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Office of the President

TO MEMBERS OF THE FINANCE AND CAPITAL STRATEGIES COMMITTEE:

DISCUSSION ITEM

For Meeting of September 16, 2026

PRELIMINARY DISCUSSION OF THE UNIVERSITY'S 2027-28 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 provide broader context regarding the diverse sources of funding that support the University's missions and operations and facilitate discussion about elements of the core funds operating budget plan for the 2027-28 fiscal year.

The University's operating budget is supported by a broad and diverse set of revenue sources that reflect the scope of its teaching, research, health care, and public service activities. UC continues to navigate significant financial pressures across its operations, including rising labor and benefit costs, broader inflationary pressures, and uncertainty associated with federal funding and policy actions. These challenges affect multiple components of the University's enterprise and reinforce the importance of maintaining a diverse and resilient revenue base.

While all of these resources are important to the University's success, much of UC's annual budget planning and interaction with the State focuses on "core funds," which provide ongoing support for the University's academic mission and the administrative and support functions necessary to sustain it. The 2026 State Budget provides critical new ongoing support for the University, including the final installment of the multi-year Compact and partial restoration of funding deferred in prior years. Total State support for the University, however, remains below anticipated funding levels under the Compact, despite record-breaking enrollment levels across the UC system.

The Regents will be asked to approve the University's 2027-28 Budget for Current Operations at the November 2026 meeting. 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 for the University's core operations (including funding for enrollment growth in recent years that surpassed the Compact's goals), contributions from the University's own efforts to operate more efficiently and optimize

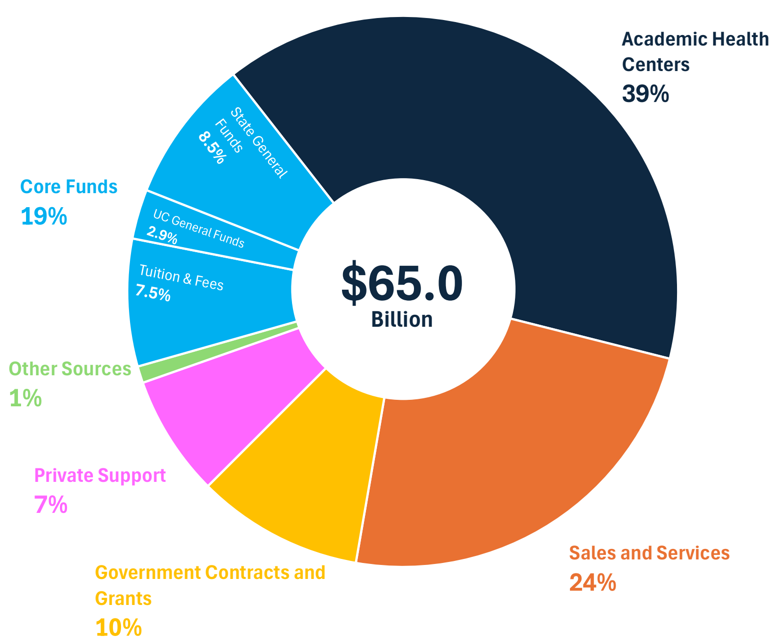
the investment of working capital to support the operating budget, and student tuition and fee levels consistent with the multi-year Tuition Stability Plan.

BACKGROUND

The University is a large and complex enterprise encompassing ten campuses; six academic health centers; Agricultural Field Stations, Cooperative Extension offices, and the Natural Reserve System; and dozens of institutes, centers, and research laboratories throughout the state. Accordingly, UC relies on a diverse portfolio of revenues, including State support and student tuition and fees, federal and other sponsored grants and contracts, revenues generated by academic health centers and other clinical activities, auxiliary enterprises, gifts and endowment income, and other sources. This diversity is an important source of financial strength and resilience for the University.

