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September 21, 2015

The Honorable Edmund G. Brown, Jr.
Governor, State of California
State Capitol
Sacramento, California 95814

RE: SB 376 (Lara) - Request for Governor's Veto

Dear Governor Brown:

The University of California (UC) respectfully requests your veto of SB 376 (Lara), a measure that would modify the Public Contract Code to prohibit UC from entering into a contract for services unless the compensation a bidder pays its employees is commensurate with the average per-employee compensation, including benefits, for UC employees who perform comparable work.

While we appreciate the concerns raised by the sponsors of SB 376, this legislation sets forth requirements that go far beyond what is required to address those issues. In addition, the bill would substantially increase UC operating costs, require the creation of new, cumbersome compliance processes, and could result in UC hiring additional administrative personnel, all at a time when the University is working strenuously to reduce such costs.

The University of California takes its responsibility to provide fair compensation and a safe work environment for all of its employees and contract workers very seriously. To address the legitimate concerns regarding fair compensation for UC workers, UC recently announced the *Fair Wage/Fair Work Plan* which establishes a new minimum wage for UC employees and service contractor workers. Under this plan, the UC minimum wage will increase to \$13 per hour on October 1, 2015, and reach \$15 per hour in 2017.

UC is the first university system in the nation to voluntarily adopt a minimum wage program, and it establishes us as a leader across the state. We are proud of that distinction, but perhaps the more important component of the plan is the establishment of robust mechanisms to monitor wages and working conditions for

contract employees. Through implementation of new mandatory annual compensation audits, interim audits, and a phone hotline and a central online reporting system that go directly to the UC Office of the President, UC will be able to quickly and aggressively investigate and remedy any legitimate worker complaints.

With the *Fair Wage/Fair Work Plan*, UC believes that we have addressed any material concerns raised by the supporters of SB 376. The most recent legislative analysis determined the fiscal impact of SB 376 to be between \$48 and \$60 million per year over what the University has already obligated itself to pay. The legislation also requires the University to use all known cost escalators to project future compensation growth, and this may obligate UC to pay salaries that far exceed projections for inflation, further increasing wage costs. The bottom line is that the University of California simply cannot absorb the unfunded requirements of this legislation without having a significant impact on its educational, research, and public service mission.

Earlier this year, the University and your Administration reached an agreement on a long term funding framework for UC. Through the *Select Advisory Committee on the Cost Structure of the University of California*, we worked together to analyze UC finances thoroughly with the goal of increasing operational efficiencies and reducing long-term costs. Following weeks of in-depth financial analysis by the Department of Finance, campus visits to meet with administrators, faculty and students, and in-person meetings with experts from around the nation, we came together on a path forward for the University. Our agreement establishes a long-term funding framework that will freeze tuition, catalyze academic reforms, and require the implementation of new, cost-cutting measures. This framework was adopted by the UC Board of Regents and subsequently incorporated in the FY 2016 Budget signed into law earlier this year.

The long-term framework agreement begins to put UC on the path to long-term financial stability. Both through our commitment to implement the cost-cutting and academic reform measures of the framework and efforts over the past four years to implement over 30 projects to minimize administrative costs, the University continuously strives to meet the State's request for greater efficiencies in UC's operations. In addition to implementing changes to our retirement system to reduce our long-term pension liability, the University is working to increase transfer enrollment, develop innovations to support student progress and improve time-to-degree, and continue the development of online undergraduate courses. Finally, the University is developing a plan to increase California enrollment in accord with the wishes of the legislature. The additional \$60 million in costs that would be imposed by SB 376, however, was not budgeted for in our framework agreement nor provided

for in the FY 2016 budget. These unbudgeted costs, if realized, will have a negative impact on our ability to implement necessary reforms and enroll more California students next year, something the State and UC have cited as a priority.

To be clear, the University does not contract out simply to save money. In fact, UC's collective bargaining agreements with the American Federation of State, County and Municipal Employees (AFSCME), among others, contains specific provisions mandating that the UC not contract 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. In the extremely rare instances where the University has received grievances or formal complaints for inappropriate contracting out, UC has always investigated immediately. The aforementioned service contract audit, phone hotline and online reporting system enforcement mechanisms of the *Fair Wage/ Fair Work* plan will strengthen our oversight capacity of these requirements.

UC does contract for services in instances where there are needs for special expertise, short-term staffing or in leased facilities where the services are provided by the owner. Examples of this type of contracting include security services at special events, asbestos removal or window washing. It makes no sense to treat these types of specialized or temporary workers essentially as full-time UC workers, and doing so would certainly increase the University's ongoing liabilities for salary expenses and pension obligations.

Finally, it is important to note that this measure would establish different, more elaborate, procurement requirements than those imposed on the California State University (CSU) and California Community Colleges (CCC). If the requirements of this legislation were justified – and they are not – then logic would dictate that they are applied across all three higher education segments and funded within the State budget. Moreover, by creating bifurcated contracting requirements, this measure will hamper efforts by UC to engage in joint procurement programs with CSU and CCC. Joint procurement efforts will allow us to leverage size and scale in purchasing goods and services to better use taxpayer resources. With regard to CSU, the University has recently submitted a proposal to expand joint contracting opportunities between our two systems. These new strategic partnerships will create significant savings across both systems in the future. Such agreements would be rendered useless by the passage of SB 376 as it would no longer be cost-effective for CSU to contract with us.

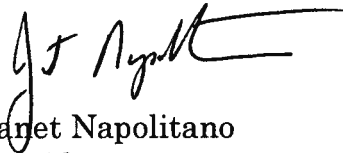
In light of the recent steps we have taken to address the University's long-term cost structure, the reforms being implemented to address worker fairness, and because

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the specific provisions of this measure would increase costs substantially, create new administrative burdens, and would undercut UC's sustained efforts to streamline operations, we again respectfully ask for your veto of SB 376 (Lara).

As always, I appreciate your consideration of the University's views. If you want to discuss this matter further, please do not hesitate to be in touch with me or with the UC Office of State Governmental Relations.

Yours very truly,

A handwritten signature in black ink, appearing to read "Janet Napolitano", with a long horizontal flourish extending to the right.

Janet Napolitano
President

cc: The Honorable Ricardo Lara
Executive Vice President Nathan Brostrom
Executive Vice President Rachael Nava
Senior Vice President Nelson Peacock
Associate Vice President Steve Juarez