The Regents of the University of California

COMMITTEE ON COMPENSATION
January 21, 2010

The Committee on Compensation met on the above date at UCSF–Mission Bay Community Center, San Francisco.

Members present: Regents Kozberg, Lozano, Stovitz, and Varner; Ex officio members Gould and Yudof; Advisory members Hime and Powell

In attendance: Regents Bernal, De La Peña, Island, Kieffer, Lansing, Makarechian, Marcus, Nunn Gorman, Ruiz, Schilling, and Zettel, Regents-designate Cheng and DeFreece, Faculty Representative Simmons, Secretary and Chief of Staff Griffiths, Associate Secretary Shaw, General Counsel Robinson, Chief Investment Officer Berggren, Chief Compliance and Audit Officer Vacca, Interim Provost Pitts, Interim Executive Vice President Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Desmond-Hellmann, Drake, Fox, Kang, Katehi, White, and Yang, and Recording Secretary Johns

The meeting convened at 9:40 a.m. with Committee Chair Varner presiding.

1. **PUBLIC COMMENT**

There were no speakers wishing to address the Committee.

2. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of November 19 and the joint meeting of the Committees on Compensation and Governance of November 19, 2009 were approved.

3. **PRESENTATION ON THE IMPACT AND IMPORTANCE OF INCENTIVE PLANS AT THE MEDICAL CENTERS**

Committee Chair Varner noted that the Regents would now hear from a panel of leaders in the health care industry who would discuss compensation issues. These executives had graciously agreed to donate their time to inform the Regents regarding the latest standards in health care compensation.

Interim Executive Vice President Brostrom introduced the speakers. Dan Schleeter is the Senior Vice President with Integrated Healthcare Strategies, a consulting firm dedicated exclusively to improving the operations of a wide array of health care organizations. Mr. Schleeter focuses on the firm’s executive total compensation practice and has over

20 years' experience as a practitioner and consultant in total rewards. Lee Domanico is the Chief Executive Officer of the Marin Healthcare District, where he is leading the acquisition and assuming operational control of Marin General, the largest acute care hospital in Marin County. Mr. Domanico is widely regarded for his ability to establish "patient-centric" environments and for the turnaround of Legacy Health System in Portland, Oregon, one of the largest health care systems in the Pacific Northwest with five hospitals, 2,700 physicians and 8,500 employees. Lloyd Dean is the Chief Executive Officer of Catholic Healthcare West, one of the leading not-for-profit health care systems in the United States. Mr. Dean is responsible for $11 billion in assets and 41 acute-care hospitals, as well as medical clinics, home health organizations, two health plans, five medical practice groups and approximately 53,000 employees and 10,000 physicians in California, Arizona, and Nevada.

Vice President Duckett recalled that the Clinical Enterprise Management Recognition Plan (CEMRP) is a Regentally approved incentive plan that provides financial awards based on meeting or exceeding goals. It was created to drive the performance of the medical centers, to improve the quality of care and patient satisfaction, to improve financial performance, and to focus workforce behavior, an important feature of the Plan. The Plan has been in place at the UC medical centers since 1994. This and other similar clinical incentive plans cover over 22,000 participants at the medical centers, including more than 17,000 represented employees. In this respect the CEMRP is unique.

Mr. Duckett outlined some CEMRP systemwide and medical center goals, including increasing savings through group purchasing, the reduction of bloodstream infections, increasing clinical payment rates, and patient satisfaction. There are also goals for individuals, which focus on service, quality, and financial management. He emphasized that minimum targets must be met for payout of an award. CEMRP awards are not derived from State funds.

Mr. Duckett then presented sample 2008-09 CEMRP objectives and medical center achievements. One systemwide CEMRP objective was to decrease bloodstream infections by ten percent. In the second half of fiscal year 2009, bloodstream infections were reduced by more than 20 percent. Another objective was to achieve $4 million in savings from group purchasing related to pharmaceutical, medical supply, laboratory, and information technology expenses; the actual savings have amounted to $7.1 million systemwide. A third objective was to increase clinical payment rates achieved by systemwide contracts with private insurance plans by four percent; rates increased by more than five percent, netting more than $100 million, which will support the delivery of high-quality medical care to the public as well as teaching efforts.

Mr. Duckett emphasized that CEMRP is a program covering all levels of employees. The University feels that this drives workforce behavior in a positive manner and ensures that employees recognize their critical role in patient health and satisfaction, whether in serving as a physician or removing medical waste. The unionized CEMRP population is approximately 17,000. These are individuals who can have a positive effect on medical care. Later in the meeting, there would be an action item concerning CEMRP payouts for

38 Senior Management Group (SMG) members. CEMRP drives accountability and inclusiveness in the organization.

The plan covers medical professional and supervisory or management staff; the latter include nursing and pharmacy supervisors, X-ray department heads, and records management. All major UC unions are represented: the American Federation of State, County and Municipal Employees (AFSCME), the Coalition of University Employees (CUE), the University Professional and Technical Employees (UPTE), and the California Nurses Association (CNA). The plan year payout subtotal for these groups of employees was about $30 million. About $3 million in payouts remain for SMG members. Mr. Duckett again underscored that all payouts are derived from medical center revenue.

