



OFFICE OF THE PRESIDENT

NELSON PEACOCK

Senior Vice President – Government Relations

Office of State Governmental Relations

1130 K Street, Suite 340

Sacramento, California 95814

(916) 445-9924

Steve Juarez, Associate Vice President and Director

August 18, 2015

The Honorable Jimmy Gomez
Chair, Assembly Appropriations Committee
State Capitol, Room 2114
Sacramento, CA 95814

RE: SB 376 (Lara), as amended June 29, 2015
Scheduled for hearing August 26, 2015 in the Assembly Appropriations Committee
Position: OPPOSE

Dear Chair Gomez,

The University of California (UC) has reviewed SB 376. UC prioritizes its responsibility to the well-being and appropriate compensation of its employees, along with appropriate, responsible use of contractors for specific business purposes. UC also appreciates the concerns raised by the sponsors of SB 376. Accordingly, last month UC took the major step of implementing a first-in-the-nation plan to establish a UC minimum wage for both its employees and service contractor workers to ensure that all UC workers are provided a fair wage. As part of that plan, UC is implementing a rigorous approach to monitoring working conditions for all its employees and service contract workers. Through this plan, we believe that UC has addressed the important concerns that were raised by the supporters of SB 376 in a way that is financially sustainable for the University and does not impose burdensome administrative requirements to execute. UC estimates that the specific provisions of SB 376 would increase costs by a minimum of \$36 million with the potential for additional cost increases in the tens of millions given the bill's requirement to use all known cost escalators to project the future rate of growth of average per-employee total compensation costs, which could go well beyond the rate of inflation. Because UC has already taken this significant step to address the wages and working conditions of all employees and contract workers and because the specific provisions of SB 376 would increase costs substantially, create new administrative burdens, and would undercut UC's sustained efforts to streamline operations and to make the contracting process more efficient, regrettably UC must oppose this legislation.

The University has a mission unique among public employers in California: teaching, research, and public service. Maintaining a balance of contract and campus-based services assists our campuses, labs, and medical centers in maximizing efficiency within resource constraints. UC may contract out for services in instances where, among other reasons, there is a need for special expertise or experience, for short-term or temporary staffing needs, for special services and equipment that are not available internally, or for services at a leased facility where the services are provided by the owner.

The University is taking action to ensure that service contractor employees are paid a fair wage and to increase its oversight of contractor working conditions.

On Wednesday, July 22, the University announced an important new initiative which will mandate that the minimum wage for UC workers – both direct UC employees and service contract workers – be raised to \$15 an hour over the next three years. The mandated minimum will increase to \$13 an hour on Oct. 1, 2015, to \$14 an hour on Oct. 1, 2016, and to \$15 an hour on Oct. 1, 2017. In addition, UC will implement a robust monitoring and compliance program to ensure that all employees and service contract workers are complying with all UC policies and all federal, state, and local laws. These measures will include a new phone hotline and central online system for contract workers to report complaints and issues directly to the Office of the President. The University will require that all UC contractors undergo an annual compensation audit to ensure they are paying their employees at a level at or above UC's minimum wage and complying with all local, state, federal and UC workplace laws and policies. These audits would be funded by the contractors and implemented as new contracts are established and existing contracts come up for renewal. The University also plans to institute spot audits of its contractors to ensure their compliance. These new requirements will be implemented as new service contracts are established and existing contracts come up for renewal.

The University believes that The Fair Wage/Fair Work plan substantially addresses the concerns that prompted the introduction of SB 376, in a way that is financially feasible for the University.

SB 376 would hinder UC's continued efforts to make its contracting practices less burdensome and more efficient to administer.

For the last decade the University has embarked upon a sustained systemwide effort to reform its procurement practices not only to reduce the price it pays for goods, materials, and services but also to streamline administrative processes to generate additional savings. UC's strategic sourcing initiative and "P200" procurement project use strategic and collaborative sourcing methods to optimize spend and purchasing activities across the UC system, creating significant savings for the University. P200 seeks to recapture \$200 million annually that is currently lost through sub-optimal purchasing contracts and practices, redirecting these critically needed funds to support UC's core missions of teaching, research, and public service.

SB 376 also conflicts with efforts by the University, in collaboration with the California State University (CSU) system and the California Community Colleges (CCC), to increase coordination among the three segments and take advantage of our combined purchasing power when contracting for goods, materials and services. SB 376 places new administrative burdens on UC operations while no similar requirements exist for CSU and the CCC is governed by a different set of statutory requirements. These disparate requirements hinder the three segments' ability to implement processes that allow for intersegmental collaboration and increased cost savings.

