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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

ACTION ITEM

For Meeting of November 13, 2024

UNIVERSITY OF CALIFORNIA FINANCIAL REPORTS, 2024

EXECUTIVE SUMMARY

A significant development in 2024 was the expansion of the UC Health enterprise. In the current year, the University completed the purchase of six hospitals, physician practice groups, and outpatient facilities for its Irvine, Los Angeles, and San Diego Medical Centers, in exchange for $1.6 billion. The acquisition of these facilities added 1,400 beds and 6,000 employees to expand the University's growing network of clinics and hospitals to better serve patients with safe, timely, and equitable access to high-quality health care.

The University's investment portfolio performed well in 2024, but despite strong performance and financial commitments from the State, revenues from primary activities only slightly exceeded expenses in FYE 2023-24. Employee salary and benefits expenses are the major drivers and will continue to increase in coming years. Future commitments requested by the State in the University's Compact with the Governor, as well as the outcomes of collective bargaining agreements will have significant impacts on UC revenues and expenses from primary activities in FYE 2025-26 and beyond. As a result, continued focus on budget containment is necessary.

RECOMMENDATION

The President of the University recommends that the Finance and Capital Strategies Committee recommend that the Regents adopt the 2023-24 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, 2024, annual financial reports for the following:

- 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, 2024, are as follows:

(in millions of dollars)	**2024**	**2023**	**2022**
REVENUES			
Student tuition and fees, net	$5,663	$5,515	$5,441
State educational appropriations	4,714	4,387	4,297
Direct government grants	5	128	843
Federal Pell Grants	442	448	444
Grants and contracts, net	8,403	7,615	7,055
Medical centers, net	22,123	19,202	17,507
Educational activities, net	6,188	5,890	5,351
Auxiliary enterprises, net	2,018	1,851	1,646
Department of Energy laboratories	1,190	1,147	1,031
Private gifts, net	2,024	1,826	1,737
Other revenues	2,763	2,192	1,536
Revenues supporting primary activities	**55,533**	**50,201**	**46,888**
EXPENSES			
Salaries and wages	24,444	21,880	19,887
Pension benefits	3,375	4,892	4,338
Retiree health benefits	994	1,108	1,238
Other employee benefits	5,810	5,213	4,615
Scholarships and fellowships	964	893	1,182
Supplies and materials	6,410	5,922	5,361
Depreciation and amortization	3,202	2,830	2,695
Department of Energy laboratories	1,147	1,104	991
Interest expense	1,226	1,158	1,130
Other expenses	8,139	7,385	7,033
Expenses associated with primary activities	**55,711**	**52,385**	**48,470**
Loss from primary activities	**($178)**	**($2,184)**	**($1,582)**
Net appreciation (depreciation) in fair value of investments	4,294	1,218	(3,149)
Income (loss) before other changes in net position	**$4,116**	**($966)**	**($4,731)**

The University's operations continued to grow, principally at the medical centers, and expenses increased consistent with the overall growth in operations. In 2024, salaries and wages, representing the largest change, increased by $2.6 billion due to an increase in full time employees and a general salary increase. The retiree health benefits expense decreased due to a higher discount rate.

The University of California received $4.7 billion in State General Funds in the Budget Act of 2023. This represented an increase of $329.2 million, or 7.5 percent, in ongoing funding over the 2022-23

budget. Additionally, the University received $142.5 million in one-time funding for campus-specific projects and capital outlay for health research.

Financial Position

The University of California's financial position on June 30, 2024, is as follows:

(in millions of dollars)	**2024**	**2023**	**2022**
ASSETS			
Investments	$39,914	$37,609	$37,341
Investment of cash collateral	2,299	1,914	2,163
Accounts receivable, net	8,226	6,930	6,124
Capital assets, net	48,572	43,804	41,893
Other assets	5,100	5,120	5,536
Total assets	**104,111**	**95,377**	**93,057**
DEFERRED OUTFLOWS OF RESOURCES	**6,571**	**7,694**	**11,499**
LIABILITIES			
Debt, including commercial paper	37,909	36,341	35,930
Securities lending collateral	2,299	1,914	2,163
Net pension liability	17,495	20,385	21,403
Net retiree health benefits liability	20,911	22,327	20,172
Other liabilities	14,605	12,638	12,996
Total liabilities	**93,219**	**93,605**	**92,664**
DEFERRED INFLOWS OF RESOURCES	**12,616**	**9,495**	**11,430**
NET POSITION			
Net investment in capital assets	18,602	13,778	11,833
Restricted:			
Nonexpendable	1,349	1,336	1,307
Expendable	12,994	11,639	11,527
Unrestricted	(28,098)	(26,782)	(24,205)
Total net position	**$4,847**	**($29)**	**$462**

The largest capital asset additions in 2024 were related to the medical center acquisitions and construction of housing and research facilities at various campuses.

