BOARD OF HIGHER EDUCATION

REQUEST FOR COMMITTEE AND BOARD ACTION

COMMITTEE: Fiscal Affairs and Administrative Policy **NO**.: FAAP 13-40

COMMITTEE DATE: June 11, 2013

BOARD DATE: June 18, 2013

APPROVAL OF COMPENSATION AND EVALUATION GUIDELINES AND PROCEDURES FOR STATE UNIVERSITY AND COMMUNITY COLLEGE PRESIDENTS

MOVED: The Board of Higher Education approves the attached Compensation and Evaluation Guidelines and Procedures for State University and Community College Presidents, and delegates to the Commissioner the authority to act on behalf of the Board of Higher Education as specified therein.

Authority: G.L. c. 15A, § 6, 9 and 21; Section 172 of Chapter 139 of the Acts of 2012

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Background

The FY2013 Budget reaffirmed the authority and responsibility of the BHE to issue guidelines and procedures governing the search, selection, appointment, compensation, evaluation and removal of the chief executive officers for both the community colleges and state universities, citing to the BHE's statutory authority to:

- approve presidential appointments and removals (M.G.L. c. 15A, § 21);
- approve and fix presidential compensation (M.G.L. c. 15A, § 9(q)); and
- establish coordination between and among post-secondary public institutions and to resolve conflicts of polices or operations arising in public higher education. (M.G.L. c. 15A, § 9(u)).

See Section 172 of Chapter 139 of the Acts of 2012. Within this framework, the legislature required the BHE to issue new Presidential guidelines and procedures for community colleges by November, 2012.

On October 16, 2012 the BHE adopted guidelines and procedures governing the search, selection, appointment, and removal of Community College Presidents. During its October 16th meeting, the BHE also passed two companion motions, directing the Commissioner to:

1) explore and formulate, based on the BHE's existing statutory authority, recommendations on guidelines and procedures for the search, selection, appointment, and removal of State University Presidents; and

2) work in consultation with the Executive Committee of the BHE to review the BHE's existing Presidential compensation and evaluation guidelines (as approved in December 2005 and as subsequently amended), and propose any necessary revisions for BHE review and approval in time for implementation during the FY2013 Presidential evaluation process.

In furtherance of the BHE's directive regarding the second companion motion identified above, the Department prepared draft Compensation and Evaluation Guidelines and Procedures, in consultation with the BHE Executive Committee.

The draft was prepared based in large part on the BHE's existing Presidential compensation policy.[1] Substantive differences between the proposed draft guidelines and the existing BHE policy, include that the proposed draft:

- formally requires local Boards of Trustees to take into account system-wide goals in the annual review process;

[1] The BHE's current guidelines, which are entitled "Compensation Guidelines for State University and Community College Presidents," were initially passed in April 2005, amended in December 2005 and most recently updated in April 2008. The BHE's current "Compensation Guidelines" include evaluation criteria which local boards of trustees are to take into account in reviewing presidential performance and recommending annual compensation adjustments, and the BHE and the Commissioner are likewise to take into account in calculating and fixing compensation adjustments, including merit based adjustments.

- specifies that presidential evaluations need to consider and include institutional data linked to system-wide goals;
- formalizes the current practice regarding the Commissioner's role in the evaluation process; and
- augments the procedure and timelines for the completion of the annual evaluation process.

On December 21, 2012, the Department circulated the draft Compensation and Evaluation Guidelines to Community College and State University Trustees for review and consultation, asking for comments by May 21, 2013. During the five month trustee comment period, the Commissioner offered four[2] feedback sessions with Trustees, and received several written comments.

Based on questions, comments and suggestions received during the comment period, the Department made several revisions to the document, as summarized in the attached May 29, 2013 memorandum. The proposed revisions include following substantive changes which are intended to construct a more balanced approach to the Presidential compensation and evaluation process:

- Language was added in Section II.B to recognize that in years where merit adjustments are feasible, the Commissioner may divide available merit increases into two pools, with one percentage or amount to be allocated by the local board, and the other percentage or amount to be allocated by the Commissioner, in consultation with the Executive Committee of the BHE.

