

**Office of the President**

**TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:**

**DISCUSSION ITEM**

*For Meeting of September 17, 2025*

**PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2026-27 OPERATING BUDGET**

**EXECUTIVE SUMMARY**

Each fall, the University of California (UC) submits a budget proposal to the California Department of Finance for consideration in developing the Governor's January budget introduction for the next fiscal year. This item is intended to facilitate discussion about elements of the University's operating budget plan for 2026-27.

Ongoing challenges to the State's fiscal condition have required the Governor and Legislature to address annual budget deficits since 2023-24. As a result, total funding appropriated to the University in recent years is less than what was anticipated under the multi-year Compact. This limited support is compounded by cost increases related to substantial enrollment growth already realized across the system (and intended to be funded out of the annual Compact increases), compensation and labor costs, employee and retiree health benefit cost increases, increasing employer contributions to the UC Retirement Plan (UCRP), and other costs necessary to maintain the University's operations. In addition, federal actions targeting institutions of higher education—and specifically, actions affecting the University of California's missions of delivering high-quality instruction and innovative research—have heightened financial uncertainty and increased budget pressures on UC campuses.

Given the extent of these challenges, the 2026-27 budget proposal should reflect a balanced approach to protecting access and affordability for students, maintaining critical areas of the academic and research enterprise, and stabilizing the fiscal health of the University. Additional ongoing State resources—including the restoration of deferred funds from prior years—together with new revenues for campus operations and student financial aid attributable to the University's Tuition Stability Plan directly support campus investments towards ensuring the University's success in providing a world-class education to generations of exceptionally talented students from all backgrounds.

Expenditure elements of the budget plan will include those related to enrollment growth, student services, and continued investments to support core University operations. Revenue elements of the plan will include State support consistent with the Compact agreement and recent State budget acts, contributions from the University's own efforts to operate more efficiently and optimize the investment of working capital to support the operating budget, and student tuition and fee levels consistent with the multi-year Tuition Stability Plan.

## **BACKGROUND**

The University's total operating budget—covering ten campuses; six academic health centers and five teaching hospitals; Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System; and dozens of institutes, centers, and research laboratories throughout the state—reflects its broad and diverse impact on Californians, the nation, and the world.

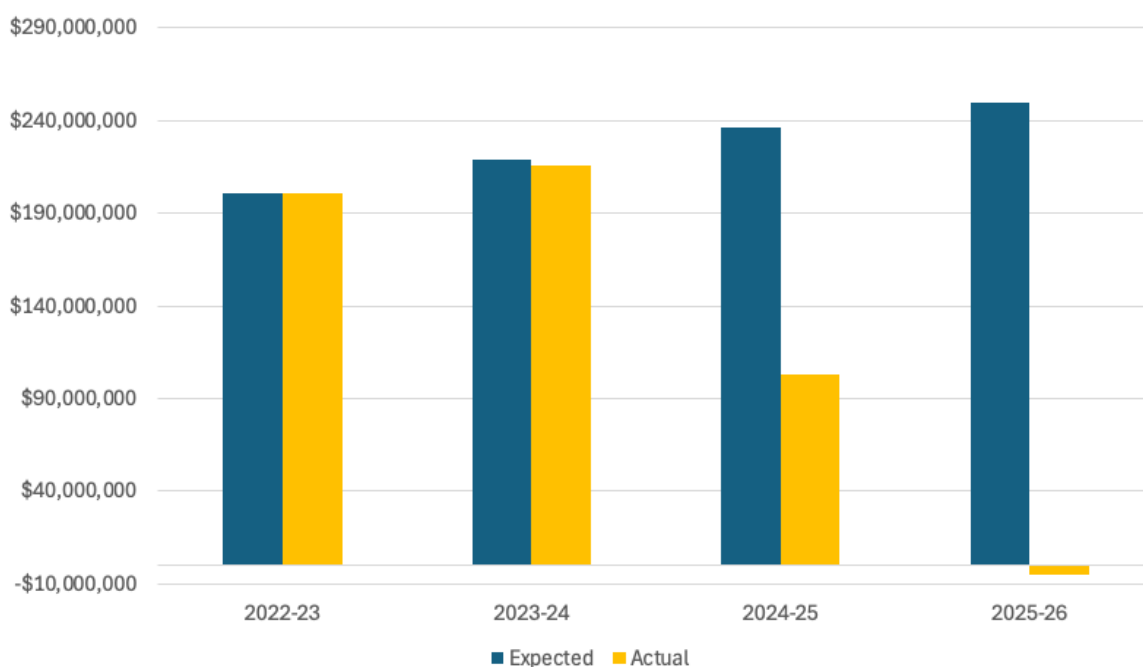
Total operating revenue, estimated to be approximately \$56.2 billion in 2025-26, funds essential programs related to teaching, research, and public service, as well as a wide range of other activities, including University Extension, housing and dining services, and critical student service programs.

