

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 17, 2021

UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2021

EXECUTIVE SUMMARY

In spite of the significant fiscal impact of the COVID-19 pandemic, the University's financial position improved in 2021, largely due to the strong performance in investments. This performance resulted in a dramatic increase in the University's assets and a decrease in the net pension liability because of the returns in the retirement plan. The University took other measures in 2021 to address the challenges of the pandemic. Taking advantage of historically low bond rates, the University issued \$2 billion of taxable debt to help cushion losses and cover additional expenses caused by the pandemic. The University's diverse revenue sources continue to grow, although housing and dining revenues were reduced as substantially all courses were held online and housing capacity was limited. Losses from core activities were also sharply reduced primarily due to the decrease in pension expenses.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents adopt the 2020-21 Annual Financial Reports for the University of California, the University of California Retirement System, and the five University of California Medical Centers.

BACKGROUND

Attached are the June 30, 2021 audited financial statements for

- The University of California;
- The University of California Retirement System: The University's Defined Benefit Plans (including University of California Retirement Plan and University of California Voluntary Retirement Incentive Program) and the University of California Retirement Savings Program (including the Defined Contribution, 403(b) and 457(b) Plans); and
- The five University of California Medical Centers: Davis, Irvine, UCLA, San Diego, and UCSF.

Financial Results

The University's financial results for the last three years ended June 30 are as follows:

<i>(in millions of dollars)</i>	2021	2020	2019
REVENUES			
Student tuition and fees, net	\$5,101	\$5,298	\$5,170
State educational appropriations	3,260	3,686	3,508
Direct government grants	880	684	
Federal Pell Grants	607	443	438
Grants and contracts, net	6,234	6,249	5,977
Medical centers, net	15,677	14,193	13,242
Educational activities, net	4,711	4,229	4,009
Auxiliary enterprises, net	656	1,415	1,717
Department of Energy laboratories	1,081	1,083	1,577
Private gifts, net	1,571	1,516	1,441
Investment income, net	503	385	442
Other revenues	899	1,100	990
Revenues supporting core activities	41,180	40,281	38,511
EXPENSES			
Salaries and wages	18,485	18,427	16,985
Pension benefits	2,041	5,355	4,340
Retiree health benefits	1,892	1,692	1,292
Other employee benefits	3,975	3,593	3,289
Scholarships and fellowships	1,120	1,039	850
Utilities	319	318	336
Supplies and materials	4,790	4,218	4,057
Depreciation and amortization	2,320	2,184	2,100
Department of Energy laboratories	1,043	1,077	1,570
Interest expense	991	922	767
Other expenses	5,260	5,591	5,356
Expenses associated with core activities	42,236	44,416	40,942
Loss from core activities	(\$1,056)	(\$4,135)	(\$2,431)
Net appreciation in fair value of investments	5,843	406	1,387
Income (loss) before other changes in net position	\$4,787	(\$3,729)	(\$1,044)

The University's operations continued to grow, principally at the medical centers, and expenses increased, consistent with the overall growth in operations. In 2021, pension expenses, representing the largest change, decreased by \$3.3 billion due to favorable market performance in the UC Retirement Plan investment portfolio.

State educational appropriations decreased in 2021 by \$426 million due to State cuts related to the pandemic. Revenue from auxiliary enterprises decreased by \$759 million, or 53.6 percent in 2021, due to State and local limitations on occupancy for housing and dining facilities as a result of the pandemic.

The University received funds under certain provisions of the American Rescue Plan Act (ARPA) and CARES Act to minimize the impacts of lost revenues and increased expenses related to COVID-19. The campuses received \$456 million and \$245 million in 2021 and 2020, respectively, in grants to provide emergency financial aid to students and to mitigate the impacts of lost revenue and additional technology expenses associated with moving to online education. The medical centers received \$424.1 million and \$438.6 million in 2021 and 2020, respectively, in provider relief funding for lost healthcare revenues and additional expenses for treating patients with COVID-19.

Financial Position

The University of California’s financial position as of June 30 is as follows:

<i>(in millions of dollars)</i>	2021	2020	2019
ASSETS			
Investments	\$38,448	\$30,239	\$28,305
Investment of cash collateral	998	387	955
Accounts receivable, net	5,465	5,492	5,407
Capital assets, net	37,996	36,543	34,229
Other assets	4,749	4,521	4,580
Total assets	87,656	77,182	73,476
DEFERRED OUTFLOWS OF RESOURCES	9,757	14,622	10,701
LIABILITIES			
Debt, including commercial paper	30,224	26,653	24,584
Securities lending collateral	998	387	955
Net pension liability	5,895	21,779	18,118
Net retiree health benefits liability	24,916	23,853	19,862
Other liabilities	13,016	11,997	10,501
Total liabilities	75,049	84,669	74,020
DEFERRED INFLOWS OF RESOURCES	17,434	7,251	6,828
NET POSITION			
Net investment in capital assets	13,848	14,443	14,284
Restricted:			
Nonexpendable	1,285	1,264	1,225
Expendable	10,961	8,770	8,211
Unrestricted	(21,164)	(24,593)	(20,391)
Total net position	\$4,930	-\$116	\$3,329

Investments increased in 2021: the General Endowment Pool portfolio had positive returns of 33.7 percent; the Blue and Gold Pool was restarted on April 1, 2021 and had a positive return of 5.8 percent through June 30, 2021; TRIP had a positive return of 21.2 percent, and STIP had a positive return of 0.8 percent.