Through its procurement initiatives and intersegmental collaborations, UC has realized measurable savings that have allowed us to direct resources back to the University. These savings are one of the key factors allowing us to hold in-state tuition flat for another two years. The Legislature itself has supported UC's efforts to increase efficiencies in contracting by passing two separate measures, SB 1280 (Pavley, 2012), which granted the University the authority to select the lowest responsible bidder on a contract for goods and services on the basis of the best value to the University, and SB 1122 (Wright, 2010), which increased the competitive bidding threshold to \$100,000.

SB 376 would significantly increase the administrative costs associated with the competitive bidding process by requiring a complex calculation and analysis of positions and compensation data prior to UC issuing any request for proposal (RFP) for goods, materials, and services. To maximize our bargaining power, UC's strategic direction is to engage in systemwide RFPs whenever possible. If SB 376 took effect as written, UC would be required to collect extensive salary and benefits data from every location potentially participating in the RFP. Further, the bill requires that the compensation calculation take into consideration known cost escalators to project the future rate of growth of average per-employee total compensation costs, although the bill does not specify over what time period. This calculation would add a significant and unnecessary complexity to the development of an RFP.

SB 376 would also increase administrative costs by eliminating the ability to extend or renew an existing contract for services. Developing, issuing, and evaluating RFPs is an administratively burdensome process that can be further complicated depending on the complexity of the contract and whether it is a systemwide or campus-level agreement. The option to extend a contract affords UC the ability to evaluate the level and quality of service, provides an opportunity to negotiate even more favorable terms prior to the University opting to exercise its right to renew, and allows UC to take advantage of any changes or advances in technology that may have occurred since the execution of the contract, all without increasing administrative costs. This grants UC more flexibility to ensure it receives the highest quality of service at the lowest cost without locking itself into contracts with longer terms that may ultimately become less favorable over time as markets and technologies change. UC believes that SB 376 increases not only the cost to administer competitively bid contracts but would also increase the prices that UC must pay for contracts for services provided to the University **by at least \$36 million for vendors to provide the value of a comparable benefit package to their employees. We believe that the bill will further potentially increase the price of contracts by an additional tens of millions of dollars for vendors to provide comparable average salaries to their employees. These costs could increase dramatically given the bill's requirement to use all known cost escalators to project the future rate of growth of average per-employee total compensation costs, which could go well beyond the rate of inflation.**

UC collective bargaining agreements include provisions to minimize the impact contracting for services could have on current employees.

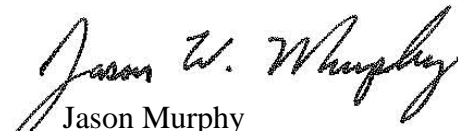
Some of UC's collective bargaining agreements contain specific provisions stating that the University will not contract out for services solely on the basis that savings will result from lower contractor pay rates and benefits for services customarily performed by bargaining unit employees or that result in layoff of bargaining unit employees. These agreements specify the instances in which UC may contract out for services including, as previously mentioned, when there is a need

for special expertise or experience, for short-term or temporary staffing needs, for special services and equipment that are not available internally, or for services at a leased facility where the services are provided by the owner. The University also has asked to be notified if someone believes there are instances where a campus or medical center has improperly contracted out for services. UC takes such complaints seriously and takes action when appropriate to remedy any instances where a service is being contracted out inappropriately.

UC takes the contracting issues raised by supporters of SB 376 seriously. Through the Fair Wage/Fair Work Plan, we believe that we have addressed these concerns. SB 376, however, involves an approach that is not financially sustainable for the University and imposes significant administrative burdens. Therefore, while we appreciate and embrace the intention of the bill, we must reluctantly oppose it.

As always, the University appreciates your consideration of our views. Should you have any questions about the University's position on SB 376, please do not hesitate to contact me at (916) 445-9924.

Sincerely,



Jason W. Murphy
Legislative Director

cc: Senator Ricardo Lara
Vice Chair and Members, Assembly Appropriations Committee
President Janet Napolitano
Provost and Executive Vice President Aimée Dorr
Executive Vice President & CFO Nathan Brostrom
Senior Vice President Nelson Peacock
Associate Vice President and Director Steve Juarez