COMMITTEE ON COMPENSATION

ACTION ITEM – CONSENT

For Meeting of July 14, 2011

APPROVAL OF INDIVIDUAL NON-STATE-FUNDED COMPENSATION ACTIONS AS DISCUSSED IN CLOSED SESSION

RECOMMENDATION

A. Preemptive Retention Salary Adjustment and Total Compensation for Mark R. Laret as Chief Executive Officer, Medical Center, San Francisco Campus

Background to Recommendation

The UCSF Medical Center is requesting approval of a pre-emptive retention salary adjustment for Mark R. Laret, Chief Executive Officer. Funding would come exclusively from hospital operating funds and would not include State General Funds or student fee revenues.

The request includes an annual base salary increase of $195,300 and a graduated retention incentive arrangement that would bring his total cash compensation to $1,222,000 for year one. This request is in response to a recent recruitment effort by a major academic medical center in Boston affiliated with Harvard University. Because of the outstanding leadership he has demonstrated and his central role in the Mission Bay hospital project and fundraising campaign, it is essential for UCSF to retain Mr. Laret. UCSF Medical Center is in the midst of several important initiatives, including installation of a $160 million electronic medical record system to improve patient care and safety, and faces numerous challenges relating to national healthcare reform. Leadership continuity is critical at this important juncture.

Mr. Laret has been Chief Executive Officer of UCSF Medical Center since April 2000, leading one of the most distinguished health care institutions in the world. UCSF Medical Center is consistently ranked by U.S. News and World Report as one of the top ten hospitals in the United States and best in Northern California.

Mr. Laret is a nationally recognized leader in the health care industry with a distinguished 31-year career. For the past 16 years he has been an academic medical center Chief Executive Officer, responsible for two hospital turnarounds.
His peers nationally have elected him to serve as 2012 chair of the board of directors of the Association of American Medical Colleges, which represents the nation’s preeminent academic medical centers and more than 134 schools of medicine. He is past chair of the 400-member Council of Teaching Hospitals. He has served on boards of directors of the University Health System Consortium, the California Hospital Association and the Accreditation Council for Graduate Medical Education, which oversees residency training programs across the nation.

Mr. Laret served at UCLA Medical Center from 1980 to 1995 in a variety of leadership positions, including Medical Center Deputy Director and Chief Executive Officer of the 900-physician UCLA Medical Group, and he led the acquisition of Santa Monica Hospital. From 1995 to 2000 he was Chief Executive Officer of UC Irvine Medical Center, where he led a business turnaround that produced marked improvements in quality of care, patient satisfaction, and financial performance.

Under his leadership, UCSF Medical Center has become a national leader in quality and safety and has risen from a top twenty hospital nationally to top ten, currently ranked number seven. Financially, UCSF Medical Center was losing $60 million a year in 2000 and has since demonstrated consistently strong financial performance. In fiscal year 2011, UCSF Medical Center will show an operating gain in excess of $175 million on $1.6 billion in patient care revenue – all without State support. Philanthropic support for the medical center has grown from almost zero to nearly $400 million. Cumulatively, over 11 years, UCSF Medical Center has generated more than $1.5 billion in new cash for the University, enabling improvements in facilities, equipment, and patient care and providing critical support for the UCSF School of Medicine, where State funding has eroded.

To accommodate growing demand and address seismic issues on UCSF campuses, Mr. Laret is spearheading development of a $1.5 billion UCSF hospital complex in the Mission Bay section of San Francisco, one of the single largest projects in the history of the University of California. The complex will include hospitals for children (now named UCSF Benioff Children’s Hospital), women’s specialty services, and cancer. Mr. Laret is leading a campaign to raise $600 million in private donations for the new facility, expected to open in late 2014. To date his efforts have resulted in pledges of $375 million, including two gifts of $100 million or more.

UCSF Medical Center proposes a retroactive base salary increase of $195,300, bringing Mr. Laret’s annual base salary from $739,700 to $935,000, effective June 1, 2011. According to the 2010 COTH/Mercer IHN data, the proposed salary is 4.1 percent below the 50th percentile ($975,000) and 13.5 percent below the 75th percentile ($1,081,000) market data for teaching hospital system chief executive officers. However, based on the size, scope and national stature of UCSF Medical Center – as well as Mr. Laret’s three decades of experience and proven track record – a base salary at or near the 75th percentile of the market is deemed appropriate and competitive to retain Mr. Laret. Other top ten institutions, such as the University of Pennsylvania, the University of
Washington, and others provide total compensation ranging from $1.3 million to $2.3 million.

Another important reference point is the total cash compensation market data for teaching hospital chief executive officers. Total cash compensation proposed in this item includes an annual retention payment on a graduating scale designed as an incentive for Mr. Laret to remain at the helm of UCSF Medical Center until at least September 30, 2014, by which time the new hospital fundraising and construction and other critical initiatives are expected to be completed. If the UCSF Medical Center does not maintain a positive cash flow for a particular fiscal year, no retention incentive payment will be made to Mr. Laret the following September 30. The proposed total cash compensation of $1,222,000 for year one (fiscal year 2010-11) is equivalent to the 50th percentile market data for total cash compensation ($1,222,900) and 29.5 percent below the 75th percentile market data for total cash compensation ($1,732,500) for year one. By year four, the total cash compensation will fall between current 50th and 75th percentile market data for total cash compensation.

