

# The 2026-27 Budget: Higher Education Overview

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## SUMMARY

**Under Governor’s Budget, Higher Education Funding Increases Notably.** Compared to 2025-26, the Governor’s budget includes \$3 billion in additional General Fund support for higher education—a 14 percent increase. Beyond state support, nonstate support (including local property tax revenue and tuition revenue) also increases. In 2026-27, ongoing core funding (state and nonstate combined) grows by 8.8 percent at the California Community Colleges (CCC), 8.1 percent at the California State University (CSU), and 7.1 percent at the University of California (UC).

**Governor’s Budget for Higher Education Is an Imprudent Starting Point.** The Governor proposes large unrestricted base increases for the universities and notable enrollment growth across all three segments. Facing projected deficits, the Legislature typically would expect to see proposals that contain costs, rather than the Governor’s proposals for large new spending increases. Moreover, the Legislature would typically expect to see a plan for how any additional spending would be sustained, yet the Governor presents no such plan.

**Recommend Building a More Sustainable Higher Education Budget.** We recommend the Legislature take several actions to better position the state to balance its budget this year and next year.

- **Recommend Reducing or Eliminating Base Increases for CSU and UC.** Though base increases help the segments cover their core operating costs, the state budget likely will not be able to sustain ongoing non-Proposition 98 General Fund increases over the next few years. Even with no increases in state support, CSU and UC would still see their core funding grow by 4.2 percent and 3.5 percent, respectively.
- **Recommend Not Getting Further Entangled With Higher Education Compacts.** The most recent compact has led to a string of convoluted budget actions that have muddled transparency and accountability. We recommend the Legislature take a different approach and make funding decisions for each segment each year based upon the best information available and the state’s overall budget condition at that time. We recommend the Legislature rescind funding commitments made in advance for 2027-28 and 2028-29.
- **Recommend Supporting Some Enrollment Growth but Pausing Nonresident Replacement Plan.** Despite the difficult budgetary trade-offs, the Legislature could consider supporting some enrollment growth. If so, we recommend setting realistic, affordable growth targets in 2026-27 and funding that growth separate from unrestricted base increases. We recommend pausing UC’s nonresident replacement plan until the state’s fiscal condition improves. In 2026-27, high-demand UC campuses could grow their nonresident enrollment only if they grow their resident enrollment in tandem. For both UC and CSU, we recommend holding enrollment flat in 2027-28.
- **Recommend Using Any One-Time Funding to Build Fiscal Resiliency.** If Proposition 98 or non-Proposition 98 one-time funding is available, we recommend using it to retire payment deferrals, retire the Middle Class Scholarship (MCS) pay-in-arrears approach, and address deferred maintenance and seismic-safety backlogs.
- **Recommend Considering MCS Proposal to Help Balance Budget.** We recommend considering the MCS proposal as it likely is less disruptive than options that would affect more targeted, needs-based programs.

## INTRODUCTION

### ***Brief Focuses on Higher Education Budget.***

In the first half of this brief, we provide an overview of the Governor's proposed 2026-27 budget for higher education. In the second half, we discuss several key budget considerations and offer some budget recommendations. In the brief, we focus on the major budget proposals for CCC, CSU, UC, and the California Student Aid Commission

(CSAC). Over the coming weeks, our office will release additional budget briefs that delve more deeply into the Governor's proposals for each of these segments. All budget briefs can be accessed from our [Budget](#) webpage. Budget tables showing details of the Governor's many education proposals can be accessed from our [EdBudget](#) webpage.

## OVERVIEW

In this part of the brief, we first summarize funding proposed for higher education under the Governor's budget. We then describe the Governor's enrollment proposals, followed by his other major spending proposals. At the end of this section, we describe the Governor's one proposed higher education budget solution to help address the state's projected deficit in 2027-28. Throughout the section, we focus on core funding used to support core operations. (We do not cover self-supporting programs, federal grants and contracts, or philanthropic and alumni support.)

