

SUBCOMMITTEE NO. 1

Agenda

Senator Sasha Renée Pérez, Chair
Senator Bob Archuleta
Senator Rosilicie Ochoa Bogh



Thursday, March 5, 2026
9:30 a.m. or Upon Adjournment of Session
1021 O Street- Room 2100

Consultant: Diego Emilio J. Lopez

Items for Discussion

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Public Comment

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DISCUSSION ITEMS

6440 UNIVERSITY OF CALIFORNIA (UC)
6610 CALIFORNIA STATE UNIVERSITY (CSU)

Issue 1: UC and CSU System Updates

Panel

- James B. Milliken, President, University of California
- Mildred García, Chancellor, California State University

Background. The Governor’s proposed budget for 2026-27 includes a total of \$11.6 billion in ongoing General Fund support for the UC (\$5.4 billion) and CSU (\$6.2 billion). As shown in the figure below, this constitutes an 11 percent increase for the UC and a 10 percent increase for the CSU, when compared to revised 2025-26 funding levels.

State Support for Higher Education Grows Significantly Under Governor’s Budget
 Ongoing General Fund (Dollars in Millions)

	2024-25 Revised	2025-26 Revised	2026-27 Proposed	Change From 2025-26	
				Amount	Percent
CCC	\$10,419	\$9,111	\$10,174	\$1,063	12%
CSU	5,479	5,622	6,175	553	10
UC	4,858	4,853	5,386	533	11
CSAC ^a	2,646	2,556	3,398	842	33
Totals	\$23,403	\$22,143	\$25,134	\$2,991	14%

^a Amounts included for Middle Class Scholarships (MCS) reflect ongoing appropriations each year. For 2024-25, amount excludes \$373 million in one-time MCS funding. For 2025-26, all MCS funding is excluded given the program begins being funded in arrears. For 2026-27, amount excludes \$541 million in one-time MCS funding (for 2025-26 awards).

Notes: The CCC amounts consist of Proposition 98 General Fund that counts toward the minimum guarantee, non-Proposition 98 General Fund, and any withdrawals from the Proposition 98 Reserve. The CSU amounts include General Fund for pensions and retiree health benefits.

CSAC = California Student Aid Commission.

Source: Legislative Analyst’s Office (LAO), The 2026-27 Budget: Higher Education Overview

University of California

UC Core Funds. Of the three public higher education segments, the UC has the largest budget, with total funding greater than the CSU and California Community Colleges (CCC) combined. As the figure below shows, UC receives funding from many different sources. The state generally focuses its budget decision around UC’s “core funds” – the approximately 20 percent of UC’s budget that supports undergraduate and graduate education and certain state-supported research and outreach programs.

University of California Funding by Source

(Dollars in Millions Except Funding Per Student)

	2024-25 Actual	2025-26 Revised	2026-27 Proposed	Change from 2025-26	
				Amount	Percent
Ongoing Core Funds					
Tuition and fees ^a	\$5,822	\$6,000	\$6,273	\$273	4.5%
General Fund	4,858	4,853	5,386	\$533	11.0
Lottery	56	61	61	—	—
Other core funds ^b	488	488	488	—	—
Subtotals	(\$11,224)	(\$11,402)	(\$12,208)	(\$806)	(7.1%)
Other Funds					
Medical centers	\$22,423	\$23,993	\$25,673	\$1,680	7.0%
Sales and services	13,060	13,746	14,357	610	4.4
Federal	5,862	5,890	5,826	-64	-1.1
Private	4,046	4,344	4,626	282	6.5
State	805	732	736	5	0.6
Other	1,427	1,414	1,414	—	—
One-time General Fund	5	90	—	-90	-100
Subtotals	(\$47,630)	(\$50,209)	(\$52,632)	(\$2,423)	(4.8%)
Totals	\$58,854	\$61,611	\$64,840	\$3,229	5.2%
FTE Students ^c	300,027	304,258	301,127	-3,131	-1.0%
Ongoing Core Funding Per Student	\$37,410	\$37,475	\$40,541	\$3,066	8.2%

^a Includes funds that UC uses for tuition discounts and waivers.
^b Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.
^c A FTE student equates to 30 credit units for an undergraduate and 24 credits units for a graduate student. Student counts include residents and nonresident students.
 FTE = full-time equivalent.

Source: LAO, EdBudget Figures – January 2026

Core funds at the UC primarily consist of student tuition and fee revenues and state General Fund. A small portion comes from lottery funds, a share of patent royalty income, and overhead funds associated with federal and state research grants. In total, core funds at UC are about \$12.2 billion in 2026-27, with \$6.3 billion generated from revenue from tuition and fees and \$5.4 billion from state General Fund investments.

UC Tuition Stability Plan. In 2021, the Board of Regents approved a new tuition policy. Under this policy, tuition is raised annually for new undergraduates and all graduate students, while tuition remains flat for continuing undergraduates (for up to six academic years). Tuition increases generally are based on a three-year rolling average of the annual change in the California Consumer Price Index, with an annual cap of 5 percent (unless modified by the Board of Regents). As a result of the new tuition policy, tuition and fee revenues have been growing more quickly at UC over the past few years. The first year of tuition increases under this policy was 2022-23. In 2026-27, the UC estimates it will generate \$280.2 million in additional net tuition revenue from annual adjustments to tuition, the Student Services Fee (SSF), and Nonresident Supplemental Tuition. Whereas previous tuition increases generally were precipitated by reductions in state General Fund support, UC’s new policy was largely driven by a desire to expand its

overall budget capacity. The figure below provides tuition and fee levels under the UC Tuition Stability Plan for undergraduate students.

UC Tuition Stability Plan	2022-23 Actual	2023-24 Actual	2024-25 Actual	2025-26 Approved	2026-27 Projected
Tuition	\$11,928	\$12,522	\$13,146	\$13,602	\$14,202
Student Services Fee	\$1,176	\$1,230	\$1,290	\$1,332	\$1,386
CA Students Total	\$13,104	\$13,752	\$14,436	\$14,934	\$15,588
Nonresident Supplemental Tuition	\$31,026	\$32,574	\$34,200	\$37,602	\$39,270
Nonresident Students Total	\$44,130	\$46,326	\$48,636	\$52,536	\$54,858

Source: University of California, Office of the President (UCOP)

In November 2025, the Board of Regents reviewed and reauthorized the UC Tuition Stability Plan with various modifications:

- 1. UC Tuition Plan Reauthorized Until 2033-34.** The plan will be effective for seven years, beginning in the 2026-27 academic year. Review and reauthorization will be done by the Regents prior to the 2033-34 academic year.

For undergraduates in State-supported programs, the applicable levels of Tuition, the Student Services Fee, and Nonresident Supplemental Tuition will be determined according to the following schedule:

Year Student First Enrolls at UC (Entering Cohort)	Increase Over Amount Charged to Students Who Entered in Prior Year
2026-27	Inflation + 1.0%
2027-28 and later	Inflation + 1.0% + Banked Amount*
* Use of any banked amount, if applicable, is subject to the annual cap of five percent.	

Source: University of California, Board of Regents – Approved Actions, Attachment 1, November 21, 2025

For all graduate students in State-supported programs, adjustments to Tuition and the Student Services Fee will follow the schedule identified below.

Year	Increase
2026-27	Inflation + 1.0%
2027-28 and later	Inflation + 1.0% + Banked Amount*
* Use of any banked amount, if applicable, is subject to the annual cap of five percent.	

Source: University of California, Board of Regents – Approved Actions, Attachment 1, November 21, 2025

- 2. Five Percent Cap and “Banking” of Increases to Future Years.** Maintains the five percent cap on annual increases but allows for “banking” of any amount over the five percent to be used in future years.

Display 2: Annual Increases to Mandatory Undergraduate Tuition and Fee Levels

	2022-23	2023-24	2024-25	2025-26 ²
CA-CPI (3-year avg.)¹	2.28%	4.85%	4.09%	3.00%
Phase-in	2.00%	1.50%	1.00%	0.50%
Increase	4.25%	5.00%	5.00%	3.50%
Increase (w/o cap)	4.25%	6.35%	5.09%	3.50%

¹ Increases calculated based on available CA-CPI estimates at the time rates were calculated.

² An increase to undergraduate NRST of 9.9% was approved for 2025-26.

Source: University of California, Board of Regents – Attachment B3 from November 19, 2025 Meeting

As an illustrative example, had these changes been in place since the original approval of the Tuition Stability Plan, the UC would have been able to “bank” 1.35 percentage points from the 2023-24 academic year and 0.09 percentage points from the 2024-25 academic year for use in the 2025-26 year, bringing the 2025-26 increase up from 3.5 percent to 4.94 percent for undergraduate students.

This change allows the UC to provide for higher annual increases to student charges in academic years where the three-year rolling average of the California Consumer Price Index are lower.

- 3. 40 Percent Return-to-Aid Rate.** The Tuition Stability Plan approved in July 2021, included a requirement that 45 percent of new revenue generated by annual adjustments to undergraduate Tuition and SSF is set aside for student financial aid. This is known as the Return-to-Aid rate.

The plan, approved in November 2025, reduces the Return-to-Aid rate on increases to undergraduate tuition and SSF to 40 percent from the current rate of 45 percent, with a planned decrease to 33 percent once the systemwide average return-to-aid rate reaches 33 percent of total Tuition and SSF revenue.

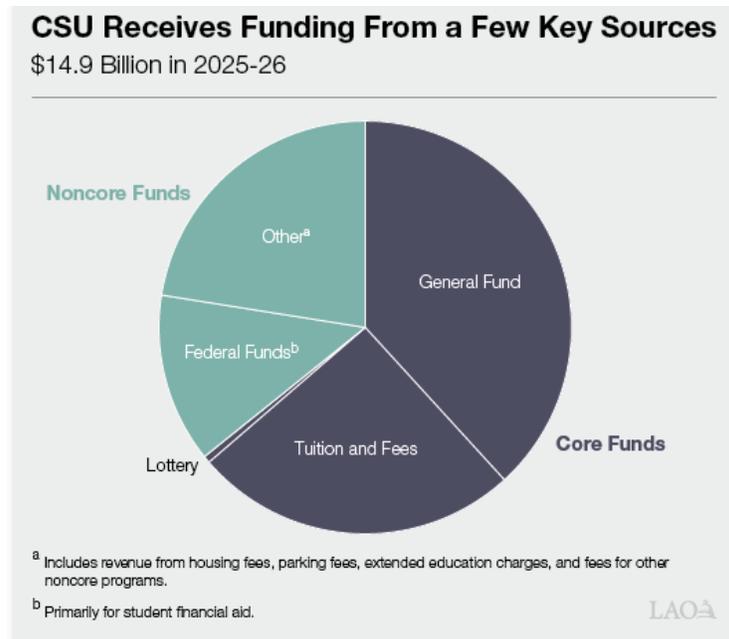
This change allows the UC to set aside less of new generated revenue, from increases pursuant to the UC Tuition Stability Plan, for student financial aid.

- 4. Additional One Percent Increase for Discretionary Campus Spending.** An additional one-percent increase on top of the annual inflation-based increases, to be used at Chancellors’ discretion to support any campus needs, subject to the annual five percent cap on increases. This additional increase is also subject to “banking” for future years if total increases reach the 5 percent cap.

This change would allow the UC to increase tuition and SSF by an additional one percent to provide discretionary funds to each campus.

California State University

CSU Core Funds. As the figure below shows, CSU receives funding from various sources. The state generally focuses its budget decisions around CSU’s “core funds,” or the portion of its budget supporting its academic mission.



Source: LAO, The 2026-27 Budget: California State University

Core funds at the CSU primarily consist of state General Fund and student tuition revenue, with a very small share coming from state lottery revenue. In total, core funds at the CSU, pursuant to the Governor’s proposed budget, amount to \$10.3 billion in 2026-27, with \$4 billion generated from tuition and fees revenues and \$6.2 billion from state General Fund investments.