President Yudof expressed his hope that the speakers would inform the Regents about industry standards for compensation. The University operates in the public sector and discloses its compensation. Sometimes the public receives the impression that this is extraordinary payment of bonuses to high-level executives, when in fact these are not bonuses, but incentive pay to elicit certain results. The University operates in a competitive market, and could learn from the speakers, who manage competitive first-rate organizations. Their organizations have developed policies that take into account risk management, quality of patient care, personnel retention, and cost control. President Yudof asked the speakers to address the industry standard for compensation plans which aim to achieve multiple objectives.

Mr. Schleeter explained that his firm, Integrated Healthcare Strategies, works exclusively in the not-for-profit health care arena. It has reviewed, designed, audited, and commented on more executive incentive plans in not-for-profit health care than any other consulting firm.

The purpose of incentive plans is often seen as being to motivate employees. This is part of the functioning and effectiveness of incentive plans, but far more important is the fact that they focus attention. They provide direction for executives. The most effective plans focus attention on both perennial goals and on shifts in direction and changing priorities. They provide constant reinforcement of the strategic plan. An executive compensation package consists of a base salary, an annual incentive which is variable, and a benefit component. For many organizations, the purpose of an incentive plan is to put some portion of the total compensation package "at risk" for improved performance. If an organization does not have an annual incentive plan, it needs to consider very carefully its total compensation package, which is competitive pay. For recruitment and retention, an organization might have to pay base salaries at a level including the target amount of an annual incentive. Mr. Schleeter noted that two of his clients, one public and one non-public institution, follow this procedure. They target their base salaries against total cash compensation, including base salary and incentive.

Mr. Schleeter then discussed the prevalence of incentive plans, comparing public or government organizations, such as state universities and hospital districts, with non-public, not-for-profit 501(c)(3) health care organizations, which dominate the landscape in the United States. Incentive plans are common to both, and somewhat more prevalent in the non-public environment. On average, non-public organizations tend to provide higher target incentive opportunities as a percentage of base salary. Academic organizations, which fall into both categories, also tend to pay higher incentives than other types of organizations in both categories.

For an organization, success is defined as an improvement in performance, and as improvement in those areas where improvement was expected. Mr. Schleeter emphasized that the architecture, structure, or design of an incentive plan is far less important than the goal-setting process. There are many different designs for incentive plans; no single design functions in every environment. A plan will be successful if it pays an appropriate amount to the right individuals for the right reasons. An incentive plan should not be treated as a pay plan. It must be integrated with the organization's management of employee performance and self-assessment. Mr. Schleeter noted that, when he advises organizations which do not have an incentive plan, he first asks them to examine their budgeting and strategic planning processes and to consider essential elements for survival and success from one to three years into the future. This is the correct context for an incentive plan. When a successful plan is in place, executives work together in ways they have not worked before. He noted that UC's incentive plan has improved planning and goal-setting across the UC system.

Mr. Schleeter outlined some critical themes. Organizations should not establish measures which are easy to satisfy, but should consider what they need to do to improve their performance. Organizations should have the creativity and flexibility to change the structure of an incentive plan to achieve critical goals. Goal-setting requires a great deal of attention. Qualitative goals can be very effective, but they must be articulated clearly, in concise, objective statements. If not, organizations can find themselves later debating the meaning of those goals.

In the current environment, organizations are called upon to explain their incentive awards. Mr. Schleeter stated that two points should comprise the core of such an explanation. First, it is important to recall that executive incentives form such a large proportion of the total pay package that they truly represent a significant risk based on performance expectations. The second point is that, if performance had not been strong, the pay would have been less than average. If performance exceeds expectations, pay will be more than average, but bad performance will result in pay that is well below average. This is an important message to communicate.

Beyond this essential explanation, Mr. Schleeter advised that organizations should communicate the tangible results of their incentive plans, such as improvements in specific clinical indicators and patient satisfaction. When asked about the financing of their plans, organizations should focus not on the dollar amounts or margin involved, but on the benefits these plans provide. In the current State funding environment in California, an incentive plan provides financial stability. For any organization, an incentive plan can be related to the purchase of desirable equipment or new community benefit features. Improved finances are a rainy day fund for the future, necessary for any not-for-profit organization.

Regent Marcus asked if there were any factual evidence indicating that incentive plans improve performance. Mr. Schleeter responded that his firm has often examined this question. Because of timing issues, it is not possible to demonstrate as clear a connection as one would like between plan and performance.

