

BUDGET LETTER

SUBJECT: EMPLOYEE COMPENSATION ADJUSTMENTS—ITEM 9800	NUMBER: 26-23
REFERENCES: BL 26-23, SEE ATTACHMENT	DATE ISSUED: October 08, 2026
	SUPERSEDES: 25-23

TO: Agency Secretaries
Department Directors
Departmental Budget and Accounting Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

BUDGET OFFICERS ARE EXPECTED TO FORWARD A COPY OF THIS BUDGET LETTER (BL) TO HUMAN RESOURCES AND LABOR RELATIONS OFFICES.

The BL provides departments with instructions for scheduling 2026-27 and ongoing employee compensation adjustments as part of the 2027-28 budget process.

<i>Deadlines and Deliverables</i>	
October 23, 2026	Due to Finance Budget Analysts: • Item 9800 Employee Compensation Workbook • Adjustments in Hyperion • Supporting documentation, including but not limited to Management Information Retrieval System (MIRS) reports

A. Background

The state has Memoranda of Understanding (MOUs) with all 21 of the state's collective bargaining units (see Worksheet 2 in Attachment A for a complete list of all 21 bargaining units). This BL addresses the 2026-27 employee compensation adjustments approved through the collective bargaining process and by the California Department of Human Resources (CalHR) Director for employees excluded from collective bargaining. It also includes background information and instructions for departments to calculate and schedule current year and budget year funding requests.

The Item 9800 drill does not apply to personnel of the University of California; the University of California College of the Law, San Francisco; the California State University; or State Active Duty personnel of the Military Department.

Glossary Relevant to this BL

The following terms are used throughout this BL:

Term	Meaning
BBA	Baseline Budget Adjustments. These are baseline expenditure adjustments such as employee compensation, carryovers, etc. See BL-26-06.pdf for more information.
BR	Budget Request. These are issues identifying changes to dollar amounts and/or positions for any fiscal year in Hyperion.
BU	Business Unit. This four-digit number is equivalent to an organization code/entity.
BY	Budget Year (Fiscal Year 2027-28).
Category	An account code in the Chart of Accounts.
CBID	Collective Bargaining Identification.
CY	Current Year (Fiscal Year 2026-27).
ENY	Enactment Year (formerly Year of Appropriation).

B. General Instructions

To request funding for eligible adjustments, departments must complete and submit the Item 9800 Employee Compensation Workbook (Attachment A), adjustments in Hyperion, and related supporting documentation, including but not limited to MIRS reports, to Finance Budget Analysts **no later than Friday, October 23, 2026**.

Any MIRS reports must be run with a point-in-time displaying salaries prior to the increases negotiated and/or approved for Fiscal Year 2026-27. Alternatively, departments may use the "Regular/Ongoing Positions" salaries total in the current year column (2026-27) from the Salaries and Wages Spreadsheet (Schedule 7A) for the current and budget year salary base. This information is necessary to support the funding request and to provide the necessary scheduling information to the State Controller's Office (SCO) to process the Budget Executive Order (EO) later in the fiscal year.

If a department fails to meet this deadline, Finance will calculate and schedule the adjustment; in such instances, departments may not have an opportunity to adjust any calculations and scheduling performed by Finance. Please refer to Section C below for instructions for each worksheet within Attachment A to calculate the appropriate adjustments.

C. Item 9800 Employee Compensation Workbook (Attachment A)

Item 9800 Employee Compensation Adjustments Workbook Checklist

Use the 9800 Checklist tab to verify accurate completion of Attachment A, the associated Hyperion entries, and the BBA Excel Upload Template, if used.

Prior to submission, departmental accounting management must approve the scheduled items and programs included in the BBA, to ensure proper posting to SCO's accounting system. The use of invalid item and program combinations results in significant statewide delays when posting the annual 9800 EO and causes significant issues when departments are completing the year end closing process.

In general, an item and program combination is not valid in SCO's system unless it is displayed in the 2026 Budget Act or a subsequent bill amending the 2026 Budget Act. This requirement is incorporated in the Item 9800 Checklist.

