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September 14, 2016

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

**Re: SB 959 (Lara)—REQUEST FOR VETO**

Dear Governor Brown:

The University of California (UC) respectfully requests your veto of SB 959 (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 959, this legislation sets forth requirements that go far beyond what is required to address those issues. The bill would substantially increase UC operating costs, limit the ability of small bidders to compete for University contracts and undercut UC's sustained efforts to streamline operations and make contracting processes more efficient.

It is worth noting that SB 959 is essentially identical to SB 376 from last year – a measure that received your veto. Like last year, this legislation only applies to the University of California. It does not apply to the California State University (CSU), the California Community Colleges (CCC), or any other state entity. It is simply not good public policy to establish disparate obligations with no substantive underpinning. Moreover, with respect to coordination between the higher education segments, the requirements in this bill would basically eliminate our ability to work together in procuring services to increase efficiencies and reduce costs.

In addition, the sponsor of this legislation recently requested that the State Auditor undertake a review of UC contracting practices. This review was approved by the Legislature and is set to begin later this fall or next spring. Given the potential impact of this legislation on UC, businesses across the State and the California

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taxpayer, any statutory changes to the laws related to UC contracting should be contemplated only after the benefit of that review.

The University takes very seriously its responsibility to provide fair compensation and a safe work environment for all of its employees. To address your stated concerns regarding the protection of lower-paid workers' interests, UC continues to aggressively implement the *Fair Wage/Fair Work Plan* that was announced last year, which establishes a new minimum wage for UC employees and service contractor workers. Under this plan, the UC minimum wage increased to \$13 per hour on October 1, 2015, and will reach \$15 per hour by October 1, 2017.

UC is the first University system in the nation to voluntarily adopt a minimum wage program, but we are equally proud of the plan's components that establish robust mechanisms to monitor the wages and working conditions for contract employees. Through implementation of new mandatory annual compensation audits, conducting interim audits, and a phone hotline and a central online reporting system that go directly to the UC Office of the President, UC is able to quickly investigate and remedy any legitimate worker complaints. These wage and monitoring provisions have been added to all new service contracts initiated since October 1, 2015, and thus the first annual audits are set to get underway in approximately 30 days.

With the *Fair Wage/Fair Work Plan*, UC believes that we have addressed many material concerns raised by the supporters of SB 959, and we have done so in a way that will not require additional State investment nor impact the services that UC is able to provide to the State. Our most recent fiscal analysis pegged the fiscal impact of SB 959 at over \$88 million per year. 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 significantly impacting the educational, research, and public service mission of the University.

In addition, this law will have a significant impact on smaller bidders, many of which are woman and minority owned. For example, this law would require suppliers and bidders to compensate employees sent to work at University of California facilities in a completely separate and distinct manner from employees sent to other locations. This will increase bureaucratic expenses that will need to be absorbed by UC contractors. In addition, the provision that restricts our ability to extend contracts will increase the time and expenses associated with doing business at UC further disadvantaging our smaller contractors. There is real concern within the business community that smaller businesses would struggle to accommodate the new rules and procedures for bidding and securing UC contracts.

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Last year, the University and your Administration reached an agreement on a long-term funding framework for the UC. Through the *Select Advisory Committee on the Cost Structure of the University of California*, we worked together to thoroughly analyze UC finances with the goal of increasing operational efficiencies and reducing long-term costs. The long-term framework agreement we agreed upon will help UC's 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 numerous projects to minimize administrative costs, the University continuously strives to meet the State's request for greater efficiencies in UC's operations.

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, contain specific provisions mandating that 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 promptly and determined that UC is compliant with existing union agreements. The aforementioned service contract audit, phone hotline, and online reporting system enforcement mechanisms of the *Fair Wage Fair Work* plan will only serve to strengthen our oversight capacity of these requirements.

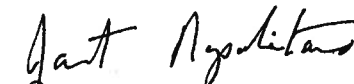
UC contracts out for services in instances where there is a need for special expertise, short-term staffing, or in leased facilities where the services are provided by the owner. Examples of this type of contracting include security services at special events, asbestos removal, or window-washing. It simply does not make sense to hire these types of specialized or temporary workers as full-time UC employees, and doing so would certainly increase the University's ongoing liabilities for salary expenses and pension obligations.

In light of the recent steps we have taken to address the University's long-term cost structure, the reforms being implemented to address the interests you have raised previously, and because the specific provisions of this measure would increase costs substantially, create new administrative burdens, and undercut UC's sustained efforts to streamline operations – *we again respectfully ask for your veto on SB 959 (Lara)*.

As always, I appreciate your consideration of the University's views. Should you want to discuss this matter further, please do not hesitate to contact me, or the UC Office of State Governmental Relations, which can be reached at (916) 445-9924.

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Yours very truly,

  
Janet Napolitano  
President

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