- Language in Section III.A, which allowed the Commissioner an opportunity to contribute a system-level perspective to the annual goal setting process established by local boards, was deleted.

- The procedural step in Section IV.D was revised to reflect the two changes specified in the bullet points, above.

In addition, several specific edits were made to the document, as recommended by local Trustees, to clarify ambiguous language and to add missing references.

On June 6, 2013 the Commissioner met with members of the BHE Executive Committee to discuss the draft document, along with the proposed revisions. The Executive Committee reviewed the document, suggested further clarifications and expressed general agreement both with the consultative approach taken in drafting the guidelines and the substantive provisions contained in the final draft.

Consistent with the BHE's statutory authority and FY2013 Budget language, the BHE revises the current guidelines by issuing the attached Compensation and Evaluation Guidelines and Procedures for Community College and State University Presidents, and delegates to the Commissioner the authority to act on behalf of the BHE as specified therein. G.L. c. 15A, § 6, 9 and 21.

[2] Four feedback sessions were offered (two for Community College trustees, and two for State University trustees), but one was cancelled due to low registration numbers.

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Board of Higher Education Compensation and Evaluation Guidelines and Procedures for State University and Community College Presidents

I. Introduction

The quality of the Commonwealth's public state universities and community colleges is tied directly to the quality of the leadership provided by campus presidents. Public university and college presidents must be committed to the values of the institution and the education of their students, as well as to the mission and purposes of public higher education, including the economic, workforce and social needs of the community and the Commonwealth. Further, the civic and economic health of the Commonwealth is directly tied to the quality of education at our public institutions. Nine out of ten Massachusetts public higher education graduates remain in state one year after graduation, working or pursuing further education. The Commonwealth's ability to attract and retain the very best presidents at our institutions depends, in large part, on the ability of campus boards of trustees to offer competitive compensation packages.

The Board of Higher Education is responsible for "approving and fixing" the compensation, which includes salary and benefits, of the chief executive officer of each institution within the state university system and community college system. G.L. c. 15A, § 9(q). The Board is also charged with, among other things, the responsibility to establish overall goals in order to achieve a well-coordinated, quality system of public higher education in the Commonwealth, to establish coordination between and among institutions, and to resolve conflicts of policies or operations. G.L. c. 15A, § 9.

In order for the Board of Higher Education to be able to execute its statutory authority effectively, it must establish a coordinated, rational process to measure and evaluate the annual progress of an institution and its chief executive officer in meeting established institutional and system-level goals and performance measures, and for rewarding exceptional progress in this regard. To that end, the Board of Higher Education is issuing these Compensation and Evaluation Guidelines for state university and community college presidents.

The Board is committed to an approach to state university and community college presidential compensation that attracts, motivates and retains the most highly qualified individuals possible, while being sensitive to the fact that we are stewards of public funds and public trust. These two guiding principles form the underpinnings of the Board's presidential compensation and evaluation policy and approach, which demands accountability, transparency and positive performance. In implementing this policy, the Board is also committed to the continuing assessment of the compensation environment, including an ongoing review of the policy's impact, and an adherence to common principles of equity applicable to all Massachusetts public higher education presidents.

The authority to monitor and interpret this policy shall be vested in the Commissioner.

II. Presidential Compensation

The Board of Higher Education will "approve and fix" the compensation of campus presidents based on recommendations submitted by local boards of trustees consistent with the guidelines and procedures set forth herein, and in furtherance of the Board's broad statutory authority to,

among other things, establish overall goals in order to achieve a well-coordinated quality system of public higher education in the Commonwealth. G.L. c. 15A, § 9 and 6.

A. Establishing an Initial Salary for Newly Appointed Presidents

The presidential salary for an initial appointment is established by the Board of Higher Education through a consultative process with local boards of trustees. Local boards of trustees are to develop and negotiate with the selected candidate Terms of Appointment for all initial presidential appointments, consistent with the Board of Higher Education's *Guidelines and Procedures for the Search, Selection, Appointment and Removal of Presidents*. Such Terms of Appointment shall include compensation packages, including salary and benefits, and shall be submitted for Board of Higher Education approval.

