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September 25, 2017

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

**Re: SB 574 (Lara) — REQUEST FOR VETO**

Dear Governor Brown:

The University of California (UC) respectfully requests your veto of SB 574 (Lara), a measure that would modify the Public Contract Code to prohibit UC from entering into a contract for specified services unless the compensation a bidder pays its employees is within 5 percent of 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 is continuing to implement the UC minimum wage plan – the *Fair Wage/Fair Work Plan* – that was established by the UC Office of the President in 2015 and positions the University as a state and national leader in this area. SB 574, however, would further increase UC operating costs by an estimated \$88.5 million or more per year, create significant new administrative burdens, 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. For all of these reasons, the University remains strongly opposed to this measure.

It is worth noting that SB 574 is substantially similar to SB 959 from last year – and SB 376 from 2015 – both of which received your veto. Indeed, in response to those veto messages, UC worked diligently to conduct an in-depth review of its service contracts in order to ensure a transparent understanding of the impact of this bill. UC has shared those data previously with your office and would be pleased to review it with you and your staff.

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With respect to your previous veto comments relating to compensation issues for UC's higher wage earners, UC has taken significant actions here as well. This year, again, I did not accept a salary increase and I canceled merit increases for my direct reports at the Office of the President and direct reports to The Regents. The University also sought to strengthen the management of its resources by announcing recently the adoption of policy changes (effective October 15) that will accomplish all of the following:

- Eliminate the supplemental retirement contribution for newly hired or appointed senior management group level employees, or current senior management level employees transferring to a different position.
- Eliminate car allowances for newly hired or appointed senior management group level employees, or current senior management level employees transferring to a different position.
- Eliminate the cash relocation allowance for senior management group and management and senior professional level employees. Under the new practice, the University will reimburse employees for actual limited, documented eligible transaction costs associated with the sale of a primary residence based on receipts.
- Reduce reimbursement for lodging and meals for those traveling on UC business.
- Lastly, at the Office of the President, UC-issued cell phones, tablets and mi-fi contracts are being reassessed and will be allowed only if a position requires remote access or before or after work hour access. In addition, the revised cell phone policy will also outline restrictions on phone replacement.

The University is pleased that the recently released California State Auditor (CSA) report – conducted at the request of Senator Lara - acknowledged a multitude of areas in which UC and its campuses have complied with internal policies, and the University will be focusing in the future on the Auditor's recommendations as we work diligently to further refine our procedures. Indeed, of the 31 contracts reviewed by CSA, 29 were found to be in compliance with University policy or guidelines.

The University is committed to providing 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 two years ago, which establishes a new minimum wage for UC employees and service contractor workers. Under this

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plan, the UC minimum wage has already increased to \$14 per hour – and will reach \$15 per hour on October 1, 2017. It also established robust mechanisms to monitor the wages and working conditions for contract employees – and earlier this year, UC completed a systemwide compliance audit for the first year of the plan’s implementation. UC is proud to be the first university system in the nation to voluntarily adopt a minimum wage program.

With the *Fair Wage/Fair Work Plan*, UC believes that we have addressed any material concerns raised by the supporters of SB 574, 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 574 at over \$88.5 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.

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 promptly and the additional monitoring mechanisms of the *Fair Wage/ Fair Work* plan will continue to strengthen our oversight capacity of these requirements.

Rather, UC contracts out for services in instances where there is a need for special expertise, short-term staffing requirements, 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 bring these types of specialized or temporary workers on as full-time UC workers, and doing so would certainly increase the University’s ongoing liabilities for salary expenses and pension obligations. Maintaining a balance of contract and campus-based services assists our campuses, labs, and medical centers in maximizing efficiency within resource constraints.

In light of the recent steps we have taken to address the University’s long-term cost

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structure and the reforms being implemented to address the issues 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 respectfully ask for your veto again on SB 574 (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 at (916) 445-9924.

Yours very truly,



Janet Napolitano  
President

cc: The Honorable Ricardo Lara  
Executive Vice President Nathan Brostrom  
Executive Vice President Rachael Nava  
Associate Vice President & Director Kieran Flaherty