

Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 16, 2022

UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2022

EXECUTIVE SUMMARY

As the University came out of the pandemic in 2022 and students returned to in-person classes, tuition and related auxiliary revenues returned to pre-pandemic levels. The turmoil in the capital markets at fiscal year-end resulted in significant investment losses for the year. The impacts of the capital markets resulted in a dramatic increase in net pension liability tied to the investment returns and a decrease in post-retirement health liability due to an increase in the discount rates used to perform these calculations.

The University also implemented a new accounting standard, Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* (GASB 87). This accounting standard provides recognition and measurement for financings of the right to use an underlying asset. Financial information for 2021 and 2020 has been restated to retroactively apply GASB 87.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents adopt the 2021-22 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, 2022, annual financial reports 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>	2022	2021	2020
REVENUES			
Student tuition and fees, net	\$ 5,441	\$ 5,101	\$ 5,298
State educational appropriations	4,297	3,260	3,686
Direct government grants	843	880	684
Federal Pell Grants	444	607	443
Grants and contracts, net	7,055	6,234	6,249
Medical centers, net	17,507	15,677	14,193
Educational activities, net	5,351	4,711	4,229
Auxiliary enterprises, net	1,646	656	1,415
Department of Energy laboratories	1,031	1,081	1,083
Private gifts, net	1,737	1,572	1,516
Other revenues	1,536	1,414	1,439
Revenues supporting primary activities	46,888	41,193	40,235
EXPENSES			
Salaries and wages	19,887	18,485	18,427
Pension benefits	4,338	2,041	5,355
Retiree health benefits	1,238	1,892	1,692
Other employee benefits	4,615	3,975	3,593
Scholarships and fellowships	1,182	1,120	1,039
Supplies and materials	5,361	4,790	4,213
Depreciation and amortization	2,627	2,624	2,469
Department of Energy laboratories	991	1,042	1,076
Interest expense	1,126	1,082	1,004
Other expenses	7,115	5,248	5,547
Expenses associated with primary activities	48,480	42,299	44,415
Loss from primary activities	\$ (1,592)	\$ (1,106)	\$ (4,180)
Net appreciation (depreciation) in fair value of investments	(3,149)	5,843	406
Income (loss) before other changes in net position	\$ (4,741)	\$ 4,737	\$ (3,774)

The University's operations continued to grow, principally at the medical centers, and expenses increased consistent with the overall growth in operations. In 2022, pension expenses, representing the largest change, increased by \$2 billion due to lower-than-expected returns. Retiree health benefits expense decreased due to a higher discount rate.

State educational appropriations increased in 2022 by \$1 billion due to a restoration of State support cut during the prior year, a further base budget increase, and new one-time funds for deferred maintenance and other purposes. Revenue from auxiliary enterprises increased by \$990 million, or 150.9 percent in 2022, as in-person classes resumed in fall 2021.

Financial Position

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

<i>(in millions of dollars)</i>	2022	2021	2020
ASSETS			
Investments	\$ 37,341	\$ 38,448	\$ 30,239
Investment of cash collateral	2,163	998	387
Accounts receivable, net	6,124	5,498	5,523
Capital assets, net	41,675	40,335	38,881
Other assets	5,554	5,305	5,063
Total assets	92,857	90,584	80,093
DEFERRED OUTFLOWS OF RESOURCES	11,499	9,757	14,622
LIABILITIES			
Debt, including commercial paper	35,741	32,668	29,030
Securities lending collateral	2,163	998	387
Net pension liability	21,403	5,895	21,779
Net retiree health benefits liability	20,172	24,916	23,853
Other liabilities	12,995	13,005	11,985
Total liabilities	92,474	77,482	87,034
DEFERRED INFLOWS OF RESOURCES	11,430	18,009	7,826
NET POSITION			
Net investment in capital assets	11,805	13,735	14,397
Restricted:			
Nonexpendable	1,307	1,285	1,263
Expendable	11,527	10,961	8,770
Unrestricted	(24,187)	(21,131)	(24,575)
Total net position	\$ 452	\$ 4,850	\$ (145)

Investments decreased in 2022. Performance of each of the pools was as follows:

- General Endowment Pool portfolio's return was (7.6) percent,
- Blue and Gold Pool's return was (15.2) percent,
- TRIP's return was (11.3) percent, and
- STIP's return was 0.4 percent.

Capital investments were \$4 billion in 2022. 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 2022 were related to the construction of housing and research facilities at various campuses and expansion of certain medical center facilities.

In 2022, Medical Center Revenue Bonds of \$0.4 billion were issued for operations and \$2.6 billion to finance the acquisition, construction, improvement, and renovation of certain facilities at the University's medical centers. Additionally, \$191.3 million of tax-exempt bonds were issued to finance and refinance the construction of third-party housing facilities. Reductions to outstanding debt include \$852.6 million for scheduled principal payments.

The net pension liability increased in 2022 by \$15.5 billion, primarily due to unfavorable investment returns on the UC Retirement Plan investment portfolio. The obligation for retiree health benefits decreased by \$4.7 billion due to a change in discount rates, from 2.16 percent in 2021 to 3.54 percent in 2022. Unrestricted net position is negative because of \$41.6 billion in net pension and retiree health benefits liabilities.

University Foundations

The ten campus and Lawrence Berkeley National Laboratory foundations have \$14.6 billion of net position as of June 30, 2022. The campus foundations continued to show strong results in their fundraising efforts and transferred \$1.5 billion to the campuses in 2022. Net position at the foundations decreased in 2022 due to negative investment returns.

Retirement Plans (UCRP, UCRSP and PERS-VERIP)

Investment returns for the UC Retirement Plan (UCRP) were negative (10.8) percent for 2022 as compared to 30.5 percent in 2021. As of June 30, 2022, there were over 85,000 retirees and beneficiaries receiving payments from UCRP as compared to 83,000 in 2021. Contributions to UCRP in 2022 and 2021 were \$4 billion and \$3.8 billion, respectively. Benefit payments in 2022 and 2021 were \$4.5 billion and \$4.3 billion, respectively.

Medical Centers

The medical centers' financial results for the year ended June 30, 2022, are as follows:

<i>(in thousands of dollars)</i>	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2022						
Net patient service revenue	\$2,965,455	\$1,608,981	\$3,141,828	\$2,877,781	\$5,909,588	\$16,503,633
Other operating revenue:	120,751	141,883	212,091	183,944	357,673	1,016,342
Total other operating revenue	3,086,206	1,750,864	3,353,919	3,061,725	6,267,261	17,519,975
Total operating expenses	3,142,949	1,706,537	3,252,230	2,903,568	6,182,762	17,188,046
Income from operations	(56,743)	44,327	101,689	158,157	84,499	331,929
Net nonoperating revenues (expenses)	(35,870)	(15,583)	(82,893)	(9,530)	(54,375)	(198,251)
Income before other changes in net position	\$ (92,613)	\$ 28,744	\$ 18,796	\$ 148,627	\$ 30,124	\$ 133,678

In 2022, net patient service revenues increased due to higher volume, third-party supplemental revenues, and growth in specialty pharmacy revenue. While salaries and benefits increased due to continued growth in the medical centers in 2022, pension expenses increased by \$926 million as a result of unfavorable market returns.

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](#)