At a minimum, decisions on salaries of initial appointees shall be based on the professional experience of the candidate and institutional size, as well as the complexity and particular short-term and long-term challenges facing the institution. Equity considerations and comparative data on the salary ranges of current, sitting presidents in the Commonwealth's public higher education institutions shall also be taken into account. Consideration may also be given to data on salaries of presidents in comparable positions in the northeastern United States. With regard to the Commonwealth's two special mission institutions, compensation should also include and incorporate information on agreed upon peer institutions. Compensation proposals submitted for Board of Higher Education approval may include benefits consistent with these compensation Guidelines.

B. Establishing Annual Compensation Adjustments for Sitting Presidents

The Commissioner shall establish annual parameters for compensation adjustments for sitting presidents. Such annual parameters may include:

1) an annual inflationary adjustment; and/or
2) an annual merit adjustment.

Annual inflationary adjustments and annual merit adjustments shall be calculated and fixed by the Commissioner, in consultation with the Executive Committee of the Board of Higher Education, and shall be communicated to the Chairs of the local board of trustees.

Parameters for merit based adjustments will reflect successful performance related to institutional and system-level goals and objectives established consistent with the annual goals setting process set forth in Section III. In years where merit adjustments are feasible, the Commissioner may consider dividing available merit increases into two pools, with a percentage or amount to be allocated by the local board and the other percentage or amount to be allocated by the Commissioner, in consultation with the Executive Committee of the Board of Higher Education.

Within the parameters established annually by the Commissioner, local boards of trustees shall recommend annual compensation levels for approval to the Commissioner, based on a written annual evaluation prepared consistent with the procedures set forth herein.

In addition, once appointed, sitting presidents may be eligible for equity adjustments to their salaries, based on a review of comparable compensation data and market analyses. Requests for equity adjustments may be initiated by the local board of trustees and must be approved by the Commissioner, in consultation with the Executive Committee of the Board of Higher Education. Such request must be in writing, must set forth the grounds for such a request, and must be supported by data, such as: data on the salary ranges of current, sitting presidents in the Commonwealth's public higher education institutions; data on salaries of presidents in comparable positions in the northeastern United States; institutional size and complexity; and market analyses. The request shall set forth the amount of the equity adjustment being requested. If an equity adjustment is not allowed, the specific reasons will be communicated to the Chair of the Board of Trustees.

No compensation adjustments will be approved by the Board of Higher Education and/or the Commissioner unless all annual evaluations are up to date and on file with the Department of Higher Education.

C. Other Considerations in Setting Initial Salaries and Compensation Adjustments

Other considerations to be taken into account as initial or amended compensation packages are prepared for Board of Higher Education approval include:

- All presidents shall receive no less than the benefits that any non-union employee in the Commonwealth receives such as health insurance, vacation and sick time, and retirement benefits either through the State Retirement System or the Optional Retirement Program. Cost of living increases provided to non-union employees will not be applied to institution presidents, unless expressly included in the annual parameters for compensation adjustments established by the Commissioner.

- Presidents may receive housing and/or car allowances, as approved by the Board of Higher Education. Please note that such allowances are separate from salary and, based on a pension reform law which went into effect on June 30, 2012, do not qualify as "regular compensation" for state retirement benefit purposes.

- After an extended period of service in the presidency, paid sabbaticals for presidents, who are committed to staying at the institution, may be approved by local boards of trustees, the terms and timing of which shall be determined by the board of trustees, consistent with the parameters outlined in the Terms of Appointment, or in another Board of Higher Education approved document, such as the non-unit professionals handbook.

- A faculty tenure process may be offered to any President who, through experience and credentials, may qualify for tenure under collectively bargained principles applicable to faculty tenure at the institution where the appointment will take effect.

- Each local board of trustees is authorized to develop and implement an excess benefits program for the institution's President following state and federal requirements, including IRS guidelines, for such retirement benefits. The plan shall be approved by the Board of Higher Education prior to implementation.

