

The Regents of the University of California

**GOVERNANCE AND COMPENSATION COMMITTEE**

September 14, 2016

The Governance and Compensation Committee met on the above date at the Luskin Conference Center, Los Angeles campus.

Members present: Regents Elliott, Gould, Lansing, Ortiz Oakley, Pattiz, Reiss, Schroeder, and Varner; Ex officio members Lozano and Napolitano

In attendance: Faculty Representatives Chalfant and White, Secretary and Chief of Staff Shaw, General Counsel Robinson, Chief Compliance and Audit Officer Vacca, Executive Vice President and Chief Operating Officer Nava, Vice President Duckett, Chancellors Dirks, Khosla, and Wilcox, Acting Chancellor Hexter, and Recording Secretary Johns

The meeting convened at 4:25 p.m. with Committee Chair Reiss presiding.

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

Upon motion duly made and seconded, the minutes of the meetings of the Committee on Governance of June 22 and July 20 and the meeting of the Committee on Compensation of July 21, 2016 were approved.

2. **OVERVIEW OF COMMITTEE RESPONSIBILITIES AND REVIEW OF COMMITTEE CHARTER**

[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 Chair Reiss remarked that although no chancellors and faculty representatives were members of the Governance and Compensation Committee, they were welcome to participate in the discussions. She briefly outlined a number of topics the Committee might discuss at future meetings. Regent Schroeder noted that it would be beneficial to evaluate the new committee structure after one year and two years.

3. **APPROVAL OF APPOINTMENT OF AND COMPENSATION FOR RALPH J. HEXTER AS INTERIM CHANCELLOR, DAVIS CAMPUS AS DISCUSSED IN CLOSED SESSION**

Recommendation

The Committee recommended approval of the following items in connection with the appointment of and compensation for Ralph J. Hexter as Interim Chancellor, Davis campus:

- A. Appointment of Ralph J. Hexter as Interim Chancellor, Davis campus at 100 percent time, effective upon approval, and continuing until a new Chancellor is appointed.
- B. Per policy, continued annual base salary of \$400,842.
- C. Per policy, continued annual automobile allowance of \$8,916.
- D. Per policy, continued eligibility to participate in the UC Home Loan Program, subject to all applicable program requirements.
- E. 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.
- F. Per policy, continued participation in standard pension and health and welfare benefits and standard senior management benefits (including senior management life insurance and executive salary continuation for disability).
- G. Per policy, continued accrual of sabbatical credits as a tenured faculty member.

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.

#### Background to Recommendation

The President of the University recommended the appointment of and compensation for Ralph J. Hexter to serve as Interim Chancellor, Davis campus. Mr. Hexter will serve in this interim capacity until the permanent chancellor is named and in place.

There will be no change to Mr. Hexter's current base salary of \$400,842, which is 5.9 percent below the 25th percentile (\$426,000) of the Market Reference Zone (MRZ) for the position of Chancellor.

Mr. Hexter is recognized as a seasoned university academic leader and has been serving as Acting Chancellor since April 27, 2016, while the then-Chancellor was on administrative leave. He previously served as Provost and Executive Vice Chancellor of UC Davis since January 2011. Prior to joining UC Davis, Mr. Hexter served as President of Hampshire College, in Amherst, Massachusetts, a liberal arts college renowned for the student-centered, portfolio-based course of interdisciplinary study it pioneered. Previously he served as Executive Dean of the University of California, Berkeley, College of Letters and Science, the largest of UC Berkeley's 14 colleges and schools, and

as Dean of Arts and Humanities at UC Berkeley. He held prior academic administrative positions at the University of Colorado at Boulder and at Yale University.

Mr. Hexter holds four degrees, a bachelor's degree from Harvard College, a bachelor's degree from Corpus Christi College, Oxford, and a master's degree and Ph.D. degree from Yale.

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Committee Chair Reiss briefly introduced the item, emphasizing her view that the University was fortunate in having Ralph Hexter step in as Interim Chancellor at the Davis campus.

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

4. **UPDATE ON SYSTEMWIDE IMPLEMENTATION OF THE REVISED POLICY ON OUTSIDE PROFESSIONAL ACTIVITIES AND REPORT ON 2015 COMPENSATED OUTSIDE PROFESSIONAL ACTIVITIES: INCUMBENTS IN SENIOR MANAGEMENT POSITIONS**

[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.]

Vice President Duckett reported that following the Regents' approval of revisions to Regents Policy 7707, Senior Management Group Outside Professional Activities, at the July meeting, the Office of the President began systemwide implementation as well as communication and training. The revisions to the Policy included additional review and a reduction in the number of permitted outside compensated activities to two for new Senior Management Group (SMG) members and for new activities proposed for current SMG members. The revised Policy requires additional details and specific justification for new activities, and takes into account perceived conflicts of interest and reputational risk. The Policy provides for additional review by an independent advisory committee, which would include senior campus leadership, Ethics, Compliance and Audit Services representatives, legal counsel, and Human Resources staff. The Office of the President had drafted a communication to be sent to the State Legislature summarizing the revisions to the Policy. Administrative guidelines had been established to ensure that SMG members and those responsible for administering the program understand the Policy and its documentation requirements.

Committee Chair Reiss emphasized that the Regents take this Policy very seriously, but noted that violation of the Policy is not a rampant problem at UC. The revision of the Policy was spurred by news media reports about the former Chancellor of UC Davis' service, which had not been approved by President Napolitano, on the board of a for-profit university that was under federal investigation. The former Chancellor also served

on the board of a textbook publishing company; this service had been approved by former President Yudof. Given this context, the Regents added the criteria of reputational risk and the appearance of conflict of interest to the Policy. Because these criteria can be subjective, additional levels of review were provided. The number of permitted outside compensated activities was reduced from three to two. Only four SMG members currently have three such activities, and they would be allowed to continue these activities, for reasons of fairness and based on legal considerations; at the time of hiring, they were given to understand that three outside compensated activities were permitted.

In response to a question by Regent Elliott, Committee Chair Reiss explained that permission for the four SMG members to continue with three outside compensated activities was based on advice from General Counsel. General Counsel Robinson stated that there are certain legal risks in this situation. Committee Chair Reiss emphasized that the Policy criteria of conflict of time and commitment would apply to these individuals.

President Napolitano referred to the situation of SMG members hired with the understanding that they could serve on three compensated outside boards and stated her view that it would be unwise for the University to make a retroactive change to that condition. This might create difficulties in future SMG hiring. The other additional criteria for review of outside professional activities were appropriate.

Committee Chair Reiss observed that almost no universities or colleges in the U.S. impose a limit on the number of outside professional activities for their senior managers; instead, these institutions focus on the criteria of conflict of time and conflict of interest.

Regent Elliott, President Napolitano, and Committee Chair Reiss concurred that further review and clarification of how the revised Policy and the limit on the number of compensated outside activities would apply to current and future SMG members would be helpful. Chair Lozano requested such a review and clarification. Regent Pattiz noted that contracts in the corporate world can be altered when there are changes in circumstances.

Executive Director Dennis Larsen explained that the report on 2015 Compensated Outside Professional Activities covered a period when the Policy limited these activities to three for-profit boards for which an SMG member had governance responsibilities. The 2016 activities, both compensated and uncompensated, were being reviewed under new processes and standards, including assessment of real or perceived conflicts of interest and commitment, as well as reputational risk.

The meeting adjourned at 5:00 p.m.

Attest:

Secretary and Chief of Staff