### ***Local Property Tax Revenue for Community Colleges Continues to Trend Upward.***

Beyond state General Fund support, the three segments receive substantial core funding from other sources. For CCC, the largest nonstate fund source is local property tax revenue. CCC local property tax revenue that counts toward the Proposition 98 minimum guarantee is projected to increase \$227 million (5 percent) in 2026-27. This local property tax growth rate is slightly higher than its historical growth rate over the past 20 years (4.8 percent).

## Proposed Funding

***Governor's Budget Increases General Fund Support for Higher Education.*** As **Figure 1** shows, the Governor's budget for 2026-27 contains a total of \$25.1 billion in ongoing General Fund support for the three segments and CSAC. The proposed 2026-27 funding level is \$3 billion (14 percent) higher than the revised 2025-26 level. Ongoing General Fund support increases notably for all three segments and CSAC. As we discuss in the next two sections, the Governor proposes the additional funding be used for supporting enrollment growth and providing unrestricted base increases to each of the segments, among various other purposes.

Figure 1

### **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 <sup>a</sup>	2,646	2,556	3,398	842	33
<b>Totals</b>	<b>\$23,403</b>	<b>\$22,143</b>	<b>\$25,134</b>	<b>\$2,991</b>	<b>14%</b>

<sup>a</sup> 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.

### ***Student Tuition Revenue at CSU Increases.***

For CSU and UC, the largest nonstate core fund source is student tuition revenue. CSU and UC both have tuition policies in place. Under CSU's policy, tuition charges are set to increase 6 percent annually for all students. In 2026-27, the annual tuition charge for a full-time student is set at \$6,838 for resident undergraduates and \$8,548 for most resident graduate students. (This [EdBudget](#) table shows 2026-27 tuition charges by educational level at each segment.) CSU's tuition level has long been lower than comparable public institutions nationally. In 2024-25, CSU's resident undergraduate tuition and fees were \$1,995 (20 percent) lower than the national average of other similarly classified public institutions. CSU estimates it will generate \$201 million in additional tuition revenue in 2026-27 (resulting from tuition increases as well as planned enrollment growth). Both CSU and UC have policies that set aside a portion of new tuition revenue for student financial aid.

***Student Tuition Revenue at UC Also Increases.*** Under UC's tuition policy, resident tuition charges increase each year for incoming undergraduate students and all academic graduate students. Tuition charges for continuing undergraduate students, however, are held flat (for up to six academic years). In 2026-27, resident systemwide tuition and fees are set at \$15,588 for new undergraduate students (up 4.4 percent). Tuition and fees range from \$15,066 to \$77,946 for resident graduate and professional school students. These levels also are generally increasing, with growth rates varying by program and campus. In 2026-27, UC also plans to raise the nonresident supplemental tuition charge for undergraduates to \$39,270 (up 5.6 percent). UC's tuition level has long been higher than comparable public institutions nationally. In 2024-25, UC's resident undergraduate tuition and fees were \$3,386 (27 percent) higher than the national average of other similarly classified public institutions. UC estimates it will generate \$273 million in additional tuition revenue in 2026-27.

***Governor Proposes No Tuition Increase at CCC.*** Under the Governor's budget, the community college enrollment fee remains at \$46 per unit or \$1,380 for a student enrolled full time (30 units).

The CCC enrollment fee was last raised in summer 2012, at which time the state increased the per-unit fee from \$36 to \$46. Community college fees in California remain the lowest of any state and significantly below the national average. In 2024-25, tuition and fees at other community colleges averaged approximately \$5,300 nationally—about four times higher than the CCC tuition level.

***Overall Core Funding Grows Substantially for All Segments.*** **Figure 2** on the next page shows the changes in funding at each segment accounting for both state and nonstate fund sources. All major core fund sources—state General Fund, local property tax revenue, and student tuition revenue—increase in 2026-27 under the Governor's budget assumptions. Annual growth in core funding in 2026-27 is 8.8 percent for CCC, 8.1 percent for CSU, and 7.1 percent for UC.

***Funding Also Increases on a Per-Student Basis.*** As **Figure 3** on the next page shows, core funding per student would range from nearly \$13,000 at CCC to nearly \$41,000 at UC in 2026-27. Core funding per student would increase at all three segments—rising 8.4 percent at CCC, 6.3 percent at CSU, and 8.1 percent at UC. Per-student funding at all three segments would reach all-time highs in unadjusted dollars but would be somewhat below their peaks after adjusting for inflation. (These per-student growth rates vary from the total core funding growth rates due to underlying enrollment changes.)

