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Kieran Flaherty, Interim Director

The Honorable Ben Allen
Chair, Senate Committee on Education
State Capitol, Room 2083
Sacramento, CA 95814

RE: SB 574 (Lara), as introduced February 17, 2017
Scheduled for hearing in the Senate Education Committee on April 5, 2017
Position: OPPOSE

Dear Chair Allen:

The University of California (UC) has reviewed SB 574 (Lara), which would modify the Public Contract Code to prohibit UC from entering into a contract for specified services valued at more than \$100,000 if the compensation a bidder provides its employees is more than 5 percent below the average per-employee compensation, including benefits, for UC employees who perform comparable work. UC takes its responsibility to provide appropriate compensation for its employees and the responsible use of contractors for specific business purposes very seriously – and has already established a UC minimum wage plan, the *Fair Wage/Fair Work Plan*, that positions the University as a state and national leader in this area. SB 574, however, would further increase UC operating costs by over \$88 million per year, create significant new administrative burdens, 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 of these issues, 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 in July of 2015 - established a UC minimum level of pay for employees to ensure that all UC workers are provided a fair wage. Pursuant to the plan, the UC minimum wage rose to \$13 per hour in October of 2015, is currently \$14 per hour, and will reach \$15 per hour in October of 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 574 would significantly hinder continued progress on this important effort.

Because SB 574 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 574 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 574 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 approach to issuing systemwide RFPs whenever possible, with the goal of maximizing UC's bargaining power. If SB 574 took effect as written, UC would be required to collect extensive salary and benefit 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 574 will increase administrative costs by eliminating the ability to extend or renew existing service contracts – effective January 1, 2019. 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

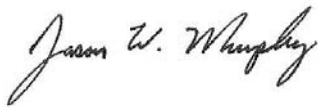
since the execution of the contract, all without increasing administrative costs. This grants UC more flexibility to ensure it receives the highest quality of service at the lowest cost without locking itself into contracts with longer terms that may ultimately become less favorable over time as markets 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 significant concerns regarding the degree to which the burdensome bidding requirements – placed upon both prospective and successful bidders by SB 574 – may limit the ability of small and disadvantaged businesses to compete for UC contracts.

In summary, SB 574 significantly undermines the University's ability to achieve administrative cost savings that could be directed to the University's core missions of teaching, research, and public service. Therefore, while we appreciate and embrace the intention of the bill, as seen through our proactive efforts to improve the wages and employee protections available to contacted workers, we must continue to steadfastly oppose this measure and the outcomes it would create.

Should you have any questions about the University's position on SB 574, please do not hesitate to contact me at (916) 445-9924.

Sincerely,



Jason Murphy
Legislative Director

cc: Senator Ricardo Lara
Vice Chair and Members, Senate Committee on Education
President Janet Napolitano
Executive Vice President and CFO Nathan Brostrom
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