

# COVID-19 Austerity is Not Necessary at the University of California

UC Coalition of Unions

May 19, 2020

# UC Can Lead California's Economic Recovery

- UC is 3rd largest employer in California, the 5th largest economy in the world
- While state and federal investments in higher education are critical, UC is in good financial standing to lead California's recovery
- Preserving affordable, quality education and research, along with full employment of UC staff, are key for equitable recovery for UC community
- Based on its cash reserves, working capital and endowment pools, strong credit, and through potential administrative savings, UC does not need to be bound to a strategy of austerity

# University of California's Role in California Economy

- UC is a \$40 billion enterprise
  - 227,000 faculty & staff throughout system
  - 285,000 students
- Overall, higher education sector critical to economic recovery
  - Economic engine for local & regional economies
  - Vehicle for upward mobility for students
  - Provides economic security for large workforces
- UC President Napolitano acknowledged importance of institution's role when announcing UC would maintain full employment of career staff through 6/30/20:

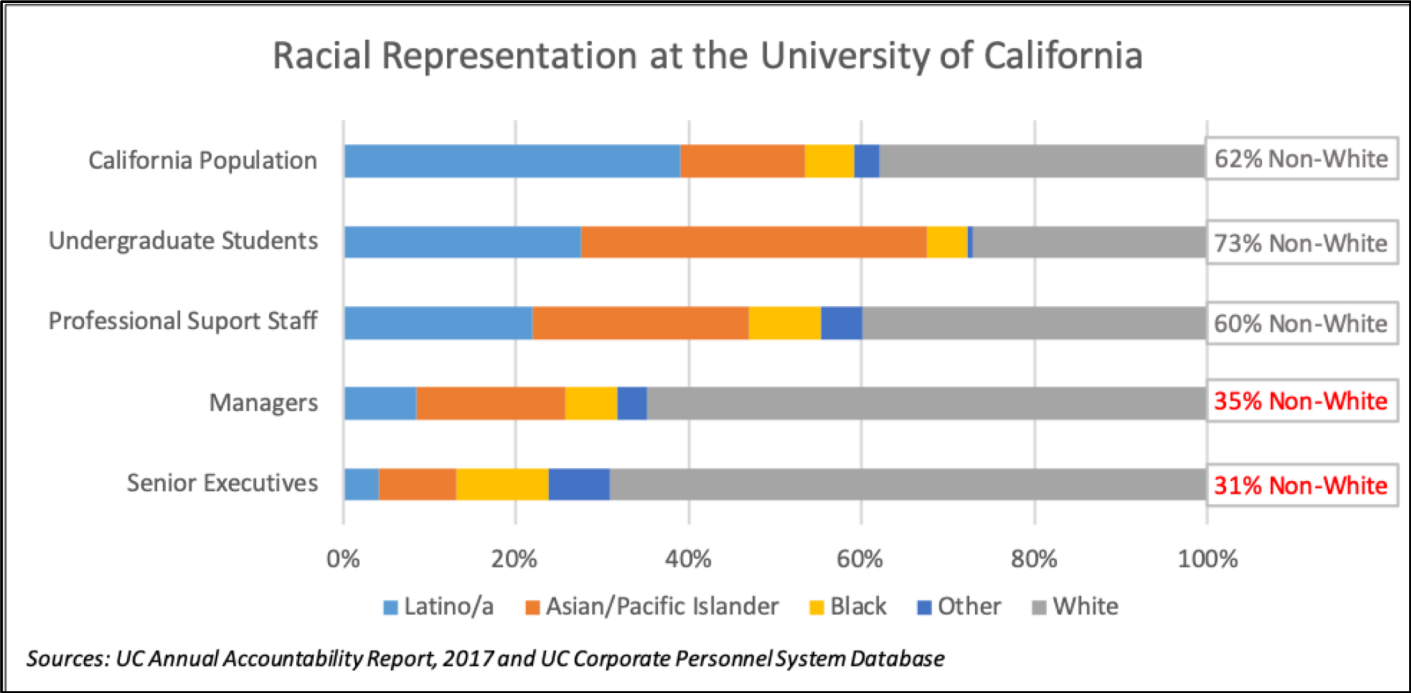
*"UC is the state's third largest employer and we wanted to make sure we were not contributing to the economic disruption the state was experiencing and our employees had enough to worry about."*