Mr. Domanico informed the Regents that he has served as a CEO in the health care profession for 25 years, including experience with not-for-profit, for-profit, faith-based, and public organizations. At all those organizations, "at risk" compensation has been a key element of total compensation. He described the incentive plans across these different organizations as more similar than different. The differences between the plans concerned the level of "at risk" compensation. At the executive level, in the for-profit industry, this compensation can be 60 percent to 100 percent of the total; in the not-for-profit industry it averages 30 percent to 45 percent. Mr. Domanico noted that he now works for a public entity, and his compensation is public. His "at risk" compensation is 42 percent at a maximum, targeted at 28 percent.

Incentive awards have always been a standard part of compensation. Without incentive compensation, base salaries would have to be higher to be competitive and to attract highly talented employees. Incentive compensation helps to align and clarify priorities and leads to team coordination of effort by executives. It is an opportunity for executives and the management team to share in the overall success of the organization. There is an important symbolic element in incentive compensation as well, particularly for high achievers, as a formal recognition of their achievement. Mr. Domanico cautioned that incentive plans will not turn an average performer into a high performer, but they will motivate high achievers and retain them, individuals who wish to have a part of their compensation at risk because they like the opportunity for achievement.

At the middle management level, "at risk" compensation is about 10 percent to 20 percent of total pay. In Mr. Domanico's experience, incentive plans are based on a balanced scorecard with five primary areas: people, service, quality, growth, and finance. "People" refers to employee engagement and physician satisfaction. "Service" is patient satisfaction, based on quantifiable results through survey tools. "Quality" would be demonstrated by statistics like those mentioned earlier, measurable improvements in outcomes for patients. "Growth" refers to volume and revenue growth and improved market share, and the "finance" category is obvious.

At the CEO level, these five areas are usually balanced, with a 20 percent weight for each area. The balance can shift over time, depending on the position of the organization. In the early years of a struggling organization, the CEO's incentive compensation would be weighted toward effecting a financial turnaround. In later years, weight would shift to balance with other areas, such as service and quality. The incentive compensation for a CFO would be weighted toward finance; for a chief nursing officer it would be weighted toward quality; for a business development officer, it would be weighted toward growth and market share improvement. The emphasis of incentive plans can be varied depending on job position, priorities, and the state of development of the organization.

Incentive plans are measurable and provide a very positive inducement for high-performing employees, while there are no surprises for underperforming employees. They clearly articulate the expectations for executives. Mr. Domanico expressed his conviction that incentive plans are motivational, promote retention, and attract a certain type of executive to an organization, an individual who is comfortable placing his or her compensation at risk based on achievement. If an incentive plan functions properly, it is impossible for a CEO to achieve “at risk” incentive compensation without his or her direct reports meeting their goals as well. In turn, if employees reporting to these direct reports do not meet goals, the CEO’s direct reports will not achieve their award either. Properly designed, an incentive compensation plan is a pyramid that leads to overall organizational success. Not-for-profit public organizations should do well and do good; doing well means meeting quality measures, which enables an organization to do good for the community. Mr. Domanico concluded by emphasizing that incentive plans are an important part of good performance, or doing well.

Regent Lozano expressed support for incentive plans, which encourage behaviors which are good for an organization. She asked in what cases incentive programs might encourage risky behavior. She asked how, in the non-profit arena, one can balance incentive programs and high-risk behavior.

Mr. Domanico responded that, typically, there are threshold requirements which have to be met before an incentive plan is funded or before any individual is eligible for “at risk” compensation. Those thresholds should be established to protect the core mission of the organization, such as meeting community benefit obligations in the case of a not-for-profit organization. Care must be taken in balancing incentive criteria not to encourage risky behavior in any one area. This is why it is important to include patient and employee satisfaction as well as financial performance among the incentive criteria. An organization must achieve good financial performance while also maintaining a committed and engaged workforce. Balance is essential.

Mr. Dean noted that he has served as CEO of Catholic Healthcare West (CHW), a faith-based organization, for ten years. CHW has had incentive compensation plans since its inception in 1986. These plans have been modified. The number of participants has expanded dramatically. The CHW board and the organization believe that everyone connected with the organization should participate in its success. Incentive plans are one element of the overall work environment and work life CHW wishes to create for its employees and executives.

The purpose of CHW’s incentive plans is to attract, motivate, and retain outstanding, talented employees. In the health care arena today, health care executives are not limited to academic institutions or hospitals; they have many different opportunities. CHW wishes to recognize those who have responsibility and principal accountability for the achievement of goals, objectives, and strategies. Incentive plans also serve to focus management and leadership teams on key elements which drive overall success. Out of CHW's 55,000 employees, almost every employee participates in the incentive plan in some way, at varying levels. Hospital presidents and the executive management team participate in an annual incentive plan. This plan covers the organization down from this level, including hospital and corporate vice presidents, hospital directors, managers, supervisors, and non-represented supervisors. There are 11 unions representing CHW employees; the largest are the Service Employees International Union (SEIU) and the California Nurses Association (CNA). CHW sees the unions as partners. In addition to its incentive plan, CHW has a broad-based bonus program that involves all employees.