## **Proposed Enrollment**

***Governor Proposes Supporting Additional Enrollment Growth at CCC in 2025-26.*** The state gets its first clear snapshot of current-year community college enrollment trends in late February, but early signals are that this enrollment is exceeding budgeted growth. In response, the Governor's budget includes \$55 million Proposition 98 General Fund to support an additional 1 percent systemwide community college enrollment growth beginning in 2025-26. CSU and UC also are reporting that they are exceeding their enrollment expectations for 2025-26. The Governor's budget proposes no additional state funding to CSU and UC for this purpose. Typical budget practice is to have the segments accommodate any enrollment above state targets in the current year, then recalibrate to state enrollment expectations the next year.

Figure 2

**At All Segments, All Major Core Fund Sources Increase in 2026-27**

Reflects Ongoing Core Funds Under Governor's Budget (Dollars in Millions)

	2024-25 Revised	2025-26 Revised	2026-27 Proposed	Change From 2025-26	
				Amount	Percent
CCC <sup>a</sup>					
General Fund, Proposition 98	\$9,794	\$8,441	\$9,371	\$930	11.0%
Local property tax, Proposition 98	4,335	4,558	4,785	227	5.0
Additional General Fund	625	670	803	133	19.8
Additional local property tax	502	529	557	28	5.2
Student fees	440	440	441	1	0.2
Lottery	300	308	308	—	—
Totals	\$15,996	\$14,947	\$16,265	\$1,318	8.8%
CSU					
General Fund <sup>b</sup>	\$5,479	\$5,622	\$6,175	\$553	9.8%
Student tuition and fees	3,527	3,790	3,991	201	5.3
Lottery	69	82	93	11	13.4
Totals	\$9,075	\$9,494	\$10,259	\$765	8.1%
UC					
General Fund	\$4,858	\$4,863	\$5,386	\$533	11.0%
Student tuition and fees	5,822	6,000	6,273	273	4.5
Lottery	56	61	61	—	—
Other <sup>c</sup>	488	488	488	—	—
Totals	\$11,224	\$11,402	\$12,208	\$806	7.1%

<sup>a</sup> Proposition 98<sup>a</sup> funding refers to funding that counts toward the Proposition 98 minimum guarantee. “Additional General Fund” refers to non-Proposition 98 funds for CCC state operations, certain pension costs, and debt service. “Additional local property tax” refers to “excess” revenue for basic aid districts that does not count toward the Proposition 98 minimum guarantee.

<sup>b</sup> Includes funding for pensions and retiree health benefits.

<sup>c</sup> Includes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

Figure 3

**Core Funding Per Student Increases at All Three Segments**

Ongoing Core Funding Per Full-Time Equivalent Student

	2024-25 Actual	2025-26 Revised	2026-27 Proposed	Change From 2025-26	
				Amount	Percent
CCC <sup>a</sup>	\$12,889	\$11,923	\$12,930	\$1,007	8.4%
CSU	22,545	22,991	24,429	1,438	6.3
UC	37,410	37,475	40,518	3,043	8.1

<sup>a</sup> Reflects Proposition 98 funding, including any reserve withdrawals.

**Governor Proposes Supporting Enrollment Growth at All Segments in 2026-27. Figure 4**

shows budgeted enrollment expectations. The Governor's budget includes \$32 million Proposition 98 General Fund for 0.5 percent systemwide enrollment growth at the community colleges in 2026-27. For CSU and UC, the administration maintains the enrollment expectations set forth last year, with resident

undergraduates expected to grow by 2.9 percent at CSU and 1.4 percent at UC in 2026-27. The administration assumes CSU and UC would cover the cost of enrollment growth from within their unrestricted base increases.