# UC's Importance to the Communities Hardest Hit by COVID-19

- COVID-19 disproportionately hurting low-income and people of color
  - Many “essential employees” are low-income workers and people of color
  - CA Department of Finance says COVID-19 economic losses will be disproportionately borne by low- and middle-income Californians.
- UC community is reflective of groups being disproportionately impacted, whether it's UC workers or families of UC students
  - UC's “essential employees” working in UC hospitals and campuses are largely people of color
  - UC Students: 40% of enrollees were “first generation” & 36% qualified for Pell Grants (2019/20)
- Austerity measures in form of furloughs, layoffs, financial aid cuts, or tuition increases would disproportionately hurt UC's low-income workers and students

# Racial Representation of University of California Staff



# The Cost of COVID-19 at University of California

Between March & April 30, 2020, UC has experienced \$1.18 billion loss from COVID-19

- General Campus: \$415 million
  - Cancelled housing/dining contracts, moving to remote online instruction & facilities and cleaning costs
- UC Health: \$767 million
  - Lost revenue, PPE, testing, facilities, remote costs (telemedicine) & facilities and cleaning costs

The Road Ahead: COVID-19 economic fallout could mean additional losses over next year

- May Budget Revises rescinds 5% (\$169 million) in base augmentation proposed in January
- Cut of 10% (\$338 million) in next fiscal year, along with \$34 million in additional cuts to UCOP, UCPath and ANR. Yet, the Governor says funding could be restored pending new round of Federal stimulus/relief
- Uncertainty in UC's revenues next year

# Existing & Expected Offsets to UC's Anticipated COVID-19 Losses

- CARES Act Relief: **To date, \$548M in immediate relief translates into net loss of \$636M**
  - **\$260 million** split between emergency grants for students and institutional costs/revenues losses from COVID-19
  - **\$288 million** for UC hospitals to date to cover portion of pandemic-related costs
- CARES Act Deferments
  - UC deferring an estimated **\$700 million** of employer contributions in Social Security to increase campus liquidity
- Reimbursement opportunities for pandemic-related costs provided by FEMA
- Potential unallocated relief aid (to date)
  - Health Care Enhancement Act allocates \$75 billion for hospitals and \$25 billion for testing
- Future Federal Relief/Stimulus Package #4
- UC will realize some savings (travel, maintenance, etc.) due to shelter-in-place mandates
- Annual revenues from both medical centers and campuses are expected to recover

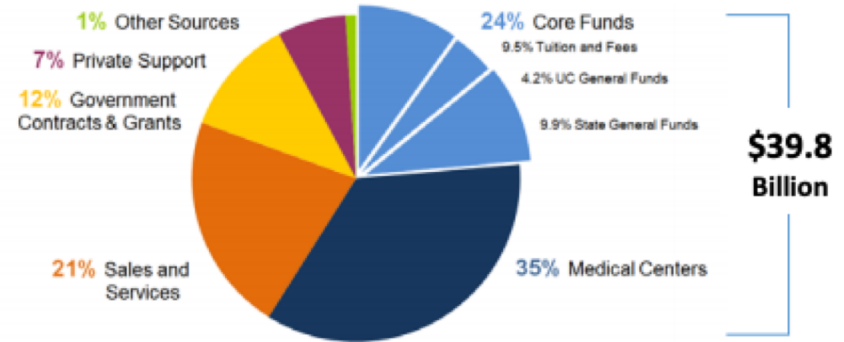
# UC is Well Positioned to Lead Recovery

“Compared to many other colleges and universities, the University of California is better prepared to weather these challenges due to a robust operating model with several important features.”