Tuition. CSU’s tuition levels have long been lower than its peers nationally. In 2024-25, CSU’s resident undergraduate tuition and fees were approximately \$1,995 (20 percent) lower than the national average of comparable public institutions. Until recently, CSU has not had a tuition policy guiding its annual tuition levels. A CSU work group focused on fiscal sustainability, however, identified a significant gap between the system’s costs and its revenues. One of the work group’s recommendations was that CSU adopt a tuition policy that provides for gradual and predictable tuition increases. The CSU Board of Trustees adopted such a policy in September 2023. Under the policy, tuition increases by 6 percent annually for all students, beginning in 2024-25 and extending through 2028-29. The figure below shows tuition rates through the 2028-29 academic year.

Academic Year	2025-26	2026-27	2027-28	2028-29
Undergraduate Programs				
Full-Time (6.1+ units)	\$6,450	\$6,838	\$7,248	\$7,682
Part time (0-6 units)	\$3,738	\$3,962	\$4,200	\$4,452
Credential Programs				
Full-Time (6.1+ units)	\$7,488	\$7,938	\$8,414	\$8,918
Part time (0-6 units)	\$4,344	\$4,604	\$4,880	\$5,172
Graduate & Post-Baccalaureate				
Full-Time (6.1+ units)	\$8,064	\$8,548	\$9,060	\$9,604
Part time (0-6 units)	\$4,680	\$4,960	\$5,258	\$5,574
Doctoral Programs				
Doctor of Audiology	\$16,560	\$17,554	\$18,608	\$19,724
Doctor of Education	\$13,296	\$14,094	\$14,940	\$15,836
Doctor of Nursing Practice	\$17,160	\$18,190	\$19,282	\$20,438
Doctor of Occupational Therapy	\$19,320	\$20,480	\$21,708	\$23,010
Doctor of Physical Therapy	\$19,320	\$20,480	\$21,708	\$23,010
Doctor of Public Health	\$20,034	\$21,236	\$21,510	\$23,860
Nonresident Fee				
Semester Rate (per unit)	\$444	\$471	\$498	\$528
Quarter Rate (per unit)	\$296	\$314	\$332	\$352
Graduate Business Professional				
Semester Rate (per unit)	\$303	\$321	\$339	\$360

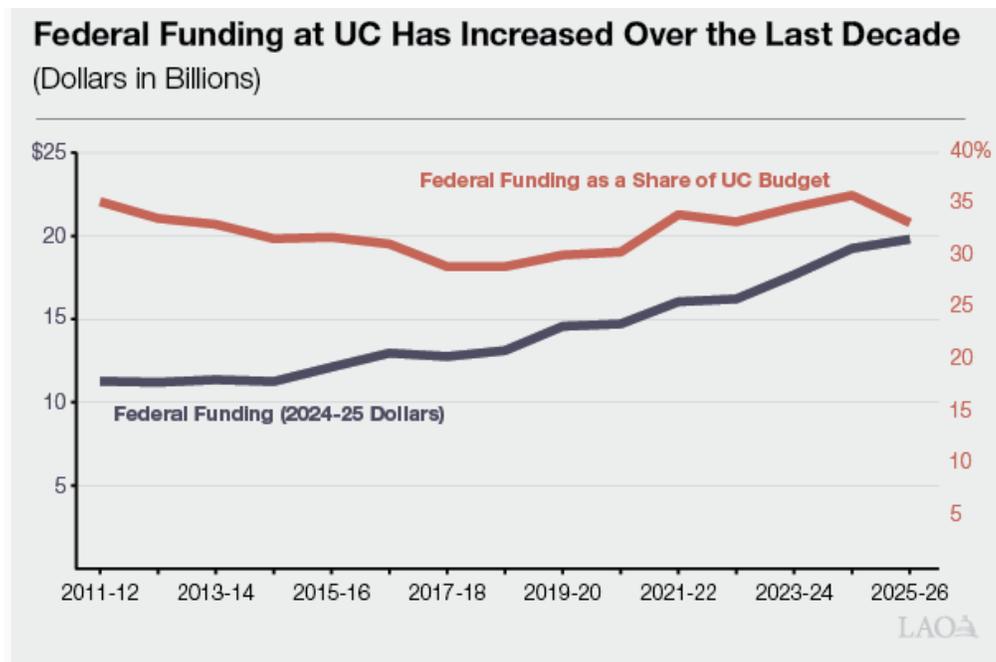
Source: California State University, Office of the Chancellor

Spending Increases for Financial Aid Are Primarily Due to Tuition Increases. CSU sets aside a portion of its tuition revenue to provide financial aid to students, also known as institutional financial aid. The largest institutional financial aid program is the State University Grant (SUG) program. SUG generally covers the full cost of tuition for students who have financial need (based upon a federal calculation) but do not receive tuition coverage under the Cal Grant program (such as students in their fifth or sixth year who have used up their four years of Cal Grant eligibility and some graduate students). Currently, SUG provides grants to about 150,000 students. Of the \$879 million spent on financial aid in 2024-25, 85 percent was for SUG. From 2019-20 to 2024-25, spending for institutional financial aid increased by \$118 million (15 percent), largely as a result of tuition increases. When CSU increases its tuition charges, it intends to fully cover the higher charges for most SUG recipients. CSU has raised tuition three times over the last decade and has increased SUG spending to account for those associated increases. Starting in 2022-23, the state requires CSU to also increase SUG spending for enrollment growth. This policy has also contributed to increased spending, but less so than the tuition increases.

University of California & California State University

Federal Impacts.

UC Federal Funding. Federal Funding for the UC has grown over the past decade, reaching \$19.2 billion in 2024-25. The exact percentage has fluctuated, but federal funding has comprised generally about one-third of UC’s total operating budget. Federal Funds must be used for specified purposes and are not interchangeable with core funds.

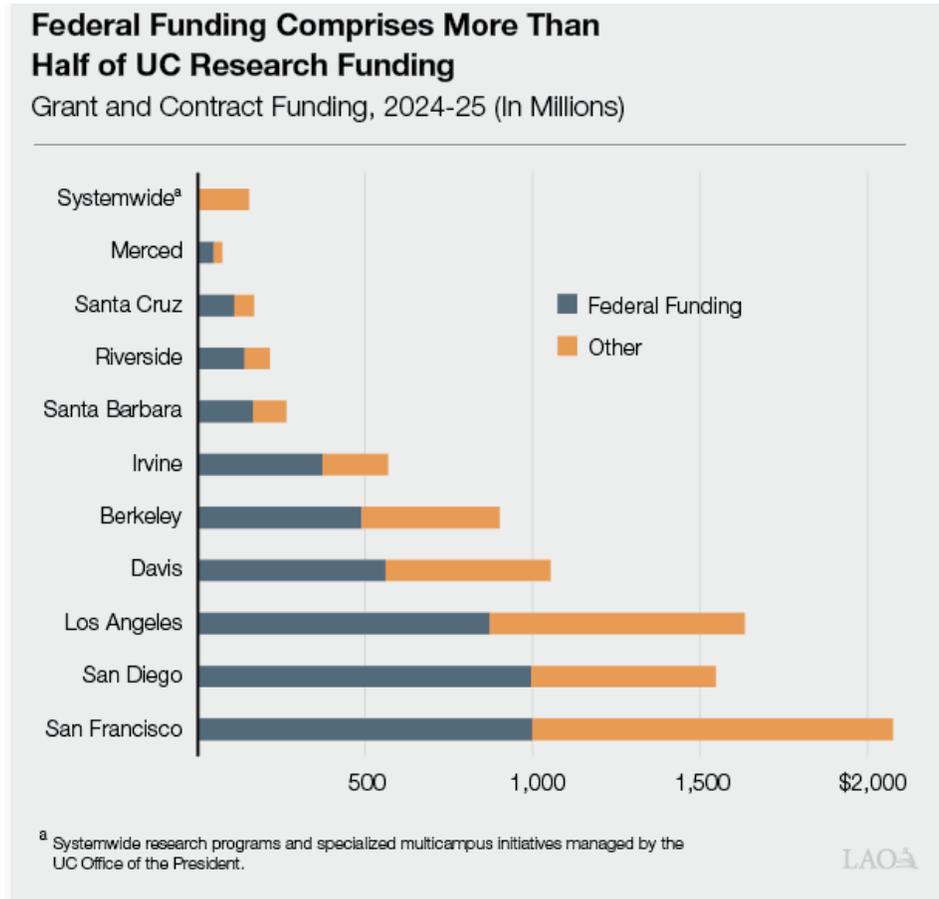


Source: LAO, The 2026-27 Budget: University of California

Federal Funding Supports UC in Three Main Areas. The federal government provides support to UC primarily for (1) health care delivery and training, (2) research, and (3) student financial aid. More than half of federal funding at UC is for health care delivery and training, mainly at UC’s five medical centers. About one-quarter of federal funding is for research. All ten UC campuses receive some federal funding for research annually. About 10 percent of federal funding is for student financial aid, namely for student loans and Pell Grants. The remaining funding is for training, student support, and outreach programs, among various other purposes.

UC Campuses Rely Heavily on Federal Research Funding. In 2024-25, UC received \$4.8 billion in federal research funding (and an additional \$1.8 billion for the management and operations of three Department of Energy national laboratories). Federal research funding comprised 55 percent of UC’s total research funding systemwide in 2024-25. UC’s institutional funding—drawn from gifts, endowments, General Fund, and other sources—accounts for about 22 percent of total research funding. (UC also receives research funding from nonprofit organizations, other state agencies, and private businesses.) As the figure from the LAO below shows, some UC campuses received much more federal research funding than other UC campuses. Whereas UCSF and UC San Diego each received nearly \$1 billion in federal research funding, six other UC campuses each received less than \$500 million. While most federal agencies provide some research funding to UC campuses, the National Institutes of Health (NIH) accounts for over

40 percent of UC’s federal research funding. NIH funding is particularly concentrated on campuses with medical centers.



As of January 21, 2026, the UC estimates \$172.5 million in losses from terminated/suspended federal research grant awards. The UC also estimates \$832.2 million in potential additional losses in the event that previously reinstated awards are re-terminated.

	# of Awards	Total Award Value	Total Spent	Remaining Balance
Terminated/Suspended				
Direct awards	136	\$285,226,951	\$159,477,537	\$125,749,413
Subawards	253	\$109,033,300	\$62,256,018	\$46,777,282
Total	389	\$394,260,251	\$221,733,555	\$172,526,695
Reinstated				
Direct awards	1,156	\$1,902,746,561	\$1,091,942,788	\$810,803,773
Subawards	116	\$75,171,227	\$53,727,669	\$21,443,559
Total	1,272	\$1,977,917,788	\$1,145,670,457	\$832,247,331
All Statuses				
Direct awards	1,292	\$2,187,973,511	\$1,251,420,325	\$936,553,186
Subawards	369	\$184,204,527	\$115,983,687	\$68,220,841
Total	1,661	\$2,372,178,039	\$1,367,404,012	\$1,004,774,027

Source: University of California, Office of the President (UCOP)

Federal Financial Aid Represents One-Third of Student Financial Aid at UC. In 2024-25, UC received nearly \$2 billion in federal funding for student financial aid. More than half of this amount consisted of student loans to undergraduate and graduate students, while grants and gift aid—primarily Pell Grants—totaled over \$700 million. Overall, federal aid accounted for nearly one-third of the total financial aid received by UC students, with the remainder provided by the state and UC. The relative importance of federal aid varies across campuses, ranging from 38 percent of total financial aid at UCSF (driven largely by graduate student borrowing) to 27 percent at UC Berkeley.

UC Los Angeles (UCLA) Was a Focus of Federal Investigations. Following campus protests in 2024, the federal government initiated civil rights investigations at certain campuses across the country, including at some UC campuses. The investigations stemmed from allegations that these campuses did not adequately address antisemitic harassment and discrimination connected to the protests. The federal interactions with UCLA ultimately went beyond the actions taken at other UC campuses. Below is a time line of key developments in the UCLA situation.

- On July 29, 2025, the federal Department of Justice issued a notice concluding UCLA had violated certain civil rights provisions.
- Also in late July 2025, federal agencies suspended nearly \$600 million in UCLA research grants citing concerns related to alleged antisemitism, along with broader policy issues involving the university's admissions and diversity, equity, and inclusion practices.
- In August 2025, the Trump Administration sought a \$1.2 billion penalty and package of policy changes from UCLA to settle the civil rights allegations and release the frozen research funding.
- In November 2025, a federal judge issued a preliminary injunction blocking the Trump Administration from pursuing the proposed UCLA payment and constraining the use of broad funding threats as coercive leverage.
- In February 2026, reports emerged indicating the federal administration dropped its appeal.