**Governor Proposes to Double-Up Funding for Nonresident Replacement Plan.**

The Governor's budget includes \$61 million ongoing General Fund in 2026-27 to effectively provide two years of additional funding

for this plan. In 2021, the state enacted legislation directing UC to replace some nonresident enrollment with more resident enrollment. Specifically, UC is to reduce nonresident enrollment to no more than 18 percent of undergraduate enrollment at each campus, including the Berkeley, Los Angeles, and San Diego campuses.

Figure 4

**Budgeted Enrollment Increases at All Three Segments**

Resident Undergraduate FTE Enrollment Expectations

	2024-25 Actual	2025-26 Budgeted	2026-27 Budgeted	Change From 2025-26	
				Amount	Percent
CCC	1,096,150	1,090,231	1,094,809	4,578	0.4%
CSU	342,847	349,999 <sup>a</sup>	360,160	10,161	2.9
UC	207,544	209,535 <sup>b</sup>	212,503	2,968	1.4
<b>Totals</b>	<b>1,646,541</b>	<b>1,649,765</b>	<b>1,667,472</b>	<b>17,707</b>	<b>1.1%</b>

<sup>a</sup> CSU estimates it will enroll 352,910 resident undergraduate FTE students in 2025-26.<sup>b</sup> UC estimates it will enroll 214,732 resident undergraduate FTE students in 2025-26.

Notes: For all segments, applies budgeted growth in 2025-26 and 2026-27 to 2024-25 levels. The 2024-25 level for CCC is actual funded enrollment (which is a three-year average). For CSU and UC, the 2024-25 level is actual enrollment. The percent change for CCC in 2026-27 reflects 0.5 percent enrollment growth, along with all other enrollment adjustments.

FTE = full-time equivalent.

Statute specifies that the Legislature intends to provide annual appropriations to assist UC with implementation. The appropriations are intended to backfill UC for the associated loss of nonresident supplemental tuition revenue and pay the higher cost of financial aid for resident students. Starting in 2022-23, the state has provided UC with ongoing General Fund augmentations of about \$30 million each year. In 2025-26, the state paused funding. Under the Governor's proposal, UC would receive funding to complete implementation, with the expectation that it reach the statutory 18 percent cap in 2026-27. (Resident undergraduate students resulting from the replacement of nonresident students count toward UC's resident undergraduate enrollment target.)

**Governor Does Not Set Enrollment Growth Expectations at CSU and UC for 2027-28.**

In contrast to state practice over the past several years, the Governor does not set enrollment growth expectations at CSU and UC for budget year plus one. The state has been setting expectations for budget year plus one in order to influence CSU and UC before they enter their corresponding admission cycles. CSU and UC make most of their admission decisions for the coming academic year in early spring, such that the state budget is enacted too late to influence their admission decisions that year. To date, the state has not set budget-year-plus-one targets for CCC, as its admission cycle does not begin as far in advance.

**Other Proposed Spending****Governor's Budget Contains Substantial Increase in Total Higher Education Spending.**

As **Figure 5** on the next page shows, the Governor's budget contains \$4.2 billion in notable spending changes relative to the 2025-26 budget, including the enrollment growth proposals. The largest set of changes are adjustments for actions in the 2025-26 budget taken to achieve one-time budgetary savings. Most notably, the state adopted payment deferrals for all three segments and began funding MCS one year in arrears. Backfilling

for these one-time actions upon entering 2026-27 costs a total of \$1.9 billion. The Governor's budget also contains \$1.5 billion in new ongoing higher education spending and \$872 million in new one-time spending. The largest ongoing spending increases are for the Cal Grant program and base increases at each of the segments.

**Cal Grant Spending Continues to Grow at Historically High Rate.** The Cal Grant program is the state's largest and longest-standing financial aid program. The Governor's budget includes a \$337 million ongoing General Fund augmentation (12 percent increase) to cover higher projected Cal Grant costs in 2026-27. The Governor's budget also includes a \$107 million upward adjustment in the current year and a \$52 million downward adjustment in the prior year to reflect updated Cal Grant spending data. After accounting for these adjustments, Cal Grant costs grow each year over the budget window, averaging 12 percent—reflecting historically high annual growth. Rising Cal Grant costs are largely attributable to several policy changes adopted over the past several years. These policy changes include expanding eligibility for community college entitlement awards, creating new access awards for students with dependent children, and providing larger Cal Grant tuition awards in response to UC's and CSU's new tuition policies. The administration typically revises its Cal Grant cost estimates in the May Revision based upon updated caseload data in the spring.



