

California State Assembly



Assembly Budget Agenda

Subcommittee No. 3 on Education Finance

Assemblymember David A. Alvarez, Chair

Tuesday, February 17, 2026

9:00 A.M. – State Capitol, Room 447

Informational Hearing

- I. **Welcome, Introductions and Opening Statements**
- II. **Segment Leaders' Perspectives**
 - Sonya Christian, Chancellor, California Community Colleges
 - Mildred Garcia, Chancellor, California State University
 - James B. Milliken, President, University of California
 - Department of Finance
 - Jennifer Pacella, Legislative Analyst's Office
- III. **Public Comment**
- IV. **Adjournment**

6400 University of California
6610 California State University
6870 California Community Colleges

Issue 1: Current Higher Education Issues and Governor's Budget Overview

The Subcommittee will discuss the Governor's Budget proposals for the University of California (UC), California State University (CSU), and the California Community Colleges (CCC), and hear perspectives from the segment leaders and the public.

Background

2026 offers the Subcommittee an opportunity to explore the state's long-term vision and goals for its higher education segments. While there are some short-term funding issues to consider in hearings this year, the budget itself is largely unsurprising for the forthcoming fiscal year. This provides the members of the Subcommittee a unique opportunity to consider the state's future direction in this critical state policy area.

After two uncertain fiscal years, the 2026 Governor's January budget reflects a return to a familiar pattern of state funding for higher education that has been typical of UC funding for over a decade. The UC and CSU budget again see proposed base increases, consistent with the Governor's Compact Agreement with the segments. Community Colleges benefit from a healthy growth in both ongoing and one-time Proposition 98 funding. While these proposals are in line with historic funding trends, they are remarkable in that they are one of the few spending areas in the entire budget for which the Governor proposed any discretionary increase for this year.

While the Governor is offering the three segments with a budget that resembles the budgets of the past, the segments face unprecedented daunting future challenges. With higher education significantly reliant on federal support for financial aid and research funding, the segments were one of the first state entities to feel the impact of the federal leadership's negative view of California institutions and values. Unlike the state, the federal government offers uncertainty and a departure from the past investment, which challenges the ability of the segments to provide the certainty to students, faculty and staff necessary to offer world class instruction and research.

Additionally, the state's demographics are beginning to impact universities. While TK-12 institutions have coped with declining enrollment for some time, the decline in birthrate, migration, and immigration across California will begin to filter into the enrollment in higher education segments. According to the Department of Finance, High School Graduates increased slightly (+14,700 graduates) in 2023-24 to 454,800 but are projected to decline to 424,200 in 2026-27, holding around that level until 2033-34, before falling to 412,300 in 2034-35

Governor’s 2026-27 Budget Proposals

The Governor’s January budget includes \$3 billion in additional General Fund support for higher education — a 14 percent increase. Ongoing General Fund support increases notably for all three segments and the Student Aid Commission. This section includes helpful tables and information from LAO’s recent report on the Governor’s proposal. The first table focuses on state budget support for all higher education, including financial aid.

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 ^a	2,646	2,556	3,398	842	33
Totals	\$23,403	\$22,143	\$25,134	\$2,991	14%

^aAmounts 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.

However, state support is just a small portion of the funding for the system. 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).

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^a					
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 ^b	\$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 ^c	488	488	488	—	—
Totals	\$11,224	\$11,402	\$12,208	\$806	7.1%

^aProposition 98 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.

^bIncludes funding for pensions and retiree health benefits.

^cIncludes a portion of overhead funding on federal and state grants and a portion of patent royalty income.

LAO also has some helpful information that helps focus on how the funding translates to students. Per student, funding overall increases in all three segments.

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 ^a	\$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

^aReflects Proposition 98 funding, including any reserve withdrawals.

As noted in the earlier table, tuition is a major source of revenue for the systems. This chart shows tuition rates and the projected tuition increases across the segments.