Graduate and Professional Programs Face the Greatest Impact of Federal Student Aid Changes. H.R. 1 makes major changes to federal student aid programs. The figure below describes the major changes. Among the most notable changes are new annual and lifetime caps on graduate and professional student borrowing, along with the elimination of Graduate PLUS (Grad PLUS) loans for new borrowers. (Grad Plus loans allow students to borrow up to the full cost of attendance minus other aid.) These changes would disproportionately affect students in high-cost graduate and professional programs, particularly in medicine, law, and health sciences, where borrowing sometimes exceeds the new federal caps. With the elimination of Grad PLUS loans, some students could face higher out-of-pocket costs and increased reliance on private loans.

H.R. 1 Makes Major Changes to Federal Student Aid Programs

Changes Take Effect July 1, 2026, Unless Otherwise Noted

	Policy Area	Key Changes
Graduate and Professional Students	Graduate PLUS (Grad PLUS)	Eliminates Grad PLUS for new borrowers.
	Direct Loan annual limits	Sets annual caps: \$20,500 (graduate); \$50,000 (professional).
	Direct Loan program limits	Adds program caps: \$100,000 (graduate); \$200,000 (professional).
Undergraduate Students	Parent PLUS	Adds annual cap (\$20,000 per dependent student) and lifetime cap (\$65,000 per dependent student).
	Pell Grant eligibility	Students become ineligible for Pell Grants if: <ul style="list-style-type: none"> • Their nonfederal grants and scholarships cover full cost of attendance. • Their Student Aid Index is greater than twice the maximum Pell Grant award.
	Workforce Pell Grant	Creates a Workforce Pell Grant program for short-term academic and training programs meeting defined criteria.
All Students	Federal student loan lifetime cap	Establishes \$257,500 lifetime borrowing cap, excludes Parent PLUS and Grad PLUS debt.
	Direct Loan program eligibility	Uses an earnings-based accountability measure to determine an academic program's eligibility for future participation in the federal Direct Loan program.
	Repayment plans, new borrowers	For new loans, borrowers generally limited to two options: a new standard option (fixed payments) or the RAP income-based option.
	Repayment plans, current borrowers	Current borrowers can remain in some existing plans, but borrowers on certain income-driven repayment plans must transition to the new standard or RAP plans by July 1, 2028.
	Annual loan caps, part-time students	Requires proration of annual loan amounts for students enrolled less than full time.

RAP = Repayment Assistance Plan.

Source: LAO, The 2026-27 Budget: University of California

CSU Federal Grants. As of January 31, 2026, the CSU recognized 284 federal awards that were terminated, with 66 reinstated. The resulting 218 federal awards terminated account for an estimated loss of over \$161 million and 43,930 students impacted.

Financial Impact from Terminations				
Financial Impact (Award Amount & Funds Terminated), Award Count, and Student Impact				
As of 1/31/2026				
Financial Impact Totals	Award Count	Total Award Amount	Sum of Funds Lost	Student Impact
NET Total (All Terminations minus Reinstatements)	218	\$ 291,622,416	\$161,295,206	43,930

Source: California State University, Office of the Chancellor

Of the grants that remain terminated, the Minority Serving Institution (MSI), Asian American and Native American Pacific Islander-Serving Institution (ANNAPISI), Hispanic Serving Institution (HIS) and TRIO impact is provided below.

Department of Education Awards Terminated, by Program or Group				
Financial Impact (Award Amount & Funds Terminated), Award Count, and Student Impact				
As of 1/31/2026				
Financial Impact Totals	Award Count	Total Award Amount	Sum of Funds Lost	Student Impact
MSI, HSI, AANAPISI	29	\$ 80,348,888	\$ 43,462,623	28,746
TRIO	8	\$ 15,709,067	\$ 5,302,661	3,011

Source: California State University, Office of the Chancellor

Title IX. AB 2326 (Chapter 827, Statutes of 2024) requires the Chancellor of the Community Colleges, Chancellor of the California State University system and the President of the University of California to make a presentation at the budget subcommittees of the Assembly and Senate, that the programs and activities of their corresponding segments are free from discrimination and prevent sexual harassment.

University of California. According to the UC, the University of California Office of the President has a dedicated Systemwide Office of Civil Rights (SOCR), which includes a Systemwide Title IX Office (STIXO). STIXO provides education, guidance, and investigative support to campus and location Title IX offices to ensure consistent implementation of UC’s systemwide Sexual Violence and Sexual Harassment (SVSH) Policy and related investigation and adjudication frameworks. SOCR, inclusive of STIXO, also administers the systemwide case management database system used by campuses and locations to track SVSH reports locally and by STIXO to track such reports systemwide.

In 2025, STIXO issued an updated SVSH Policy and investigation and adjudication frameworks to incorporate technical changes required by state law. Specifically, the SVSH Policy was updated to comply with SB 1491 (Eggman, 2024). Language was also added to both the SVSH Policy and the investigation and adjudication frameworks, where applicable, to comply with AB 1905 (Addis, 2024), AB 1575 (Irwin, 2024), and AB 2987 (Ortega, 2024).

Each UC campus or location has a dedicated Title IX Officer. The local Title IX Officers are responsible for coordinating responses to reports of sex-based discrimination, including sexual harassment and sexual violence, that arise in the work, education, or patient care environment at their campus or location. In addition to investigatory services, campus and location Title IX offices are responsible for equitably facilitating appropriate support services, as needed, for individuals involved in SVSH matters, either as complainants or respondents. In addition to their responsive work, Title IX offices also proactively conduct or partner with other UC personnel to provide preventive SVSH and Title IX education and training.

California State University. According to the CSU, the system has expanded specialized oversight capacity at the Chancellor’s Office. The CSU has established five dedicated teams that partner closely with campus civil rights offices to strengthen operations and improve the quality of services provided to students and employees. This represents a significant shift in how the CSU ensures consistency and quality across the system, advancing their goal to ensure that any student or employee – regardless of campus – has access to the same level of support and resources should they experience discrimination or harassment.

The CSU has also improved the quality and consistency of civil rights investigations through a shared investigator pilot program and the creation of centralized investigator positions at the Chancellor’s Office. These efforts build internal expertise, reduce reliance on external contractors, and support more timely and effective resolutions.

Over the past year, the CSU’s vice chancellor for Human Resources and other CSU leaders have provided the Board of Trustees with updates at every meeting regarding systemwide and campus-based civil rights work. Additionally, the CSU has published annual reports on these matters with the legislature, including the Annual Report on Nondiscrimination Policy (October 2025), the Annual Report on Sexual Harassment (November 2025) and the Equity in Higher Education Act Annual Report (December 2025).

Staff Recommendation. Informational Item Only.

Issue 2: Higher Education Student Housing Grant Program

Panel

- Alexander Anaya Velazquez, Department of Finance
- Florence Bouvet, Legislative Analyst’s Office
- Natalie Gonzalez, Legislative Analyst’s Office
- Seija Virtanen, University of California
- Mark Martin, California State University

Background. The 2021, 2022 and 2023 Budget Acts created the Higher Education Student Housing Grant Program and authorized 35 projects: seven UC projects, 11 CSU projects, 16 CCC projects, three joint UC/CCC projects, and one joint CSU/CCC project, totaling about \$2.2 billion in state funding. Projects were required to provide “affordable” beds for students, which was defined as rents not exceeding 30 percent of 50 percent of a campus’s area median income. (This is a measure used in various federal and state affordable housing programs to gauge housing affordability for low-income residents.) While the program was originally conceived with one-time General Fund, the 2023 Budget Act shifted the program to bond financing. The figures below provides the current status of student housing projects at the CSU and UC.

Project Name	Project Cost		Funding by Source		Bed Count & Rent For Low-Income Students		Standard Bed Count & Associated Rent		Building Square Footage (GSF)		Construction Completion Date	
	Proposed	Updated	Proposed	Updated	Proposed	Updated	Proposed	Updated	Proposed	Updated	Proposed	Updated
CSU Dominguez Hills Student Housing, Phase 4	\$ 75,000,000	\$ 97,000,000	CSU: \$ 26,250,000 HESHGP: \$ 48,750,000	CSU: \$ 46,750,000 HESHGP: \$ 50,250,000	238 beds \$700	288 beds \$700	116 beds N/A	N/A beds N/A	84,600	63,140	Apr-25	Aug-26
Fresno State New Affordable Student Housing	\$ 47,768,000	\$ 53,520,000	CSU: \$ 16,718,000 HESHGP: \$ 31,050,000	CSU: \$ 19,770,000 HESHGP: \$ 33,750,000	225 beds \$700	228 beds \$733	N/A beds N/A	N/A beds N/A	88,750	82,838	Jun-25	Jul-26
Cal State Fullerton Student Housing, Phase 5	\$ 136,897,000	\$ 157,948,000	CSU: \$ 47,997,000 HESHGP: \$ 88,900,000	CSU: \$ 69,048,000 HESHGP: \$ 88,900,000	390 beds \$933	390 beds \$1,128	202 beds N/A	120 beds \$1,598	200,000	154,710	Jul-24	Aug-26
Cal Poly Humboldt 8th Street Arcata Student Housing (Hinarr Hu Moulik)	\$ 41,703,000	\$ 221,698,000	CSU: \$ 14,603,000 HESHGP: \$ 27,107,000	CSU: \$ 194,591,000 HESHGP: \$ 27,107,000	138 beds \$630	138 beds \$630	N/A beds N/A	796 beds \$780	70,256	303,000	Jun-24	Dec-25
Cal State Long Beach La Playa (Hillside North Student Housing)	\$ 82,000,000	\$ 122,221,000	CSU: \$ 28,700,000 HESHGP: \$ 53,300,000	CSU: \$ 68,921,000 HESHGP: \$ 53,300,000	403 beds \$700	412 beds \$982	N/A beds N/A	N/A beds N/A	97,351	108,100	Dec-24	Jul-26
CSU Northridge Student Housing Buildings #22 & #23	\$ 57,748,000	\$ 72,838,815	CSU: \$ 20,248,000 HESHGP: \$ 37,500,000	CSU: \$ 35,338,815 HESHGP: \$ 37,500,000	200 beds \$700	200 beds \$721	N/A beds N/A	N/A beds \$866	61,704	61,704	May-24	Jul-25
Sacramento State Student Housing, Phase 3	\$ 67,055,000	\$ 69,970,000	CSU: \$ 25,715,000 HESHGP: \$ 41,340,000	CSU: \$ 28,630,000 HESHGP: \$ 41,340,000	285 beds \$894	285 beds \$987	N/A beds N/A	40 beds \$1,060	97,470	98,316	Apr-27	Jul-26
San Diego State Calexico Off-Campus Center Housing	\$ 13,630,000	\$ 17,028,000	CSU: \$ 4,780,000 HESHGP: \$ 8,850,000	CSU: \$ 7,920,000 HESHGP: \$ 9,108,000	78 beds \$618	80 beds \$677	N/A beds N/A	N/A beds N/A	16,000	13,000	Mar-25	Jul-26
San Francisco State West Campus Green Affordable Housing and Student Health Center	\$ 178,991,000	\$ 178,991,000	CSU: \$ 62,691,000 HESHGP: \$ 116,300,000	CSU: \$ 62,691,000 HESHGP: \$ 116,300,000	750 beds \$845	750 beds \$990	N/A beds N/A	N/A beds N/A	180,000	169,495	Jul-24	Aug-24
San José State Spartan Village on the Paseo	\$ 333,816,000	\$ 166,065,000	CSU: \$ 244,716,000 HESHGP: \$ 89,100,000	CSU: \$ 76,965,000 HESHGP: \$ 89,100,000	517 beds \$970	517 beds \$1,045	490 beds N/A	140 beds \$1,098	452,360	232,431	Jun-27	Dec-25
CSU San Marcos University Village Housing and Dining	\$ 140,023,000	\$ 126,862,185	CSU: \$ 49,023,000 HESHGP: \$ 91,000,000	CSU: \$ 34,562,185 HESHGP: \$ 92,300,000	390 beds \$832	390 beds \$1,046	210 beds N/A	150 beds \$1,133	224,681	140,661	Jun-24	Aug-26
Stanislaus State Residence Life Village IV	\$ 29,005,000	\$ 31,005,000	CSU: \$ 10,155,000 HESHGP: \$ 18,850,000	CSU: \$ 10,166,000 HESHGP: \$ 20,839,000	75 beds \$703	75 beds \$776	45 beds \$ 877	48 beds \$943	45,707	27,621	May-24	Jun-27
Totals	\$ 1,203,836,000	\$ 1,315,147,000	Totals \$ 1,203,643,000	Totals \$ 1,315,147,000	3,689 beds \$769	3,753 beds \$868 \$99	1,063 beds \$ 877	1,294 beds \$ 1,068 \$ 200	1,618,879	1,455,016		
			Subtotal by fund source	CSU: \$ 551,596,000 HESHGP: \$ 652,047,000 54%	\$ 655,353,000 \$ 659,794,000 50%							

