The Regents of the University of California

COMMITTEE ON COMPENSATION
September 18, 2014

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

Members present: Regents Gould, Lozano, Reiss, and Saifuddin; Ex officio members Napolitano and Varner; Advisory members Davis and Gilly

In attendance: Regents De La Peña, Engelhorn, Island, Leong Clancy, Makarechian, Newsom, Pattiz, Ruiz, Sherman, and Zettel, Regents-designate Gorman and Oved, Faculty Representative Hare, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Executive Vice President and Interim Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Katehi, Leland, Wilcox, and Yang, Interim Chancellor Gillman, and Recording Secretary Johns

The meeting convened at 9:15 a.m. with Committee Vice Chair Lozano presiding.

1. **APPROVAL OF MINUTES OF PREVIOUS MEETING**

Upon motion duly made and seconded, the minutes of the meeting of July 17 and the special meeting of July 17, 2014 were approved.

2. **APPROVAL OF COMPENSATION FOR HOWARD GILLMAN AS CHANCELLOR, IRVINE CAMPUS AS DISCUSSED IN REGENTS ONLY SESSION**

<u>Background to Recommendation</u>

The President of the University recommended, contingent upon and effective with his appointment by the Regents, compensation for Howard Gillman as Chancellor, Irvine campus. Mr. Gillman is the Provost and Executive Vice Chancellor for the Irvine campus and was appointed Interim Chancellor in June 2014.

Mr. Gillman's proposed base salary of $485,000 is 25.4 percent below the 60th percentile ($650,000) of the Market Reference Zone (MRZ) for the position of Chancellor.

Mr. Gillman became Provost and Executive Vice Chancellor in June 2013. He is recognized as a seasoned university academic leader, a nationally recognized expert on constitutional studies and judicial politics, and an accomplished fundraiser. Mr. Gillman has demonstrated excellence as an administrative leader during his tenure at the Irvine campus, leading several strategic initiatives on innovation, quality, and efficiency.

Prior to joining the University of California, Irvine, in 2013, Mr. Gillman was a professor of political science, history and law at the University of Southern California (USC). From 2007 to 2012, he served as Dean of the USC Dana and David Dornsife College of Letters, Arts and Sciences. As Dean, he promoted innovation in academic programs, secured external funding, recruited more than 100 new faculty members, made diversity an institutional priority, developed a new funding model for Ph.D. programs, and expanded undergraduate opportunities to conduct research, study overseas, and engage in service learning. Previously, he served as USC's Associate Vice Provost for Research Advancement and Chair of the Department of Political Science.

Mr. Gillman holds bachelor's, master's and doctoral degrees in political science from the University of California, Los Angeles.

<u>Recommendation</u>

The Committee recommended that, contingent upon and effective with Howard Gillman's appointment by the Regents as Chancellor of the Irvine campus, the following items be approved in connection with that appointment:

A. Per policy, annual base salary of $485,000.

B. Per policy, continued eligibility to receive an annual automobile allowance of $8,916.

C. Per policy, a University-provided house while serving as Chancellor.

D. Per policy, the University will arrange for the packing and relocation of Mr. Gillman's household goods and personal effects associated with the relocation to the University-provided house on campus. The University will also arrange to pack and move Mr. Gillman's personal library, laboratory, and other related equipment and materials, subject to the limitations under University policy.

E. Per policy, when Mr. Gillman leaves the Chancellor position and returns to the University faculty at a UC campus, the University will arrange for the relocation of household goods and personal effects, including his personal library, laboratory, and any other related equipment and materials to a location of his choice in California.

F. Per policy, continued eligibility to participate in the UC Home Loan Program, in accordance with all applicable policies when stepping down as Chancellor, if Mr. Gillman assumes a tenured faculty position at Irvine or at another UC campus.

G. Per policy, an administrative fund will be established for official entertainment and other purposes permitted by University policy. Adjustments may occur annually as allowed by policy.

H. If Mr. Gillman maintains an active research program during his appointment as Chancellor, an annual allocation of campus funding will be established for this research during the term as Chancellor.

I. Per policy, continuation of standard pension and health and welfare benefits (including senior management life insurance and executive salary continuation for disability).

J. Per policy, continued accrual of sabbatical credits as a member of tenured faculty.

The compensation described above shall constitute the University's total commitment until modified by the Regents or the President, as applicable under Regents policy, 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: **President Napolitano**
Reviewed by: **Committee on Compensation Chair Kieffer**
Office of the President, Human Resources

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano observed that the opportunity to appoint a new chancellor was an exciting one for the Regents. Vice President Duckett briefly outlined the elements of compensation proposed for Howard Gillman as Chancellor of the Irvine campus. He noted that the proposed salary level was below that for leaders of other public Association of American Universities institutions with medical centers, such as SUNY Buffalo and the University of Iowa.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The Committee recessed at 9:20 a.m.

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The Committee reconvened at 9:30 a.m. with Committee Vice Chair Lozano presiding.