For CHW top executives, approximately 50 percent of compensation is at risk. Like UC, CHW has within its governance structure a finance committee, responsible for reviewing finances and establishing financial goals for the organization. There is also a quality committee, including CHW board members and outside experts, and an investment committee. In all, CHW has seven standing committees. The compensation committee does not set financial goals for CHW; this is the task of the finance committee. There is a firewall in place.

Mr. Dean described how CHW's incentive plan works. If a financial goal is to achieve $250 million, in order for incentives to be paid, the organization must earn above that $250 million amount. CHW's incentive plan is self-funded. The CHW incentive plan focuses on criteria including quality, with metrics set by the quality committee, in conjunction with the chief medical officer; financial goals, with metrics based on best practices in national comparator institutions; and leadership, another key criterion. Mr. Dean recalled Regent Lozano's concern about preventing behaviors contrary to the goals, objectives, and ethics of an organization. The CHW incentive plan focuses on how results are achieved as much as on which results are achieved. If there is evidence of improper behavior by an executive or any plan participant, he or she will be completely ineligible for an incentive. Quality, leadership, financial metrics, and patient and employee satisfaction are key drivers of the incentive plan. CHW tries to avoid setting mediocre benchmarks and compares itself to the best practices and performance standards nationwide.

Mr. Dean noted that he is the most recent chairperson and current speaker of the Catholic Health Association of the United States, which represents 1,100 hospitals nationwide. The majority of Catholic Health Association hospitals have incentive plans, which vary in size and metrics. Like CHW, they weight certain performance indicators annually and make modifications based on the strategic plan, financial plan, and capital plan, and other input.

Mr. Dean referred to Regent Marcus' question regarding evidence that incentive plans have driven organizational success. He noted that one could also ask whether there is evidence that they have not driven success. A complex set of attributes and components leads to the success of a complex health care organization. He recounted that he joined CHW in June 2000. In 1997-1999, the organization had lost $1 billion and was on the verge of "junk bond status." At the present time, CHW is one of the highest-performing systems in the U.S. It has recovered the lost $1 billion and earned multiple billions in addition. It enjoys a high quality rating. Mr. Dean acknowledged that all these successes could not be attributed to incentive plans, but emphasized that these plans allowed the organization to refocus itself, to attract the type of talent necessary for turning around an organization, and to retain personnel. In the decade Mr. Dean has served at CHW, CHW has lost only one individual from its top leadership, and that individual retired. Mr. Dean expressed his belief that incentives, if used correctly, if reviewed annually, if designed correctly, with appropriate discipline through governance and management to ensure integrity, can help an organization focus and achieve success. He agreed that an ineffective program which is not monitored or reviewed, with inappropriate metrics, will fail.

Committee Chair Varner thanked the speakers for a timely and relevant discussion.

Regent Island stated that the Regents could fairly conclude that the CEMRP and the payouts being discussed at this meeting were within industry norms, necessary for purposes outlined by the UC health system, and appropriate. The UC health system spends hundreds of millions of dollars outside Regental supervision and control. The Regents do not approve these large purchasing decisions. Regent Island stated that the Regents' concern regarding employee compensation has brought before them an incentive plan they should not decide on. The Regents are not in a position to judge health system metrics or the quality of physicians. The decision on incentive payments was difficult in the context of layoffs and the challenges of paying and retaining faculty. Regent Island emphasized that, while public monies are used to pay the President, chancellors, faculty, and staff, the medical center incentives are not paid from public funds, but from health system revenues, and the UC health system alone should decide on them. These decisions should not be brought to the Regents. Regent Island urged the President and the Board to move decision-making authority in this matter to the health system.

Committee Chair Varner stated that the University is considering changes to some compensation policies which would accommodate Regent Island's suggestion without sacrificing transparency. He emphasized the importance of retaining transparency and reporting to the public.

Regent De La Peña reminded the Regents that UC hospitals occupy third and seventh places in a national ranking, and first place on the West Coast. UC achieves these rankings through hiring exceptional employees. In the medical profession, incentives are the norm and expected. While there may not be hard data demonstrating that incentive plans function better than simply a fixed salary, job candidates in this profession expect incentive plans. It would be irresponsible of the Regents to consider not implementing an incentive plan that produces results.

Chairman Gould stated that the panel discussion reaffirmed the importance of UC's incentive plan as a catalyst for quality patient care. He referred to Regent Island's comments and expressed his view that it is worthwhile for the Regents to review their role in the execution of these incentive payments and that there is a role for the Regents in the structure of these incentives and in establishing the metrics for financial stability and quality, as a part of their oversight. The actual execution of the incentives can be handled at a lower level of University administration. The Regents have a continuing responsibility for disclosure of the incentives, but execution is another matter. Chairman Gould welcomed further discussion of this matter and again emphasized the importance and fairness of the University's incentive structure.