**Base Funding for CSU and UC Increases Significantly.** Largely consistent with intent language the state adopted in the *2025-26 Budget Act*, the Governor's budget increases base General Fund support for the

universities by nearly \$1 billion ongoing General Fund in 2026-27. Of this increase, the Governor's budget includes \$716 million for approximately 7 percent base increases (\$366 million at CSU and \$351 million at UC). These augmentations reflect

a proposed year-five compact increase of 5 percent, along with a delayed partial year-four compact increase of 2 percent. The Governor proposes to give the segments discretion in how they use these unrestricted base increases.

**CCC Also Receives Base Increase, Along With Various Other Augmentations.**

The Governor's budget includes a \$241 million ongoing Proposition 98 General Fund augmentation for community colleges to receive a 2.41 percent cost-of-living adjustment (COLA), which effectively equates to an unrestricted base increase. Seven CCC categorical programs also would receive a 2.41 percent COLA. (This COLA rate will be revised in late April based on updated inflation data.) Additionally, the budget more than triples ongoing Proposition 98 funding for Calbright College (raising support from \$15 million to \$53 million). Calbright College is a fully online college the state established in 2018-19. Other major CCC proposals include \$408 million—nearly half of the proposed one-time Proposition 98 CCC spending—for retiring the apportionments deferral adopted in last year's budget. The next largest one-time CCC proposals are \$121 million for deferred maintenance projects and \$100 million for a student support block grant.

Figure 5

## Higher Education Spending Rises Notably Under Governor's Budget

Changes in General Fund Spending (In Millions)

Adjustments for 2025-26 One-Time Actions	
MCS funding in arrears (2025-26 awards) <sup>a</sup>	\$1,054
CCC base restoration for payment deferral	408
CCC base restoration for expiration of one-time funds	134
CSU base restoration for payment deferral	144
UC base restoration for payment deferral	130
Subtotal	(\$1,870)
New Ongoing Spending	
Cal Grants cost increase	\$337
CSU year-five compact base increase	265
UC year-five compact base increase	254
CCC apportionments (2.41 percent COLA)	241
CSU delayed partial year-four compact base increase	101
UC delayed partial year-four compact base increase	96
UC nonresident enrollment replacement	61
Calbright College	38
CCC enrollment growth for 2026-27 (0.5 percent)	32
CCC categorical programs (2.41 percent COLA)	31
CCC Healthy School Foods Pathway program	14
CCC Common Cloud Data Platform	5
CCC credit for prior learning	2
Subtotal	(\$1,477)
New One-Time Spending <sup>b</sup>	
CCC deferral repayment	\$408
CCC deferred maintenance	121
CCC student support block grant	100
CCC apportionments (cover 2025-26 shortfall)	89
CCC additional enrollment growth for 2025-26 (1 percent) <sup>c</sup>	55
CCC Common Cloud Data Platform	36
CCC credit for prior learning	35
Golden State Teacher Grants reappropriation	14
CCC Apprenticeships (cover shortfalls)	13
UC reappropriations <sup>d</sup>	—
Subtotal	(\$872)
Total Changes	\$4,219

<sup>a</sup> Consists of \$513 million ongoing funding and \$541 million one-time funding.

<sup>b</sup> About two-thirds of this spending is paid for using newly available prior- and current-year funds resulting from upward adjustments in the Proposition 98 minimum guarantee.

<sup>c</sup> Increases budgeted growth from the enacted 2025-26 level of 0.57 percent to 1.57 percent. The associated ongoing cost is built into apportionments in 2026-27.

<sup>d</sup> The Governor's budget reappropriates funding for four research initiatives whose original expenditure periods have ended. The administration does not have estimates of the amount of remaining funds for each initiative.

MCS = Middle Class Scholarships and COLA = cost-of-living adjustment.