III. Annual Evaluations

Annual evaluations of presidents must be conducted by local boards of trustees. In addition to annual evaluations, more comprehensive reviews of Presidential performance must be conducted by local boards of trustees no less than three years from appointment for new presidents, and no less than every five years thereafter. A schedule of more frequent comprehensive reviews may be developed by local boards of trustees.

Periodic comprehensive reviews are intended to be broader than the annual reviews, both in terms of scope and process. The scope of a comprehensive review is intended to focus more on the President's ability to lead going forward, rather than focusing exclusively on achieving past objectives. As such, a comprehensive review should reflect back several years, reviewing Presidential performance over an extended period of time, and should also provide the President and the local board the opportunity to outline future, long term goals and objectives. In terms of process, a comprehensive review is intended to provide the opportunity for a more in-depth review of performance, and is intended to allow for broader input from people who come in contact with and are in a position to comment on the President's performance.

At a minimum, each annual evaluation shall review and document presidential performance in the following two broad areas of presidential responsibility:

- Attainment of or progress towards achieving *annual institutional goals and objectives*, established by the local board of trustees, consistent with Section III.A below; and
- Participation and leadership in Board of Higher Education *system-level goals and activities*, established, consistent with Section III.B, below.

A. <u>Annual goal setting process: Institutional goals and objectives</u>

The local board of trustees shall annually engage in a goal setting process for presidential performance reviews, through which the board of trustees and the president will arrive at mutually agreed upon annual institutional goals and objectives for evaluating presidential performance. Such institutional goals may also include goals of an individual nature which are specific to the president or the campus.

The annual goal setting process for institutional goals and objectives should include, but not be limited to, the following considerations:

- Evaluation of institutional mission, goals and objectives, including the institution's strategic plan.
- Interrelation of institutional goals with system-level goals, provided by the Commissioner.
- Institutional leadership and management skills:
    - Fiscal management and budgeting
    - General management and planning .
    - Decision-making and problem-solving
- Personal attributes, including trust and integrity
- Fundraising
- Internal relationships/campus climate
- External relationships/leadership in the community

Institutional size, complexity and particular short term and long term challenges unique to the institution should be taken into account in reviewing the above factors and arriving at annual institutional goals and objectives. Other relevant factors may also be taken into account

B. Annual Goal Setting Process: System-level goals and activities

In addition to the institutional goals and objectives established through Section III.A, above, local boards of trustees shall evaluate their respective presidents' participation and leadership in advancing *system-level goals and activities.* At the beginning of each review cycle, the Commissioner shall notify the chairs of the local boards of trustees of the system-level goals and activities to be taken into account during the review cycle. In developing system-level goals and activities the Commissioner shall consult with the Executive Committee and shall be informed by the metrics and accountability objectives established through the performance measurement system referenced in M.G.L. c. 15A, § 7A, along with any other Board approved goals. The Commissioner may also include goals of an individual nature regarding Board of Higher Education related initiatives and concerns which are specific to a president or campus. The evaluations of presidential work will consider and include institutional data linked to system-level goals and metrics.

C. Conducting and Documenting the Annual Evaluation

Conducting and documenting the annual evaluation is the responsibility of the local board of trustees. In structuring the evaluation document, local board of trustees should include separate sections which address each of the two areas of presidential responsibility (e.g., one section for institutional goals and objectives, and a separate section for system-level goals and activities). In evaluating each area of presidential responsibility, the local board of trustees shall review and comment upon: executive skills, competencies and experience; institutional challenges; and areas of exceptional performance and areas in which performance needs to improve.

The evaluation document should also clearly state the process followed by the local board of trustees in conducting the annual review process, such as whether self-assessments, campus surveys or third party interviews were conducted, what documents or data were reviewed and whether a committee process was used.

The local board of trustees is expected to discuss the evaluation with the president, before it is forwarded to the Commissioner. Local boards of trustees must conduct Presidential evaluations consistent with the Commonwealth's Open Meeting Law (OML) requirements, M.G.L. c.30A, §§18-25, and the Attorney General's regulations, educational materials and advisories. Open Meeting Law trainings, as well as trainings and conferences on these Guidelines and Procedures, will be offered by the Department.