Mr. Dean observed that the most rigorous part of CHW's governance work regarding compensation and incentives occurs in two areas: in the plan design, with components that can be modified at any time, and in goal-setting, with work to ensure that goals are rigorous, driving the right behaviors, and consistent with the values, ethics, and leadership attributes to which the organization aspires. If these two elements are present, the plan to some extent becomes "mechanical" or formulaic.

Regent Kieffer expressed concern that, in the future, if this matter is no longer decided on by the Regents, the public would still raise questions. Ultimately the Regents have responsibility and it is their obligation to explain and justify the University's actions to the public, in order to protect and manage the institution. He expressed his view that the Regents should examine and question policies annually to ensure that the UC incentive plan as a whole is not inconsistent with peer organizations. In this way, the Regents will be in better position to defend the University's actions. While this may be a difficult situation, the Regents are always called on to answer to the public and they cannot delegate this responsibility. Regent Kieffer expressed his support for the CEMRP.

Committee Chair Varner stated that the University will follow up on these observations. The Regents will continue to exercise their fiduciary duties and maintain transparency.

Regent Marcus called attention to Mr. Dean's comments on the relationships between organizational committees and senior management, which led to a flexible and fair incentive plan. He emphasized that, to be competitive, the University must seek the best employees and needs a plan to reward them. As a public institution, the University must have an incentive plan that is above reproach and so it must ensure that there are no unintended consequences, such as an unusually high payout. The CEMRP is market-driven. Regent Marcus noted that it is difficult to recognize market conditions. Federal policies can change, affecting results; during a certain period, there was construction of too many hospitals. Factors such as these are difficult to integrate neatly into an incentive plan. Regent Marcus emphasized that there must be detailed review of plan metrics and execution by a policy group which should not be the Board of Regents.

Mr. Duckett stated that the University wishes to proceed in the direction indicated by the speakers for its compensation practices generally, with establishment of a policy framework administered by individuals who will be held accountable. The Board of Regents would validate a framework that reflects market conditions and includes safeguards to prevent abuse.

Regent Marcus emphasized the complexity of this matter. The CHW board is well informed of developments in its system. Its committees work to arrive at an agreed-upon, negotiated settlement. An incentive plan must be agreed upon, negotiated; executives or a board should not design their own plan. He expressed his concern that the Board of Regents is not in position to examine this matter in the necessary detail and to set overriding metrics. He emphasized that there must be some advisory group that will exercise oversight.

Mr. Dean noted that compensation issues have become increasingly complex. Not-for-profit organizations are subject to many federal and State reviews. Therefore, an organization must have some oversight entity that can review the incentive plan in depth and detail. At CHW, this role is played by the compensation committee. However, the compensation committee yields to the finance committee regarding financial metrics, and to the quality committee regarding quality metrics. Ultimate accountability rests with the CHW board of directors. Mr. Dean stated that this board of directors would correspond to the Board of Regents. He encouraged the University to pursue this issue further, noting that even a small mistake can compromise an entire organization.

Mr. Brostrom responded to Regent Marcus' remarks, stating that the administration will work with Committee Chair Varner to develop a recommendation for the Board. An appropriate avenue for this review might be the Senior Management Advisory Committee, which includes chancellors of all campuses with medical centers and Senior Vice President Stobo.

Regent Makarechian referred to the benefit UC medical centers provide in training physicians and nurses. He observed that the employees participating in the CEMRP are paying for billions of dollars in hospital construction, new beds, and renovation. This is often overlooked and never mentioned, but in light of the fact that county hospitals are closing, this is an important public service by the UC medical centers. Regent Makarechian referred to the cost of renovations at UCLA and UCSF, in the hundreds of millions of dollars; without incentive plans, these renovations would not have been possible. He suggested that the State of California might consider developing its own incentive plan to improve its credit ratings. He expressed his strong support for the CEMRP, which is related to the University's public service mission.

Regent Lansing stated that the Regents can take great pride in the UC hospitals, which truly fulfill the University's public service mission. If UC were not competitive, its hospitals would not perform at a high level. She echoed Regent De La Peña's comments to the effect that incentive plans are the norm in the health care profession. Even in difficult economic times, the University has an obligation to find ways to protect the quality of its hospitals and of the entire University. If the Regents do not do this, they are failing in their duties. She expressed her complete support for the CEMRP.

Regent Zettel expressed her misgivings about approving this incentive compensation, in spite of the knowledge that UC has an excellent health care system, leadership, and vision. Her concerns were based on the current state of the economy in California and the impact of unemployment, including impact on those still employed who must work longer hours for less pay. These facts are irrelevant to the promises UC has made to its health care employees. UC has promised a certain compensation package, and the employees have delivered with excellence, through all levels of the organization. Regent Zettel asked if UC reserves are healthy enough to sustain uncertainties in the health care arena. She cited the possible effects on the UC health care system of the ongoing national health care reform debate, the continual reduction of State resources, and the underfunding of the UC Retirement Plan. She stated that she felt uncomfortable about supporting the action item for CEMRP payouts for SMG members, and that she would abstain from voting on this item later.