These resources, however, are generally not interchangeable. Many revenue sources are generated for specific activities, are restricted by donors or sponsors, or must support the operations that generate the revenue. For example, sponsored research funds cover the costs of specific research projects; medical center revenues support patient care and health-related operations; and revenues from auxiliary enterprises such as housing and dining support those activities. Consequently, the size of the University's overall operating budget, shown in Display 1, does not necessarily reflect the resources available to support the core instructional mission or address campus-wide operating pressures.

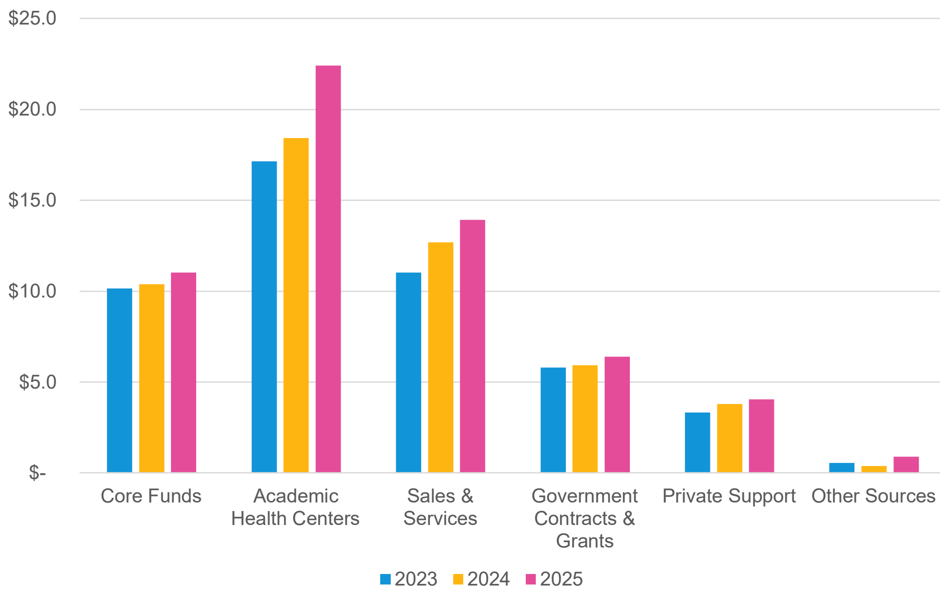
Display 1: Overview of the University of California Budget, 2026-27 (est.)



Source: 2026-27 Budget for Current Operations. Figures reflect current expenditures only.

Total operating expenditures are projected to reach approximately $65 billion in 2026-27. As shown in Display 2, total operating expenditures grew by over $10.7 billion between 2022-23 and 2024-25, with most of that increase attributable to substantial expansion in UC's health enterprise. This period was marked by a number of strategic acquisitions of hospitals by the University's academic health centers.

Display 2: Operating Expenditures by Fund Source, 2022-23 – 2024-25



Source: 2026-27 Budget for Current Operations. Figures reflect current expenditures only. Dollars in billions.

