Commerce
California State University

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