Members present: Regents Gould, Lozano, Reiss, and Saifuddin; Ex officio members Napolitano and Varner; Advisory members Davis and Gilly

In attendance: Regents Blum, De La Peña, Engelhorn, Island, Leong Clancy, Makarechian, Newsom, Pattiz, Ruiz, Sherman, and Zettel, Regents-designate Gorman and Oved, Faculty Representative Hare, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Chief Investment Officer Bachher, Executive Vice President and Interim Chief Financial Officer Brostrom, Senior Vice Presidents Dooley and Stobo, Vice Presidents Brown, Budil, Duckett, Lenz, and Sakaki, Chancellors Block, Blumenthal, Gillman, Katehi, Leland, Wilcox, and Yang, and Recording Secretary Johns

3. POLICY ON COMPENSATION FOR CHANCELLORS

The President of the University recommended that the following policy be approved to ensure the competitive compensation of chancellors:

The chancellors of the University of California system provide leadership that is critical to the continuing success of their individual schools and the system as a whole. As a result, it is essential that UC remain competitive in the compensation of these key leaders in order to recruit and retain the most highly qualified chancellors. This is particularly important in light of increasing responsibilities of chancellors and the dynamic market for university leaders of this caliber.

The following shall be used to determine whether compensation for UC chancellors is competitive: how the compensation for UC chancellors compares to that of the leaders of comparable institutions in both the Association of American Universities and the comparator institutions traditionally used for compensation comparisons, as well as other relevant indicators such as the appropriate Market Reference Zone.

When a UC chancellor’s compensation falls behind the market for university leaders as measured by these indicators, the President shall recommend to the Regents an adjustment to the applicable chancellor’s compensation so that it is more competitive with, though not necessarily equal to, the average compensation at such peer institutions. The President shall assess chancellors’ compensation annually and recommend any adjustments to the Regents.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano recalled that the Regents had had many discussions over the past several years of the need for a policy such as this one, as a first step to ensuring that compensation for UC chancellors is competitive in relation to the market and for leaders of their caliber. Over the past seven years the University had seen its chancellors’ pay drop to the bottom third relative to competitor institutions in the Association of American Universities (AAU). The average salary lag for all UC chancellors is approximately 19 percent compared to all public AAU institutions and 46 percent when compared to private AAU institutions. This policy would provide a framework and would allow the President to move forward with a recommendation to adjust a chancellor's compensation when it falls significantly behind that of comparable institutions. The Regents recognize that economic pressures over time have forced them to deviate from their own policy and have contributed to this disparity. The Regents were now instructing President Napolitano to develop a plan, to be presented to the Regents within six months, that would place UC on a path to bringing chancellors' salaries in line with Regents policy over a three-year period. This plan would use the peer group institutions of comparable AAU universities as well as other relevant indicators, including UC's own Market Reference Zones to achieve those goals. Committee Vice Chair Lozano expressed the Board's understanding of how important this matter is and the Board's tremendous regard for the chancellors and their work. Approval of this item would recognize their contributions to the UC system and to California.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

4. **AUTHORIZATION FOR THE PRESIDENT OF THE UNIVERSITY TO APPROVE APPOINTMENT AND COMPENSATION ACTIONS FOR EMPLOYEES IN COACH AND OTHER ATHLETIC POSITIONS**

The President of the University recommended that the Regents:

A. Rescind the September 2008 *Amendment of Regents' Delegation of Authority for Recruiting and Negotiation Parameters for Certain Athletic Positions and Coaches, Systemwide.*

B. Authorize the President of the University to approve actions involving the appointment of and compensation for employees hired into coach and other athletic positions when the proposed total cash compensation exceeds the Indexed Compensation Level (ICL).

C. Authorize the President to delegate this authority to the chancellors consistent with standards set forth in a policy to be developed by the President, provided that the authority so delegated to the Chancellors may not be re-delegated.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano explained that this item would authorize the President to approve compensation for certain coaches and athletic directors and to delegate that authority to chancellors under certain circumstances to be defined in presidential policy. The proposal is consistent with policies and practices of comparable institutions and would give the President and the chancellors the authority to respond quickly to the dynamics and complexity of the market for coaches and athletic directors. The Regents would continue to be responsible for oversight.

Regent Reiss asked that the template for coaches' contracts that was being developed and would now include more significant elements regarding student athlete academic achievement, be shown to the Committee on Compensation.

Regent-designate Davis voiced concerns about the proposal. Compensation packages for coaches and athletic directors are highly scrutinized and criticized by the public. One of the recommendations of the Task Force on UC Compensation, Accountability, and Transparency in 2006 was that the Regents retain direct authority to approve compensation for the most highly paid positions at UC. The proposed action would compromise that recommendation. It seemed premature for the Board to curtail its oversight at this time, given that the Board had not yet seen the results of the working group that the President had commissioned. He also noted that this area of compensation was in transition. Pending certain court decisions, the Board would not have a clear idea of new realities regarding the amateur status of college athletics. He stated his view that it would be wise for the Regents to retain their authority for review in this area.

Chairman Varner observed that this matter had been under discussion by the Regents for a long time. It would be appropriate to delegate this authority to the President and chancellors, with the correct guidelines in place.