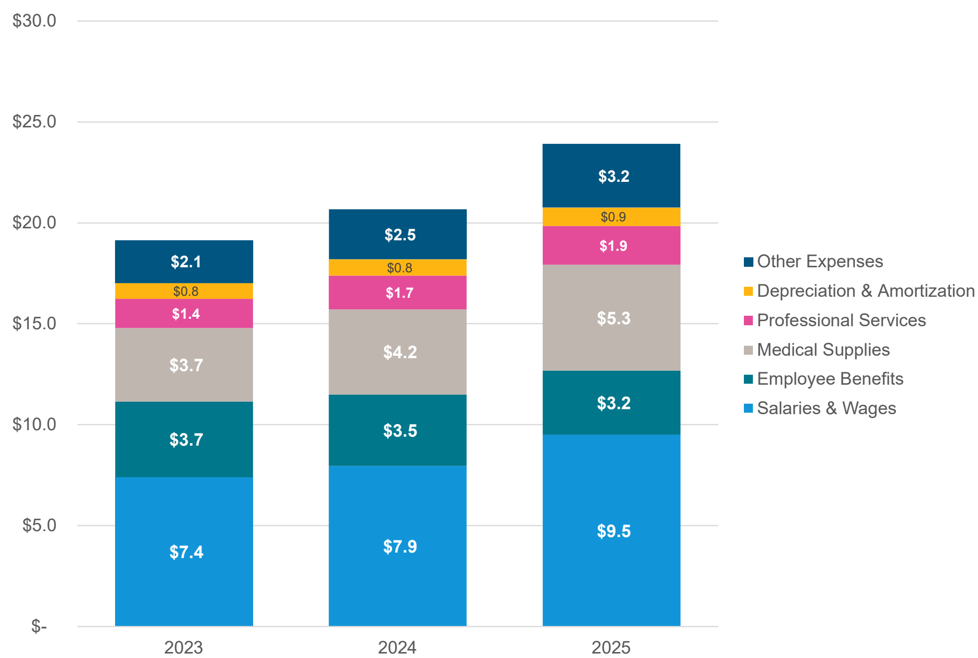
Academic Health Centers

UC operates one of the largest public academic health systems and one of the most expansive health sciences instructional programs of its kind in the nation. UC's patient care mission is carried out by its six academic health centers (UC Davis Health, UC Irvine Health, UCLA Health, UC Riverside Health, UC San Diego Health, and UCSF Health), along with owned or operated clinics and other clinical services. UC Riverside Health provides clinical care through community facilities.

The clinical delivery systems are financially self-supporting and do not receive support from the State. Each academic health center must generate sufficient revenues to meet important needs in its community, including training physicians and other health professionals, supporting medical research, providing care to the medically and financially underserved, and building and operating facilities to serve the diverse needs of its patients. In 2024-25, 93.5 percent of academic health center operating revenue came from reimbursements for the provision of clinical care.

The academic health centers also transfer a significant amount annually to the Schools of Medicine at their respective campuses, funding a portion of operating activities, clinical research, and faculty practice plans. In 2024-25, this amount totaled $1.38 billion.

Display 3: Academic Health Center Operating Expenses, 2022-23 – 2024-25



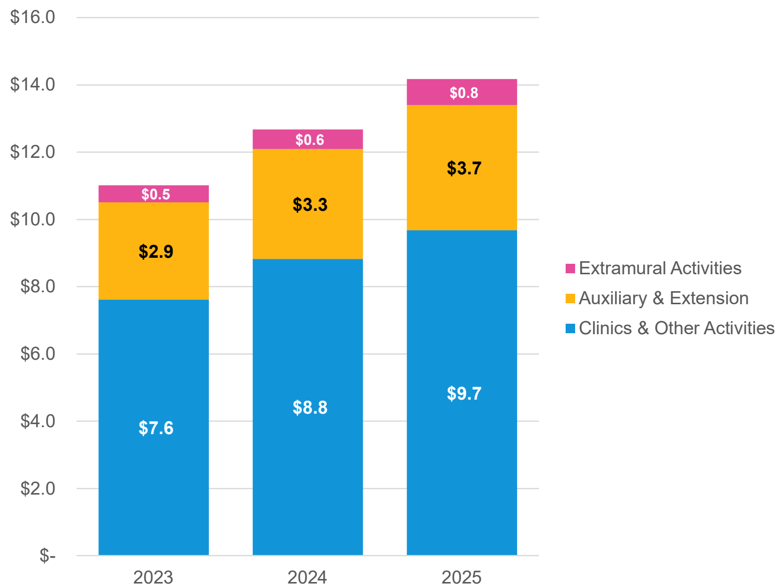
Source: UC Medical Centers Report, 2024-25. Dollars in billions.