Source: CSU Higher Education Student Housing Grant Program Report – July 2025

UC State Housing Grant Projects

Campus	Project Title	Subsidized Beds	Total Beds	First Fall Full Operation
Berkeley	People's Park	310	1,113	Fall 2027
Irvine	Mesa Court Residence Hall	300	424	Fall 2025
Los Angeles	Gayley Tower Redevelopment	358	445	Fall 2027
San Diego	Pepper Canyon West	1,100	1,308	Fall 2024
Santa Cruz	Kresge College Non Academic Phase 2	320	440	Fall 2027
Davis	Segundo Infill	216	494	Fall 2027
Santa Barbara	East Campus	240	1,276	Fall 2028
Total all UC only projects		2,844	5,500	

UC / CCC State Housing Grant Intersegmental Projects

Campus	Project Title	Subsidized Beds for UC	Total Beds for UC	First Fall Full Operation
Riverside	North District Phase 2 w/ Riverside City College	326	1,242	Fall 2025
Merced	Promise Housing w/ Merced Community College	287	287	Fall 2027
Total UC Beds in Intersegmental Projects		613	1,529	

	Subsidized Beds	Total Beds
All UC Housing Grant Projects	3,457	7,029

Source: University of California, Office of the President – January 2026

Staff Recommendation. Informational Item Only.

Issue 3: Enrollment

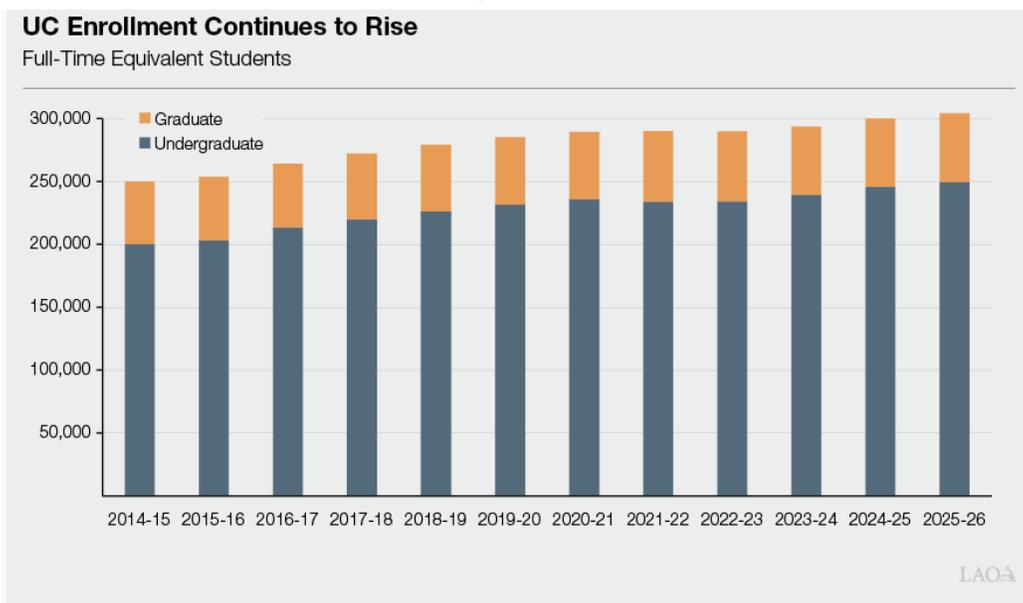
Panel

- Alexander Anaya Velazquez, Department of Finance
- Florence Bouvet, Legislative Analyst’s Office
- Natalie Gonzalez, Legislative Analyst’s Office
- Seija Virtanen, University of California
- Mark Martin, California State University

Background.

University of California

UC Enrollment Has Grown Over the Past Decade. As the figure below shows, UC enrollment has increased every year but one (2022-23) over the past decade. Total enrollment has grown by nearly 47,000 students (18 percent), an increase equivalent to the current total enrollment of UC Los Angeles. Undergraduate enrollment has grown faster than graduate enrollment. From 2015-16 through 2024-25, undergraduate enrollment increased by 21 percent, whereas graduate enrollment increased by 8 percent. As a result, the share of undergraduates has grown slightly (from 80 percent to 82 percent of overall enrollment), as the share of graduate students has declined (from 20 percent to 18 percent). Undergraduate enrollment growth has varied somewhat across UC campuses. Over the last decade, UC Merced added the fewest number of undergraduates but grew at the fastest rate. UC Los Angeles grew at the slowest pace.



Source: LAO, The 2026-27 Budget: University of California

The figure below shows undergraduate enrollment for the nine UC campuses from 2021-22 through 2025-26.

**University of California Undergraduate Full-Time Equivalent Enrollment,
General Campus Plus Health Sciences**

Campus	2021-22 actual	2022-23 actual	2023-24 actual	2024-25 actual	2025-26 estimated
Berkeley	32,639	32,964	33,823	34,165	34,418
Davis	31,501	31,318	31,826	32,619	32,314
Irvine	29,876	29,374	30,501	31,938	32,624
Los Angeles	33,289	33,677	34,675	35,331	35,642
Merced	8,644	8,379	8,534	8,565	8,804
Riverside	21,996	22,435	22,732	23,085	24,389
San Diego	34,468	34,478	35,189	36,394	36,977
Santa Barbara	22,906	23,010	23,328	24,339	24,472
Santa Cruz	18,632	18,425	18,936	19,244	19,680
UC	233,950	234,060	239,546	245,680	249,320

FTE Calculation includes fall, winter, spring, summer

Source: University of California, Office of the President – February 2026

Composition of UC Undergraduate Student Body Has Changed Somewhat Over Past Decade. As the figure below shows, the share of Hispanic/Latino students at UC rose from 26 percent in fall 2015 to 31 percent in fall 2024, while the share of White students declined from 26 percent to 21 percent. The share of Asian students remained stable, while the share of African American students rose slightly. The share of resident undergraduates receiving Pell Grants (a proxy for low income) declined from 46 percent in fall 2015 to 43 percent in fall 2024. Regarding academic preparation, the share of freshmen enrolled with a weighted high school GPA of 4.0 or above increased from 53 percent to 66 percent over the period.

UC Expects to Exceed Its Resident Undergraduate Enrollment Target in 2025-26. The 2025-26 Budget Act set the expectation that UC grow its resident undergraduate enrollment by 2,947 FTE students (1.4 percent) in 2025-26, for a total level of 209,535 FTE students. Based on data from the summer and fall 2025 terms, UC estimates that its resident undergraduate enrollment will be up 8,144 FTE students (3.9 percent) in 2025-26, for a total level of 214,732 FTE students. This level of growth even exceeds the 2025-26 Budget Act enrollment target set for UC in 2026-27—212,503 FTE students. UC is planning to apply the excess growth in 2025-26 toward its 2026-27 enrollment target. UC is accommodating the cost of this enrollment within its core budget.

UC Expects to Miss Its Nonresident Undergraduate Enrollment Reduction Target in 2025-26. Despite substantially exceeding its 2025-26 resident undergraduate enrollment target, UC anticipates that it will not meet the target of replacing a combined 902 FTE nonresident students with resident students at the Berkeley, Los Angeles, and San Diego campuses. As the figure below shows, compared to 2024-25, nonresident undergraduate enrollment is expected to decline by 22 FTE students at Berkeley and 169 FTE students at Los Angeles but increase by 265 FTE students at San Diego (for a new increase of 74 FTE students). Whereas the Berkeley and Los Angeles campuses reduced nonresident undergraduate

headcount as a share of their total undergraduate headcount, the San Diego campus increased it. None of the three campuses has yet reduced nonresident undergraduate enrollment below the 18 percent cap.

Nonresident Reduction by Campus as FTE

Campus	Actual Replacements			Estimated 2025-26	Total Replacement	Funded Replacement
	2022-23	2023-24	2024-25			
Berkeley	(86)	(279)	(766)	(22)	(1,153)	902
UCLA	(384)	(265)	(235)	(169)	(1,053)	902
San Diego	(570)	(513)	18	265	(800)	902
Total	(1,040)	(1,057)	(983)	74	(3,006)	2,706

Source: University of California, Office of the President – February 2026

Governor’s Budget Proposals.

Governor Maintains 2026-27 Enrollment Expectations but Sets No Target for 2027-28. The 2025-26 Budget Act set a resident undergraduate enrollment expectation for UC in 2026-27. Specifically, UC is to add 2,968 FTE students (a 1.4 percent increase) in 2026-27, bringing resident undergraduate enrollment to 212,503 FTE students. Under the compact, UC is to fund much of this growth (2,066 FTE students) from within the proposed base increases. The rest is funded through the nonresident replacement plan. In contrast to past state practice, the Governor does not set enrollment growth expectations at UC for budget year plus one (2027-28).

Governor’s Budget Resumes General Fund Support for Nonresident Enrollment Reduction Plan. The Governor’s budget includes \$61 million ongoing General Fund support for the nonresident undergraduate replacement plan—effectively doubling up funding in 2026-27 (given the pause in funding in 2025-26). Provisional budget language continues to direct UC to replace 902 FTE students combined at the three high-demand campuses in 2026-27. (The 902 additional resident FTE students are included in the overall 2,968 resident FTE student growth target.) Under the Governor’s proposal, the expectation effectively would be that all UC campuses reach the statutory 18 percent cap (of nonresidents to total undergraduate enrollment) in 2026-27.

Recommendations from the LAO.

Recommend Maintaining Original Target for Undergraduate Resident Enrollment in 2026-27. We recommend the Legislature maintain the UC resident undergraduate enrollment target of 212,503 FTE students for 2026-27, as established in the 2025-26 Budget Act and proposed by the Governor. This level reflects what the Legislature deemed the state would be able to afford and sustain over time, even with its projected budget deficits. UC could accommodate the cost of any students above the state target within its budget, or it could manage its enrollment down to the state target in 2027-28. Several factors, including key demographic factors and rising systemwide admission rates, suggest more accelerated enrollment growth is not critical at this time. Moreover, faster enrollment growth in the near term could exacerbate existing issues with course offerings, course availability, and class sizes.