The University's "core funds," which include revenues from State General Funds, UC General Funds, and student tuition and fees, provide permanent funding for the University's core missions, as well as the administrative and support services needed to perform them. Totalling an estimated \$11 billion in 2025-26, these funds represent approximately 19.6 percent of UC's total operations. Given cost increases on core funds that have exceeded growth in these sources, a focus of the University's Systemwide Budget Management Workgroup centered on expanding the extent to which campuses are able to leverage non-core funding sources to meet operating needs. While all fund sources are critical to the success of the University, however, much of the focus of UC's strategic University-wide budget process and interaction with the State is dedicated to the sources and uses of these core funds.

The University entered into a multi-year Compact with Governor Newsom in May 2022 to advance shared student-focused goals (e.g., increased access, improved affordability, enhanced student success and equity, etc.). Under the terms of the Compact, the University would receive annual base budget increases of five percent from 2022-23 through 2026-27. The Compact served the University well in the first two years of the agreement. Beginning in 2024-25, however—and despite continued progress towards goals outlined in the Compact—annual support for the University fell below anticipated funding levels.

Under the Compact, *expected* new support for UC to date would total more than \$900 million; in contrast, and as shown in Display 1, *actual* increased support to date is about \$515 million, or 57 percent of anticipated support.

**Display 1: Annual Compact Funding to Date (Incremental) – Expected vs. Actual**

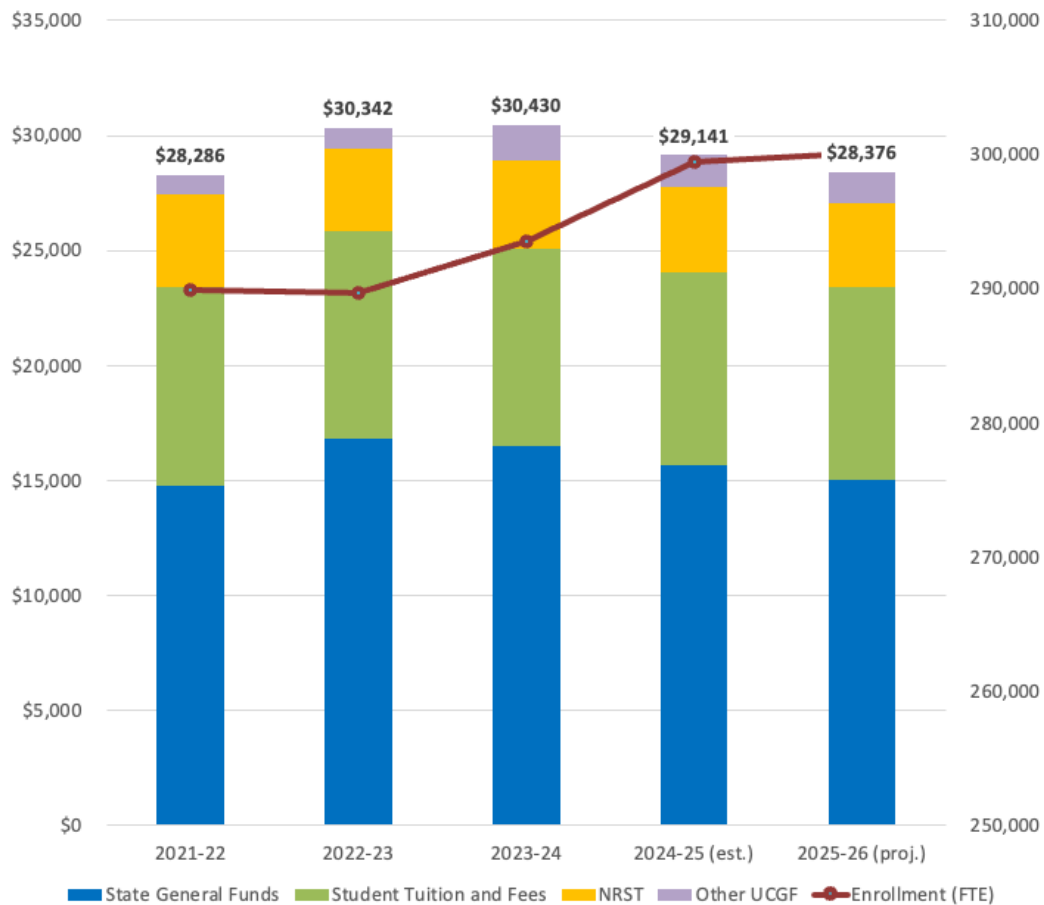


Total State funding for the University in 2025-26 reflects a deferral of three percent—or \$129.7 million—of the University’s base budget to the 2026-27 fiscal year. The University will need these deferred State General Funds next year and beyond to avoid further impact to student services, core educational programs, and the UC workforce. In addition, \$125 million that was reduced on a one-time basis in the 2024-25 fiscal year was restored. Together, the net impact is a modest decline in State General Funding relative to last year.

