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March 09, 2016

The Honorable Carol Liu
Chair, Senate Education Committee
State Capitol, Room 2083
Sacramento, CA 95814

RE: SB 959 (Lara), as introduced February 8th, 2016
Scheduled for hearing in the Senate Education Committee on March 16, 2016
Position: OPPOSE

Dear Senator Liu,

The University of California (UC) has reviewed SB 959 (Lara), which would modify the Public Contract Code to prohibit UC from entering into a contract for goods and services valued at more than \$100,000 if the compensation a bidder pays its employees is more than 5 percent below the average per-employee compensation, including benefits, for UC employees who perform comparable work. UC takes very seriously its responsibility to provide appropriate compensation for its employees and the responsible use of contractors for specific business purposes – and has already established a UC minimum wage plan that positions the University as a leader in this area. SB 959, however, would further increase operating costs by tens of millions of dollars, create significant new administrative burdens, serve to limit the ability of small bidders to compete for University contracts and would undercut UC's sustained efforts to streamline operations and make contracting processes more efficient. As a result, we 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 employees helps ensure that our campuses, labs, and medical centers can maximize efficiency while exploring new methods and best practices in service delivery. Keeping costs low is a priority; however, UC does not contract out on this basis alone. In fact, UC only contracts out in instances where 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.

In addition, the contract workers employed in these situations are all covered under the University's *Fair Wage/Fair Work Plan*. This plan - announced last July - established a UC minimum level of pay for employees to ensure that all UC workers are provided a fair wage. The UC minimum wage is \$13 per hour currently, and will reach \$15 per hour on October 1, 2017. As part of *Fair Wage/Fair Work*, UC is also monitoring wage and working conditions for contract

employees by implementing annual compensation audits and interim audits, and has established a phone hotline and central online system to report complaints directly to the Office of the President.

At the same time, UC is working diligently to streamline operations and make contracting processes more efficient to save money. Over the last several years, 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 959 would significantly hinder continued progress on this important effort.

Because SB 959 would apply only to UC, it would hinder our efforts to collaborate with the California State University (CSU) system and the California Community Colleges (CCC). Given that we contract for similar goods and services, we are seeking to take advantage of our combined purchasing power to save California taxpayer dollars. SB 959 would place new administrative burdens on UC that would not apply to CSU or CCC. This disparity in treatment would likely prevent this intersegmental collaboration from going forward.

Through its procurement initiatives and intersegmental collaborations, UC has realized measurable savings that have allowed us to direct resources back to the University. The Legislature itself has supported UC's efforts to increase efficiencies in contracting by passing measures such as SB 835 (Wolk, 2011) which granted the University the authority to select bidders on construction services contracts on the basis of best value to the University, SB 1280 (Pavley, 2012), which granted the University similar best value authority to contracts for goods and services and SB 1122 (Wright, 2010) which increased the competitive bidding threshold to \$100,000.

SB 959 would increase the complexity and administrative expense associated with our bidding process. For example, the legislation would require the completion of a complex calculation and analysis of positions and compensation data prior to UC issuing any request for proposal (RFP) for goods, materials, and services. This would undercut UC's strategic desire to engage in systemwide RFPs whenever possible. We do this to maximize our bargaining power. If SB 959 took effect as written, UC would be required to collect extensive salary and benefits data from every location potentially participating in the RFP, essentially eliminating this common sense procurement practice. 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 an unnecessary complexity to the development of an RFP.

SB 959 will increase administrative costs by eliminating the ability to extend or renew existing service contracts – effective January 1, 2018. Developing, issuing, and evaluating RFPs is an administratively burdensome process that varies based on whether it is a systemwide or campus-level agreement. The option to extend a contract allows the UC to negotiate even more favorable terms prior to the University opting to exercise its right to renew beyond the initial term, and allows UC to take advantage of any changes or advances in technology that may have occurred

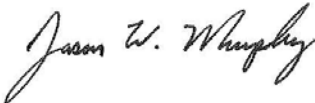
since the execution of the contract, all without increasing administrative costs. This grants UC more flexibility to ensure it receives the highest quality of service at the lowest cost without locking itself into contracts with longer terms that may ultimately become less favorable over time as markets and technologies change.

Finally, it is important to acknowledge that UC's contract partners will be greatly impacted by this measure. Specifically, the University has strong concerns regarding the degree to which the detailed and complex reporting requirements – placed upon both prospective and successful bidders by SB 959 – may limit the ability of small and disadvantaged businesses to compete for UC contracts.

In summary, SB 959 significantly undermines the University's ability to achieve administrative cost savings so that more monies can be reserved for the University's core missions of teaching, research, and public service. Therefore, while we appreciate and embrace the intention of the bill, UC has taken significant steps to improve the wages and employee protections available to contacted workers – and thus we must continue to steadfastly oppose this measure.

Should you have any questions about the University's position on SB 959, please do not hesitate to contact me at (916) 445-9924.

Sincerely,



Jason Murphy
Legislative Director

cc: Senator Ricardo Lara
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