Tuition and Fees by Higher Education Segment

Mandatory Academic-Year Charges for Full-Time Resident Students

	2024-25 Actual	2025-26 Actual	2026-27 Assumed ^a	Change from 2025-26	
				Amount	Percent
College of the Law, San Francisco					
Enrollment fees ^b	\$49,383	\$53,087	\$54,680	\$1,593	3.0%
Other fees	1,242	1,242	1,242	—	—
University of California					
Undergraduate tuition and fees ^c	\$14,436	\$14,934	\$15,588	\$654	4.4%
Graduate tuition and fees, academic	14,016	14,430	15,066	636	4.4
Graduate tuition and fees, professional	19,125-71,050	16,530-74,316	17,229-77,946	Various	Various
Average campus fee ^d	1,726	1,812	1,852	\$40	2.2%
California State University					
Undergraduate tuition	\$6,084	\$6,450	\$6,838	\$388	6.0%
Teacher credential tuition	7,062	7,488	7,938	450	6.0
Graduate, tuition, master's ^e	7,608	8,064	8,548	484	6.0
Graduate tuition, business	14,448	15,336	16,252	916	6.0
Graduate tuition, doctoral	12,546-18,900	13,296-20,034	14,094-21,236	Various	Various
Average campus fee ^d	1,981	2,194	2,304	\$110	5.0%
California Community Colleges					
Enrollment Fee	\$1,380	\$1,380	\$1,380	—	—
Maximum campus fees ^f	258	264	272	8	2.8

^a Reflects rates assumed in Governor's budget.

^b Reflects rates for the Juris Doctor program.

^c Reflects rates for new students. Rates for continuing students remain at the levels set in the year the student first enrolled at UC.

^d For 2026-27, we assume campus fees increase on average by 5 percent. UC amount reflects average for undergraduates, with graduate students charged less on average. CSU amount reflects average for both undergraduate and graduate students.

^e Includes postbaccalaureate programs other than teacher credential programs.

^f Reflects maximum charges for four campus service fees authorized by state law. Not all CCC campuses charge the maximum amount. In 2026-27, we assume certain maximum charges that are adjusted annually for inflation increase by 3 percent, while other maximum charges set in statute remain flat.

Because Community Colleges are funded through Proposition 98, the budget mirrors the one-time/ongoing funding split seen in the TK-12. Almost all ongoing funding is for COLA, with a tiny half a percent for growth funding. Most of the available funding is one time, as noted in the LAO table below:

2024-25 Through 2026-27 (In Millions)

Ongoing Spending	
COLA for apportionments (2.41 percent)	\$241
Calbright College	38
Enrollment growth (0.5 percent)	32
COLA for select categorical programs (2.41 percent) ^a	31
Healthy School Foods Pathway program	14
Common Cloud Data Platform	5
Credit for prior learning	2
Subtotal	(\$363)
One-Time Spending	
2025-26 deferral repayment	\$408
Deferred maintenance	121
Student support block grant	100
2025-26 apportionments shortfall coverage	89
2025-26 additional enrollment growth (1.0 percent) ^b	55
Common Cloud Data Platform	36
Credit for prior learning	35
Apprenticeship RSI shortfall coverage	13
Subtotal	(\$857)
Total Changes	\$1,220

^a Applies to the Adult Education Program, apprenticeship programs, CalWORKs student services, campus child care support, Disabled Students Programs and Services, Extended Opportunity Programs and Services, and mandates block grant.

^b 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.

COLA = cost-of-living adjustment. RSI = related and supplemental instruction.

Other major higher education proposals include:

- Does not include a proposed enrollment growth target for UC and CSU. The Governor's budget includes a total of \$87.2 million Proposition 98 General Fund across the 2025-26 and 2026-27 budget years to support a combined 1.5% systemwide enrollment growth at the community colleges. Of the \$87.2 million, \$55.3 million is for 1% enrollment growth in 2025-26 and \$31.9 million is for 0.5% enrollment growth 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. While this enrollment is assumed, not formal target mechanism to achieve the growth is proposed.
- \$61 million ongoing General Fund in 2026-27 to effectively provide two years of additional funding for the nonresidential replacement 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. Statute specifies that the Legislature intends to provide annual appropriations to assist UC with implementation.
- Repays deferred compact payments in 2027-28 and 2028-29. 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.)
- Includes ongoing increase of \$38.1 million Proposition 98 General Fund to support and provide stable funding for Calbright College in its base operations as it transitions out of its startup capacity.
- Provides the CCC with an increase of \$41 million Proposition 98 General Fund, \$5 million of which is ongoing, for further scaling of the Common Cloud Data Platform across the community college system.