Worksheet 1: Item 9800 Summary

This worksheet displays total adjustments that are calculated on Worksheets 4, 5, and 6, as applicable. Cells within this worksheet are all formula driven.

Worksheet 2: Item 9800 List of Bargaining Units

This worksheet provides a list of current bargaining units. This list should be referenced to verify that adjustments on Worksheets 4, 5, and 6 correspond to the correct bargaining unit(s).

Worksheet 3: Item 9800 List of Eligible Salary and Benefit Adjustments

This worksheet provides information on the eligible salary and benefit adjustments necessary to complete Worksheets 4, including the General Salary Increase, Special Salary Increase, pay differentials, and other adjustments. **Only eligible adjustments detailed on Worksheet 3 will be allocated to departments.**

CalHR transmits classification and pay adjustment data to departments through multiple pay letters. The released pay letters that correspond to the adjustments can be found on Worksheet 3, Column H.

Worksheets 3a and 3b: Item 9800 Benefit Adjustment Instructions and Detail

Worksheets 3a and 3b provide detailed health and dental benefit information and instructions necessary to complete Worksheet 5.

Worksheet 4: Item 9800 Salary Adjustment

This worksheet is used to calculate Salary Adjustments, as listed on Worksheet 3.

Augmentations will not be provided for the following:

- **Overtime**
- **Increased contract costs**
- **Limited-term positions**
- **Temporary help blanket positions**

Salary Adjustment Calculations

On this worksheet, for adjustments applicable to all employees in the department, use the "Regular/Ongoing Positions" salaries total in the current year column (2026-27) from the Schedule 7A (see highlighted cell in Schedule 7A example below) for the **current and budget year** salary base.

Schedule 7A Example

ORGANIZATIONAL UNIT Classification	POSITIONS			EXPENDITURES		
	Filled 2025-26	Authorized 2026-27	Proposed 2027-28	Actual 2025-26 (Salary Range)	Estimated 2026-27	Proposed 2027-28
TOTALS, AUTHORIZED POSITIONS	537.5	659.0	659.0	\$61,908,914	\$69,725,700	\$71,049,289
<i>Regular/Ongoing Positions</i>	504.3	621.0	621.0	56,560,187	66,248,850	67,572,439
<i>Temporary Help</i>	33.2	38.0	38.0	4,997,886	2,855,000	2,855,000
<i>Overtime</i>	-	-	-	350,841	621,850	621,850

Some adjustments on Worksheet 3 will only impact specific classifications and/or bargaining units, etc. In these instances, use only the salary base specific to those impacted classifications. For additional instructions, refer to the footnotes included at the bottom of Worksheet 4.

These adjustment amounts must be entered into Hyperion with a “**Salary Adjustments**” BBA type. For further instructions, refer to the Section D instructions—BRs in Hyperion and BBA Excel Upload Templates.

Although CalHR’s pay letters and the instructions on Worksheet 3 provide guidance regarding costing for these adjustments, departments are responsible for reviewing the specific terms in the MOUs to determine applicability to their employees. Please refer to the [bargaining contracts](#) found on the CalHR website, which provide further details regarding each MOU.

Salary-Driven Benefit Calculations

The benefits listed below must be calculated as a percentage of the Salary Adjustment and included within the “Staff Benefits” column on Worksheet 4 for each applicable adjustment. **Other increased costs will not be funded.**

- **OASDI (Social Security)**—6.2 percent of total salary up to the \$187,500 cap (for each position covered by OASDI) for 2026-27 and \$193,050 for 2027-28.¹
- **Medicare**—1.45 percent of total salary (no cap).
- **Retirement**—Departments must use the 2026-27 retirement rates as reflected in Control Section 3.60 of the 2026 Budget Act (Chapter 248, Statutes of 2026). This information will be used in completing Worksheet 4.
- **Other Salary-Driven Compensation**—Pay differentials that are calculated as a percentage of base salary and that are not included in the salary on the Schedule 7A (e.g., longevity pay) must be included in the salary base to accurately capture increased benefit costs.

¹ The salary base for the calendar year 2026 is \$184,500 per information published on ssa.gov. Wage bases of \$190,500 and \$195,600 are used for calendar years 2027 and 2028, respectively, to determine an average maximum for planning purposes. These numbers reflect a fiscal year equivalent of calendar year estimates.