Regent Zettel stated her understanding that this item reflected the wish that chancellors be able to respond to opportunities and fill vacancies in a timely manner. She asked if the Regents would have the opportunity to ratify these decisions, and how the Regents would be informed. Vice President Duckett responded that this item was designed to streamline the process. It would focus accountability with the President and chancellors, while aligning more closely to current pay practices for the Management and Senior Professional (MSP) category, within certain limits. The President would be accountable for reporting to the Regents in the annual transaction report. In addition, the details of compensation for coaches and athletic directors would be reported in the annual executive compensation report for those whose compensation exceeds the Indexed Compensation Level of $301,000. In conjunction with the delegation, the University would establish processes and contract templates that standardize the review process, ensuring for example that academic standards, already in place for existing contracts, would be required in all new contracts in the future. The President intended to delegate authority to chancellors to approve terms and conditions for contracts below $500,000, if there are no exceptions to policy. If there are exceptions to policy, the approval would have to come to the President. One example would be an increase to annual compensation above a threshold of 25 percent, as is the case for all MSP employees.

Regent Makarechian expressed concern about the transfer of authority from Regents to chancellors, and about the Regents receiving information after the fact, when UC has already entered into a contract. Mr. Duckett responded that information would be presented to the Regents after a matter has been discussed by the President and chancellors. Executive Director Dennis Larsen observed that this was already the case in existing policy. For transactions within parameters approved by the Regents in 2008, chancellors can take action and report after the fact.

Regent Makarechian countered that this proposed action would change the existing parameters and arrangement. Committee Vice Chair Lozano stated her understanding that this item would bring coaches' compensation in line with other executive salaries in this category.

Regent Makarechian asked about the point at which Regents could have their say on these matters. Mr. Duckett responded that the authority for these decisions would lie with the President above $500,000. Committee Vice Chair Lozano stated that the authority would lie with the President, would be delegated to the chancellors, and actions would be reported to the Regents consistent with other reporting.

President Napolitano explained that the origin of this proposal was the issue that athletic contracts must move quickly; by the time matters reach the Regents, contracts have often already been agreed upon and information has been released to the news media. While the Board retains jurisdiction to approve or not to approve, there is a feeling that it is being asked to rubber stamp a decision already made. The proposed solution recognizes that chancellors have responsibility to operate the athletic programs on their campuses. The President must ensure that the system is being financially responsible. Under the proposal, chancellors would have authority for contracts up to $500,000, assuming all other policies are adhered to. Above that amount, the President would have the authority to approve the contract. The President is ultimately responsible to the Board to report on what the administration has done and why, while the Board retains authority to remove the President.

Regent Newsom stated that he was unaware of this issue presenting a problem for UC. One exception occurred the previous December with a contract at UCLA, which caused some anxiety. Mr. Duckett responded that in another recent case, the process did not move fast enough, and Regents did not receive enough advance notice regarding the hiring of the UC Berkeley basketball coach.

Regent Newsom asked about the consequences in that case. He asked if the University lost the coach. Mr. Duckett responded in the negative.

Regent Newsom stated his view that it is the responsibility of the Regents to advise and ultimately to make the determination regarding the adequacy of a contract. In this item the Regents appeared to be abdicating their responsibility for oversight. The Regents should be involved in the case of a $17.2 million contract for the football coach at UCLA. He expressed perplexity at the timing of this action and the idea that the Regents would relinquish oversight over such large contracts while still being involved in much smaller salary increases for chancellors. He expressed concern at the lack of academic incentives in the UCLA contract, and unwillingness as a Regent to cede oversight until it was clear that the organizational culture had changed.

President Napolitano expressed her commitment to ensuring that UC would include academic standards in athletic contracts, recognizing that there may be many different criteria for this. The frustration of the Board concerned rubber stamping, and the fact that the authority the Board had on paper did not really exist due to the manner in which athletic contracts are negotiated and executed. The President is responsible for ensuring that contracts, especially large contracts, are within UC policy, and for reporting to the Board. This item would clarify the process, as opposed to current policy, according to which the Board independently approves all athletic contracts, sometimes after the fact.

Regent De La Peña referred to the Indexed Compensation Level, observing that not many contracts come to the Regents for approval. He suggested that the Committee on Compensation might be given authority to act on contracts earlier, before or between meetings.

Committee Vice Chair Lozano stressed the Regents' wish that incentive components for coaches be tied to academic indicators. She also requested that the Regents review the template before it is implemented. It was important to recognize the situation of how contracts are negotiated. The Regents have established parameters regarding the form of the contract and the dollar level. Referring to Regent De La Peña's remarks, she recalled that the Committee on Compensation only meets during the regular Regents meetings. The chair and vice chair of the Committee are apprised of developments in a weekly review. She stated her view that the authority to make decisions on these matters should not be delegated to the chair of the Committee. The authority rests with the chancellor or the President when compensation is above a certain level. The President in turn is accountable to the Board of Regents as a body. There is not a mechanism to delegate review of these contracts to one or two Regents.

Regent Pattiz recalled that this issue had arisen only a few times during his service as Regent. While he was comfortable with contracts that have been negotiated and the process involved, he was uncomfortable with the idea that the Regents would give up the authority to be able to comment on a problem if a problem arises, and give up authority over the approval process. In the case of a large compensation package, the University could not avoid scrutiny and the compensation package would inevitably be a Regental issue.