System Enrollment Trends

2025 was UC’s highest year of overall enrollment with large increase in San Diego and Riverside leading the trend. The chart below shows UC undergrad/grad enrollment by campus over the last decade. Unlike the other two segments, UC saw consistent enrollment growth over the decade, which was not impacted by the pandemic.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Berkeley	29,310	30,574	30,853	31,348	30,799	31,814	32,479	33,078	33,070	33,122
Davis	29,557	30,212	30,876	31,115	31,293	31,770	31,632	31,856	32,342	31,695
Irvine	27,178	29,134	29,567	30,223	29,481	28,735	27,984	28,857	28,100	28,085
Los Angeles	30,680	30,813	31,382	31,349	31,437	31,919	32,214	32,735	32,974	32,900
Merced	6,815	7,375	7,881	8,151	8,276	8,321	8,343	8,372	8,372	8,243
Riverside	19,814	20,074	20,590	22,067	22,702	22,875	22,914	22,653	22,613	24,049
San Diego	28,127	28,587	30,285	30,794	31,842	32,784	32,495	33,093	34,186	34,609
Santa Barbara	21,580	22,196	23,080	23,354	23,202	23,097	23,460	23,238	23,185	23,092
Santa Cruz	16,962	17,577	17,792	17,517	17,207	17,864	17,502	17,812	17,940	18,194
Total	264,426	273,179	280,380	285,216	285,862	294,662	294,309	295,573	299,407	301,093

The CSU system “FTE” enrollment was impacted by the pandemic, with enrollment dipping after the pandemic, but showing recovery in recent years to nearly pandemic levels. As noted in the December hearing, the enrollment growth rates have varied across campuses, with some campuses seeing steady increases in enrollment and other seeing much steeper declines in enrollment than the average. The chart below shows “FTE” by campus over the last 10 years.

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Bakersfield	8,052	8,613	9,212	9,920	10,186	9,050	7,957	8,107	8,543	9,051
Channel Islands	5,817	6,186	6,277	6,406	6,195	5,581	4,768	4,386	4,154	4,245
Chico	16,343	16,647	16,437	16,181	15,608	14,231	12,869	13,012	13,504	13,821
Dominguez Hills	11,533	12,168	12,711	13,948	14,574	13,679	12,456	11,569	11,551	11,593
East Bay	13,904	13,731	12,371	12,805	12,910	11,757	10,322	10,100	9,349	9,402
Fresno	21,587	22,350	22,236	21,641	22,413	21,773	20,692	20,811	21,270	21,849
Fullerton	32,306	33,067	32,530	33,202	34,563	32,731	32,498	34,385	36,157	38,484
Humboldt	8,020	7,934	7,362	6,658	5,942	5,285	5,280	5,449	5,525	5,754
Long Beach	31,598	31,729	31,571	32,673	33,837	33,336	32,411	33,506	35,069	36,370
Los Angeles	22,856	23,743	23,606	22,678	22,746	22,885	21,910	20,931	19,261	18,391
Maritime	1,197	1,133	1,107	990	972	938	868	812	850	862
Monterey Bay	6,886	6,797	6,701	6,605	6,380	6,419	6,012	5,820	6,710	7,243
Northridge	32,256	32,801	32,409	32,471	33,093	32,214	29,866	30,277	31,191	31,609
Pomona	22,078	22,976	23,078	24,784	26,203	25,136	23,387	22,847	23,839	24,086
Sacramento	26,094	26,414	26,719	27,144	27,535	27,182	26,254	25,872	26,660	27,018
San Bernardino	18,070	17,967	17,749	18,319	16,757	16,057	16,146	15,499	15,169	15,820
San Diego	31,527	31,812	31,988	32,169	32,943	32,540	33,402	34,355	36,459	38,283
San Francisco	24,108	24,888	25,094	24,583	23,179	22,121	20,850	19,954	18,738	17,701
San Jose	26,660	28,196	27,979	28,490	28,599	28,609	27,164	27,186	28,201	30,258
San Luis Obispo	20,718	21,528	21,204	20,698	21,674	21,180	20,892	21,870	22,657	23,149
San Marcos	10,924	11,672	12,288	12,389	12,688	12,427	11,465	12,137	12,853	13,428
Sonoma	8,605	8,646	8,673	8,250	7,429	6,630	5,849	5,388	5,314	4,598
Stanislaus	8,241	8,521	8,760	9,217	9,374	8,475	8,073	7,878	7,792	7,946
CalStateTEACH	934	934	887	807	893	781	785	725	754	902
International Program	442	521	424	465	29	259	413	346	422	421
Grand Total	410,758	420,973	419,373	423,492	426,719	411,276	392,589	393,223	401,990	412,283