These adjustment amounts must be entered into Hyperion with a “**Benefit Adjustments**” BBA type. For further instructions, refer to the Section D instructions—BRs in Hyperion and BBA Excel Upload Templates.

Worksheet 5: Item 9800 Benefit Adjustment Worksheet

Adjustments to the employer’s health benefits contribution for specific bargaining units were made as a part of the MOUs or as approved by CalHR for excluded employees.

Based on the 2027 health rates adopted by the California Public Employees' Retirement System, the state’s contribution toward 2027 health premiums for most bargaining units will be higher than the amount contributed by the state in 2026. CalHR transmits specific health contribution adjustment data to departments through Human Resources Manual updates.

To calculate the 2026-27 Employer's Health Benefit Contribution adjustment, departments should refer to Worksheets 3a and 3b and calculate the adjustments on Worksheet 5. For additional instructions, refer to the footnotes included at the bottom of Worksheet 5.

These adjustment amounts must be input into Hyperion with a “**Benefit Adjustments**” BBA type. For further instructions, refer to the Section D instructions—BRs in Hyperion and BBA Excel Upload Templates.

Worksheet 6: Item 9800 Other Post-Employment Benefits (OPEB) Worksheet

Departments are not required to complete Worksheet 6 this year due to the suspension of OPEB contributions for 2026-27. Worksheet 6 has been removed from the workbook, and the summary tab should be \$0 for OPEB adjustments.

Worksheet 7: Item 9800 Salary and Benefit Adjustment Fund Split Worksheet

Provide the unique appropriation item information (BU, Reference, Fund, Program, and Category) for each adjustment. Departments must use valid appropriation items when scheduling adjustments. Items with an invalid item and program combination cannot be processed by SCO and lead to significant delays. In general, only those item and program combinations displayed in the 2026 Budget Act or an amendment to the 2026 Budget Act are valid.

Also, please note there are several category codes that can be used for the various adjustments found in Worksheets 3, 3a, and 3b. For purposes of this BL, the following category codes must be used for each respective adjustment:

Adjustment type	Category code	Calculated on
Salary Adjustments	510XXXX — Salaries and Wages	Worksheet 4
Benefit Adjustments	515XXXX — Staff Benefits	Worksheets 4, 5

The only exception is if scheduling adjustments as Distributed Administrative Costs (Program 9900200), which use Category 5342500 ([Indirect Distributed Cost](#)). If reimbursement adjustments are necessary, select the appropriate category code referenced above, based on the adjustment type, scheduled to Fund 0995.

The totals from Worksheets 4 and 5 must tie to the Item 9800 Summary Worksheet in Attachment A. For additional instructions, refer to the footnotes included at the bottom of Worksheet 7.

To correctly classify funds and reduce errors, the Item 9800 Salary and Benefit Adjustment Fund Split Worksheet includes a drop-down list of all funds by fund number as well as all applicable adjustment categories to select from rather than keying in manually. The fund classification will auto-populate based on the fund/category selected; federal funds and bond funds are classified as non-governmental cost funds.

While this process *should* help minimize errors, departments must verify each fund classification by reconciling it to the Uniform Codes Manual (UCM). Please refer to the [UCM Fund Codes Numerical Order Listings](#). If a fund does not appear in the drop-down list, please contact your Finance Budget Analyst prior to submission.

Worksheet 8: Item 9800 Crossties

To ensure the accuracy of all adjustments within Attachment A, the formula-driven crossties on this worksheet must all reflect "0" for both the current and budget years.

D. Instructions—BRs in Hyperion and BBA Excel Upload Templates

General Information

After completing all applicable worksheets in Attachment A, departments are required to complete up to three separate BRs in Hyperion.

The exact BR titles shown below are required to be used in Hyperion for statewide tracking and consistency

BR title	BBA type	Category code	Calculated on
Allocation for Employee Compensation	Salary Adjustments	510XXXX	Worksheet 4
Allocation for Staff Benefits	Benefit Adjustments	515XXXX	Worksheets 4, 5

Adjustments in Hyperion must correspond to the adjustments listed on the Item 9800 Salary and Benefit Adjustment Fund Split Worksheet (Worksheet 7). If uploading to Hyperion, departments must use the latest BBA Excel Upload Template distributed through the [Budget Operations mailing list](#). Department staff can contact their Finance Budget Analyst if they have questions about the latest upload templates.