Sales and Services

Sales and services activities across the University, typically operated via self-supporting entities, include certain operations within the health enterprise, such as the health sciences faculty compensation plans, neuropsychiatric hospitals, the veterinary medical teaching hospital, dental and optometry clinics; auxiliary enterprises, such as housing and dining services, parking facilities and bookstores; self-supporting graduate professional programs; University Extension; and other complementary activities such as museums, theaters, conferences, and scholarly publishing.

As shown in Display 4, operating expenditures for these self-supporting enterprises totaled $14.2 billion in 2024-25, or almost 25 percent, of the University's budget. Most growth in recent years is attributable to the expanding health enterprise, with nearly 70 percent of expenditures in 2024-25 associated with clinical and other health-related activities.

Display 4: Sales and Services Expenses, 2022-23 – 2024-25



Source: 2026-27 Budget for Current Operations. Figures reflect current expenditures only. Dollars in billions.

Government Contracts and Grants

Contract and grant activity plays a key role in the University's position as a major driver of the California economy. Government sources, including the Department of Energy (DOE) and other federal agencies, state agencies, and local governments, are significant providers of contract and grant funding. Most of this funding is dedicated to research, including salaries, benefits, equipment, subcontracts, and support for students.

Sponsored Research

Federal funds were the University's single most important source of support for research, accounting for 44 percent of all University research expenditures in 2024-25. While UC researchers receive support from virtually all federal agencies, the National Institutes of Health and the National Science Foundation are the two largest sponsors, accounting for 77 percent of UC's federal research contract and grant awards in 2024-25. Although federal funds for UC research have grown significantly over the past several decades, constraints on federal spending have resulted in declines or stagnation of federal research funding available to the University. UC continues to face the prospect of lower federal award funding for some mandatory programs.

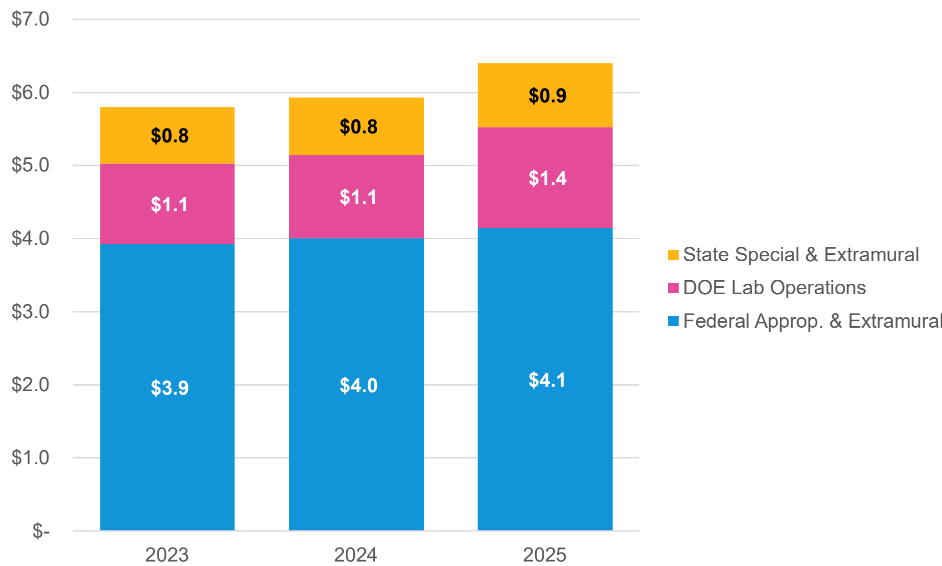
Similar to federally sponsored research, California state agencies provide contracts and grants to the University for a variety of activities. The largest area is research, but these agreements also support public service and instruction. Major providers of State agency agreements are the health care services, social services, transportation, food and agriculture, and education departments.

Indirect Cost Recovery

Budgets for externally funded research projects include direct and indirect costs. Direct costs are those expenditures easily assigned to specific research projects, such as the salaries for researchers and the equipment and materials that are uniquely used to conduct the research.