Community College enrollment was dramatically impacted by the pandemic, dropping by over 18 percent in the first two years of the crisis. However, overall enrollment has nearly reached pre-pandemic levels. The Community Colleges note that the 2025 numbers are still being updated and are expected to be higher after all districts report.

	Fall 2019	Fall 2020	Fall 2021	Fall 2022	Fall 2023	Fall 2024	Fall 2025
	Student Count						
State of California Total	1,659,392	1,459,942	1,355,557	1,391,485	1,525,470	1,613,451	1,628,132
Continuing Student	902,797	797,243	705,601	693,536	743,289	780,151	796,686
First-Time Student	267,382	231,349	232,447	237,993	261,458	278,483	263,797
First-Time Transfer Student	118,750	108,668	92,986	101,958	116,275	127,714	118,686
Returning Student	189,941	166,271	160,032	168,388	176,544	177,247	171,304
Special Admit Student	106,496	110,463	115,283	132,378	158,480	174,860	197,226
Uncollected/Unreported	74,026	45,948	49,208	57,232	69,424	74,996	80,433

Intersegment Transfers

Transfers between the segments represent one key area where the three entities must coordinate and work together.

In 2025, over 30 percent of CSU’s total FTE count is from CCC transfers, with 126,210 enrolled students. Transfers from the community colleges represented a record 137,864, 32 percent of the total FTE CSU student in 2020. This number dropped sharply after the end of the pandemic and has since grown slightly over the last three years. This trend in part reflects the decline in CCC enrollment after the pandemic, which temporarily reduced the number of potential transfer candidates.

Transfers from CCC to UC’s had also dipped after the pandemic with the number of transfers falling from 18,063 in 2020 to 16,748 in 2022. Recent data shows a rebound in transfers. In 2025 UC had 17,834 California residents transfer from a California Community College to a UC.

Financial Aid

	2024-25 Actual	2025-26 Revised	2026-27 Proposed	Change From 2025-26	
				Amount	Percent
Total Recipients	453,482	509,593	556,121	46,528	9.1%
By Segment:					
California Community Colleges	193,139	217,098	232,754	15,657	7.2%
California State University	147,812	173,049	197,190	24,141	14.0
University of California	81,543	86,007	91,037	5,030	5.8
Private nonprofit institutions	25,213	27,040	28,680	1,639	6.1
Private for-profit institutions	5,547	6,189	6,366	177	2.9
Other public institutions	226	209	94	-116	-55.2
By Program:					
High School Entitlement	251,679	278,397	302,360	23,963	8.6%
CCC Expanded Entitlement	157,002	183,325	204,819	21,494	11.7
Competitive	20,596	19,288	19,128	-160	-0.8
Transfer Entitlement	16,177	17,377	18,042	665	3.8
Cal Grant C	8,028	11,205	11,772	567	5.1
By Award Type:					
Cal Grant B	317,888	362,294	400,709	38,414	10.6%
Cal Grant A	127,566	136,094	143,641	7,547	5.5
Cal Grant C	8,028	11,205	11,772	567	5.1
By Renewal or New:					
Renewal	236,666	270,878	306,782	35,904	13.3%
New	216,816	238,715	249,339	10,624	4.5

Data reflect California Student Aid Commission (CSAC) estimates. Some categories do not sum to totals due to rounding.