Campuses can also anticipate new support from systemwide tuition and fees in 2025-26, consistent with annual adjustments to fees under the Tuition Stability Plan. The University’s 2025-26 budget plan includes \$241.2 million of new resources from systemwide tuition and fees, including Nonresident Supplemental Tuition, with \$97.7 million for student financial aid. Given roughly flat State funding, new core revenues will not be sufficient to fully cover the cost increases of over \$500 million anticipated for 2025-26.

Considerable growth in overall enrollment at a time of limited revenue growth means that fewer core funds are available, on a per student basis, to support new and current students. As a result, and as shown in Display 2, available core funding per student is declining for the second straight year and is now lower than it was in 2022-23 (the first year of the multi-year Compact).

**Display 2: Available Core Funding per Student (Adjusted for Inflation) vs. Enrollment Growth**



The University will need to continue taking deliberate measures to manage expenditures, align its resources with the most critical institutional priorities, and pursue new and diversified revenue streams to gradually close the remaining financial gap. To support these efforts, campuses may utilize the recommendations outlined by the Systemwide Budget Management Workgroup, which are intended to enhance systemwide financial practices and communication.

The 2026-27 budget plan must account for projected cost growth associated with maintaining core-funded campus operations and reconcile against a difficult and volatile revenue condition, with a goal of preserving the University's tripartite mission of instruction, research, and public service. Elements of such a plan are described below.

### ELEMENTS OF THE BUDGET PLAN

The proposed budget plan is organized around three categories of investments: sustaining core operations, expanding student access and success, and addressing a portion of the University's most urgent capital needs.

## Sustaining Core Operations

Expanding access to students from all backgrounds, ensuring an affordable experience, and maintaining the educational quality enjoyed by generations of students requires that the University sustain support for its core operations. Accordingly, the budget plan must include investments in the following areas.

