

Date of Hearing: April 23, 2019

ASSEMBLY COMMITTEE ON HIGHER EDUCATION

Jose Medina, Chair

AB 930 (Gloria) – As Amended April 2, 2019

SUBJECT: California State University: executive compensation: campus budget quarterly reporting.

SUMMARY: Requires the California State University (CSU) Board of Trustees, for any proposed increase to the compensation of specified CSU executive officers, or change to the policies and procedures relating to the compensation of CSU executive officers, that the Trustees include the proposed increase, or change to policies and procedures, and related information as an informational item on a meeting agenda, with a public vote at a subsequent, consecutive, quarterly meeting; prohibits an increase of compensation for an executive officer in a year in which tuition is increased; and, requires the CSU Office of the Chancellor to report to the Legislature on the quarterly spending levels of each campus, as specified. Specifically, **this bill:**

- 1) Prohibits the CSU Trustees from adopting a compensation increase, or a change to policies and procedures relating to executive compensation, unless all of the following conditions, as applicable, are satisfied:
 - a) The proposed increase is included as an informational item on the CSU Trustees' meeting agenda, including the amount of the increase, the source of funding for the increase, and the rationale for the increase;
 - b) The proposed change to policies and procedures relating to executive compensation is included as an informational item on the board's meeting agenda, including the source and rationale for the change; and,
 - c) An increase proposed, or change to policies and procedures, is placed on the agenda at the next consecutive quarterly CSU Trustees meeting, and is subject to a public vote.
- 2) Prohibits the CSU Trustees from approving an executive compensation increase in a year in which there is a tuition increase.
- 3) Requires the CSU Office of the Chancellor to require each campus to prepare and report quarterly comparisons of the campus' budget to its actual spending levels.
- 4) Requires each campus to prepare a summary report of its expenditures of state appropriations received for the academic year and submit it to the CSU Office of the Chancellor on or before January 15, 2021, and on or before January 15 of each year thereafter.
- 5) Requires the CSU Chancellor's Office to compile each of campus-based reports, per (3) and (4) above, and prepare a systemwide report.
- 6) Requires the CSU Chancellor's Office submit the systemwide report, per (5) above, to the Legislature, and the Department of Finance on or before March 31, 2021, and on or before March 31 of each year thereafter.

EXISTING LAW:

- 1) Establishes the CSU administered by the Board of Trustees, and confers upon the CSU Trustees the powers, duties, and functions with respect to the management, administration, and control of the CSU system (Education Code (EC) Sections 66606 and 89030, et seq.).
- 2) Requires the CSU Trustees to take action in open session on an executive compensation proposal concerning the CSU Chancellor, the president of an individual campus, a vice chancellor, the treasurer, the assistant treasurer, the general counsel, or the Trustees' secretary (EC Section 66602.7).
- 3) Requires meetings of state bodies, including the CSU, to be open and public (Bagley-Keene, Government Code Section. 11120).

FISCAL EFFECT: Unknown

COMMENTS: *Purpose.* During the last recession (circa 2008-12), the Legislature was forced to make challenging budget cuts to the CSU (and other postsecondary institutions of higher learning).

According to information provided by the author, "The CSU has continued to increase the cost of tuition, regardless of economic recovery, without ever reversing the previous drastic increases". Through fiscal years 2007-08 to 2011-12, student tuition increased by 97%. Respectively, a full-time CSU undergraduate on average, went from paying \$2,772 per academic year for tuition, to paying \$5,472. The author notes that, "In 2018, tuition went up even further to \$5,742".

The author states, "While executive compensation remained relatively flat during that same recession era, since then, it has increased. For example in 2007, the average salary of a CSU Campus President was \$295,000 and as of 2018, it went up to \$333,000. During this timeframe, tuition has gone up by \$2,970 while annual executive compensation has gone up by \$38,000. As the cost of tuition has continued to go up, so have executive compensation packages".

This measure seeks to prohibit CSU Trustees from approving executive pay increases during years CSU increases student tuition. Additionally, the measure requires that any executive pay increase must be placed on the CSU Trustees board agenda as an initial information item with a subsequent vote on executive compensation to take place at another board meeting within the same quarter. Finally, this measure requires each of the 23 CSU campuses to submit quarterly budget comparison reports to the CSU Chancellor's Office.

Executive compensation policy at CSU. The CSU Trustees, on September 20, 2017, adopted the newest CSU policy on compensation. This policy, in part, specifies that it is the intent of the CSU Trustees to compensate all CSU employees in a manner that is fair, reasonable, competitive, and fiscally prudent in respect to system budget and state funding. Additionally, the policy states that, "The CSU will adhere to compensation practices that are fair and equitable in design, application, and delivery". Further, the policy stipulates that the compensation system for the CSU shall be administered in a manner that complies with all applicable federal, state, and local regulations and laws, and be consistent with applicable administrative policies, rules, and collective bargaining agreements. Lastly, the policy stipulates that when a presidential vacancy occurs, the successor president's salary should not exceed the incumbent's salary by more than 10%.