Preliminary compensation discussions with the recruiting institution are consistent with the market data references provided by the Mercer survey. As another point of reference, UCSF is approximately 14 percent larger in size and scope, considering number of beds, inpatient admissions, outpatient visits, full-time equivalent headcount, net revenue, and operating expenses. This serves as additional justification for the compensation package being proposed for Mr. Laret.

The UCSF funding for the proposed salary increase and retention incentive arrangement will be provided exclusively by hospital operating funds and will not include State General Funds or student fee revenues.

Recommendation

The Committee recommends approval of the following items in connection with the preemptive retention salary adjustment for Mark R. Laret as Chief Executive Officer, Medical Center, San Francisco campus:

1. Per policy, an adjustment to the base salary of $195,300 for a base salary of $935,000, SLGC Grade 118 (Minimum $585,000, Midpoint $760,400, Maximum $935,900).

2. As an exception to policy, this adjustment to base salary is to be effective retroactive to June 1, 2011, to be consistent with the withdrawal of Mr. Laret’s candidacy in the outside recruitment effort.

3. As an exception to policy, a retention incentive payment will be made to Mr. Laret on September 30, 2011, and continuing annually thereafter for the next three years in accordance with the terms of the table below, provided that the conditions outlined below are satisfied. The retention incentive payment will be
made annually through September 30, 2014 as long as Mr. Laret remains an active UC employee serving in the capacity of Chief Executive Officer, UCSF Medical Center, UCSF Campus on the scheduled payment date. This retention incentive arrangement is characterized as an exception to policy because there is no University or Regental policy that authorizes such an arrangement and because such an arrangement would not be permissible under the Senior Management Group Policy on Incentive Awards adopted in July 2010 because Mr. Laret is a participant in the Clinical Enterprise Management Recognition Plan.

a. Should Mr. Laret resign or be terminated for cause prior to September 30, 2014, Mr. Laret shall forfeit his right to any retention incentive payments that have not been made. Should Mr. Laret die or become unable to perform his duties as Chief Executive Officer, UCSF Medical Center due to disability, no further retention incentive payments established on the schedule will be made after the date of his death or disability, as applicable.

b. If UCSF Medical Center does not have a positive cash flow as of the closing date (June 30) of any fiscal year, no retention incentive payment will be made on the following September 30.

c. Retention incentive payments will not be prorated for a partial fiscal year of service.

d. Retention incentive payments will not be subject to increases or decreases such as merit increases or furlough-related decreases.

e. Consistent with policy, these retention incentive payments will not be included in the calculation of:

i. Clinical Enterprise Management Recognition Plan awards

ii. Senior management life insurance

iii. Executive salary continuation for disability

iv. Terminal vacation payout

v. UC Retirement Plan covered compensation

vi. Senior Management Supplemental Benefit Plan payments

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(4) Per policy, continued eligibility for additional non-base building incentive compensation as an eligible participant of the Clinical Enterprise Management Recognition Program with an annual target award of 20 percent of base salary and a maximum potential award of 30 percent of base salary. Actual award will be determined based on performance against pre-established goals and objectives.

(5) Per policy, continued annual automobile allowance of $8,916.

(6) Per policy, a five percent monthly contribution to the Senior Management Supplemental Benefit Program.

(7) This appointment is at 100 percent time.

**Recommended Compensation**

**Effective Date:** June 1, 2011  
**Base Salary:** $935,000  
**CEMRP (at 20 percent target rate):** $187,000

**Annual Retention Incentive:** $100,000 in the first year (with annual increases up to a maximum of $400,000 in 2014)

**Total Cash Compensation (TCC):** $1,222,000 in the first year (with annual increases up to $1,522,000 in 2014 not including any merit increases or CEMRP incentive awards above target; actual CEMRP awards vary based on performance.)

**Grade Level:** SLCG Grade 118 (Minimum $585,000, Midpoint $760,400, Maximum $935,900)

**50th Percentile Market Data for base salary only:** $975,000  
**Percentage Difference from 50th Percentile Market Data for base salary only:** 4.1 percent below market

**75th Percentile Market Data for base salary only:** $1,081,000  
**Percentage Difference from 75th Percentile Market Data for base salary only:** 13.5 percent below market

**50th Percentile Market Data for TCC:** $1,222,900  
**Percentage Difference from 50th Percentile Market Data for TCC:** In the first year ($1,222,000), zero percent; in 2014 ($1,522,000), 24.5 percent above market  

**75th Percentile Market Data for TCC:** $1,732,500  
**Percentage Difference from 75th Percentile Market Data for TCC:** In the first year ($1,222,000), 29.5 percent below market; in 2014 ($1,522,000), 12.2 percent below market

**Funding Source:** Hospital System revenue

**Budget &/or Prior Incumbent Data**

**Title:** Chief Executive Officer, Medical Center  
**Base Salary:** $739,700  
**CEMRP (at 20 percent target rate):** $147,940
Total Cash Compensation: $887,640
Grade Level: SLCG Grade 118 (Minimum $585,000, Midpoint $760,400, Maximum $935,900)
Funding Source: Hospital System 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 and executive salary continuation for disability).

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: UCSF Chancellor Desmond-Hellmann
Reviewed by: President Yudof
Committee on Compensation Chair Ruiz
Office of the President, Human Resources