Regent Makarechian suggested that, as a compromise, the approach being proposed could be applied on a trial basis, for a limited period. He reiterated his misgivings about the proposed action.

Committee Vice Chair Lozano referred to concerns expressed during the discussion. She recommended that the Regents postpone action on this item and engage in further discussion. The administration would bring forward another proposal at a future meeting, recognizing the concerns regarding the high compensation level of these contracts, elements within the contracts, and delegation of authority.

5. **APPROVAL OF PREEMPTIVE RETENTION SALARY ADJUSTMENT FOR TERRY A. BELMONT AS CHIEF EXECUTIVE OFFICER, UC IRVINE MEDICAL CENTER AS DISCUSSED IN CLOSED SESSION**

Background to Recommendation

The President of the University recommended approval of a preemptive retention salary adjustment of 4.3 percent for Terry A. Belmont as Chief Executive Officer (CEO), UC Irvine Medical Center, effective September 1, 2014. Funding for this action will come exclusively from medical center revenue funds (non-State funds). The proposed adjustment will increase Mr. Belmont's annual base salary from $710,700 to $741,260, with continued participation in the Clinical Enterprise Management Recognition Plan (CEMRP) at a target rate of 20 percent.

This request was in response to Mr. Belmont being continually and aggressively recruited by competing health enterprises, coupled with current or pending vacancies in strategic leadership positions at the UC Irvine campus and Medical Center.

With Mr. Belmont's leadership and strategic vision, the UC Irvine Medical Center continues to flourish as a world-class academic medical center in the areas of quality, safety, and patient satisfaction, all while meeting financial objectives. Mr. Belmont has played an integral leadership role in helping the UC Irvine Medical Center move toward its goal of becoming one of the best (top 20) academic health centers in the nation for research, medical education, and excellence in patient care.

According to the applicable Market Reference Zone (MRZ), the 60th percentile base salary for a comparable position is $934,000. Mr. Belmont's current base salary of $710,700 is 23.9 percent below the 60th percentile of the applicable MRZ. Mr. Belmont is also the lowest paid of the UC Medical Center/Health System CEOs. He currently lags behind the next highest paid CEO by 4.2 percent and lags behind the average of the four CEOs by 17.7 percent in base salary. The proposed base salary of $741,260 is 20.6 percent below the 60th percentile of the applicable MRZ. The proposed base salary would be 0.05 percent below the base salary of the next highest paid UC Medical Center/Health System CEO.

Mr. Belmont's compensation level coupled with his strong performance has made him a target for recruiting by competing institutions. A vacancy in the CEO position at the UC Irvine Medical Center would result in severe disruption to the Center's operations and service to the community. A vacancy would not only jeopardize progress in UC Irvine's Health System according to the strategic plan, but also would threaten its ability to maintain current quality and service levels. It is critical that the existing leadership at this level be maintained.

Recommendation

The Committee recommended approval of the following items in connection with the preemptive retention salary adjustment for Terry A. Belmont as Chief Executive Officer – UC Irvine Medical Center:

A. Per policy, a salary adjustment of 4.3 percent increasing Mr. Belmont's annual base salary from $710,700 to $741,260 as Chief Executive Officer at 100 percent time.

B. Per policy, continued eligibility to participate in the Clinical Enterprise Management Recognition Plan, with a target award of 20 percent of base salary ($148,252) and a maximum potential award of 30 percent of base salary ($222,378). The actual award will be determined based on performance against pre-established objectives.

C. Per policy, continuation of a monthly contribution to the Senior Management Supplemental Benefit program.

D. Per policy, continued annual automobile allowance of $8,916.

E. Per policy, continuation of standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability after five years of Senior Management Group service).

F. This action will be effective September 1, 2014.

The compensation described above shall constitute the University's total commitment until modified by the Regents, the President, or the Chancellor, as applicable under Regents policy, 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: **UC Irvine Interim Chancellor Gillman**
Reviewed by: **President Napolitano**
Committee on Compensation Chair Kieffer
Office of the President, Human Resources

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

6. **APPROVAL OF APPOINTMENT OF AND COMPENSATION FOR NATHAN BROSTROM AS EXECUTIVE VICE PRESIDENT – CHIEF FINANCIAL OFFICER IN ADDITION TO INTERIM APPOINTMENT AS EXECUTIVE VICE PRESIDENT – CHIEF OPERATING OFFICER, OFFICE OF THE PRESIDENT AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

The President of the University recommended approval for the appointment of and compensation for Nathan Brostrom as Executive Vice President – Chief Financial Officer (EVP – CFO), Office of the President, effective September 22, 2014, in addition to approval for an appointment as the Executive Vice President – Chief Operating Officer, Office of the President, effective September 22, 2014 and continuing through September 21, 2015 or until the appointment of a new Executive Vice President – Chief Operating Officer (EVP – COO), whichever occurs first. Mr. Brostrom has served as Interim Chief Financial Officer, Office of the President, in addition to his existing appointment as Executive Vice President – Business Operations since April 25, 2014. Prior to joining the Office of the President in September 2009, Mr. Brostrom had served the Berkeley campus as Vice Chancellor – Administration since March 2006.