Indirect cost recovery (ICR) funding reimburses the University for facilities and administration costs (e.g., compliance, electricity, and library costs) associated with research activity that cannot be identified as solely benefiting a particular contract or grant. In 2024-25, ICR funding from federal contract and grant activity was nearly $1.2 billion and was dedicated to support contract and grant administration, core mission activities (in the form of UC General Funds), and special programs.

Display 5: Government Contracts and Grants Expenses, 2022-23 – 2024-25



Source: 2026-27 Budget for Current Operations. Figures reflect current expenditures only.
Dollars in billions.

Private Support and Other Funding

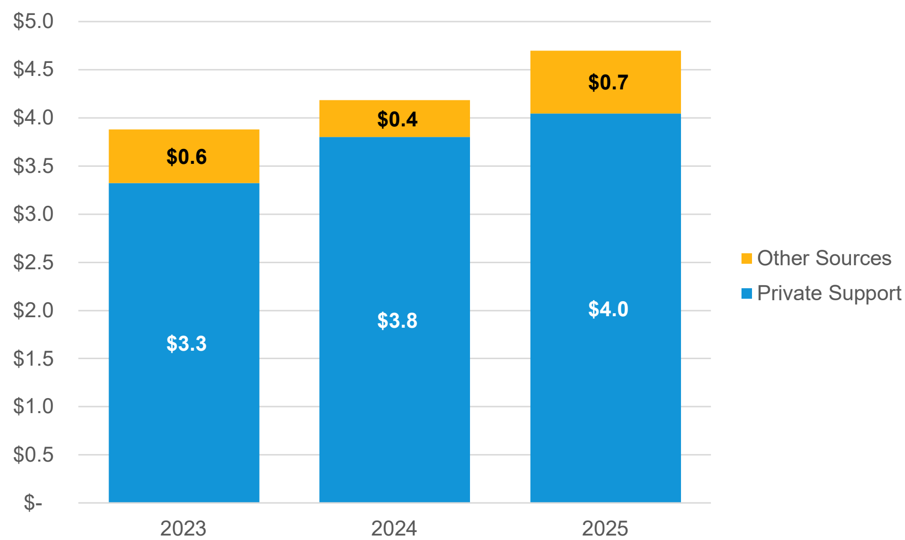
Private support includes endowment payout, as well as gifts, grants, and contracts. Gifts and private grants are received from alumni, friends of the University, campus-related organizations, corporations, private foundations, and other nonprofit entities, with foundations providing more than half of total private gift and grant support. In 2024-25, approximately 98 percent of new gifts to UC were restricted in their use.

Other funding captures two main sources of revenue: DOE National Laboratory management fee revenues and intellectual property income. As compensation for its oversight of the DOE National Laboratories at Berkeley (LBNL), Livermore, and Los Alamos, the University earns management fees. Management fee revenue related to LBNL is used for costs of oversight, research programs, reserves for future claims, and unallowable costs associated with LBNL. Per Regents' approval, revenue from Lawrence Livermore National Security, LLC (LLNS) and Triad National Security, LLC is used to provide supplemental income to select Triad employees, to cover unreimbursed oversight and post-contract costs, and to support a variety of University research programs.

Income derived from royalties, fees, cashed out equity and litigation recovery, less the sum of payments to joint holders, net legal expenses, and direct expenses, is distributed to various stakeholders according to the University Patent Policy and campus policies. While over 2,200 inventions generated royalty and fee income, the 25 most profitable inventions collectively accounted for more than 49 percent of total revenues.

Combined expenditures on private support and other fund sources totaled $4.7 billion in 2024-25, as shown in Display 6.

Display 6: Private Support and Other Sources Expenses, 2022-23 – 2024-25



Source: 2026-27 Budget for Current Operations. Figures reflect current expenditures only. Dollars in billions.