4. **APPROVAL OF INDIVIDUAL COMPENSATION ACTIONS AS DISCUSSED IN CLOSED SESSION**

A. ***Stipend Extension for Helen K. Henry and Gail A. Yokote as Acting Co-University Librarians, Davis Campus***

Background to Recommendation

Helen K. Henry and Gail A. Yokote have been serving as Acting Co-University Librarians since January 1, 2009 because the current University Librarian, Marilyn Sharrow, had to take an unexpected leave of absence. The Davis campus has received word that Ms. Sharrow will retire on March 1, 2010. Her retirement was announced November 20, 2009. Therefore, the campus is seeking approval to extend the stipends for Ms. Henry and Ms. Yokote as Acting Co-University Librarians for an additional one-year period, or until a permanent replacement is hired.

Both Ms. Henry and Ms. Yokote have received a merit adjustment since approval of their initial acting appointments, so this request reflects their adjusted academic base salaries. The stipend request remains at ten percent of their newly adjusted base salaries.

These positions are paid 100 percent from State General Funds.

Recommendation

The President recommended approval of the following in connection with administrative stipend extensions for the following individuals at the Davis campus:

(1) As an exception to policy, extension of the appointment duration for Helen K. Henry as Acting Co-University Librarian, effective January 1, 2010, through December 31, 2010, or until the hire of a permanent University Librarian, whichever occurs first. In addition:

a. As an exception to policy, extension of an administrative stipend of ten percent of base salary ($12,076) to increase her current base salary of $120,756 to an annual salary of $132,382.

b. The stipend amount will be increased as the base salary is increased, so the stipend will equal ten percent of the base salary, at a 100-percent-time appointment.

c. Per policy, standard pension and health and welfare benefits.

(2) As an exception to policy, extension of the appointment duration for Gail A. Yokote as Acting Co-University Librarian, effective January 1, 2010, through December 31, 2010, or until the hire of a permanent University Librarian, whichever occurs first. In addition:

a. As an exception to policy, extension of an administrative stipend of ten percent of base salary ($13,122) to increase her current base salary of $131,220 to an annual salary of $144,342.

b. The stipend amount will be increased as the base salary is increased, so the stipend will equal ten percent of the base salary, at a 100-percent-time appointment.

c. Per policy, standard pension and health and welfare benefits.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

B. ***Title Change for James Davis, from Associate Vice Chancellor – Information Technology to Vice Provost – Information Technology, Los Angeles Campus***

Background to Recommendation

The Los Angeles campus is requesting a title change for James Davis from Associate Vice Chancellor – Information Technology to Vice Provost – Information Technology. There are no changes to compensation proposed in this action. Mr. Davis has enhanced the role of information technology in teaching and research by effectively engaging faculty and staff to achieve information technology goals. His leadership in the development of the University of California computing grid is well known, as well as his service on the Board of the Corporation for Education Network Initiatives in California (CENIC). In the public and national view, Mr. Davis has represented the UCLA campus in testifying to the U.S. Congress regarding security breaches and other matters.

The title of Vice Provost clarifies both Mr. Davis' leadership status and his focus on academic issues concerning faculty, students, academic programs, and research. As Vice Provost, Mr. Davis would be empowered to continue implementing campus information technology strategy through the exercise of his authority and the allocation of information technology resources.

The position is funded through State resources and is subject to the salary reduction/furlough plan.

Recommendation

The President recommended approval of the following title change for James Davis as Vice Provost – Information Technology, Los Angeles campus:

(1) A title change from Associate Vice Chancellor – Information Technology to Vice Provost – Information Technology, Los Angeles campus. There are no proposed changes in compensation.

(2) Effective January 1, 2010.

Additional items of compensation include:

- Annual base salary of $223,900 in SLCG Grade 108 (Minimum $192,300, Midpoint $244,900, Maximum $297,400).
- Per policy, standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance, executive business travel insurance, and executive salary continuation for disability).
- Per policy, continued participation in the Supplemental Home Loan Program.

This position is paid 100 percent from State General Funds.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

C. ***Stipend Extension for Dallas L. Rabenstein as Acting Executive Vice Chancellor and Provost, Riverside Campus***

Background to Recommendation

Dallas Rabenstein has served as Acting Executive Vice Chancellor and Provost for the Riverside campus since February 16, 2009. The campus recently launched a national search for an individual to fill the position on a permanent basis. An extension of Mr. Rabenstein's appointment and administrative stipend is requested through August 31, 2010 to provide continuity of leadership. Mr. Rabenstein is a highly respected, seasoned administrator who has served the Riverside campus well during his acting appointment.

This position is paid 100 percent from State General Funds.