As EVP – CFO, Mr. Brostrom will be overseeing all aspects of financial management at the ten UC campuses, five academic medical centers, and the Lawrence Berkeley National Laboratory. He will provide oversight on accounting and financial controls, risk management, strategic sourcing, tax compliance, payroll coordination and long-range financial planning. He will also be responsible for external relationships with rating agencies, investment houses, banks, financial auditors, and financial regulators. Mr. Brostrom will perform the duties of the EVP – CFO and also those of the EVP – COO during his interim appointment.

Approval was also requested to continue Mr. Brostrom's base salary of $412,000 in his role as EVP – CFO. Mr. Brostrom's salary of $375,000 as Executive Vice President – Business Operations was increased to $400,000, the prior CFO's base salary, in April 2014, when he assumed the additional duties associated with the CFO role. The Regents approved an increase in Mr. Brostrom's base salary to $412,000 in July 2014 as part of the 2014-15 Salary Increase Program for non-represented staff. No elements of Mr. Brostrom's compensation will change as a result of this appointment. The proposed base salary of $412,000 is 2.8 percent below the 50th percentile base salary of the applicable Market Reference Zone and 29.5 percent below the 50th percentile of Target Cash Compensation for the position of Executive Vice President and Chief Financial Officer.

The position of EVP – CFO will continue to be partially or fully State-funded.

Recommendation

The Committee recommended approval of the following items in connection with the appointment of Nathan Brostrom as Executive Vice President – Chief Financial Officer, Office of the President, in addition to an interim appointment as Executive Vice President – Chief Operating Officer, Office of the President.

A. Per policy, appointment of Nathan Brostrom as Executive Vice President – Chief Financial Officer, Office of the President at 100 percent time, effective September 22, 2014.

B. Per policy, appointment of Nathan Brostrom as Interim Executive Vice President – Chief Operating Officer, effective September 22, 2014 and continuing until September 21, 2015 or the appointment of a new Executive Vice President – Chief Operating Officer, whichever occurs first.

C. Per policy, continuation of Mr. Brostrom's base salary of $412,000.

D. Per policy, continuation of standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability).

E. Per policy, continuation of a monthly contribution to the Senior Management Supplemental Benefit Program.

F. Per policy, continued eligibility to participate in the UC Home Loan Program, subject to all applicable program requirements.

G. Per policy, continuation of an annual automobile allowance of $8,916.

The compensation described above shall constitute the University's total commitment until modified by the Regents or the President, as applicable under Regents policy, 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: **President Napolitano**
Reviewed by: **Committee on Compensation Chair Kieffer**
Office of the President, Human Resources

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item, noting that Nathan Brostrom would be taking on additional responsibilities.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

7. **APPROVAL OF INCENTIVE COMPENSATION FOR FISCAL YEAR 2013-14 FOR JOHN STOBO AS SENIOR VICE PRESIDENT – HEALTH SCIENCES AND SERVICES, OFFICE OF THE PRESIDENT AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

The Clinical Enterprise Management Recognition Plan (CEMRP), previously approved by the Regents, is a clinical incentive plan that provides financial awards based on meeting or exceeding targets for quality of care, financial performance, and other objectives such as patient satisfaction for the Health Sciences and Services system. The plan drives alignment of the five UC medical centers based on the achievement of institutional (common systemwide) goals, organization-specific objectives, and individual participant objectives. Incentives of this type are common practice at other major teaching hospitals with which the University competes for talent.

The Office of the President requested approval of an annual incentive award of $116,000 for Dr. John Stobo as Senior Vice President – Health Sciences and Services, which is 20 percent of his base salary. Medical center operating revenues fund CEMRP awards; no State funds are used.

The CEMRP 2013-14 Plan Year was a challenging but productive one for the University's clinical enterprise, which broke new ground in collaborative activity to respond to health care reform, performance improvement, and health system development under Dr. Stobo's leadership. This progress has come from the collaboration and commitment of health care providers, operational staff, and executive leaders throughout the five UC medical centers and their affiliated clinics.

This award has been approved by the CEMRP Administrative Oversight Committee.

Recommendation

The Committee recommended approval of the Clinical Enterprise Management Recognition Plan (CEMRP) 2013-14 Plan Year award of $116,000 for Dr. John Stobo as Senior Vice President – Health Sciences and Services, Office of the President. The recommended incentive award is 20 percent of his base salary.

Recommended Compensation
Effective Date: upon approval
Base Salary: $580,000
CEMRP Award: $116,000 (20 percent of base salary)
Base Salary Plus Recommended CEMRP Award: $696,000
Funding Source: non-State-funded

Prior Year Data (2012-13 Plan Year)
Base Salary: $580,000
CEMRP Award: $115,988 (20 percent of base salary)
Base Salary Plus CEMRP Award: $695,988
Funding Source: non-State-funded

The incentive compensation described shall constitute the University's total commitment regarding incentive compensation 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.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

8. **APPROVAL OF INCENTIVE COMPENSATION FOR FISCAL YEAR 2013-14 FOR JAGDEEP BACHHER AS CHIEF INVESTMENT OFFICER AND VICE PRESIDENT – INVESTMENTS, OFFICE OF THE PRESIDENT AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

The President of the University requested approval of an annual incentive award of $153,750 for Jagdeep Bachher, Chief Investment Officer (CIO) and Vice President – Investments. This award for the 2013-14 Plan Year falls under the Office of the Chief Investment Officer Annual Incentive Plan (AIP), which is funded entirely through investment returns. Assets under management total $90 billion. For the 2013-14 Plan Year, the CIO's Office added approximately $460 million of value in excess of the benchmark.