Core Funding

The University's "core funds," which include revenues from State General Funds, UC General Funds, and systemwide tuition and fees, provide permanent funding for the University's core missions, as well as the administrative and support services needed to perform them. With estimated annual expenses of $11.3 billion in 2025-26, these funds represent approximately 19 percent of UC's total operations. While all fund sources are critical to the success of the University, 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.

State Support

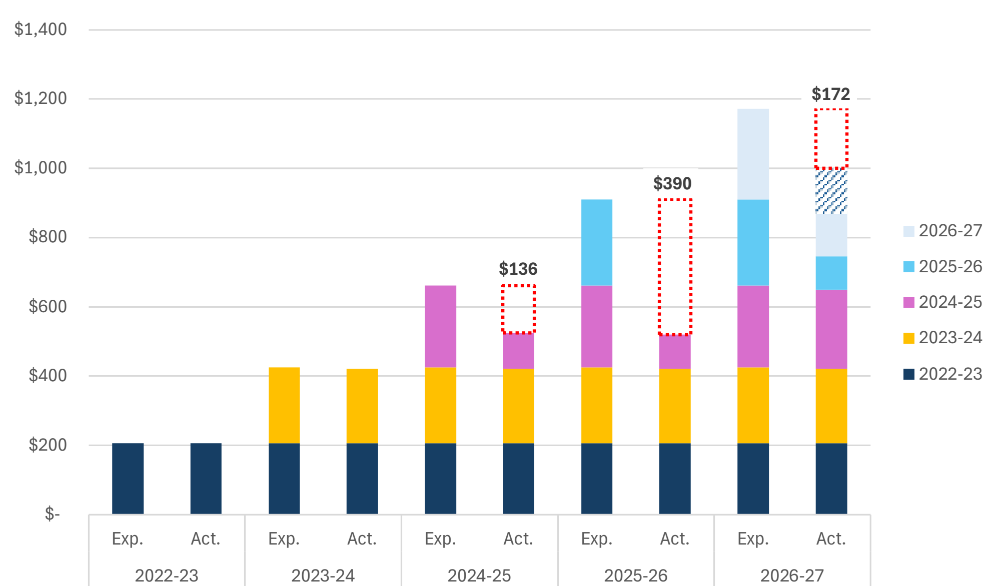
In 2026-27, the University will receive an additional seven percent ($350.7 million) in ongoing base budget funding, $61 million for nonresident replacement at the Berkeley, Los Angeles, and San Diego campuses, an $8.1 million technical adjustment to the student housing bond funding, and a three percent ($129.7 million) ongoing restoration of the 2025-26 base budget deferral. As part of the State's multi-year approach to addressing budget shortfalls, the Budget Act of 2026, as well as prior year Budget Acts, include intent language outlining proposed funding for the University through 2028-29:

- The University will receive an ongoing increase of $144.5 million in 2028-29.
- The University will receive $401.5 million of one-time funding in 2027-28 as back payment for deferrals made in prior years.

The University entered into a multi-year Compact with the State 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, with the expectation that funding increases would support California undergraduate enrollment growth of one percent. The 2026 Budget Act represents the final year of the Compact.

Under the Compact, *expected* new support for UC would total almost $1.2 billion through the five-year period. As shown in Display 7, *actual* funding received is about $1 billion, or about $172 million less than anticipated, with $129.7 million of the 2026-27 payment, shown in the blue crosshatch pattern, committed to repayment of a zero-interest loan from the State.

Display 7: State Funding for UC Under the Multi-year Compact



Note: Dollars in millions.

With this State support, the University has continued to advance the shared goal of expanding access for Californians, growing full-time equivalent (FTE) enrollment by over 18,600 resident undergraduate FTE between 2021-22 and 2025-26, exceeding the Compact’s 2025-26 target by roughly 5,000 FTE. Achieving this level of enrollment growth requires sustained investment, and full State funding remains essential to maintaining the quality of the student experience while preserving the University’s capacity to serve more Californians.