Recommendation

The President recommended approval of the following items in connection with the stipend extension for Dallas L. Rabenstein as Acting Executive Vice Chancellor and Provost, Riverside campus:

(1) As an exception to policy, an extension of the appointment for Mr. Rabenstein as Acting Executive Vice Chancellor and Provost, Riverside campus. This change extends the acting appointment beyond the one year allowed by policy for a total duration of 18.5 months. This extension allows Mr. Rabenstein to provide continuity of leadership and serve until the search to fill the position on a permanent basis is concluded.

(2) As an exception to policy, continued administrative stipend of 19.8 percent ($41,339) to increase Mr. Rabenstein's current adjusted faculty salary of $208,661 to a total annual salary of $250,000 (SLCG Grade 109: Minimum $214,700, Midpoint $274,300, Maximum $333,700). The incumbent will not be eligible for merit consideration.

(3) This appointment is at 100 percent time and will be effective February 16, 2010 through August 31, 2010, or until the appointment of a permanent Executive Vice Chancellor and Provost, whichever occurs first.

Additional items of compensation include:

- Per policy, continued eligibility for standard pension and health and welfare benefits.
- Per policy, accrual of sabbatical credits as a member of tenured faculty.
- Per policy, ineligible to participate in the Senior Management Supplemental Benefit Program due to tenured faculty appointment.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

D. ***Contract Amendment for James A. Wooldridge as Head Coach – Men's Basketball, Riverside Campus***

Background to Recommendation

The proposed contract amendment for James A. Wooldridge as Head Coach – Men's Basketball, Riverside campus provides opportunity to earn up to $10,000 in camp or clinic income. Pending approval by the Regents of these compensation terms, Mr. Wooldridge's contract amendment will be effective January 21, 2010 and terminate on June 30, 2014, unless terminated earlier pursuant to the terms of the Employment Contract or unless the parties agree in writing to the terms of a successor contract or a contract extension prior to that date.

This position is paid 100 percent from State General Funds. The proposed potential total cash compensation is $358,000 per annum. This reflects a 2.8 percent increase from the current contract.

The contract amendment is deemed necessary to complete negotiations of a long-term commitment with Mr. Wooldridge and retain him in his current position on the Riverside campus.

Regental approval is required for this contract amendment because it is outside the Regents' Delegation of Authority for Recruiting and Negotiation Parameters for Certain Athletic Positions and Coaches, Systemwide.

Recommendation

The President recommended that the following terms and conditions be reflected in the contract amendment for James A. Wooldridge as Head Coach – Men's Basketball, Riverside campus:

Camp Compensation: in Section 5 of the Contract Addendum, an additional employment clause will be added to the terms of the contract agreement as outlined below:

> Coach shall be eligible to conduct camps and clinics at the University, with scheduling as mutually agreed to by Coach and Director of Athletics. Coach, at his option, may be paid up to 50 percent of the net profit from any camp or clinic conducted up to $10,000 per annum. The net profit

shall be calculated by subtracting all approved expenses from all revenue. Should Coach opt not to be paid 50 percent of the net profit from any camp or clinic conducted, any balance may be allocated by the Director of Athletics, after consultation with Coach, in accordance with University policies and procedures. The financial operations of the camp or clinic shall be conducted through the Department of Athletics Business Office and conform to all University and NCAA policies, rules and regulations.

Additional items of compensation include:

- Per contract and per policy, eligible for standard health and welfare benefits.

The compensation set forth in the Contract Addendum described above and in the underlying contract with Mr. Wooldridge, except as expressly modified by the Contract Addendum, shall constitute the University's total commitment until modified by the Regents and shall supersede all other previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

E. ***Merit Increases for Certain Senior Management Group Members at the Lawrence Berkeley National Laboratory***

Background to Recommendation

On August 13, 2009, the Lawrence Berkeley National Laboratory received approval from the Department of Energy for a salary budget allocation of 3.5 percent for fiscal year 2009-10. The allocation includes 2.5 percent for merit increases and one percent for reclassifications, promotions, and equity adjustments throughout the year.

The Laboratory, in attempting to balance the need to remain competitive with the need to control costs, has used only 2.76 percent of the allocated budget. Merit increases across the Laboratory totaled 2.45 percent of payroll and only 0.31 percent was used for equity, promotions, and reclassifications. None of these actions were at the Senior Management Group level.

Recommendation

The President recommended that merit increases for Senior Management Group (SMG) members at the Lawrence Berkeley National Laboratory, as proposed by the Laboratory Director, and as presented below, be approved.

In accordance with the approval authority guidelines approved by the Regents at their September 2008 meeting, and with the SMG Salary and Appointment

Policy, also approved by the Regents at their September 2008 meeting, compensation for SMG employees at the Laboratory is presented for Regental approval. Additional merit increases under the authority of the President and Laboratory Director will be presented in the March 2010 Bi-monthly Transaction Monitoring Report.

All merit increases at the Laboratory will be paid for by funds provided by the Department of Energy's 3.5 percent salary budget allocated for fiscal year 2009-10, including 2.5 percent for merit increases. The average increase for the SMG population listed below is 2.38 percent. The effective date of these increases is October 1, 2009.