*UC Regents, Finance And Capital Strategies Committee, Discussion Item, May 20, 2020*

1. Diversified revenue mix
2. Extraordinary demand for university services
3. \$15.9 Billion in Working Capital Pools/Reserves (as of April 30th)
4. Agility in responding to crises and opportunities

## Overview of the University of California Budget, 2019-20 (Estimated)





# UC Can Leverage Its Resources for Swift Recovery

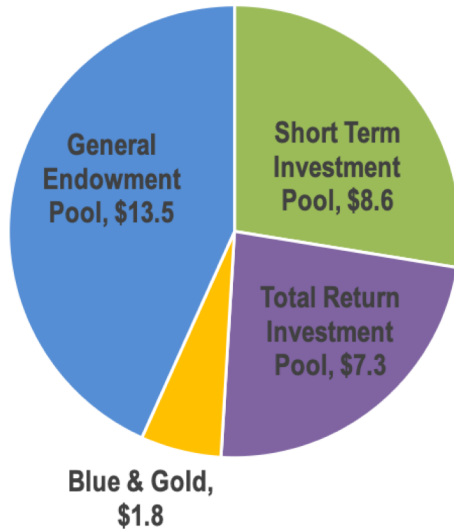
Potential strategies at UC's disposal to avoid austerity which could complement one another or serve as an alternative to one another:

1. \$31 Billion in Working Capital Pools & Endowment Assets
  - Draw down portion of Working Capital Assets
  - Draw down portion of Unrestricted Endowment Assets
  - Temporarily Increase Endowment Payout to make "Extraordinary Payout"
2. Access Low Cost Borrowing

# University of California Investment Pools

UNIVERSITY OF CALIFORNIA WORKING CAPITAL &  
 ENDOWMENT INVESTMENT POOLS  
 APRIL 30, 2020

*In Billions*



Source: UC CIO's Office March 31, 2020 (which includes updated April results)

## March 31, 2020 - 3rd Quarter Results

|                              |                |
|------------------------------|----------------|
| Short Term Investment Pool   | \$7.1B         |
| Total Return Investment Pool | \$7.7B         |
| Blue & Gold Endowment Pool   | \$1.7B         |
| General Endowment Pool       | <u>\$13.0B</u> |
|                              | <b>\$29.5B</b> |

## April 30, 2020 - Updated Assets

|                              |                |
|------------------------------|----------------|
| Short Term Investment Pool   | \$8.6B         |
| Total Return Investment Pool | \$7.3B         |
| Blue & Gold Endowment Pool   | \$1.8B         |
| General Endowment Pool       | <u>\$13.5B</u> |
|                              | <b>\$31.2B</b> |

# UC's Working Capital Pools: \$15.9B in **STIP/TRIP** as of April 30th

## Short Term Investment Pool (STIP)

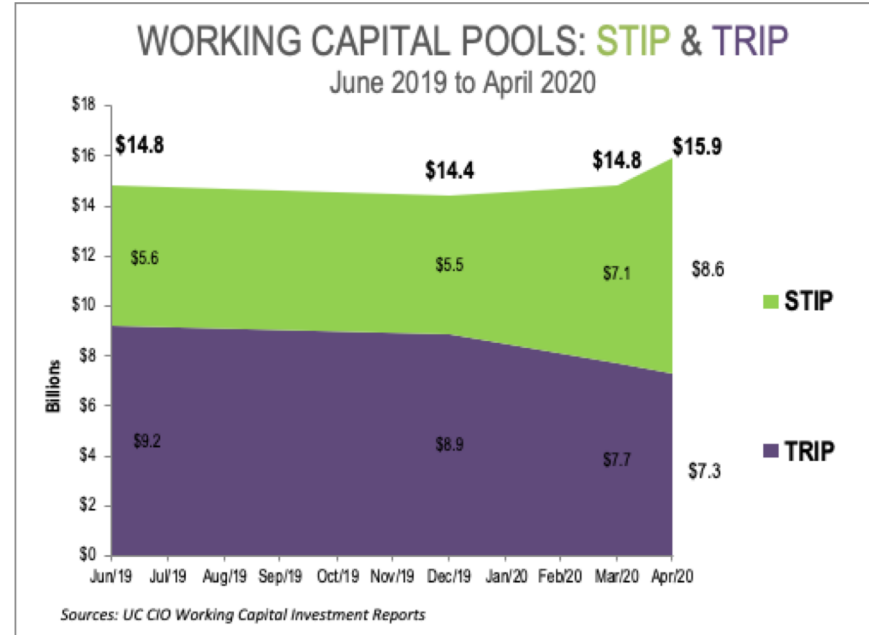
- ❖ To meet short-term payroll costs and other budgetary expenses