Following an international search, Mr. Bachher was appointed as CIO and Vice President – Investments on March 31, 2014. The Regents approved Mr. Bachher's eligibility for a partial year AIP award for the 2013-14 Plan Year of up to $153,750 for service between his appointment date and June 30, 2014, contingent upon satisfactory performance during this period. This was an exception to policy because the AIP Plan Document provides that employees must have a start date no later than January 15 to be eligible to receive an AIP award for that Plan Year.

Recommendation

The Committee recommended approval of an award of $153,750 for fiscal year 2013-14 under the Office of the Chief Investment Officer Annual Incentive Plan (AIP) for Jagdeep Bachher as Chief Investment Officer and Vice President – Investments, Office of the President. The recommended incentive award of $153,750 represents 25 percent of Mr. Bachher's annualized base salary of $615,000.

Recommended Compensation
Effective Date: upon approval
Base Salary: $615,000 (annualized)
AIP Award: $153,750
Base Salary Plus Recommended AIP Award: $768,750
Funding: non-State-funded

The incentive compensation described above shall constitute the University's total commitment regarding incentive compensation 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.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

9. **APPROVAL OF INCENTIVE COMPENSATION FOR FISCAL YEAR 2013-14 FOR MELVIN STANTON AS ASSOCIATE CHIEF INVESTMENT OFFICER, OFFICE OF THE PRESIDENT AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

The President of the University requested approval of an incentive award of $438,792 for Melvin Stanton, who was the Associate Chief Investment Officer (ACIO) and Co-Acting Chief Investment Officer (CIO) during the 2013-14 Plan Year. This award for the 2013-14 Plan Year falls under the Office of the Chief Investment Officer Annual Incentive Plan (AIP), which is funded entirely through investment returns. Assets under management total $90 billion. For the 2013-14 Plan Year, the CIO's Office added approximately $460 million of value in excess of the benchmark.

The Office of the CIO AIP is a performance-based incentive plan that places a certain amount of pay at risk for each participant, and pays out only if certain investment and other performance standards are met or exceeded. The Plan is a typical component of total cash compensation for investment professionals. Awards are based on a rolling three-year assessment against performance benchmarks and a portion is deferred for payout in subsequent years to help retain staff and focus efforts on adding longer-term value. Plan participants are assigned award opportunity levels that serve to motivate individual, group, and total entity performance as part of a competitive total cash compensation package.

Following the retirement of Marie Berggren on July 2, 2013, Mr. Stanton, along with Randolph Wedding, was appointed Co-Acting CIO by the Regents on July 18, 2013. At the time of their interim appointment, no additional compensation for this expanded temporary role was proposed. Mr. Stanton and Mr. Wedding served as Co-Acting CIOs from July 18, 2013 through March 30, 2014 when Jagdeep Bachher was appointed CIO, therefore almost 75 percent of the 2013-14 AIP Plan Year.

As an exception to policy, the Administrative Oversight Committee (AOC) for the AIP would like to recognize Mr. Stanton's service as Co-Acting CIO by seeking Regental approval to determine the portion of his AIP award that corresponds with the period Mr. Stanton served as Co-Acting CIO using the AIP standards applicable to the position of CIO. The remainder of the recommended award was determined using the standards applicable to the position of ACIO, which Mr. Stanton held for the remainder of the Plan Year.

The proposed award of $438,792 has been approved by the AOC.

Recommendation

The Committee recommended approval of an incentive award of $438,792 for Melvin Stanton as Associate Chief Investment Officer under the Office of the Chief Investment Officer Annual Incentive Plan for the 2013-14 Plan Year. The recommended incentive award is 139 percent of his base salary. The recommended award constitutes an exception to policy because the portion of the recommended award that corresponds to the period Mr. Stanton served as Co-Acting Chief Investment Officer was determined using the standards applicable to the position of Chief Investment Officer, rather than having the entire award determined using the standards applicable to the position of Associate Chief Investment Officer.

Recommended Compensation
Effective Date: upon approval
Base Salary: $316,004
AIP Award: $438,792 (139 percent of base salary)
Base Salary Plus Recommended AIP Award: $754,796
Funding: non-State-funded

Prior Year Data (2012-13 Plan Year)
Base Salary: $306,800
AIP Award: $331,344 (108 percent of base salary)
Base Salary Plus AIP Award: $638,144
Funding Source: non-State-funded

The incentive compensation described above shall constitute the University's total commitment regarding incentive compensation 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.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

10. **APPROVAL OF INCENTIVE COMPENSATION FOR FISCAL YEAR 2013-14 FOR RANDOLPH WEDDING AS SENIOR MANAGING DIRECTOR – FIXED INCOME, OFFICE OF THE PRESIDENT AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

The President of the University requested approval of an incentive award of $567,585 for Randolph Wedding, who was the Senior Managing Director – Fixed Income (SMD – FI) and Co-Acting Chief Investment Officer (CIO) during the 2013-14 Plan Year. This award for the 2013-14 Plan Year falls under the Office of the Chief Investment Officer Annual Incentive Plan (AIP), which is funded entirely through investment returns. Assets under management total $90 billion. For the 2013-14 Plan Year, the CIO's Office added approximately $460 million of value in excess of the benchmark.