**CSU and UC Out-Year Commitments Would Remain.** Under the Governor's plan—consistent with the budget plan enacted in June 2025—the state would continue to make certain out-year commitments to CSU and UC. Specifically, the state would commit to providing CSU and UC combined with \$525 million one-time General Fund in 2027-28 and nearly \$300 million ongoing General Fund in 2028-29. These commitments stem from the state not providing the full year-four compact payment in 2025-26. In addition, the Governor includes a new proposal to retire the CSU and UC deferrals in 2027-28, providing an associated \$274 million one-time General Fund payment. (In 2026-27, the Governor's budget continues to allow CSU and UC to remain eligible for short-term, no-interest loans to help them

respond to the payment deferrals, such that no programmatic effect is intended at either segment.)

**Only Proposed Budget Solution Is to Financial Aid Program.** The administration has only one proposed spending solution in the higher education area. Specifically, the administration proposes to contain MCS costs by reducing award coverage from 35 percent in 2025-26 to 17.5 percent thereafter. The administration estimates reducing award coverage would lower MCS costs by \$541 million, resulting in a like amount of General Fund savings. Savings are not generated until 2027-28 because the state funds the program in arrears. The Governor's budget package has no proposals that reduce higher education spending in 2026-27.

## KEY CONSIDERATIONS

In this part of the brief, we raise some concerns with the Governor's proposed 2026-27 budget for higher education and offer some recommendations for building a more sustainable budget.

**Governor's Budget for Higher Education Is an Imprudent Starting Point.** As discussed in *The 2026-27 Budget: Overview of the Governor's Budget*, the administration's revenue estimates over the budget window are \$42 billion higher than previous budget-act assumptions and almost \$30 billion higher than our November 2025 estimates. Even with the higher revenues, the administration estimates a roughly \$3 billion deficit for 2026-27, growing to a \$27 billion deficit in 2027-28. Facing projected deficits, the Legislature typically would take action to contain costs, rather than considering proposals for large new spending increases. The Governor's budget for higher education for 2026-27 is billions of dollars higher than the current year, with no plan for how to sustain that funding in 2027-28.

**New Higher Education Spending Is at Risk Given Stock Market Signals.** The administration's higher revenue estimates are mainly driven by strong stock market performance. Certain factors signal the stock market might be approaching a peak. If a stock market downturn occurs,

income tax revenues would fall considerably, and the misalignment between state revenues and proposed spending would widen. (Under the Governor's budget, proposed state spending already is higher than projected state revenues by nearly \$21 billion in 2026-27.) All of higher education is vulnerable to spending reductions in such a situation. Community college funding is linked to the Proposition 98 minimum guarantee, which tends to drop when state revenues decline. The universities—lacking constitutional, federal, or court-ordered mandates—generally are considered a discretionary component of the state budget and are particularly subject to funding reductions during fiscal downturns. As stock market developments unfold over the course of the next 18 months (through the end of the budget year), all the segments could see their fiscal situations change significantly.

### Base Increases

**Recommend Reducing or Eliminating Base General Fund Increases for CSU and UC.**

Base increases help the segments with their core operating costs—notably employee salaries; health benefits; pensions; and non-personnel costs, including debt service, utilities, equipment,

and supplies. The state budget, however, likely will not be able to sustain ongoing non-Proposition 98 General Fund increases over the next few years. Rather, in the coming months and years, the state will likely have to take significant action to reduce spending on existing ongoing programs, raise additional tax revenues, or find other budget-balancing solutions. If the Legislature considers base increases for CSU and UC a high priority—even given the potentially very difficult budget trade-offs—then approving smaller base increases would be more prudent. The Legislature, for example, could consider providing CSU and UC with base increases more in line with the current CCC COLA rate of 2.41 percent. Alternatively, the Legislature could eliminate the base increases for UC and CSU altogether, thereby making the state's structural deficit more manageable to address and increasing the chances that core programs could be sustained moving forward.

***Even With No Increases in State Support, CSU's and UC's Total Core Funding Grows.***

In contrast to some state agencies, the universities have a fiscal advantage in having access not only to state funding but also considerable nonstate funding. With CSU and UC set to raise tuition charges in 2026-27, each segment will generate hundreds of millions of dollars in new tuition revenue. This additional revenue will allow each segment to cover some of its spending priorities. Even with no increase in base General Fund support, CSU and UC would see their core funding grow by 4.2 percent and 3.5 percent, respectively.