## Total Return Investment Pool (TRIP)

- ❖ Intermediate term working capital pool

- Short-term cash reserves all-time high
  - Roughly equivalent to 155 days (5-months) cash on hand (March 31)
- Needs to maintain \$5 billion to \$6 billion in Working Capital to satisfy credit agencies' liquidity requirements

**Estimated \$5 billion in excess liquidity reserves**



# Long-Term Excess Capital

## Blue & Gold Endowment Pool

### Blue & Gold Endowment Pool

- Created in 2018 (funded in 2019) for excess liquidity largely in STIP/TRIP to generate higher investment returns
- Objectives:
  - “A low cost, liquid, diversified investment vehicle in which the various UC organizations can invest their long-term excess capital reserves”
  - Generate discretionary revenues in support of university operations

**\$1.8 billion in largely discretionary long-term excess capital reserves** (as of April 30th)

# Long-Term Excess Capital

## Blue & Gold Endowment Pool

UPDATE: Liquidated in May 2020 by UC's CIO Office

### Blue & Gold Endowment Pool

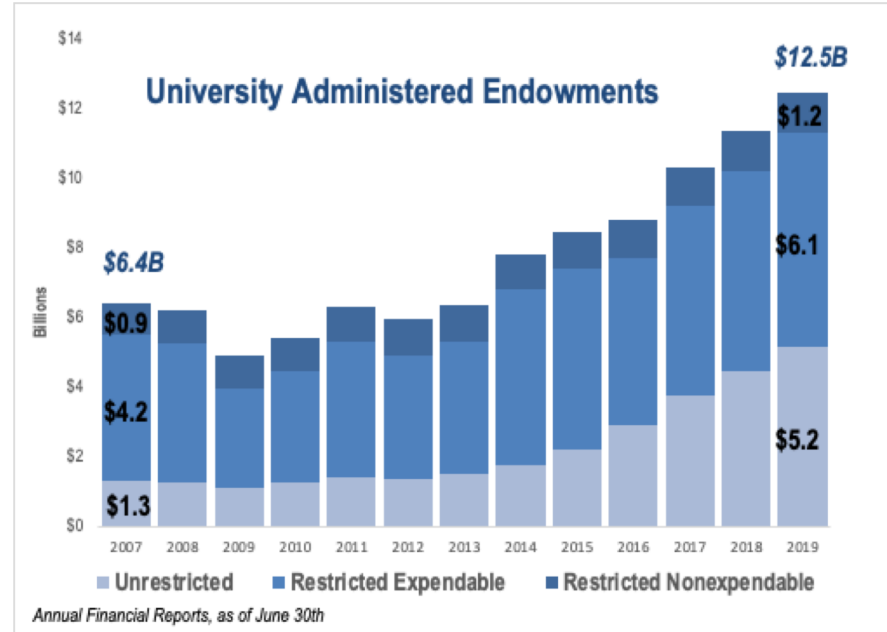
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**\$1.8 billion in largely discretionary long-term excess capital reserves**

# UC Administered Endowments

- 5,000+ individual endowment funds in GEP
- For research, programmatic support, endowed chairs, scholarships, fellowships, etc.
- Varying levels of restrictions placed on endowments & gifts
  - **Restricted Nonexpendable:** Externally imposed restrictions where principal of permanent endowment cannot be spent
  - **Restricted Expendable:** Externally imposed restrictions on gift but both principal and earnings can be drawn down
  - **Unrestricted:** Not subject to externally imposed restrictions but management or the Regents determines use