*Academic and staff support.* Higher education—and specifically, public higher education at a world-class research university like that at any of UC’s campuses—expands opportunity, creates knowledge, and serves the public good. This mission is only possible through the talent and commitment of its people. As a result, academic and staff salaries represent a significant portion of the University’s expenditures from core funds, as they do at other research universities across the nation.

Competitive salary and benefit programs at UC are one component of an efficient budget strategy that supports employee retention, facilitates the preservation of organizational knowledge and expertise, and highlights the value of a career in support of public higher education.

Within this context, the University’s budget plan must, at a minimum, address cost projections for represented academic and staff employees and account for other compensation-related mandatory increases.

- Wage growth is already built into existing collective bargaining agreements for some represented employees. Projections must be used for employees covered by collective bargaining agreements that will come up for negotiation over the next fiscal year.
- For policy-covered faculty, the budget plan must accommodate mandatory cost increases associated with the faculty merit program, a cornerstone of the University’s strategy for retaining and supporting faculty members as they grow in experience and productivity and progress through the ranks through a rigorous, peer-reviewed process.

*Employee and Retiree Health Benefits.* The budget plan must account for projected increases in the unit cost of employee and retiree health benefits, with current estimates reflecting annual expenditure growth of 9.5 percent. For retiree health benefits, the number of retirees has typically grown by about 2.5 percent annually. However, the actual change for 2026-27 may be more volatile due to budget uncertainties and the broader higher education landscape.

*Contributions to the University of California Retirement Plan (UCRP).* For 2026-27, the University’s employer contribution rate to UCRP is expected to increase from 14.5 percent to 15 percent (including an employer contribution increase from 6.5 percent to seven percent for Savings Choice participants in the Defined Contribution Plan). In addition to the added cost to the University associated with the half percentage point adjustment to UCRP, any growth in faculty and staff covered compensation will increase the amount of the University’s annual employer contribution.

*Other Cost Increases.* Prices for items such as instructional equipment, laboratory supplies, computers, machinery, library materials, and purchased utilities tend to rise each year. The University would seek to limit those cost increases to projected changes in the implicit price deflator for State and local governments (the institutional equivalent of the Consumer Price Index, which applies to household expenses). That index is currently projected to increase by 3.32 percent in 2026-27.

### **Expanding Student Access and Success**

*Enrollment Growth.* As shown in Display 3, the University is currently exceeding enrollment growth expectations by a substantial margin. Under the multi-year Compact and as outlined in recent State budgets, the University was expected to enroll a total of 206,588 full-time equivalent (FTE) California resident undergraduates in 2024-25. Actual enrollment of California resident undergraduates totaled 210,635 FTE in 2024-25, exceeding the Compact's 2024-25 target by 4,047 FTE.

In 2025-26, the Compact calls for total California undergraduate enrollment of 209,535 FTE. UC campuses have already surpassed this goal, *without accounting for anticipated growth in the current academic year.*

Over the course of the Compact, which took effect in 2022-23, UC has enrolled 14,774 new California undergraduate FTE.

**Display 3: Enrollment Goals vs. Actual Enrollment Under the Compact/State Budget Acts**

|                                    | 2021-22<br>(actual) | 2022-23<br>(actual) | 2023-24<br>(actual) | 2024-25<br>(actual) | 2025-26<br>(est.) | 2026-27<br>(est.) | Growth<br>21-22 to 24-25 |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|-------------------|--------------------------|
| <b>Compact Target</b>              |                     |                     | <b>203,661</b>      | <b>206,588</b>      | <b>209,535</b>    | <b>212,503</b>    |                          |
| <b>UC System Total</b>             | <b>195,861</b>      | <b>197,111</b>      | <b>203,649</b>      | <b>210,635</b>      | <b>213,581*</b>   | <b>TBD</b>        | <b>14,774</b>            |
| Change over prior year:            |                     | 1,250               | 6,538               | 6,986               | 2,946             |                   |                          |
| <b>Amount Over (Under) Compact</b> |                     |                     | <b>(12)</b>         | <b>4,047</b>        | <b>4,046*</b>     | <b>TBD</b>        |                          |

\* Assumes enrollment growth consistent with levels included in UC's 2025-26 Budget for Current Operations. Actual enrollment figure will be available in August 2026.