453,482 students received a CalGrant in 2024-25 with 193,156 going to CCC students, 147,853 for CSU students, 81,520 for UC students, and 30,953 for other institutions.

In 2024-25 352,463 students received the Middle Class Scholarship, with 250,483 for CSU students, 101,825 for UC students and 155 for Community College students in a BA program.

Title IX

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

The Subcommittee has requested each segment to submit a short summary of recent Title IX updates for this hearing with the intent that this issue will be more fully explored in hearings focusing on each segment individually UC (March 17), CSU (April 7), and CCC (April 21) later in the year.

LAO Comments

Below are recommendations from the LAO’s recent report on the Governor’s budget proposal.

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.

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.

Staff Comment/Suggested Questions

This hearing is the first opportunity the Subcommittee will have to consider in 2026, the higher education budget and the Governor's proposal. However, it is also the only time all three segments will be together for discussion on how the higher education segments collectively form a state higher education system.

The Legislature has struggled to bring cohesion and coordination between the three massive segments. Traditionally, the Subcommittee has been focused on how the segments serve Californians looking to develop their human capital; how do Californians find the educational opportunities they need to have a satisfying career, how do they get a seat in that classroom, and how do they afford this investment?

In 2026, the focus on the "customer" that the Subcommittee has brought to conversation may evolve to reflect the challenges of the current economy. With the possibility that Artificial Intelligence and other technologies may disrupt many industries, Californians may need a more nimble, more responsive options to retool their skills to stay relevant in their career. The Subcommittee may wish to explore how the segments are adopting to this new reality and creating opportunities that meet this new expectation.

Additionally, demographics project a shrinking pool of high school graduates needing higher education. The segments will need to consider how to either scale down operations to this lower projected demand or find new student populations to maintain current enrollment. As part of that effort, the segments may need to work together more to build pathways for students across the systems to provide a valuable, affordable, and attainable education.

There are some amazing examples of the three segments working together, sometimes with the addition of local school districts, to create thoughtful education pathways to respond to workforce demands. But these models are generally localized and fail to scale systemwide. Additionally, efforts to build coordination, like the California Learning Lab, exist only with outside support as no segment seems interested in investing discretionary resources towards such coordinating efforts. The Subcommittee may wish to consider how to use the Legislature's important role in appropriating state funds as a means to create incentives for better coordination, more responsive educational offerings, and durable investments that are responsive to California's future.

Potential Questions:

1. What are the critical issues facing your segment this year? Does the proposed budget by the Governor respond to those issues?
2. How do the segments coordinate and work together? How often do you meet with each other? How can the legislature encourage better alignment between the segments?
3. What are the trends for transfers between the segments? How should the state move forward with transfers?
4. What are the enrollment trends within your segments? How is your segment dealing with institutions that have too much/too little demand?
5. How does your segment respond to the changing needs of the workforce? How can the State of California encourage our higher education entities to be nimbler and more responsive to workforce needs?
6. How has policy changes made by the federal government impacted your segment?
7. What are the trends for financial aid and how is your segment adapting to those trends?
8. With numerous CSU campuses facing significant deficits, what are creative solutions to increase revenue, decrease costs or become more attractive to potential students?
9. What short-term community college and community college student needs are campuses facing? Are there student support or other programs that could benefit from increases?
10. How long will the IT, Career Passport, and credit for prior learning proposals take to implement? What are future costs of these projects, for the state and districts?
11. Based on current information, what is community college enrollment in 2025-26, and what is likely in 2026-27? How should the Legislature consider supporting unfunded enrollment in the community college system?
12. What are the most significant areas in which reduced federal funding could impact universities, community colleges and students? Given the difficult state budget situation, how should the state respond?
13. How are campuses working to support undocumented students, LGBTQ+ students, or other students potentially impacted by new Trump Administration policies?