**As of June 30, 2019, 42 percent of endowment assets were unrestricted -- or \$5.2 billion.**

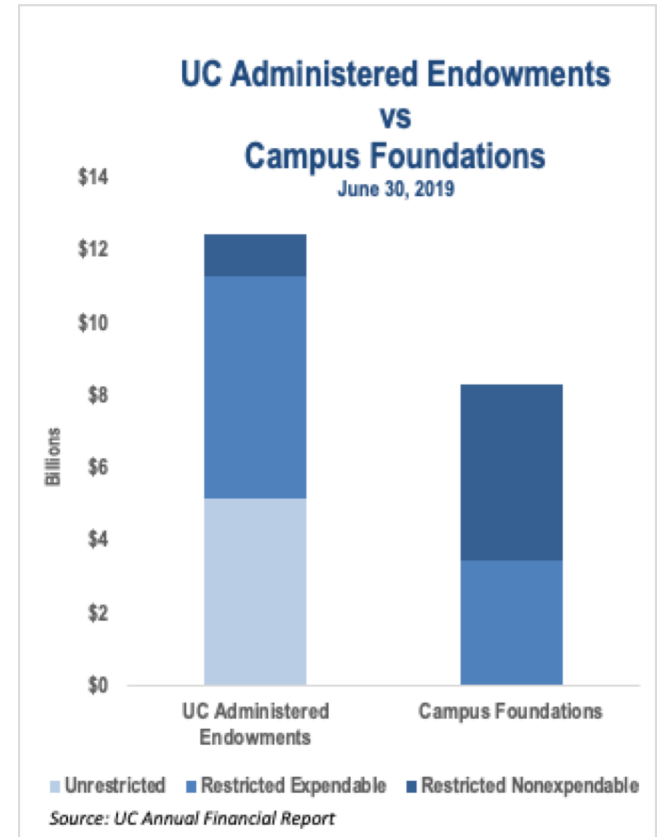
- While unrestricted funds may be allocated internally for specific programs, funds are not “subject to externally imposed restrictions”
- Over last 12 years, unrestricted funds account for 64% of total pool growth
- Some unrestricted funds are not donor gifts but excess campus revenues being invested in “Funds Functioning as Endowment” (FFE)s



Source: Annual Financial Report, Endowments Held and Administered by the University. While GEP consists predominantly of University-held endowments, some Campus Foundation funds are invested alongside UC funds. The above chart only includes UC-Administered endowments.

# UC Campus Foundations

- UC campuses also benefit from the fundraising efforts of local Campus Foundations independent of UC's administered endowment pool
- Campus Foundations hold another \$8.3 billion of endowment assets largely invested through the local campus foundation.
- In contrast to UC administered endowments assets, all Campus Foundation assets are restricted and more than half are non-expendable.







## UC Also Has Access to Low-Cost Borrowing

- Due to exceptional credit, strong liquidity and historically low interest rates, the University has access to low-cost borrowing, if needed, to complement or serve as an alternative to drawing down reserves or endowment funds.
- UC can either restructure existing debt to take advantage of historically low-interest rates or finance short-term borrowing via payments from capital reserves or payouts from endowments in order to preserve fund principals as equity markets recover.
- Government interventions have created other borrowing opportunities, such as the Federal Reserve's Municipal Liquidity Facility. Other vehicles may eventually come online.

# Conclusion

- Continued State and Federal investment in UC & public higher ed overall is critical in long run
- In short term, UC can lead California's economic recovery by leveraging its overall strong financial standing and reserves to avoid austerity measures
- UC can deploy a suite of strategies, such as:
  - Draw down up to \$5-\$6 billion from its Working Capital Pools
  - Draw down \$1.8 billion from its Blue and Gold Endowment Fund ✓ **Completed on May 6, 2020**
  - Expend a portion of \$5 billion in unrestricted endowment assets
  - Temporarily approve an “extraordinary payout” from its endowments to provide an additional \$100 million to \$500 million for student financial aid, faculty or staff salaries, or other campus needs
  - Refinance and/or issue new debt at historically low rates