Capital investments were \$3.8 billion in 2021. The University has a goal to increase affordable campus housing for more students given escalating living costs in many of the surrounding campus communities. The largest capital asset additions in 2021 were related to the construction of housing facilities at various campuses and the continued renovation of facilities for seismic safety.

In 2021, General Revenue Bonds of \$2 billion were issued for operations and \$2 billion to finance certain facilities and projects. Proceeds of \$635.9 million were used to retire bonds. Limited Project Revenue Bonds of \$1.1 billion were issued to finance the acquisition, construction, improvement, and renovation of certain facilities of the University. Proceeds of \$23.7 million were used to retire bonds. Additionally, \$277.4 million of tax-exempt bonds were issued to finance the construction of third-party housing facilities. Reductions to outstanding debt include \$781 million for scheduled principal payments.

The net pension liability decreased in 2021 by \$15.9 billion, primarily due to higher-than-expected investment returns on the UC Retirement Plan investment portfolio. The obligation for retiree health benefits increased by \$1.1 billion due to a decrease of five basis points in the discount rate (based on a municipal bond index rate) of 2.16 percent in 2021. Unrestricted net position is negative as a result of \$30.8 billion in net pension and retiree health benefits liabilities.

University Foundations

The ten campus and Lawrence Berkeley National Laboratory foundations have \$14.8 billion of net position as of June 30, 2021. The campus foundations continued to show strong results in their fundraising efforts and transferred \$1.4 billion to the campuses in 2021. Net position continued to increase in 2021 due to positive investment returns in their investment portfolios.

Medical Centers

The medical centers' financial results for the year ended June 30, 2021 are as follows:

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<i>(in thousands of dollars)</i>	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2021						
Net patient service revenue	\$2,683,029	\$1,400,408	\$2,977,106	\$2,476,193	\$5,239,018	\$14,775,754
Other operating revenue:	106,006	152,218	198,023	169,126	330,988	956,361
Total other operating revenue	2,789,035	1,552,626	3,175,129	2,645,319	5,570,006	15,732,115
Total operating expenses	2,760,954	1,487,201	2,822,361	2,506,813	5,455,430	15,032,759
Income from operations	28,081	65,425	352,768	138,506	114,576	699,356
Net nonoperating revenues (expenses)	97,374	89,599	60,972	(36,974)	407,301	618,272
Income before other changes in net position	\$125,455	\$155,024	\$413,740	\$101,532	\$521,877	\$1,317,628
2020						
Net patient service revenue	\$2,412,137	\$1,237,590	\$2,788,841	\$2,208,234	\$4,747,624	\$13,394,426
Other operating revenue:	100,228	115,325	219,401	135,633	324,718	895,305
Total other operating revenue	2,512,365	1,352,915	3,008,242	2,343,867	5,072,342	14,289,731
Total operating expenses	2,681,643	1,437,833	2,973,214	2,467,421	5,560,184	15,120,295
Income (loss) from operations	(169,278)	(84,918)	35,028	(123,554)	(487,842)	(830,564)
Net nonoperating revenues	64,998	28,376	90,553	58,592	200,945	443,464
Income (loss) before other changes in net position	(\$104,280)	(\$56,542)	\$125,581	(\$64,962)	(\$286,897)	(\$387,100)

In 2021, net patient service revenues increased due to treating more complex patients, higher outpatient volumes, and supplemental revenues. While salaries and benefits increased due to continued growth in the medical centers in 2021, pension expenses decreased by \$1.2 billion as a result of favorable market returns.

Retirement Plans (UCRP, UCRSP and PERS-VERIP)

Investment returns for the UC Retirement Plan (UCRP) were positive 30.5 percent for 2021 as compared to 1.7 percent in 2020. As of June 30, 2021, there were over 83,000 retirees and beneficiaries receiving payments from UCRP as compared to 81,000 in 2020. Contributions to UCRP in 2021 and 2020 were \$3.8 billion and \$3.5 billion, respectively. Benefit payments in 2021 and 2020 were \$4.3 billion and \$3.9 billion, respectively.

Attachments:

[Attachment 1: University of California Financial Report](#)

[Attachment 2: University of California Retirement System Financial Report](#)

[Attachment 3: University of California Medical Centers Financial Report](#)