Arguments in support. According to the sponsors of this measure, the California Faculty Association (CFA), just as the Legislature adheres to rules that prohibit committee action until bills have been in print for 30 days (shy of the Budget Bill), the CSU Board of Trustees should not be allowed to vote on executive compensation pay increases until after the public is made aware of the potential increases and has opportunity to comment during public hearing. Further, CFA states, “This bill does not obstruct the Board of Trustees’ ability to vote on executive compensation pay packages. This bill simply grants a window of time for the public to provide comment”. Lastly, CFA argues that, “It is imperative that an autonomous Board, like the CSU Board of Trustees, which oversees such a vast amount of taxpayer and student dollars, have at least similar accountability and transparency measures in place as required for the Legislature”.

Arguments in opposition. According to the CSU, “AB 930 statutorily connects two unrelated items [prohibiting the Trustees from increasing compensation for executives of the CSU in a year when tuition has been increased and establishing a quarterly budget reporting process, as well as a new annual systemwide reporting requirement] and ultimately undermines the Board’s ability to act in the best interest of the CSU system and its employees”. The CSU notes that only one time (within the past six years) has the Board of Trustees authorized a tuition increase, which was specifically designated for tuition revenue in order to further support student success. Further, the CSU contends that with no tuition increase planned for 2019-20, “It is unclear why it is necessary to statutorily restrict the Board of Trustees’ authority”. Lastly, CSU argues that, “AB 930 requires unnecessary and duplicative reporting as the Legislature already has significant oversight of the CSU’s budget and our use of state resources via the annual budget process”.

Committee comments. Taking away authority of CSU Board of Trustees? As presently drafted, this measure prohibits CSU Trustees from approving executive pay increases during years CSU increases student tuition. Additionally, the measure requires that any executive pay increase must be placed on the CSU Trustees board agenda as an initial information item with a subsequent vote on executive compensation to take place at another board meeting within the same quarter.

As described in the “existing law” section of this analysis, the CSU Trustees have the powers, duties, and functions with respect to the management, administration, and control of the CSU system.

The Committee may wish to consider if this measure restricts some of the authority of the Trustees.

Quarterly reports? As currently drafted, this measure requires each of the 23 CSU campuses to submit quarterly budget comparison reports to the CSU Chancellor’s Office. The measure also requires the CSU Chancellor’s Office to compile the quarterly reports and annually submit a systemwide report to the Legislature and the Department of Finance in perpetuity.

It is presently unclear as to why each campus would need to submit four detailed comparison reports to the Chancellor’s Office and the Chancellor’s Office submit a systemwide report annually. Committee Staff understands that the CSU already submits over 20 different mandated reports to the Legislature; most, if not all, due to the Budget Act requirements.

Moving forward, the author may wish to delete the provision of this measure requiring quarterly reports. If the author does not delete said provision; the author may wish to reduce the number of times each campus of the CSU must provide its budget comparison report to the Chancellor’s

Office. Further, the author may wish to amend the frequency of the CSU Chancellor's Office providing annual reports to the Legislature and the Department of Finance. That is to say, perhaps the author may wish to examine the CSU Chancellor's Office submitting the report biennially or even triennially. The author may also wish to determine if there is an added benefit of the CSU Chancellor's Office submitting this report in perpetuity to the Legislature and the Department of Finance.

Existing employees vs. new hires? The way the measure is currently drafted, it is unclear if the prohibition to vote on executive compensation pay increases without first having an informational hearing and then a subsequent hearing for a vote, applies only to existing employees, or potential new employees. Committee Staff understands that if the intent of the author is to include new hires; including new hires could pose a breach in confidentiality as the CSU Trustees negotiate with the new hires and before it may be appropriate to announce the newly hired executive.

Moving forward, the author may wish to clarify that the intent of this measure is only for existing employees and not new hires. Or, if the author's intent is to include new hires; the author may wish to exempt new hires from this process.

Prior legislation. SB 217 (Yee) of 2009, which was held on the Assembly Appropriations Suspense File, in part, prohibited the CSU Trustees from increasing the monetary compensation or approving payment of a bonus for any executive officer in any year in which the amount of General Fund monies appropriated to CSU was less than or equal to the amount appropriated in the immediately preceding fiscal year.

SB 190 (Yee), Chapter 523, Statutes of 2007, created the Higher Education Governance Accountability Act, which, in part, required that actions on executive compensation, as specified, occur in open, public meetings.

REGISTERED SUPPORT / OPPOSITION:

Support

California Faculty Association
California State Council of Service Employees
California State Student Association
Howard Jarvis Taxpayers Association
459 Individuals

Opposition

California Chamber of Commerce
California State University

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