The University's 2026-27 budget plan will need to reflect costs associated with supporting this existing overenrollment. State funding is critical not only for enrolling new students, but for supporting continuing students at all ten campuses and ensuring that their experiences are similar in quality to that of generations of earlier UC students.

The University's enrollment targets for 2026-27 will be developed later this fall as campuses have better information about the number of students who ultimately enroll in fall 2025.

*Student Financial Aid.* The University's 2026-27 budget plan will include increased investments in student financial aid resulting from: (a) tuition and fee revenue generated by enrollment growth, and (b) new tuition and fee revenue generated by the Tuition Stability Plan approved by the Regents in July 2021, which included an increase in the marginal share (or "return-to-aid") of new tuition and fee revenue used for financial aid.

### **Addressing Critical Capital Needs**

In the absence of recent State-issued general obligation bonds or lease revenue bonds, the University has increasingly relied on the funding mechanism authorized in 2013 by Assembly Bill 94 (AB 94) to meet a portion of its immediate capital needs. AB 94 allows the University to use a portion of its State General Fund allocation, subject to certain conditions, to finance the design, construction, and equipment of academic facilities to address seismic and life safety needs, enrollment growth, modernization of out-of-date facilities, and renewal or expansion of infrastructure to serve academic programs.

The University currently sets aside \$124.9 million of its annual State appropriation for projects financed pursuant to AB 94, and an additional \$105 million for capital projects funded in recent State budgets. Consequently, these funds are not available to support campuses' core operating budgets.

The University's total capital needs far exceed the amount that can be realistically financed through AB 94 alone. Facilities that support the instructional and research mission of the University are aging, sustained enrollment growth will require additional space, and changes in pedagogy and technology require the modernization of existing space.

For 2026-27, the University will need to decide whether to: (a) continue redirecting new State resources to finance additional AB 94 projects, or (b) use new ongoing resources to support campus operating budgets and seek one-time State funds for capital projects. The University's recent budget proposals have included one-time State funding requests (\$1.2 billion in 2023-24 and 2024-25; \$1.36 billion in 2025-26) for support for projects related to deferred maintenance, seismic safety, energy efficiency, and campus expansion. The final State budgets in all three years provided few resources towards this request, with only one project receiving debt service support through State funds.

### **REVENUE AND COST-SAVING COMPONENTS OF THE BUDGET PLAN**

The proposed funding strategy to support the budget plan includes three categories of support.

#### **Alternative Revenue Sources**

The University has made great strides over the past decade in identifying alternative revenue sources, reducing elements of its cost structure, and optimizing the use of existing resources. The budget plan expects further contributions from these efforts. Specifically:

- Additional opportunities may exist to further optimize the investment of the University's working capital to generate higher investment returns while maintaining appropriate liquidity. To the extent that a rebalancing of working capital between the Short Term Investment Pool (STIP), the Total Return Investment Pool (TRIP), and the Blue and Gold Pool (BGP) yields new, unrestricted revenue, the University will have additional resources to address a portion of its overall budget needs.
- The University continues to expand efforts to leverage its purchasing power in order to negotiate discounts and rebates from vendors and service providers. The budget plan anticipates additional year-over-year savings from purchases attributable to the University's core funds operating budget.

The Systemwide Budget Management Workgroup focused much of its effort on opportunities for ensuring that the strategies identified here related to working capital are applied consistently across the system and for the benefit of campus core operations.