Recommend Earmarking Funding for Enrollment Growth in 2026-27. Consistent with historical legislative practice, we recommend the Legislature fund enrollment growth at UC apart from and on top of any base increase to provide greater transparency and accountability. Relative to the Governor’s budget, the Legislature effectively could shift funding from the unrestricted base increase and designate it for

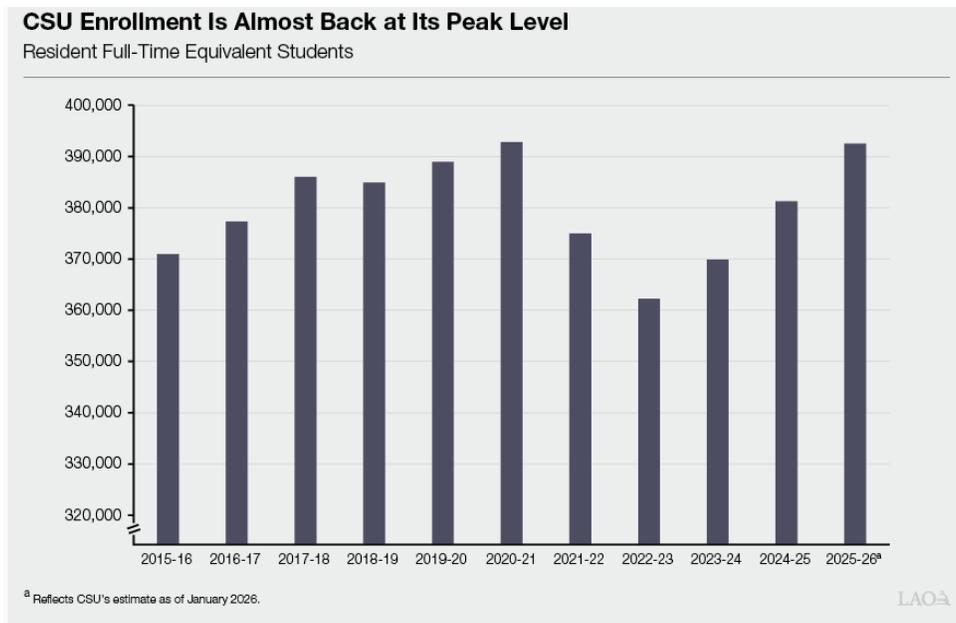
enrollment growth. We recommend the Legislature fund UC enrollment growth using the marginal cost formula. Based on the 2026-27 marginal cost state rate, the ongoing General Fund cost of adding 2,968 resident undergraduate FTE students (1.4 percent) is \$43 million. (Under this recommendation, none of the additional students are funded at the higher nonresident-replacement rate.)

Recommend Pausing the Nonresident Replacement Plan. Given the state’s projected budget deficits, along with the evidence that the three high-demand UC campuses can accommodate more resident students (beyond replacing nonresident students), we recommend pausing the implementation of the nonresident replacement plan. In tandem, we recommend capping nonresident undergraduate enrollment at the Berkeley, Los Angeles, and San Diego campuses at their respective 2024-25 levels—the last year for which the state provided funding to support implementation and the replacement target was met. As resident enrollment grows while nonresident enrollment remains flat, the Legislature’s statutory objective of reducing nonresident enrollment to 18 percent of undergraduate enrollment still will be reached, though it would take somewhat longer. Of the Governor’s proposed \$61 million for the nonresident replacement plan, this recommendation yields \$36 million ongoing General Fund savings. (Our recommendation effectively redirects \$13 million to fund 902 resident FTE students at the 2026-27 marginal cost rate and \$12 million to fund 902 resident FTE students at the 2025-26 marginal cost rate.) Achieving budgetary savings in this way could help the state address its structural deficit without major programmatic implications.

Recommend Holding Enrollment Flat in 2027-28. Given the sizeable projected deficit in 2027-28, we recommend holding UC’s enrollment expectations flat for that year. If UC were to continue enrolling additional students without state support, it could experience more negative programmatic impacts.

California State University.

CSU’s Enrollment Is Rebounding From Pandemic Declines. As the figure below shows, CSU’s total resident enrollment was generally trending upward from 2015-16 through 2020-21. CSU then experienced notable declines in its resident enrollment in 2021-22 and 2022-23. In 2022-23, CSU enrolled approximately 30,000 fewer resident FTE students than a couple of years earlier. In recent years, CSU resident enrollment has been rebounding. CSU is expected to be almost back at its 2020-21 peak enrollment level in 2025-26.



Source: LAO, The 2026-27 Budget: California State University

CSU Anticipates Exceeding Its 2025-26 State Enrollment Expectation. The 2025-26 Budget Act directed CSU to increase resident undergraduate enrollment by 7,152 FTE students, bringing its resident undergraduate enrollment level to 349,999 FTE students. This growth expectation is relative to CSU’s actual enrollment level in 2024-25. CSU indicates it is on track to exceed the 2025-26 state budget expectation—growing by 10,063 FTE students, for total resident undergraduate FTE students of 352,910. When combined with postbaccalaureate and graduate enrollment, CSU estimates enrolling a total of 392,500 resident FTE students in 2025-26—an increase of 11,237 students (2.9 percent) from the previous year.

Undergraduate California resident and nonresident FTES trend by campus:

CY FTES trend by campus - UG enrollments only		College Year / Tuition Payment Grouping											
Campus (group)	Campus	CY22-23			CY23-24			CY24-25			CY25-26 preliem est		
		CA Resident	Non-CA Resident for Tuition purposes	CYtot	CA Resident	Non-CA Resident for Tuition purposes	CYtot	CA Resident	Non-CA Resident for Tuition purposes	CYtot	CA Resident	Non-CA Resident for Tuition purposes	CYtot
Campus	Bakersfield	6,630	196	6,825	6,968	206	7,174	7,276	188	7,464	7,639	185	7,823
	Channel Islands	4,379	74	4,453	4,200	71	4,271	3,978	69	4,047	3,997	58	4,055
	Chico	11,269	264	11,533	11,293	269	11,562	12,189	287	12,475	12,423	272	12,695
	Dominguez Hills	10,248	117	10,365	9,704	121	9,826	9,598	154	9,752	9,598	170	9,768
	East Bay	7,917	260	8,177	7,913	287	8,200	7,399	279	7,678	7,491	268	7,759
	Fresno	17,267	423	17,690	17,616	463	18,079	18,398	466	18,864	19,082	424	19,505
	Fullerton	27,745	557	28,302	29,712	497	30,208	31,459	452	31,911	33,327	451	33,778
	Humboldt	4,306	261	4,567	4,707	281	4,988	4,705	314	5,019	4,935	335	5,270
	Long Beach	26,550	847	27,398	27,688	842	28,530	29,364	899	30,263	31,103	951	32,054
	Los Angeles	18,150	253	18,404	18,008	226	18,234	16,503	207	16,710	15,940	195	16,134
	Maritime Academy	918	26	943	877	22	899	891	18	909	913	14	927
	Monterey Bay	5,176	206	5,382	5,179	207	5,386	5,970	235	6,205	6,454	243	6,697
	Northridge	24,986	872	25,858	26,458	983	27,441	27,240	990	28,230	28,086	973	29,058
	Pomona	20,603	487	21,089	20,471	415	20,886	21,643	402	22,045	22,300	410	22,710
	Sacramento	22,806	568	23,374	22,648	589	23,237	23,151	629	23,779	23,248	609	23,857
	San Bernardino	13,297	208	13,505	13,659	192	13,851	13,357	190	13,547	13,862	198	14,060
	San Diego	25,337	4,563	29,900	26,564	4,923	31,487	28,223	5,363	33,586	29,705	5,452	35,157
	San Francisco	18,386	890	19,277	17,451	892	18,343	16,387	873	17,260	15,410	806	16,217
	San Jose	20,757	1,088	21,845	21,057	1,036	22,093	21,856	1,054	22,910	23,296	1,233	24,529
	San Luis Obispo	16,721	3,485	20,205	17,993	3,416	21,409	19,061	3,379	22,440	19,777	3,375	23,152
San Marcos	10,247	182	10,429	11,188	232	11,421	11,869	257	12,126	12,602	274	12,875	
Sonoma	5,015	96	5,111	4,653	96	4,749	4,735	97	4,832	4,156	85	4,241	
Stanislaus	6,894	65	6,959	7,254	55	7,309	7,177	58	7,235	7,269	69	7,339	
	subtotal	325,605	15,987	341,592	333,260	16,324	349,584	342,428	16,859	359,287	352,612	17,050	369,662
System Initiatives	System Initiatives	417	22	440	349	31	380	420	30	450	350	10	360
Grand Total		326,022	16,009	342,032	333,609	16,355	349,964	342,847	16,889	359,737	352,962	17,060	370,022

Source: California State University, Office of the Chancellor – February 2026

CSU Also Has Enrollment Targets Under the Governor’s Compact. In addition to the enrollment targets set forth each year in the annual budget act, CSU established a set of targets as part of the Governor’s compact. Under the compact, CSU planned to increase resident undergraduate enrollment by 1 percent annually (from 2023-24 to 2026-27). CSU does not track this target separately for undergraduates and graduate students. Under the compact, CSU is to cover the cost of enrollment growth using part of its 5 percent annual base increases. In 2025-26, CSU kept its California resident student target flat at 390,598 FTE students given there was no associated compact funding that year.

Governor’s Budget Proposal.

Governor Maintains Enrollment Expectation for 2026-27 but Sets No Target for 2027-28. The 2025-26 Budget Act set a resident undergraduate enrollment expectation for CSU in 2026-27. Under those provisions, CSU is expected to add 10,161 FTE students in 2026-27, bringing resident undergraduate enrollment to 360,160 FTE students. The Governor’s budget maintains this target. The Governor does not propose an enrollment growth target for 2027-28.

Turnaround Plans for Low Enrollment Campuses. The 2025 Budget Act included provisional language requiring that every CSU campus that has experienced sustained enrollment declines to submit a turnaround plan to the CSU Chancellor’s Office by December 31, 2025. In turn, the CSU Chancellor’s

Office is required to review and submit a consolidated report to the Department of Finance and the Legislature by March 1, 2026. This consolidated report shall also include systemwide strategies for increasing student demand and enrollment as developed by the CSU Chancellor's Office.

Each turnaround plan submitted by individual campuses are required to include, but not be limited to, the following information:

1. A list of strategies the campus has decided to implement to increase student demand and enrollment;
 - The expected outcomes of each strategy, including any results to date.
 - An implementation timeline for each strategy, including actions taken to date.
 - The cost of each strategy (one time, ongoing, and total).
 - Comparable information shall also be provided for any other strategies that the campus is seriously considering to increase its enrollment, even if the campus has not yet finalized or begun implementing them.
2. Enrollment projections for each of the next five years.
3. A list of cost-saving strategies the campus has decided to implement;
 - The amount of associated savings (one time, ongoing, and total) expected to be achieved as a result of each strategy, including any savings achieved to date;
 - An implementation timeline for each strategy, including actions taken to date.
 - Comparable information shall also be provided for any other strategies that the campus is seriously considering to reduce its costs, even if the campus has not yet finalized or begun implementing them.

The CSU Chancellor's Office identified seven campuses to submit turnaround plans, including: CSU Channel Islands, CSU Chico, CSU Dominguez Hills, CSU East Bay, CSU Humboldt, CSU San Francisco, and CSU Sonoma

As of the writing of this report, the CSU Office of the Chancellor has requested a 30-day extension to the March 1, 2026 deadline to provide more time for campus Presidents to approve their respective turnaround plans.

Support for Sonoma State University. The 2025 Budget Act included \$45 million one-time General Fund to provide long-term turnaround plan support for Sonoma State University, including:

- Expansion of the Sonoma State University bachelors in science in nursing program to expand enrollment and for equipment upgrades, facility modernization, and lab expansion to be launched by the spring semester of the 2027 academic year.
- Expansion of the Sonoma State University Career Center by the spring semester of the 2027 academic year.
- Establish a data science academic program and major to be launched by the fall semester of the 2027 academic year.
- Support environmental science academic programs.
- Support its NCAA Division II athletics program over three years.
- Provide support, in consultation with faculty, students, and community stakeholders, for increased enrollment, restoring some funding reductions, and investing in new academic degrees to address the regional and statewide workforce needs.

LAO Recommendations.

Recommend Funding Lower Level of Enrollment Growth at CSU in 2026-27. Given the state's projected deficits, the Legislature faces difficult choices regarding what ongoing spending to prioritize in 2026-27. In making those difficult decisions, within the higher education budget, we think there is a rationale to prioritize funding enrollment growth at CSU in 2026-27. Providing funding for some enrollment growth would recognize the admissions decisions CSU already is in the midst of making. However, if the Legislature provides funding for enrollment growth, we recommend it set a lower growth target than established in the *2025-26 Budget Act*. Setting a lower growth target would acknowledge that CSU does not believe it can reach the higher proposed target. A lower growth target also would reflect the softer demographic pressures facing CSU. The state could, however, depart from its recent practice of including only resident undergraduates in its target. Instead, it could fund 1 percent growth of both resident undergraduate and graduate students, which would better align with CSU's statutory mission to serve both groups of students.

