



BOARD OF REGENTS

SUMMARY OF ITEM FOR ACTION, INFORMATION OR DISCUSSION

TOPIC: Changes to Compensation Options and Process for Public Release of Annual Compensation Decisions

COMMITTEE: Committee on Organization & Compensation

DATE OF COMMITTEE MEETING: September 8, 2016

SUMMARY: The Chairman of the BOR and the USM Chancellor were asked to testify to the Education subcommittees of the Maryland General Assembly on the recent compensation decisions made by the USM BOR in June 2016 for the FY 2017 compensations for the Chancellor and presidents. Concerns were raised regarding the use of a bonus and the process of publicizing the results of the compensation decisions.

RECOMMENDATION: In response to the concerns expressed, Chairman Brady recommends the following changes regarding compensation decisions:

1. The BOR will no longer use bonus payments as part of compensation for the Chancellor and the presidents, and will review and renegotiate any existing compensation packages for the presidents and the Chancellor which contain a bonus feature;
2. The BOR will make a public announcement of compensation decisions for the Chancellor and presidents immediately after the decisions are made in closed session.

ALTERNATIVE(S): The Board of Regents can choose not to endorse the proposed changes, or the Board could delay action until any existing arrangements have been reviewed and renegotiated.

FISCAL IMPACT: No fiscal impact.

RECOMMENDATION: The Organization and Compensation Committee recommends that the Board of Regents approve the proposed changes to the compensation options and process for publicizing compensation decisions as described above.

COMMITTEE ACTION: _____ DATE: September 8, 2016

BOARD ACTION: _____ DATE: _____

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Joint Committee Hearing
House Appropriations Subcommittee on Education and Economic Development
Senate Budget and Taxation Subcommittee on Education, Business and Administration
Testimony of James Brady, University System of Maryland Board of Regents Chair
Thursday, August 25, 2016

Good afternoon, I am James Brady, here to testify in my capacity as Chair of the University System of Maryland (USM) Board of Regents. I want to thank Senate Budget and Taxation Subcommittee Chair Nancy King and House Appropriations Subcommittee Chair Adrienne Jones for this opportunity to join you today.

I am pleased to have this opportunity to testify before you to address specific questions you have raised concerning Chancellor Robert Caret's compensation.

Following my remarks, Chancellor Caret will address the policies and procedures employed to determine compensation levels for the twelve USM institutional presidents as well as questions relating to the issue of "cross-subsidization", both of which were subjects of reports recently requested by—and submitted to—this committee.

On the issue of the Chancellor's compensation I understand the questions that this body has raised and look forward to addressing them forthrightly. By way of background, prior to his being identified as the top choice to succeed Brit Kirwan as USM Chancellor, Dr. Caret was serving as the Chancellor of the UMASS system. UMASS was comprised of five campuses versus USM's twelve; served 75,000 students versus USM's 160,000; and operated with a budget of \$3 billion dollars versus USM's \$5.1 billion.

When the matter of the compensation package to be offered to Dr. Caret was considered by the BOR, the objective from the beginning was to roughly match his UMASS compensation. The deliberations that ensued were conducted in closed session as all personnel matters must be whether in higher education, business or elsewhere. Once the decisions were reached and agreements achieved the full details of the contract, as you know, were made available to the public.

One of the actions taken by the BOR was to make a performance bonus a component of the Chancellor's compensation. Goals were set and if the Chancellor met or exceeded those goals, a bonus of up to \$90,000 could be granted. To be clear, this bonus component of the Chancellor's compensation package was only included to bring his total compensation into parity with his UMASS compensation. The bonus component was essentially "at risk" pending his achievement of clearly stated goals.

This aspect of the Chancellor's contract has raised questions and has, to a substantial extent, resulted in today's hearing. In retrospect the rationale supporting the bonus component could have been better articulated and explained by the Board when the contract was made public. I trust that that rationale has been clarified by my testimony today.

That being said, the Board will be taking steps in response to the underlying issues we are discussing today. As Chair, I will be recommending that the full board approve the following changes at our first meeting of the academic year, on September 9th.

First, the BOR will not use the bonus alternative in any of USM's compensation arrangements going forward for the Chancellor or the institutional Presidents.

Second, we will revamp our processes so that BOR votes on salaries and salary adjustments—both for the Chancellor and the institutional Presidents—will be reported publicly immediately after the closed session. Under our current process, this information is made available upon request.

Taken together, I believe these steps address your concerns related to the Chancellor's compensation, as I understand them. I further believe that they underscore USM's commitment to transparency and accountability at all levels.

Permit me to conclude my comments with this observation. As many of you know I have had the privilege of serving the State of Maryland in many capacities over the past thirty years both in the public and private sectors with a special focus on economic development and higher education. That experience has made it abundantly clear to me that a strong partnership between higher education and the political leadership in Annapolis is absolutely essential to maintaining the quality of life in our State, to supporting work force development and to enhancing economic growth and prosperity. At the USM we work to align our priorities with the State's strategic initiatives and I believe we have succeeded in that regard.