Systemwide Tuition and Fees

Campuses can also anticipate new support from systemwide tuition and fees in 2026-27 and beyond, consistent with annual adjustments to fees under the Tuition Stability Plan. Annual adjustments to Tuition, the Student Services Fee, and Nonresident Supplemental Tuition are based on a three-year average of the California Consumer Price Index (CA-CPI), with an additional percentage point increase intended to address critical campus needs. Tuition and fees for the cohort of undergraduate students who entered the University in fall 2026 increased by 4.4 percent. Continuing undergraduate students will see no increase in these systemwide fees. Under the Tuition Stability Plan, annual increases apply only to Tuition and the Student Services Fee and are assessed to all new and continuing graduate students.

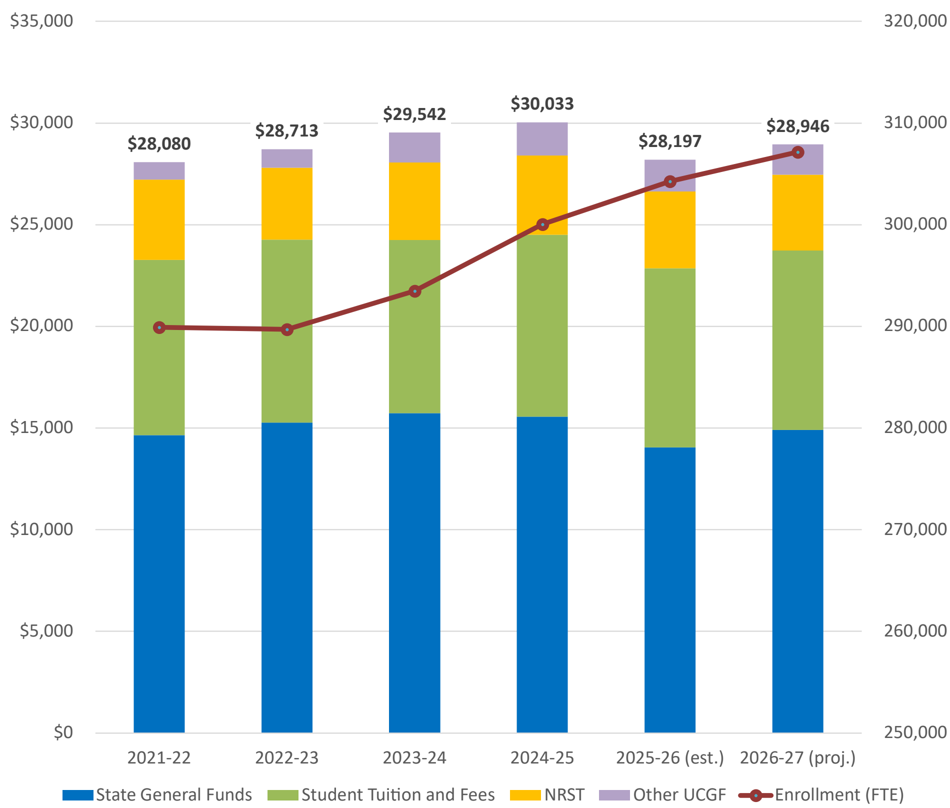
The University’s 2026-27 budget plan includes $280.2 million of new resources from systemwide tuition and fees, including Nonresident Supplemental Tuition, with $105.9 million of new revenue dedicated to student financial aid.

Core Funding per Student

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 shown in Display 8, available core funding per student in 2026-27 is projected to increase over the prior year but remains lower than per student funding levels in both 2023-24 and 2024-25.

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.

Display 8: Available Core Funding per Student vs. Enrollment Growth



Note: Figures adjusted for inflation.