Departments must use the following for each BR created:

1. Use the standard naming convention to create a unique BR name (e.g., 2222-XXX-BBA-2027-GB). To improve coordination and reduce system kick outs, departments and Finance Budget Analysts must use BR sequencers that match the last three digits of the BR identifier in Hyperion. For example, BR identifier: BR 0010 with BR Name: 2222-010-BBA-2027-GB. See [Budget Request Naming Convention in Hyperion](#) for additional information.

2. If using the BBA Excel Upload Template, select the BU, Request ID, and Year from the drop-down menu on the Budget Request Details tab. Request ID is the 4-digit BR identifier Hyperion assigns when the BR is created. Use the latest template distributed through the Budget Operations mailing list on August 7, 2026.
3. Select the matching BBA type from the drop-down on the Baseline Adjustment Type tab, using the table above.
4. For CY expenditures and BY to BY4 expenditures, specify the Item, ENY, Program, and Category for each funding combination.
 - Use the appropriate Category code referenced in the table above, except for scheduling adjustments as Distributed Administrative Costs (Program 9900200), which use Category 5342500 (Indirect Distributed Cost).
 - Using the dollars scheduled in the current and budget years in Attachment A, enter the adjustments in the CY Expenditures and BY-BY4 Expenditures tabs in whole dollars rounded to the nearest thousand.
 - Refer to Worksheet 7 when determining the dollars to be scheduled in the CY (ENY 2026) and BY (ENY 2027).
 - All ongoing BY expenditures must be copied to the BY1-BY4 columns.

Distributed Administration Costs

Departments that continue to distribute administrative costs will need to reflect that distribution for applicable Item 9800 Adjustments. To properly reflect the in-and-out nature of distributed administrative costs, a three-entry scheme is required:

1. Program 9900100 (positive adjustment) and Category 51XXXXX to show the positive total being distributed to a particular program(s).
2. Program 9900200 (negative adjustment) and Category 5342500 to reflect total distributed cost.
3. The program (positive adjustment) that pays for the distributed cost using Category 5342500.

This process allows the dollars associated with a particular program to be included in the program total. For more details, refer to [Treatment of Distributed Administrative Costs](#).

E. Additional Information on Affordable Care Act Reporting Penalties

The Budget Act authorizes payment of the Affordable Care Act (ACA) reporting penalties to the Internal Revenue Service (IRS) through Item 9800. Provisional language in Item 9800 provides Finance authority to transfer amounts for departmental reimbursement of penalties paid through Item 9800 on behalf of departments.

Beginning with the 2021 reporting year, the IRS will no longer provide relief of (or from) ACA Information Reporting Penalties (IRP) for large employers. Pursuant to the Internal Revenue Code section 4980H, two types of IRP are issued to employers that fail to file a correct Employer-Provided Health Insurance Offer and Coverage Information Return (1095-C) with the IRS and/or fail to provide employees with a correct 1095-C, referred to as Type A and B, respectively. Type A penalties apply when the IRS finds that the employer fails to offer the coverage, and Type B penalties apply when the IRS finds that the employer-offered

coverage is unaffordable. Type A penalties apply when the employer fails to offer the coverage, and Type B penalties apply when the employer-offered coverage is unaffordable.

Once the IRS issues an IRP amount to the state, the SCO and Finance will determine the breakdown of penalty amounts by department and issue additional instructions for capturing the reimbursement from departments for any Type A penalties. To minimize future reporting penalties, departments should continue working closely with SCO to ensure ACA reporting is timely and accurate.

F. Questions

Please direct questions related to Human Resources Manual updates, Pay Letters, or provisions of MOUs to departmental personnel or labor relations officers, or CalHR. For the treatment of budget documents, please direct questions to your Finance Budget Analyst.

/s/ Rosanna Nguyen

Rosanna Nguyen
Program Budget Manager