With that in mind when questions are raised about our practices and procedures we take them very seriously. In this case we conducted a thorough examination and took the appropriate steps to address any outstanding issues. We fully understand how important our working relationship with the Annapolis leadership is and our clear objective is to not only maintain it but to enhance it. To move in any other direction would be contrary to the best interest of our State.

Thank you for this opportunity to speak with you. I will now turn to Bob unless you have some questions you would like me to address first.

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Joint Committee Hearing
House Appropriations Subcommittee on Education and Economic Development
Senate Budget and Taxation Subcommittee on Education, Business and Administration
Testimony of Robert Caret, University System of Maryland Chancellor
Thursday, August 25, 2016

Good afternoon. I want to echo the words of Chairman Brady by thanking both Subcommittee Chair King and Subcommittee Chair Jones for this opportunity to testify today.

I am pleased to be here in my capacity as Chancellor of the University System of Maryland (USM) to clarify some concerns that have recently been raised and address any questions you might have. I will speak to two issues: The policies and procedures that determine the compensation level for the presidents of USM's 12 institutions; and the issue of "cross subsidization".

In terms of the issue of USM presidential salaries, I will speak primarily about the use of peer comparisons. But it is important to note that the Board of Regents and the Chancellor take several other factors into consideration. Each president's annual performance assessment, experience and length of service, salary equity considerations, and other factors inform our ultimate decisions.

The use of peer institutions is all about comparing each of our campuses with an appropriate set of like institutions. For example, our flagship institution is compared to other research-intensive public universities.

With peer comparison we begin with the total operating budget, president's salary, and Carnegie Classification for each USM institution: Doctorate-granting Universities; Master's Colleges and Universities; Etc.

Using the College and University Personnel Association (CUPA) "Data on Demand" database, a comparison group of universities is then created for each USM institution. Comparisons are based on Carnegie group and operating budget for the fiscal year and only public universities are included.

Then, within the comparison group, we use the database to generate a list of annual salaries for presidents who are heads of campuses within a system. This creates as direct a comparison as possible.

With this list—which does NOT identify specific individuals or specific institutions—we have the annualized base salary of peer positions. Current USM presidents are then ranked by percentile. Salaries at the 70th and 75th percentiles of the comparison group are also calculated.

These calculations—from the CUPA-based information—is sent to the Chancellor and the Board for consideration in determining presidential salaries.

As you know, we seek to maintain and enhance the USM's overall margin of excellence. Presidential leadership is vital in that regard. To that end, USM has established the 75th percentile—the top quartile—as a goal for presidential salaries. By and large, we are on target for that goal. Last year the USM average was 76th percentile. This year it is at 73rd percentile.

It should be noted that quite often with a president that is both new to the USM and new to the position of president overall, the starting salary will fall well below the 75th percentile. As that president gains experience and establishes a record of success, the salary level rises.

A more comprehensive explanation and the accompanying data have all been provided to committee staff as requested.

The USM was asked to provide a report on cross subsidization by the House Appropriations Committee and the Senate Budget & Taxation Committee. The report was submitted on July 5, 2016.

Before I recap the findings, I want to note that we interpreted this request for information in a very broad sense. We wanted to be as open and transparent as possible. We looked for any expenditures by USM institutions—or their affiliated foundations—made on behalf of the USM Office or any USM personnel.

As you well know, the USM's 19 affiliated foundations serve a critical role in ensuring that the USM and the Maryland higher education community benefit from private support to the fullest extent possible. Annual giving totals more than \$200 million per year, with the vast majority carrying stipulations as to how the funds are to be spent. Some funds are also used for the chancellor and the presidents to pay for items not covered by state funds that are nevertheless used for important advancement activities—fundraising, friend raising, travel, etc.

Let me quickly note that the USM has professional staff of internal auditors to make sure we have adequate controls in place to meet state law and board policy. In addition, the Office of Legislative Audits performs a comprehensive and thorough audit of university spending every 3 years. And the Comptroller's General Accounting Division reviews USM disbursements as well.

Per the Board of Regents Policy on Affiliated Foundations each organization is required to conduct an annual audit of the financial statements. Under that same Board policy independent auditors are required to review all funds made available to institutional presidents and funds transferred to the institutions.

Obviously, USM takes this matter very seriously and has established numerous checkpoints. The findings of our study underscore this fact.

The report's bottom line is that the USM works diligently to avoid instances of cross-subsidization of institutions and the USM Office. And for the extended timeframe examined, **no incidents were found** in which institutions of the System (or their affiliated foundations) were asked or directed to contribute toward activities of another institution (or foundation).

As with the information on presidential compensation, my office has provided the full report and associated data.