***Governor's Compact Has Been a Budgetary Hindrance.*** Back in 2022, Governor Newsom announced a compact with the segment heads. In those compacts, the Governor made fiscal commitments to propose annual funding increases for the segments. The compacts were intended to provide the segments with more predictable funding levels, while also promoting certain performance goals, such as enrolling more resident undergraduates and improving graduation rates. Though the Governor may propose funding increases, the Legislature has appropriation authority and ultimately decides how much to provide the segments given the state's overall budget situation. The Legislature is not beholden

to implement the side agreements the Governor makes with the segments. Compacts that commit to funding increases several years into the future historically have failed to be honored, as budget conditions have changed over time. The most recent compact also has contributed to a string of convoluted budget actions that have led to a lack of transparency, lack of accountability, and resulting confusion. For instance, under the current budget construction, the state has committed to provide CSU and UC with 3 percent base increases in 2028-29, even though the state faces a large projected deficit in 2028-29. Those proposed increases in 2028-29 would be for honoring the compact commitments the former Governor could not honor back in 2025-26.

***Recommend Not Getting Entangled With Higher Education Compacts Moving Forward.***

From the Legislature's perspective, little is to be gained from implementing a Governor's compact. The Legislature can still plan, establish performance goals, set spending priorities, make appropriations, support enrollment growth, and monitor the segments' outcomes—all without a Governor's compact. With a new Governor to take office next year, we recommend the Legislature not get entangled with any new compact. Instead, we recommend the Legislature make funding decisions for each segment each year based upon the best information available at that time and the state's overall budget condition. In this vein, we recommend the Legislature rescind funding commitments made in advance for 2027-28 and 2028-29. The Legislature can make funding decisions for those fiscal years as part of the regular budget process for each of those years.

## **Enrollment Growth**

***Recommend Supporting Some Enrollment Growth.*** We recommend the Legislature fund some enrollment growth at each segment in 2026-27. All segments report being over their targets in 2025-26, and CSU and UC are on track to grow further in 2026-27. Moreover, UC and CSU already are in the midst of making their admission decisions for the 2026-27 academic year based upon the enrollment expectations set in the *2025-26 Budget Act*. Both segments, particularly



CSU, still have options for managing their 2026-27 enrollment levels. Providing at least some enrollment growth funding, however, allows the state to support the actions the segments already have taken to meet the state's initial 2026-27 growth targets.

***Recommend Providing Enrollment Growth Funding Separately From Base Increases.***

Consistent with historical legislative practice, as well as current practice for CCC, we recommend the Legislature fund enrollment growth at CSU and UC apart from and on top of any base increase, as doing so provides greater transparency and accountability. We recommend the Legislature fund CSU and UC 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 undergraduate enrollment is \$40 million at CSU and \$30 million at UC.

***Recommend Pausing Implementation of Nonresident Replacement Plan in 2026-27.***

Given the state's projected deficits, we recommend pausing implementation of the nonresident replacement plan in 2026-27. Pausing the plan would generate \$61 million in ongoing General Fund savings. During the pause, we recommend setting the nonresident undergraduate cap for the Berkeley, Los Angeles, and San Diego campuses at their respective shares in 2024-25—the last year the state provided associated funding. In 2025-26, the three campuses combined made no net progress toward the lower cap. In 2026-27, if UC resumes progress toward the lower cap based upon actions it already has taken, the Legislature could begin funding the associated cost on an ongoing basis once its fiscal condition improves. Alternatively, UC could grow nonresident enrollment at the three campuses in 2026-27, but only to the extent resident enrollment grows in tandem. When state budget conditions improve and the Legislature decides to resume appropriations, it could then reestablish the expectation that the three campuses continue to make progress toward the 18 percent cap.