Recommend Providing Enrollment Growth Funding Separately From Base Increases. Consistent with historical legislative practice, we recommend the Legislature fund enrollment growth at CSU apart from and on top of any base increase, as doing so provides greater transparency and accountability. (Relative to the Governor's budget, the Legislature effectively could shift funding from the unrestricted base increase and designate it for enrollment growth.) We recommend the Legislature fund CSU enrollment growth using the marginal cost formula. Based on the 2026-27 marginal cost state rate, the ongoing General Fund cost of 1 percent growth in resident enrollment (undergraduate and graduate combined) at CSU is \$44 million. This is \$38 million less than the cost under the Governor's budget assumptions.

Recommend Holding Enrollment Flat in 2027-28. Given the sizeable projected deficit in 2027-28, we recommend holding enrollment expectations flat for CSU that year. This prevents CSU from being directed to enroll more students in the potential absence of associated funding. Setting enrollment targets for CSU but then not providing associated funding could negatively impact students through larger class sizes, fewer course offerings, and less academic support. Though the state would not be providing systemwide enrollment growth under this recommendation, CSU could still provide enrollment funding to growing campuses in 2027-28 by continuing to shift funding under its enrollment reallocation plan. Furthermore, most campuses are already meeting student demand.

Staff Recommendation. Hold Open.

Issue 4: Core Operations and Governor’s Budget Proposals

Panel

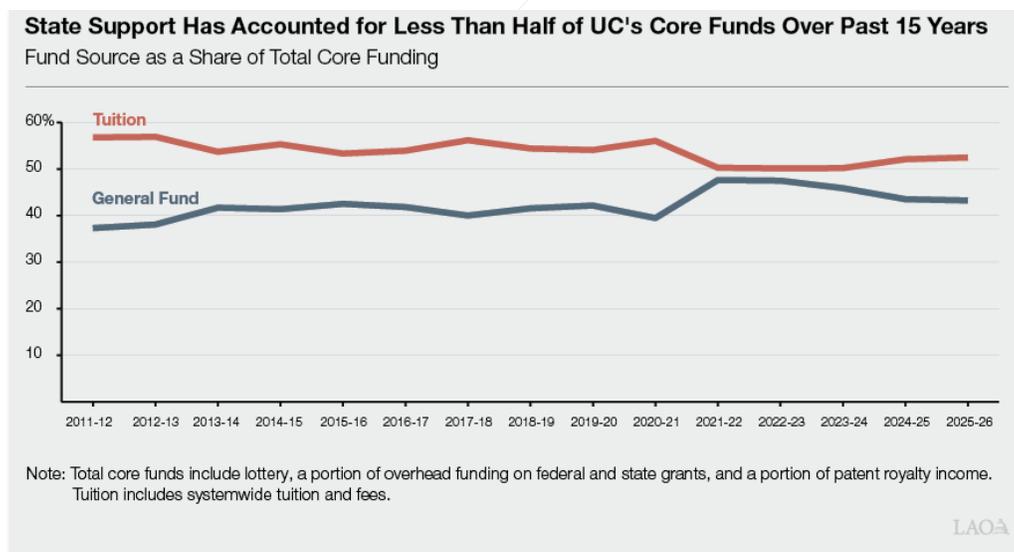
- Alexander Anaya Velazquez, Department of Finance
- Florence Bouvet, Legislative Analyst’s Office
- Natalie Gonzalez, Legislative Analyst’s Office
- Seija Virtanen, University of California
- Mark Martin, California State University

Background.

University of California

Core Operations.

UC’s Reliance on State Support Has Increased Somewhat Over Past 15 Years. UC’s ongoing core funding primarily consists of state General Fund and tuition and fees, with smaller shares from lottery funds and federal contract and grant overhead. State General Fund support has fluctuated over time—generally rising during economic expansions and falling during recessions. As the figure below shows, the General Fund share of UC’s total core funding has increased from 37 percent in 2011-12 to 43 percent in 2025-26. As the state share has increased, the tuition share had decreased—falling from 57 percent in 2011-12 to 52 percent in 2025-26.

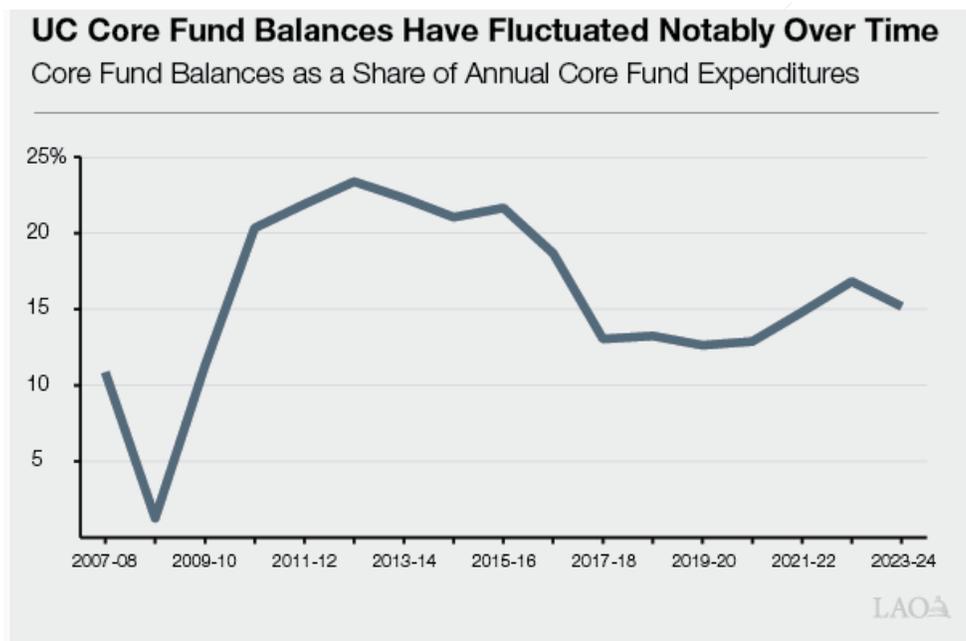


Source: LAO, The 2026-27 Budget: University of California

UC Also Relies on Three Other Ways to Support Core Operations. Beyond state support and tuition revenue, UC relies on three other much smaller sources of support for its core operations. UC places its pooled cash in investment accounts and uses some of the annual investment earnings to support core operations. UC also receives overhead revenue associated with federal contracts and grants—known as federal indirect cost recovery—that helps support campus research infrastructure and certain central administrative costs. UC also regularly seeks to contain growth in its operating costs. One way it regularly

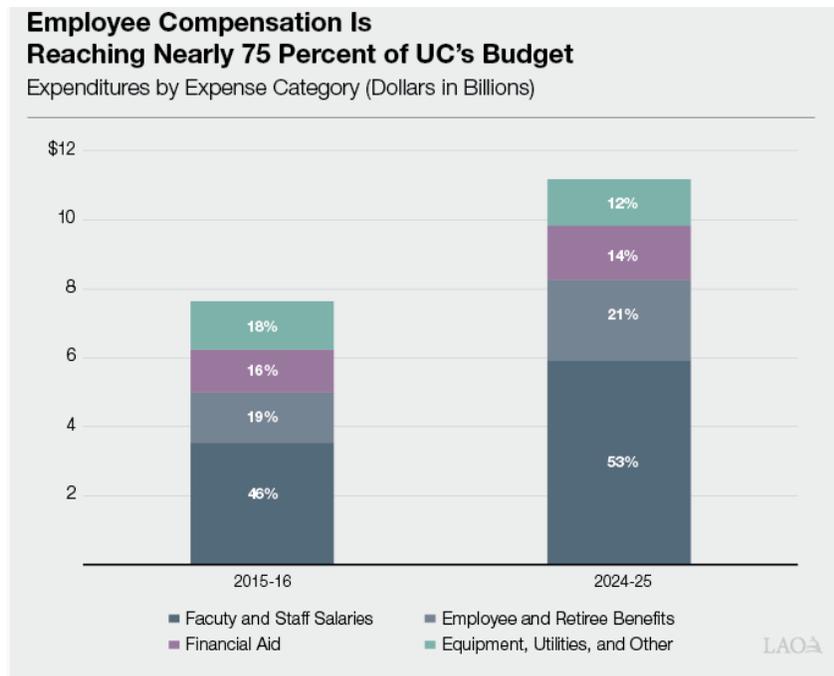
realizes operational savings is through negotiating discounts and rebates from vendors and service providers.

UC Reserve Levels Generally Have Tracked With Broader Fiscal Factors. As the figure below shows, UC core fund balances as a share of its annual core fund expenditures have been as low as 1.8 percent in 2008-09 and as high as 23 percent in 2012-13. UC reserves dropped notably at the onset of the Great Recession. UC reserves climbed the subsequent few years, likely in part due to heightened economic uncertainty. During the following years of economic expansion and reduced economic uncertainty, UC reserve levels declined. UC reserves also were impacted by the infusion of federal stimulus funding and one-time state funding provided in 2021-22 and 2022-23, with levels growing somewhat over those years. In 2023-24 (the most recent year for which UC has reported data), UC reserves declined from 17 percent to 15 percent of annual core fund expenditures—equating to just under two months of reserves. Within this core fund balance, UC campuses retain some funds specifically to respond to economic uncertainties. Systemwide, very little (1.6 percent in 2023-24, less than six days of reserves) is earmarked for this purpose. The remainder is committed to various planned activities, including faculty recruitment, capital outlay planning, and launching new academic programs.



Source: LAO, The 2026-27 Budget: University of California

Employee Compensation as a Share of UC's Budget Has Grown. Employee compensation has been and remains UC's largest operating expense. As the figure below shows, salaries and benefits accounted for about three-fourths of UC spending in 2024-25. Over the past decade, the share of spending devoted to compensation has increased, rising from 65 percent in 2015-16. At the same time, the shares of UC spending devoted to student financial aid and other operating expenses have declined slightly. From 2015-16 through 2024-25, UC spending increased at an average annual rate of 5.9 percent for salaries and 5.3 percent for benefits. This trend in employee payroll growth is comparable to that experienced at other similarly classified institutions. As discussed next, this growth in overall compensation at UC reflects both expansion in the size of its workforce and increases in average salaries and benefit costs over time.



Governor’s Budget Proposals.

Governor Proposes to Continue Deferral Arrangement for One More Year. The Governor’s budget continues the payment deferral arrangement adopted last year for UC. In 2025-26, the state deferred a \$130 million General Fund payment from 2025-26 to 2026-27, while allowing UC to take a no-interest General Fund cash loan to cover costs in the meantime. UC requested and received this cash loan in fall 2025. Under the Governor’s proposal, the state would extend this approach by deferring another \$130 million payment from 2026-27 to 2027-28 and again offering a short-term, no-interest cash loan to UC. The administration intends to retire the deferral in 2027-28, resulting in a one-time General Fund cost of \$130 million at that time. The deferral is intended to have no programmatic effect on UC.

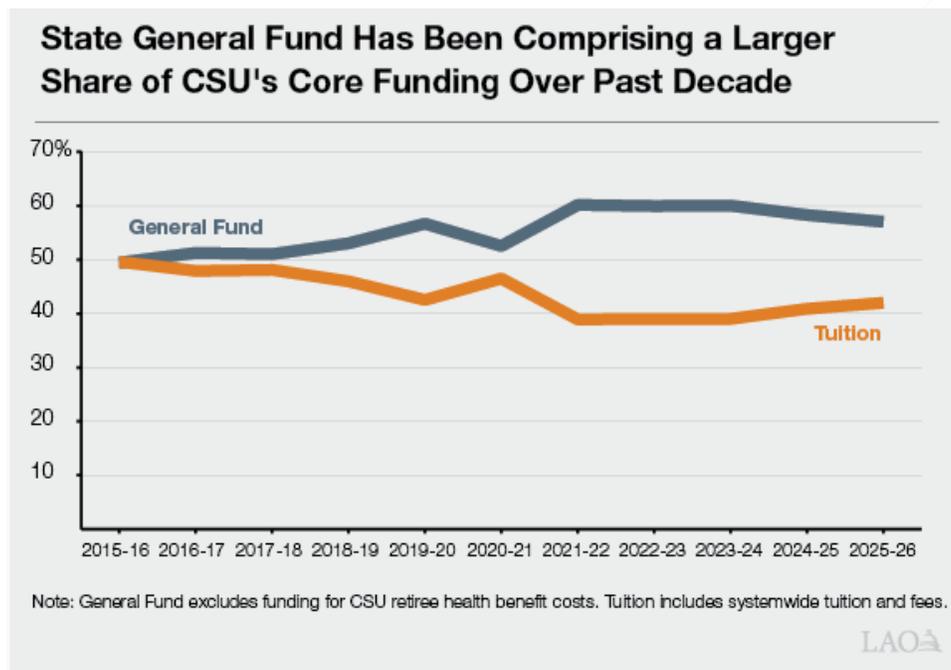
Recommendations from the LAO.