IV. Annual Evaluation and Compensation Adjustment Procedure

A. On or about June 15th of each year, the Commissioner will initiate the annual evaluation process by communicating to the Chairs of the local boards of trustees: 1) the timeframe for the completion of the annual evaluations; and 2) annual parameters for compensation adjustments, if available.

- If annual parameters for compensation adjustments are not available at the time the Commissioner initiates the annual evaluation process, the Commissioner will communicate the annual parameters as soon as they become available.

B. Within 90 days of receiving the Commissioner's communication, the local board of trustees will conduct its annual evaluation of their respective institution's president. The annual evaluation shall address institutional goals and objectives and system-level goals and activities, (see Section III, above). The Chair of each local board of trustees will forward a completed, written evaluation and compensation adjustment recommendation, including a two-page executive summary, to the Commissioner.

C. Within 14 days of receiving the trustees' submittal, the Commissioner will conduct a preliminary review of the submittal to determine whether the submittal is complete. If the submittal is not complete, the Commissioner may request additional information, or may notify the Chair of the board of trustees that:
    - the submittal will be sent to the BHE Executive Committee for further review;
    - the submittal is not consistent with these Guidelines and Procedures; or
    - the Commissioner and the Chair of the BHE Executive Committee will be requesting a meeting with the Chair and the President.

D. Upon determining that the board of trustees' evaluation submittal is complete, the Commissioner will review the submittal and provide a written response offering comments on the evaluation. The Commissioner's response shall include:

    1. the Commissioner's perspective of the individual president's year's work on system-level goals, as well as any other goals specific to the President or institution previously identified by the Commissioner through the annual goal setting process (Section III.B);

    2. if applicable, the Commissioner's award on the percentage or amount of merit increase allocated to the Board of Higher Education (Note: this will be applicable in years where merit adjustments are feasible and are included in the Commissioner's annual parameters for compensation adjustments in the form of two pools (e.g., with one percentage to be allocated by the local board and the other percentage to be allocated by the Commissioner); and

    3. consistent with the BHE's statutory authority to approve and fix compensation, the Commissioner shall act on each local board of trustees' recommended compensation adjustment, including merit or equity adjustment recommendations, if applicable. The Commissioner may approve or disapprove the board of trustees' compensation adjustment recommendation in whole or in part, and shall communicate the decision and the reasons for the decision in writing to the Chair of board of trustees, with a copy to the Chair of the Board of Higher Education.

    The Commissioner's actions on compensation adjustments shall be made in consultation with the Executive Committee, consistent with the scope of the authority delegated to the Commissioner by the Board of Higher Education, through these Guidelines or otherwise.

E. The Commissioner's substantive review of the evaluation and compensation adjustment recommendation will be as expeditious as possible and, except in unusual circumstances, completed within 60 days of the date of receiving all completed submissions.

F. Through this evaluation procedure, and as early as possible in any given academic year, the Commissioner will communicate the BHE's system-level perspective to the annual goal setting process for the subsequent year. The board of trustees shall consider and address the Commissioner's comments in preparing annual goals for the subsequent year.

V. Continuing Assessment of the Compensation Environment

In implementing this policy, the Board is committed to the continuing assessment of the compensation environment, including an ongoing review of the policy's impact, and an adherence to common principles of equity applicable to all Massachusetts public higher education presidents. To that end, a market analysis of presidential compensation will be conducted periodically for the presidents at the state universities and community colleges in comparable Northeast states, and of presidential compensation at public liberal arts colleges (for use with respect to the Massachusetts College of Liberal Arts), colleges of art (for use with respect to the Massachusetts College of Art and Design) and maritime academies (for use with respect to the Massachusetts Maritime Academy). In addition, other studies and analyses on presidential compensation may be commissioned by the Board of Higher Education from time to time to inform and advance presidential compensation decisions and the implementation of this policy.

The Department of Higher Education will periodically offer trainings on presidential evaluation and compensation for local boards of trustees.