### **Student Tuition and Fees**

The budget plan will reflect increased revenues from Tuition, the Student Services Fee, and Nonresident Supplemental Tuition (NRST) attributable to the planned enrollment growth described above. The plan will also include projected increases in Tuition, the Student Services Fee, and NRST revenues consistent with the Tuition Stability Plan.

At the July 2025 meeting, the Regents reviewed preliminary outcomes from the University's Tuition Stability Plan around access, affordability, and campus support. At that meeting, the Regents also discussed possible changes to aspects of the Plan, including the existing cap on annual increases, the amount of incremental revenue dedicated to financial aid, and options for generating additional support for critical campus needs. The Tuition Stability Plan is expected to be brought back for renewal later this fiscal year.

### **State Funding**

The University's budget plan will assume new State support in 2026-27 consistent with the multi-year Compact agreement with the Governor. The Compact calls for annual, year-over-year ongoing General Fund base budget increases of five percent. In addition, the Compact permits requests for one-time funding, "particularly to support capital projects in energy efficiency, seismic renewal, and deferred maintenance." The Compact also allows consideration of Legislative additions to the University's ongoing funding, including funding to support further California resident enrollment growth and graduate health sciences programs designed to improve access to healthcare for medically underserved populations.

*Additional Context on State Support for 2026-27*

As part of the State's multi-year approach to addressing budget shortfalls, the Budget Act of 2025 includes language outlining the proposed timeline for restoring deferred funding, as shown in Display 4.

**Display 4 – Proposed Multi-year Funding for UC in the 2025-26 State Budget**

**Figures Reflected in the Budget Act of 2025**

|                                  | <b>Actual<br/>2025-26</b> | <b>Projected<br/>2026-27</b> | <b>Projected<br/>2027-28</b> | <b>Projected<br/>2028-29</b> | <b>Total</b>    |
|----------------------------------|---------------------------|------------------------------|------------------------------|------------------------------|-----------------|
| <b>Ongoing State Funding</b>     |                           |                              |                              |                              |                 |
| 2025-26 Compact                  | deferred                  | \$ 96.3                      |                              | \$ 144.5                     | \$ 240.8        |
| 2025-26 NR Swap                  | deferred                  | \$ 31.0                      |                              |                              | \$ 31.0         |
| 3% Cut/Restoration               | \$ (129.7)                | \$ 129.7                     |                              |                              | \$ 0.0          |
| UCR CA Newspaper Project         | \$ 0.4                    |                              |                              |                              | \$ 0.4          |
| Affordable Housing Adj.          | \$ (1.0)                  |                              |                              |                              | \$ (1.0)        |
| Restoration of One-time Cut      | \$ 125.0                  |                              |                              |                              | \$ 125.0        |
| <b>Total New Ongoing Funding</b> | <b>\$ (5.3)</b>           | <b>\$ 257.0</b>              | <b>\$ -</b>                  | <b>\$ 144.5</b>              | <b>\$ 396.2</b> |
| <b>Total One-time Funding</b>    | <b>\$ 46.8</b>            | <b>\$ 129.7</b>              | <b>\$ 271.8</b>              | <b>\$ -</b>                  | <b>\$ 448.3</b> |

Under this scenario, the State is expected to provide the University with \$257 million of new ongoing support and \$129.7 million of one-time funding, for a total of \$386.7 million of State General Funding for UC in 2026-27. In addition, the 2026-27 Compact installment of approximately \$250 million would bring total new support for UC to almost \$640 million.

**STUDENT BUDGET PRIORITIES FOR 2026-27**

Staff at the Office of the President meet regularly with University of California Student Association (UCSA) leaders to consult on budget matters of importance to students and to the University. These calls serve as a mutual opportunity for requesting feedback, exploring options for collaboration, and maintaining the critical connection between UC students and University representatives.

UCSA's budget priorities will be shared with the Board as part of the September Regents meeting budget presentation.