The 2027-28 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 and utilization of employee and retiree health benefits. An August 2026 study by Aon projects that national healthcare costs will increase by 9.5 percent in 2027. For retiree health benefits, the number of retirees has typically grown by about 2.5 percent annually. However, the actual change for 2027-28 may be more volatile due to budget uncertainties and the broader higher education landscape. The University regularly evaluates its health benefits portfolio to ensure that UC offers high-quality benefits with predictable cost increases.

Contributions to the University of California Retirement Plan (UCRP). For 2027-28, the University's employer contribution rate to UCRP is expected to increase from 15 percent to 15.5 percent (including an employer contribution increase from seven percent to 7.5 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. However, the University is currently conducting an experience study of the pension program, which will evaluate the current discount rate and longevity and retirement projections. The results of that study may affect the University's contribution policy.

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 typically seeks 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 3.1 percent in 2027-28. However, outside factors (e.g., national or global issues, new legislation, etc.) may result in new or unexpected costs to the University that must be absorbed within existing budgets.

Expanding Student Access and Success

Enrollment Growth. As shown in Display 9, 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 209,535 full-time equivalent (FTE) California resident undergraduates in 2025-26. Actual enrollment of California resident undergraduates totaled 214,508 FTE in 2025-26, exceeding the Compact's 2025-26 target by 4,973 FTE.

In 2026-27, the Compact calls for total California undergraduate enrollment of 212,503 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 18,647 new California undergraduate FTE.

Display 9: Enrollment Goals vs. Actual Enrollment Under the Compact/State Budget Acts

	2021-22 (actual)	2022-23 (actual)	2023-24 (actual)	2024-25 (actual)	2025-26 (actual)	2026-27 (est.)*	Growth 21-22 to 25-26
Compact Target			**203,661**	**206,588**	**209,535**	**212,503**	
UC System Total	**195,861**	**197,111**	**203,649**	**210,635**	**214,508**	**TBD**	**18,647**
Change over prior year:		1,250	6,538	6,986	3,873		
Amount Over (Under) Compact			**(12)**	**4,047**	**4,973**	**TBD**	

** Estimated enrollment figure will be available in December 2026. Actual enrollment figure will be available in August 2027.*

The University's 2027-28 budget plan will reflect the costs associated with supporting existing levels of enrollment that have surpassed the targets shown above. 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 2027-28 will be developed later this fall as campuses have better information about the number of students who ultimately enroll in fall 2026.

Student Financial Aid. The University's 2027-28 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.

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 $96 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 though 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 2027-28, 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, and $1.43 billion in 2026-27) for support for projects related to deferred maintenance, seismic safety, energy efficiency, and campus expansion. The final State budgets in all four 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.

State Funding

The 2027-28 budget cycle presents an opportunity for the University to partner with the State to develop a predictable, sustainable funding plan in support of the shared goals of expanding educational access for more Californians, preserving the affordability of a UC degree, and ensuring the success of students from all backgrounds.

The multi-year Compact provided an important framework for advancing these goals and aligning University and State priorities. During the Compact period, the University substantially increased California resident enrollment and continued to pursue improvements in student success, affordability, workforce preparation, and other shared priorities. State fiscal challenges, however, resulted in the delay of a portion of the funding contemplated under the Compact and subsequent State budgets.

Accordingly, the University's budget plan will include $401.5 million in one-time funding deferred to 2027-28. Because these resources address prior-year commitments and associated costs, they will not provide funding for the new operating cost increases and priorities that UC must address in 2027-28.

Beyond the restoration of previously committed funding, the University will request new ongoing support to help sustain core operations, preserve educational quality, and address growing costs of the workforce. Additional State funding will also be necessary to support any further enrollment growth across the University and ensure that new students have access to the academic and student support resources necessary to succeed.

STUDENT BUDGET PRIORITIES FOR 2027-28

Staff at the Office of the President meet monthly with University of California Student Association (UCSA) and University of California Graduate and Professional Council (UCGPC) 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.

Preliminary student budget priorities will be shared with the Board at the September Regents meeting.