



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

April 21, 2016

The Honorable Ricardo Lara
Chair, Senate Appropriations Committee
State Capitol, Room 2206
Sacramento, CA 95814

RE: SB 959 (Lara), as introduced February 8th, 2016
Scheduled for hearing in the Senate Appropriations Committee on April 25, 2016
Position: OPPOSE

Dear Senator Lara,

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 over **\$88 million** per year, 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's fiscal cost estimate for this measure is **\$88.5 to 88.7 million** – an estimate that is grounded in the costs of service contracts (within the 16-plus broad job categories outlined in the bill) that have been assembled from individual UC campuses and medical centers. As a result of the measure's requirements for expanded compensation levels for contract employees, the University estimates additional salary costs at **\$25.9 million** and additional benefits costs at **\$62.1 million**.

The University also estimates additional costs in the range of **\$500,000 - \$700,000** to comply with the administrative requirements proposed in the bill, notably the creation of a personnel tool that would be required in order to develop the average per-employee value of total compensation (including benefits) for every contract and factor in all known cost escalators to project future per-employee costs. Beyond the creation of these systemwide tools, the University would anticipate additional administrative costs associated with 1) preparing revised bid specifications at the campus/medical center level on an ongoing basis, and 2) performing additional bidding in light of

the measure's restrictions on contract renewals or extensions. These additional costs are difficult to quantify, but would likely climb into the millions of dollars over a multi-year period.

Beyond the significant fiscal impact, it is important to reiterate that state leaders and the public demand that the University continually strive to contain costs. With a dynamic public service mission that combines education, medical centers, other public service, and research, it is imperative that we maintain an appropriate balance of contract and campus-based employees to maximize efficiency. 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.

Moreover, 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 to ensure that all UC workers are provided a fair wage. The UC minimum wage is currently \$13 per hour, and it 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, SB 959 could undermine UC's ongoing efforts to streamline operations to save money. The Legislature has supported UC's efforts to increase efficiencies in contracting in the past 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 represent a departure from past guidance from the State.

For example, the University has embarked upon a systemwide effort to reform its procurement practices to reduce the price it pays for goods, materials, and services and to streamline administrative processes. UC's strategic sourcing initiative and "P200" procurement project uses 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. Unfortunately, SB 959 would significantly hinder continued progress on efforts like this. Furthermore, because it only applies to UC, it would impede our ability to collaborate with the California State University (CSU) system and the California Community Colleges (CCC) in order to use our combined purchasing power to save California taxpayer dollars. The legislation's proposed disparity of treatment would likely prevent this intersegmental collaboration from going forward.

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. Further, the bill would require that the compensation

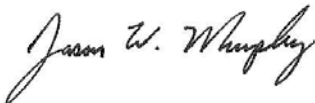
calculation take into consideration known cost escalators to project the future rate of growth of average per-employee total compensation costs, although the bill does not specify over what time period. This calculation would add an unnecessary complexity and cost to the development of an RFP. It also eliminates our ability to extend existing service contracts as of January 1, 2018, which will further increase these administrative costs and reduce our ability to negotiate more favorable terms with existing vendors.

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, and create further cost pressures on the University to manage and maintain these reports.

In summary, SB 959 significantly undermines the University's ability to achieve administrative cost savings so that more funds can be reserved for the University's core missions of teaching, research, and public service – and would result in additional costs to the University in excess of \$88 million annually. 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: Vice Chair and Members, Senate Appropriations Committee
President Janet Napolitano
Executive Vice President and CFO Nathan Brostrom
Executive Vice President and COO Rachael Nava
Senior Vice President Nelson Peacock
Associate Vice President and Director Steve Juarez