The Office of the CIO AIP is a performance-based incentive plan that places a certain amount of pay at risk for each participant, and pays out only if certain investment and other performance standards are met or exceeded. The Plan is a typical component of total cash compensation for investment professionals. Awards are based on a rolling three-year assessment against performance benchmarks and a portion is deferred for payout in subsequent years to help retain staff and focus efforts on adding longer-term value. Plan participants are assigned award opportunity levels that serve to motivate individual, group, and total entity performance as part of a competitive total cash compensation package.

Following the retirement of Marie Berggren on July 2, 2013, Mr. Wedding, along with Melvin Stanton, was appointed Co-Acting CIO by the Regents on July 18, 2013. At the time of their interim appointment, no additional compensation for this expanded temporary role was proposed. Mr. Wedding and Mr. Stanton served as Co-Acting CIOs from July 18, 2013 through March 30, 2014 when Jagdeep Bachher was appointed CIO, therefore almost 75 percent of the 2013-14 AIP Plan Year.

As an exception to policy, the Administrative Oversight Committee (AOC) for the AIP would like to recognize Mr. Wedding's service as Co-Acting CIO by seeking Regental approval to determine the portion of his AIP award that corresponds with the period

Mr. Wedding served as Co-Acting CIO, using the AIP standards applicable to the position of CIO. The remainder of the recommended award was determined using the standards applicable to the position of SMD – FI, which Mr. Wedding held for the remainder of the Plan Year.

The proposed award of $567,585 has been approved by the AOC.

Recommendation

The Committee recommended approval of an incentive award of $567,585 for Randolph Wedding as Senior Managing Director – Fixed Income under the Office of the Chief Investment Officer Annual Incentive Plan for the 2013-14 Plan Year. The recommended incentive award is 152 percent of his base salary. The recommended award constitutes an exception to policy because the portion of the recommended award that corresponds to the period Mr. Wedding served as Co-Acting Chief Investment Officer was determined using the standards applicable to the position of Chief Investment Officer rather than having the entire award determined using the standards applicable to the position of Senior Managing Director – Fixed Income.

Recommended Compensation
Effective Date: upon approval
Base Salary: $374,500
AIP Award: $567,585 (152 percent of base salary)
Base Salary Plus Recommended AIP Award: $942,085
Funding: non-State-funded

Prior Year Data (2012-13 Plan Year)
Base Salary: $374,500
AIP Award: $438,165 (117 percent of base salary)
Base Salary Plus AIP Award: $812,665
Funding Source: non-State-funded

The incentive compensation described above shall constitute the University's total commitment regarding incentive compensation 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.

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

11. **APPROVAL OF COMPENSATION FOR CERTAIN CHANCELLORS AS DISCUSSED IN REGENTS ONLY SESSION**

Background to Recommendation

Consistent with the *Policy on Compensation for Chancellors*, the President recommended that the Committee on Compensation recommend approval of salary adjustments for four UC chancellors. The purpose is to address the competitive market lag when these chancellors' salaries are compared to those of their peers within the University of California and also when compared to the average salaries of leaders of Association of American Universities (AAU) institutions.

Chancellors Yang ($324,450), Leland ($319,300), Wilcox ($364,620), and Blumenthal ($319,300) have the lowest salaries of the ten UC chancellors. Their compensation is substantially behind that of their counterparts at other public institutions such as the University of Missouri at Columbia ($365,141) and the University of Colorado at Boulder ($389,000) and significantly trails the average salary of the chancellors of public AAU institutions without medical centers ($479,444) by more than 30 percent.

According to the Market Reference Zone (MRZ) for chancellors, the 60th percentile of the MRZ for base salary is $650,000. Chancellor Blumenthal's and Chancellor Leland's current base salary of $319,300 is 50.9 percent below the 60th percentile of the MRZ. Chancellor Wilcox's current base salary of $364,620 is 43.9 percent below the 60th percentile of the MRZ. Chancellor Yang's current base salary of $324,450 is 50.1 percent below the 60th percentile of the MRZ. The proposed base salary of $383,160 for Chancellors Leland, Wilcox, and Blumenthal will still fall 41.1 percent below the 60th percentile of the MRZ, and Chancellor Yang's salary of $389,340 will fall 40.1 percent below the 60th percentile of the MRZ.

Considering these four chancellors' scope of responsibilities, performance, and contributions when compared to external counterparts as well as UC peers, the proposed salary increases for them would begin to address issues of maintaining competitive compensation for arguably the most important positions within the UC system.

Recommendation

The Committee recommended that the following base salary adjustments for the individuals listed below be approved.