In 2024, general revenue bonds totaling $3.2 billion were issued to finance the acquisition, construction, improvement, and renovation of certain facilities of the University and refund general revenue bonds totaling $1.6 billion and limited project revenue bonds totaling $0.5 billion.

The net pension liability decreased in 2024 by $2.9 billion. The change was driven by investment returns for the UC Retirement Plan (UCRP) portfolio. In 2024, market performance was favorable compared to expected returns. The obligation for retiree health benefits decreased due to changes in actuarial assumptions, including an increase in the discount rate and a decrease in plan participation and healthcare cost trend assumptions.

Retirement Plans (UCRP, UCRSP and PERS-VERIP)

Investment returns for the UCRP were 12.1 percent for 2024 as compared to 10.1 percent in 2023. Contributions to UCRP in 2024 and 2023 were $4.3 billion and $4 billion, respectively. Benefit payments in 2024 and 2023 were $5.1 billion and $4.8 billion, respectively.

The Regents determine the portion of the total contribution to be made by the employer (University) and by the employees (members). The University contribution rate for active members was 14 percent, 14 percent, and 15 percent of covered payroll for the years ended June 30, 2024, 2023 and 2022, respectively. The University contribution rate is 14.5 percent effective July 1, 2024, with 0.5 percent increases per year until reaching 18 percent on July 1, 2031.

Medical Centers

The medical centers' financial results for the year ended June 30, 2024, and 2023 are as follows:

(in thousands of dollars)	DAVIS	IRVINE	LOS ANGELES	SAN DIEGO	SAN FRANCISCO	TOTAL
2024						
Net patient service revenue	$3,613,207	$2,323,366	$3,824,877	$3,563,065	$7,355,765	$20,680,280
Other operating revenue:	167,147	163,869	404,699	159,595	262,633	$1,157,943
Total other operating revenue	**3,780,354**	**2,487,235**	**4,229,576**	**3,722,660**	**7,618,398**	**21,838,223**
Total operating expenses	3,784,176	2,515,886	3,706,033	3,524,397	7,136,423	20,666,915
Income (loss) from operations	**(3,822)**	**(28,651)**	**523,543**	**198,263**	**481,975**	**1,171,308**
Net nonoperating revenues (expenses)	(46,657)	5,313	143,775	(5,735)	111,900	208,596
Income (loss) before other changes in net position	**(50,479)**	**(23,338)**	**667,318**	**192,528**	**593,875**	**1,379,904**
2023						
Net patient service revenue	$3,277,414	$1,825,214	$3,522,636	$3,058,233	$6,434,135	$18,117,632
Other operating revenue:	152,023	156,123	261,382	198,155	384,976	1,152,659
Total other operating revenue	**3,429,437**	**1,981,337**	**3,784,018**	**3,256,388**	**6,819,111**	**19,270,291**
Total operating expenses	3,583,540	1,871,097	3,515,403	3,244,275	6,926,147	19,140,462
Income (loss) from operations	**(154,103)**	**110,240**	**268,615**	**12,113**	**(107,036)**	**129,829**
Net nonoperating revenues (expenses)	54,640	20,918	65,503	(11,743)	(8,897)	120,421
Income (loss) before other changes in net position	**($99,463)**	**$131,158**	**$334,118**	**$370**	**($115,933)**	**$250,250**

In 2024, net patient service revenues at each medical center increased due to higher volume, third-party supplemental revenues, and growth in specialty pharmacy revenue. Salaries and benefits increased due to continued growth in the medical centers in 2024.

Attachments:

Attachment 1: University of California Annual Financial Report
Attachment 2: University of California Retirement System Annual Financial Report
Attachment 3: University of California Medical Centers Annual Financial Report