Recommend Using Available One-Time Funding to Retire Payment Deferral. If one-time funding becomes available, we recommend the Legislature make retiring this payment deferral a high priority. Retiring the deferral would return UC’s state payments to their regular schedule, eliminate the associated debt obligation, and reduce state budgetary pressures in the out-years.

California State University.

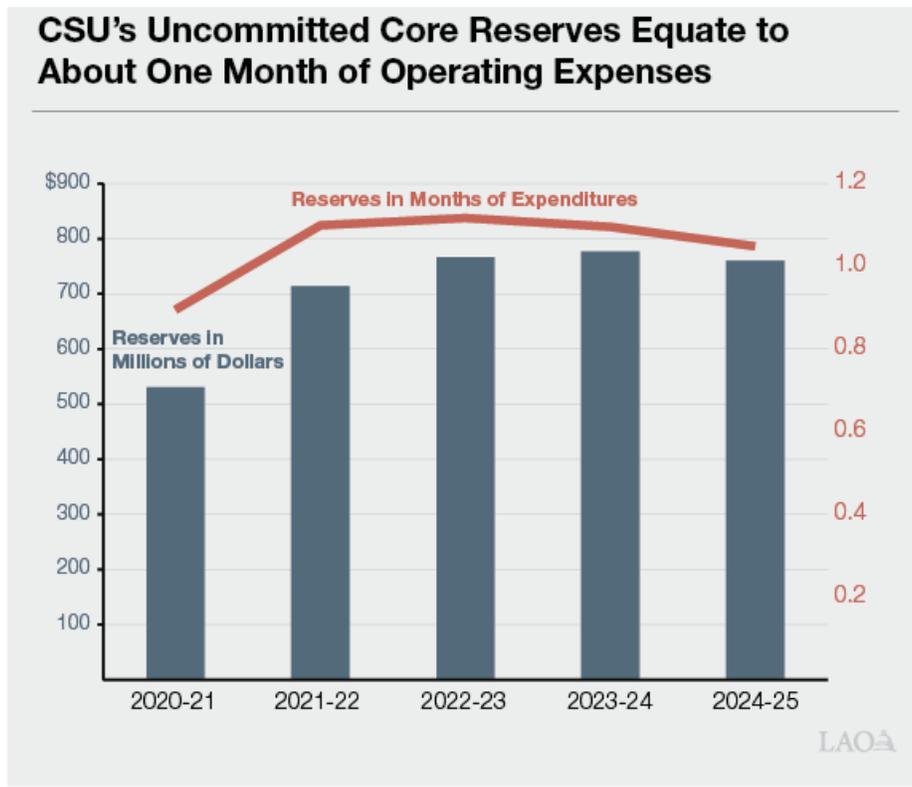
Core Operations.

CSU's Reliance on State Support Has Changed Over Time. State General Fund support for CSU has fluctuated over time, tending to increase during economic expansions and retract during recessions. As the figure below shows, since 2015-16, state General Fund as a share of CSU's total core funding has been increasing—rising from 49 percent in 2015-16 to 57 percent in 2025-26. At the same time, revenue from tuition and fees has been declining as a share of CSU's total core funding—falling from 50 percent in 2015-16 to 42 percent in 2025-26. These trends are largely due to the state providing CSU with General Fund base increases in most years over that period while CSU increased tuition only three times (in 2017-18, 2024-25, and 2025-26).



Source: LAO, The 2026-27 Budget: California State University

CSU's Uncommitted Reserves Slightly Decreased in 2024-25. Like many other universities (as well as public and private entities more generally), CSU maintains reserves. CSU commits part of its reserves for outstanding financial commitments and planned one-time activities (such as launching a new academic program or designing a new capital project). CSU also leaves some of its reserves purposefully uncommitted to prepare for economic uncertainties, including recessions. As of June 30, 2025 (the most recent data available), CSU had \$2.3 billion in total core reserves, of which \$760 million was uncommitted. As the figure below shows, CSU's uncommitted core reserves grew notably from 2020-21 through 2023-24, before declining slightly (by \$17 million) in 2024-25. CSU's systemwide reserves policy sets a target to maintain uncommitted reserves worth between three and six months of expenditures. With its system reserve equating to only about one month of expenditures, CSU continues to fall below its target reserve.



Source: LAO, The 2026-27 Budget: California State University

Governor’s Budget Proposals.

Governor Proposes to Continue Deferral Arrangement for One More Year. The 2025-26 budget deferred a \$144 million General Fund payment to CSU from 2025-26 to 2026-27 but allowed CSU to receive a no-interest General Fund loan in the meantime. CSU requested and received this cash loan in fall 2025. The Governor’s budget proposes to continue this arrangement, deferring \$144 million from 2026-27 to 2027-28, along with offering another no-interest General Fund cash loan. The administration indicates it intends to retire the deferral in 2027-28, incurring an associated one-time cost of \$144 million at that time.

Recommendations from the LAO.

Recommend Using Available One-Time Funding to Retire Payment Deferral. If one-time funding becomes available, we recommend the Legislature retire this payment deferral either this year or in the coming years. Retiring the payment deferral would return CSU’s state payments to their regular schedule, eliminate the associated debt obligation, and reduce state budgetary pressures in the out-years.

Issue 5: Multi-Year Compact and Governor's Budget Proposals**Panel**

- Alexander Anaya Velazquez, Department of Finance
- Florence Bouvet, Legislative Analyst's Office
- Natalie Gonzalez, Legislative Analyst's Office
- Seija Virtanen, University of California
- Mark Martin, California State University

Background.**University of California & California State University.**

Governor's Multi-Year Compact. In May 2022, the Administration announced a compact with UC and CSU to provide 5 percent annual base General Fund increases from 2022-23 through 2026-27. The universities are expected to accommodate one percent annual resident undergraduate enrollment growth within their base increases over the remainder of the compact period (2023-24 through 2026-27), along with other compact expectations. The compact is not codified, and state budget plans have not strictly adhered to it.

UC and CSU Compact Deferrals and Payments. The 2025 Budget Act included intent language to provide the UC and CSU with certain augmentations in future years. Specifically, the package includes provisions associated with the state not providing a 5 percent base increase in 2025-26. Rather than providing UC and CSU with a 5 percent General Fund base increase in 2025-26, the budget plan intends to provide a 2 percent in 2026-27 and a 3 percent in 2028-29. (These delayed increases are intended to be on top of the 5 percent annual base increase specified in the compact for 2026-27.) The multiyear budget plan also intends to provide UC and CSU with one-time payments of \$240.8 million and \$252.3 million, respectively, in 2027-28 attributable to 2025-26. The Governor's budget maintains these actions for both the UC and CSU. Additionally, the Governor's budget includes \$61 million ongoing General Fund support for the nonresident undergraduate replacement plan, mentioned in the enrollment item above.

2026-27 Governor's Budget: Multi-Year Compact (In Millions)

University of California	2025-26	2026-27	2027-28	2028-29
Year 4 Compact Payment (One-Time Deferral to 27-28)	-\$240.8			
Year 4 Compact Payment (2% Ongoing Base Increase)		\$96.3	\$96.3	\$96.3 ¹
Year 4 Compact Payment (3% Ongoing Base Increase)				\$144.5 ¹
Year 4 Compact Payment (One-time Repayment)			\$240.8	
Replacement of Nonresident Undergraduate FTES (Ongoing)		\$61.0	\$61.0	\$61.0
Replacement of Nonresident Undergraduate FTES (One-time Deferral)	-\$31.0		\$31.0	
Year 5 Compact Payment (Ongoing)		\$254.3	\$254.3	\$254.3
¹ Year 4 of the compact payment is restored to 100 percent on an ongoing basis beginning 2028-29.				

Source: Department of Finance

2026-27 Governor’s Budget: Multi-Year Compact (In Millions)

California State University	2025-26	2026-27	2027-28	2028-29
Year 4 Compact Payment (One-Time Deferral to 27-28)	-\$252.3			
Year 4 Compact Payment (Partial 2% Ongoing Base)		\$100.9	\$100.9	\$100.9 ¹
Year 4 Compact Payment (Partial 3% Ongoing Base)				\$151.4 ¹
Year 4 Compact Payment (One-time Deferral Repayment)			\$252.3	
Year 5 Compact Payment (Ongoing)		\$264.8	\$264.8	\$264.8
¹ Year 4 of the compact payment is restored to 100 percent on an ongoing basis beginning 2028-29.				

Source: Department of Finance

UC Multi-Year Compact Goal Progress. According to the UC, per its 2025 Multi-Year Compact Annual Report, it has made the following progress on Compact goals.

Increasing Access. The university met the goal of increasing access by growing California resident undergraduate enrollment. In 2024-25, UC enrolled its largest-ever cohort of California resident students, due to an increase of 6,986 full-time equivalent (FTE) resident undergraduates compared to the previous year. This marks a total increase of 14,774 California resident FTE over three years, meeting the goal of growing California resident undergraduate FTE by one percent each year over the life of the compact. Additionally, in 2024-25, 983 nonresident undergraduate FTEs were replaced with California residents at UC Berkeley, UCLA, and UC San Diego as part of the university's commitment to prioritize resident enrollment.

Student Success/Equity—Equity Gap. The compact sets the goals of achieving a systemwide four-year freshman graduation rate of 76% and a two-year transfer graduation rate of 70% by 2029-30, with intermediate goals of achieving at least half of those increases by the end of the 2025-26 academic year. These intermediate goals translate to a 74.4% four-year freshman graduation rate and a 66.4% two-year transfer graduation rate. The systemwide four-year freshman graduation rate is 72.5%, which represents a decline from last year’s rate. The latest rate applies to the cohort that entered in 2020, which was in high school during the pandemic. That said, the first-year retention rate is strong at 92.6%. The two-year transfer graduation rate (64.5%) and retention rate (94.5%) slightly improved compared to last year. To address equity gaps that continue to persist, UC expanded several key programs aimed at improving

retention and graduation rates for low-income, first-generation, and underrepresented students. These initiatives include placement reforms to move more students into credit-bearing math, introducing preparatory and co-requisite chemistry courses, and redesigning calculus sequences to align with disciplinary applications in life sciences and social sciences.