NAME	JOB TITLE	PREVIOUS BASE SALARY	PERCENT INCREASE	NEW BASE SALARY
Fernandez, Jeffrey A.	Management IV – Chief Financial Officer	$259,980	2.5 %	$266,480
Gray, Joe W.	Assoc Laboratory Director – Life & Environmental Sciences	$313,488	2.5 %	$321,325
Krupnick, James T.	Assoc Laboratory Director – Chief Operating Officer	$300,744	2.38 %	$307,910
Siegrist, James L.	Assoc Laboratory Director – General Sciences	$278,016	2.0 %	$283,576
Simon, Horst D.	Assoc Laboratory Director – Computational Research	$293,556	2.5 %	$300,895

F. ***Appointment of and Compensation for Terry A. Belmont as Chief Executive Officer – Medical Center, Irvine Campus***

<u>Background to Recommendation</u>

The Irvine campus is requesting approval for the appointment of and compensation for Terry A. Belmont as Chief Executive Officer (CEO) for the UC Irvine Medical Center, effective January 1, 2010. This request is in response to the immediate need to permanently fill the CEO position in order to establish leadership in the medical center. Mr. Belmont was engaged by UCI when the previous incumbent retired; his contract with UCI expires in March 2010.

This position will be funded by medical center operating revenue. The proposed base salary of $630,000 represents a 4.6 percent reduction to Mr. Belmont's current base salary of $659,000 and is 5.2 percent below the current market median of $663,000. Market data provided by Mercer Human Resource Consulting include data from the College and University Professional Association (CUPA) Administrative Compensation Survey. The proposed base salary is below the grade midpoint by 7.8 percent and below the average base salary for other UC medical center CEOs by 5.7 percent. Mr. Belmont will be eligible to participate in the Clinical Enterprise Management Recognition Plan at the same level as all other UC medical center CEOs. Additionally, the proposed salary will be reduced by ten percent to $567,000 during participation in the salary reduction/furlough plan.

Recommendation

The President recommended approval of the following items in connection with the appointment of and compensation for Terry A. Belmont as Chief Executive Officer, UC Irvine Medical Center, Irvine campus:

(1) Appointment of Terry A. Belmont as Chief Executive Officer, UC Irvine Medical Center.

(2) Per policy, appointment salary of $630,000 (SLCG Grade 117: Minimum $522,300, Midpoint $679,000, Maximum $835,800).

(3) Per policy, eligibility for additional non-base building incentive pay as an eligible participant of the Clinical Enterprise Management Recognition Plan with a target of 20 percent and a maximum of up to 30 percent of annual base salary to be awarded based on meeting performance objectives.

(4) This appointment is at 100 percent time and is effective January 1, 2010.

Recommended Compensation
Effective Date: January 1, 2010
Base Salary: $630,000
Clinical Incentive Plan: $126,000 (at target)
Grade Level: Grade 117:
Min $522,300 Mid $679,000 Max $835,800
Median Market Data: $663,000 (base salary for CEO position)
Funding Source: medical center operating revenue
Percentage Difference from Market: -5.2%

Budget &/or Prior Incumbent Data
Title: Chief Executive Officer
Base Salary: $650,000
Clinical Incentive Plan: $130,000 (at target)
Funding Source: medical center operating revenue

Additional items of compensation include:

- Per policy, standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance, executive business travel insurance, and executive salary continuation for disability).
- Per policy, continued five percent monthly contribution to the Senior Management Supplemental Benefit Program.
- Per policy, an annual automobile allowance of $8,916.

The compensation described above shall constitute the University's total commitment until modified by the Regents and shall supersede all previous oral and written commitments. Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

Submitted by: **UCI Chancellor Drake**
Reviewed by: **President Yudof**
Compensation Committee Chair Varner
Office of the President, Human Resources

G. ***Compensation for James M. Shultz as Executive Director and Chief Operating Officer – Physician Support Services, Health System, Los Angeles Campus***

Background to Recommendation

James M. Shultz assumed significant additional responsibilities, in addition to his current portfolio as Executive Director and Chief Operating Officer – Physician Support Services, when the Faculty Practice Group (FPG) President left UCLA effective September 2, 2009 for an appointment at another academic medical institution, outside UC. These additional responsibilities are related to information technology investment requirements and financing alternatives. In addition, Mr. Shultz will be the primary executive leader for a large revenue cycle project to be transferred from consultants. As a result of these additional duties, the UCLA Health System is requesting additional compensation of 15 percent ($35,730) for Mr. Shultz effective September 1, 2009 until June 30, 2010, or upon the appointment of a new Faculty Practice Group President if that occurs sooner.

The proposed annual salary for this term is $273,930 and is well below the market median of $415,853 for the President position. Market data are taken from the 2009 survey conducted by Medical Group Management Association. The proposed compensation is funded 100 percent by medical center operating revenue. No State General Funds are used for this position. This position is subject to the University's salary reduction/furlough plan.