Campus	Last Name	First Name	Title	Current Annual Base Salary	Proposed Salary Increase %	Proposed Annual Base Salary
UCM	Leland	Dorothy	Chancellor	$319,300	20.0%	$383,160
UCSC	Blumenthal	George	Chancellor	$319,300	20.0%	$383,160

UCR	Wilcox	Kim	Chancellor	$364,620	5.1%	$383,160
UCSB	Yang	Henry	Chancellor	$324,450	20.0%	$389,340

The compensation described above shall constitute the University's total commitment until modified by the Regents or the President, as applicable under Regents policy, 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: **President Napolitano**
Reviewed by: **Committee on Compensation Chair Kieffer**

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano indicated that this item had been revised following discussion in closed session. A salary adjustment was being recommended for four chancellors, at Merced, Santa Cruz, Riverside, and Santa Barbara, consistent with Regents' discussions about the need to move chancellors' salaries forward.

President Napolitano underscored that UC chancellors, who operate some of the largest higher education institutions in the country, had not received raises for years. It was her strong belief that UC needs to pay its chancellors within a competitive range. The University was so far from this range that it would take time to establish appropriate compensation for chancellors. The proposed action would give these four chancellors an increase and put them into alignment with one another. President Napolitano described this as a first step. The University wishes to have the best chancellors for its campuses, and there is a market for these employees. Chancellors make the University run and have heavy responsibilities on a day-to-day basis. President Napolitano reflected on the two national searches for chancellors she had conducted since her tenure began and cautioned that the University would be hurt in the long term if it did not take corrective action regarding chancellors' salary levels.

Regent Reiss stressed that UC's excellence was tied to having outstanding leaders on its campuses. The University was not competitive in salaries for these leaders, not even compared to other public universities. She expressed her full support for this action, noting that even with this increase chancellors were still not being adequately compensated for their remarkable work. In the future, the President would address chancellors' salaries at other campuses as well.

Regent Makarechian referred to a ranked list of salaries of Association of American Universities (AAU) leaders, emphasizing how far down the list UC chancellors were. The increases being approved that day were minimal. He stressed the urgency of addressing this matter.

Regent Gould observed that it was appropriate to establish a salary floor as a first step in remedying this problem. He emphasized that this would be a first stage and that the President would provide a plan to address what were now internal inconsistencies in UC salaries within six months. Regent Gould underscored the appropriateness of this action, given the complexity and responsibilities of these jobs, the market reality of securing first-class leaders for UC's academic institutions, and the capabilities the University seeks in its chancellors.

Regent Pattiz expressed support for the proposal but stressed that he found it wholly inadequate. He could support it only because this was the beginning of a path to move the chancellors toward the compensation they deserved, based on the results they have delivered. He recognized that chancellors had given up opportunities to be compensated at a higher level and especially stressed the situation of inadequate compensation for Chancellor Yang. Inequities at the University must be addressed to maintain the excellence of the institution.

Staff Advisor Coyne concurred that it is correct to use market criteria to attract and retain the best employees. She noted that the issues raised in this discussion regarding chancellors pertained to employees at all levels. She hoped the Regents would also consider the need to attract and retain the best staff.

In response to a question by Regent Blum, Committee Vice Chair Lozano confirmed that the Regents had instructed President Napolitano to come back within six months with a concrete plan to address chancellors' salaries that would be implemented over 36 months at the latest.

Regent Blum observed that employees throughout UC were underpaid. The case of the chancellors represented perhaps the most egregious compensation gap relative to the market. He hoped that UC was beginning to correct this situation for all underpaid employees, beginning with the chancellors, and that this message would be communicated to the Legislature and the people of California.

Faculty Representative Gilly indicated that a total remuneration study of faculty had been carried out. This study demonstrates that faculty are underpaid in salary as well as benefits. UC faculty no longer have the advantage they once did, due to increased faculty contributions to the UC Retirement Plan and health care.

Chairman Varner expressed the Regents' appreciation for the work of the chancellors and stated that the time was right for this action, which was long overdue.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

12. **AMENDMENT OF THE MARKET REFERENCE ZONE FOR THE ASSOCIATE VICE PRESIDENT – FINANCE, OFFICE OF THE PRESIDENT**

The President of the University recommended approval of the following items in connection with the amendment of the Market Reference Zone for the Level Two Senior Management Group position of Associate Vice President – Finance, Office of the President:

A. Amendment of the Market Reference Zone range for this position to reflect the following percentiles: 25th percentile – $225,000, 50th percentile – $274,000, 60th percentile – $289,000, 75th percentile – $323,000, and 90th percentile – $375,000.

B. This action will be effective upon approval.

Submitted by: **President Napolitano**
Reviewed by: **Committee on Compensation Chair Kieffer**
Office of the President, Human Resources

[Background material was provided to Regents in advance of the meeting, and a copy is on file in the Office of the Secretary and Chief of Staff.]

Committee Vice Chair Lozano briefly introduced the item.

Upon motion duly made and seconded, the Committee approved the President's recommendation and voted to present it to the Board.

The meeting adjourned at 10:15 a.m.

Attest:

Secretary and Chief of Staff