University of California		2015	2016	2017	2018	2019	2020	2021
4-Year Graduation Rates	African American	54.5%	59.8%	61.3%	59.5%	60.6%	60.8%	62.7%
	American Indian	63.2%	65.2%	62.6%	63.5%	64.4%	64.8%	65.4%
	Asian/Pacific Islander	76.3%	77.7%	79.9%	80.5%	80.7%	79.7%	81.3%
	Hispanic/Latinx	57.8%	60.8%	62.7%	62.1%	63.6%	61.8%	63.2%
	White	73.2%	75.1%	74.8%	74.9%	76.5%	76.6%	78.5%
	Dom. Unknown	74.4%	75.1%	77.0%	76.0%	75.6%	79.8%	78.6%
	All Students	69.6%	71.4%	72.7%	72.9%	73.4%	72.7%	74.0%

6-Year Graduation Rates	African American	76.4%	77.8%	78.6%	76.0%	76.2%		
	American Indian	81.8%	79.9%	78.2%	77.7%	78.2%		
	Asian/Pacific Islander	91.2%	90.9%	91.1%	91.2%	91.6%		
	Hispanic/Latinx	79.8%	79.6%	78.6%	78.1%	79.4%		
	White	88.0%	88.1%	87.2%	87.7%	88.1%		
	Dom. Unknown	88.0%	88.8%	87.2%	90.1%	88.7%		
	All Students	86.4%	86.1%	85.7%	85.9%	86.1%		

Source: UC Information Center – Undergraduate Graduation Rates – March 2026

Improve UC Affordability. In efforts to increase the affordability of a UC education, the university continued to expand its financial aid offerings, including new aid packages designed to reduce student reliance on loans. Expanded Middle Class Scholarships allowed the university to make significant progress towards Debt Free UC. UCOP worked closely with campuses to identify and implement cost-reduction strategies, including reducing non-tuition costs such as textbooks, housing, and transportation. The university also strengthened its commitment to pursuing additional federal, state, and university funding sources to enhance financial aid and ensure more students have access to debt-free pathways. Over one fifth of all California students are currently debt-free, based on UC aid alone—that rises to 35 percent for new CA undergraduates in 2024-25.

CSU Multi-Year Compact Goal Progress. According to the CSU, per its CSU 2025 Multiyear Compact Progress Report, it has made the following progress on Compact goals.

Increasing Access. With the 2022-23 academic year serving as the baseline, the CSU will add more than 14,000 full-time equivalent resident undergraduates over four years (1% annual undergraduate enrollment growth each year between 2023-24 and 2026-27). This enrollment growth will be supported by annual 5% General Fund base increases. This growth must maintain, at a minimum, a share of new undergraduate transfer student enrollments during the college year consistent with existing admissions practices for new undergraduate enrollments. The CSU commits to maintaining access for all CSU-eligible transfers.

Improving Student Success and Equity. At the start of Graduation Initiative 2025, five of the CSU's 23 universities met or exceeded the four-year graduation rate goal for first-time, first-year students, and an additional university was within one point of meeting that goal. Currently, 13 universities meet or exceed the graduation rate goal for two-year transfer students, and two additional universities are within one point of meeting that goal. While the CSU continues to make progress toward increasing graduation rates

systemwide—including achieving a record-high four-year graduation rate for first-time, first-year students for the fourth year in a row—the system remains focused on the critical work of eliminating equity gaps.

TABLE 2. 4-YEAR AND 6-YEAR GRADUATION RATES FOR FULL-TIME, FIRST-TIME, FIRST-YEAR STUDENTS, 2015 TO 2021 COHORTS

	Race/Ethnicity	2015	2016	2017	2018	2019	2020	2021
4-Year Graduation Rate	American Indian or Alaska Native	25.9%	24.2%	30.8%	27.0%	20.8%	30.3%	29.1%
	Asian	29.1%	32.3%	37.2%	41.2%	42.2%	42.4%	42.3%
	Black or African American	16.3%	20.1%	21.8%	23.5%	23.4%	23.2%	23.6%
	Hispanic/Latino	20.5%	24.5%	26.4%	28.8%	29.6%	29.9%	30.7%
	International	23.2%	27.4%	28.8%	31.1%	30.7%	33.0%	32.4%
	Native Hawaiian or Other Pacific Islander	23.8%	23.8%	24.5%	28.8%	32.4%	29.9%	27.2%
	Two or More Races	32.1%	35.1%	38.2%	37.8%	41.3%	40.2%	41.7%
	Unknown	34.3%	37.6%	37.0%	38.6%	33.2%	37.5%	39.4%
	White	42.5%	44.7%	47.2%	47.2%	47.4%	50.1%	51.5%
	All Students	27.7%	31.0%	33.3%	35.1%	35.5%	36.2%	37.3%
6-Year Graduation Rate	American Indian or Alaska Native	53.2%	50.8%	46.6%	54.1%	43.6%	--	--
	Asian	71.7%	70.6%	71.5%	72.7%	73.1%	--	--
	Black or African American	49.7%	49.2%	47.2%	49.0%	48.3%	--	--
	Hispanic/Latino	57.6%	57.1%	56.3%	56.3%	56.3%	--	--
	International	57.8%	57.6%	57.7%	57.4%	57.5%	--	--
	Native Hawaiian or Other Pacific Islander	54.4%	49.7%	56.0%	55.8%	54.5%	--	--
	Two or More Races	64.1%	63.3%	64.9%	62.9%	64.2%	--	--
	Unknown	65.4%	64.7%	63.3%	63.5%	61.4%	--	--
	White	71.9%	71.3%	71.7%	70.6%	70.9%	--	--
	All Students	63.2%	62.4%	62.2%	62.1%	61.9%	--	--

Source: CSU 2025 Multiyear Compact Progress Report

Increasing Affordability. The CSU will reduce the cost of instructional materials by 50% by 2025, saving CSU students \$150 million annually compared with a 2019-20 baseline. The target for 2024-25 is \$150 million (\$150 million annual savings).

Through its Affordable Learning Solutions (AL\$) initiative, the CSU has continued to raise faculty awareness of options for zero-cost and low-cost course materials and has provided faculty members with access to these resources to support student savings on course materials. Via the adoption of zero-cost and low-cost course materials—including library materials, digital and customized textbooks, and faculty-authored materials—potential student savings through the AL\$ initiative increase each year. Since the launch of the program more than 20 years ago, students have saved more than \$403 million on their course materials.

The CSU will also implement strategies that increase the overall affordability of on-campus housing, such as including student housing as part of continuing capital campaigns. Addressing housing insecurity and the high cost of housing in most CSU communities presents a complex challenge. The CSU is approaching overall on-campus housing affordability issues by aligning new and repurposed resources, as well as by deepening its understanding of longer-term housing needs through enhanced data collection. Under its Basic Needs Initiative, the CSU has also developed strategies to meet the emergency housing needs of students and to address short-term affordability issues through emergency grants, short-term on-campus housing placements and rapid rehousing programs.

Governor's Budget Proposals for the UC.

Governor's Budget Includes Ongoing Increase in State Support for UC in 2026-27. The Governor proposes to increase ongoing base General Fund support for UC by \$351 million (7 percent) in 2026-27. This increase reflects two components. First, the Governor's budget includes a 5 percent base increase (\$254 million) for UC in 2026-27, reflecting the fifth-year base increase of his multiyear compact. Second, the Governor's budget includes an additional 2 percent increase (\$96 million) associated with the 2025-26 compact payment that was postponed to 2026-27 under last year's budget agreement. The administration proposes to give UC discretion in allocating this additional funding in 2026-27.

Governor Retains Out-Year Funding Commitments. Under the Governor's budget, the state would continue to make two additional out-year funding commitments to UC. The state would commit to providing UC with a one-time back payment of \$241 million in 2027-28 to address the base increase that it did not receive in 2025-26, followed by a \$144 million ongoing increase in 2028-29, reflecting the remaining 3 percent base increase from the postponed 2025-26 compact payment.

Governor Proposes Some One-Time Research Funding. The budget includes \$32 million for one-time research-related purposes. The one-time research funds are related to reappropriating some unspent funds from four research initiatives the state authorized several years ago. The Governor proposes extending the expenditure period to give these research initiatives more time to spend their original allocations.

Recommendations from the LAO for the UC.

Recommend Reducing or Eliminating Base General Fund Increase. When facing fiscal uncertainty and ongoing budget shortfalls, the Legislature typically considers ways to contain state spending. The Governor, however, proposes to increase UC spending significantly. In addition, the Governor's budget does not specify how the proposed ongoing augmentations to UC's base funding would be supported in future years. Given this context, if the Legislature wishes to continue providing base increases to UC despite the challenging budget outlook, it could consider approving smaller increases that are more closely aligned with current inflationary benchmarks—such as the 2.41 percent base increase proposed for community colleges. Alternatively, the Legislature could consider eliminating the proposed base increase for UC to help manage the state's structural deficit and reduce pressure for more significant reductions in later years. Even without the proposed 7 percent base General Fund increase, UC's core funding would increase 3.5 percent in 2026-27, and UC would be able to cover some of its spending priorities. This growth rate is slightly below the average annual rate of growth in UC's total core funding over the past ten years (4.3 percent).

Recommend Earmarking a Share of Any Ongoing Base Increase for Capital Outlay. If UC were to receive a base General Fund increase and designate none of it for capital improvements, its facility conditions would worsen and backlog of projects would continue to grow. To mitigate this issue, we recommend the Legislature adopt provisional budget language earmarking some share of any approved base increase for capital renewal projects. For example, earmarking around 10 percent of a base increase would allow UC to undertake some capital renewal projects while still retaining the preponderance of any base increase for other spending priorities. Undertaking at least some capital renewal projects would help reduce the risk of higher project costs in the future.

Recommend Removing Out-Year Commitments. We recommend removing the state's out-year funding commitments to UC in 2027-28 and 2028-29. Eliminating these out-year augmentations would reduce

projected state deficits in 2027-28 and 2028-29 without requiring programmatic cuts or tax increases. Rather than making commitments in advance, the Legislature could determine each year how much ongoing support it can afford to provide UC in light of overall fiscal conditions and competing budget priorities.

Governor's Budget Proposals for the CSU.

Governor Proposes Base Increases for CSU. The Governor proposes to increase ongoing base General Fund support for CSU by \$366 million (7 percent) in 2026-27. This increase reflects two components. First, the Governor's budget includes a 5 percent base increase (\$265 million) for CSU in 2026-27, reflecting the fifth-year base increase of his multiyear compact. Second, the Governor's budget includes an additional 2 percent increase (\$101 million) associated with the 2025-26 compact payment that was postponed under last year's budget agreement. The administration proposes to give CSU discretion in allocating this additional funding in 2026-27.

Governor Maintains Out-Year Funding Commitments. Under the Governor's budget, the state would continue to make two additional out-year funding commitments to CSU. The state would commit to providing CSU with a one-time back payment of \$252 million in 2027-28 to address the base increase that it did not receive in 2025-26. It also would provide CSU with its remaining 3 percent ongoing base increase (\$151 million) associated with the 2025-26 compact payment in 2028-29.

Recommendations from the LAO for the CSU

Recommend Reducing or Eliminating Base Increases. When facing out-year deficits, the Legislature typically considers ways to contain growth in state spending. The Governor, however, proposes to increase CSU spending significantly. In addition, the Governor's budget does not specify how the historically large ongoing augmentations to CSU's base funding would be supported in future years. Given this context, the Legislature could consider providing CSU with a smaller base increase that is more closely aligned with current inflationary benchmarks—such as the base increase of 2.41 percent proposed for community colleges. A smaller base increase would still allow CSU to cover some of its increasing costs. Additionally, it could provide more financial stability for CSU by mitigating the risk that the state would be unable to maintain the higher base moving forward. Alternatively, the Legislature could consider eliminating the proposed base increase for CSU altogether. This option makes the state's structural deficit more manageable to address, increases the chances that core programs could be sustained moving forward, and reduces pressure for a more significant reduction in future years. Even with no increase in state support, CSU core funding would increase 4.2 percent due primarily to raising tuition charges, thereby still allowing CSU to cover some of its spending priorities. This growth is slightly above the average annual rate of growth in total core funding over the past ten years.

Recommend Earmarking a Share of Any Ongoing Base Increase for Capital Outlay. If CSU were to receive a base General Fund increase and designate none of it for capital improvements, its backlog would continue to grow, and facility conditions would worsen. To mitigate this issue, we recommend the Legislature adopt provisional budget language earmarking some share of any approved base increase for capital renewal projects to help campuses make progress on deferred maintenance and critical facility renewals. For example, earmarking around 10 percent of a base increase would allow CSU to undertake some projects while still having capacity to meet other spending priorities.

Recommend Removing Out-Year Commitments. We recommend removing the state's out-year funding commitments to CSU in 2027-28 and 2028-29. Eliminating these out-year augmentations would reduce projected state deficits in 2027-28 and 2028-29 without requiring programmatic cuts or tax increases. Rather than making commitments in advance, the Legislature could determine each year how much support it can afford to provide CSU in light of overall fiscal conditions and competing budget priorities.

Staff Recommendation. Hold Open.