***Recommend Holding Enrollment Flat at Universities in 2027-28.***

Given the sizeable projected deficit in 2027-28, we recommend holding enrollment expectations flat for UC and CSU that year. Setting higher enrollment targets for the segments without providing them funding comes with downsides. Most notably, there can be programmatic impacts, including larger class sizes, fewer course offerings, and less academic support. Another consideration is that demographic pressures are projected to be somewhat weak over the next few years. Little, if any, growth in projected high school graduates, the age 18-24 population, and the age 25-29 population signals enrollment pressures will be tempered in 2027-28.

## **Financial Aid**

***Recommend Giving High Budget Priority to Needs-Based Cal Grant Program.***

Cal Grant costs increased at a historically high rate in 2024-25 and are projected to increase at even higher rates in 2025-26 and 2026-27. Program costs are increasing due to both higher caseload and higher award amounts resulting from various policy changes. The Legislature could revisit some of these cost drivers. We recommend, however, that the Legislature generally look for other budget solutions in the higher education policy area before making substantial changes to the Cal Grant program. The Cal Grant program is a needs-based program that is designed to help students most at risk of not being able to enroll in and complete college due to financial issues. Depending on the Cal Grant award type, household income is capped at \$76,100 or \$144,700 (for a family of four in 2026-27).

***MCS Proposal Is a Budget-Balancing Option the Legislature May Want to Consider.***

Despite projecting a \$27 billion deficit in 2027-28, the administration has only the one proposal to reduce higher education spending—cutting MCS award coverage in half. In contrast to the Cal Grant program, MCS does not require students to meet financial need criteria. MCS does have an income cap, but it is very high (\$250,000 in 2026-27) and not based on family size. With such a high income cap, MCS is not targeted. The majority of CSU and UC resident undergraduates qualify for the program. Many CSU and UC students from

high-income households would very likely still attend and complete college regardless of the level of MCS support. Moreover, students from low- and middle-income households would continue to receive Cal Grants to help with college costs. In 2025-26, about 50 percent of MCS recipients also receive Cal Grants. In addition, students from lower-income households may receive federal Pell Grants and institutional grants to help with college costs. For all these reasons, the Legislature might deem MCS budget solutions less disruptive than other options that would affect more targeted, needs-based programs.

## Other

***Recommend Using One-Time CCC Funding to Build Fiscal Resiliency.*** With stock market performance strong over the past two years and state revenues revised upward in the Governor's budget, more prior- and current-year Proposition 98 funding is available for one-time activities at the community colleges. The Governor's budget also allocates some ongoing Proposition 98 funding for one-time activities—an approach that creates a cushion to protect core programs in case the Proposition 98 minimum guarantee declines in the future. Among the Governor's one-time proposals, we think the proposal to first retire the CCC payment deferral is prudent, as it leaves community colleges in a better position to weather a fiscal downturn. We think the Governor's one-time proposals for deferred maintenance projects and

a student support block grant also are reasonable. Importantly, addressing deferred maintenance helps avoid higher project costs in the future as well as potential programmatic disruptions due to failing building components. Given community colleges report a backlog of these projects, we recommend giving deferred maintenance projects high priority among one-time activities after paying off the deferral.

### ***Recommend Using Any Non-Proposition 98 One-Time Funding Also to Build Fiscal***

***Resiliency.*** Given the state's projected deficit in 2026-27, the Governor's budget includes little one-time Non-Proposition 98 General Fund spending. If one-time Non-Proposition 98 funding, however, becomes available later this year or over the next few years, we recommend the Legislature use it to place the state on a stronger fiscal footing. Specifically, within the higher education budget, we recommend retiring payment deferrals at CSU and UC and paying for MCS costs in the year in which those costs are incurred (rather than in arrears). Using one-time funding in these ways helps return the state to better fiscal practices and also better positions the state to address a future fiscal downturn. If further one-time funding becomes available, we recommend designating it for capital renewal and seismic safety projects at CSU and UC (similar to the Governor's approach for CCC this year). CSU and UC have billions of dollars of outstanding projects in these areas.



## LAO PUBLICATIONS

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This report was prepared by Jennifer Pacella, with contributions from Florence Bouvet, Natalie Gonzalez, and Lisa Qing, and reviewed by Ross Brown. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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