Threat 5: Financial Pressures Facing Higher Education

OBBBA cuts over $300 billion from higher education over 10 years by eliminating Grad PLUS loans, capping Parent PLUS loans, reducing graduate student borrowing limits, and restructuring the federal student loan repayment system. While these cuts directly affect students and institutions, not states specifically, they will reduce institutional revenue and reshape the higher education budget landscape.

In addition, the bill expands the federal excise tax on private college and university endowments without reallocating that money to students or under-resourced institutions. Although this provision was not included in the education title of the legislation, it substantially increases the tax burden for a significant share of private nonprofit higher education institutions, moving from a flat 1.4% rate to a new tiered structure that can reach as high as 8%, depending on endowment size. Since a large portion of endowment spending supports institutional financial aid, with studies indicating that roughly 40% to 50% of endowment payouts are directed toward student aid, the expanded tax may constrain institutions' ability to fund scholarships and need-based assistance.

Outside of the changes made through OBBBA, additional financial pressures are coming from numerous directions. The Trump administration has proposed significant reductions to federal research funding from the National Science Foundation (NSF), Department of Energy, and the National Institutes of Health while simultaneously seeking to cap indirect cost reimbursements at 15%. The abrupt cancellation of more than 1,600 NSF grants has further destabilized the research landscape, prompting a coalition of 16 states to file a lawsuit arguing that it violates federal law and threatens scientific integrity. A review of canceled grants reveals that many may have been targeted for being considered diversity, equity, and inclusion (DEI) work. While some proposals are still tied up in court, this uncertainty has forced institutions to freeze hiring, delay research projects, and reconsider long-term investments in innovation and workforce initiatives.

Simultaneously, institutions are grappling with declining international enrollment. In fall 2025, new international student enrollment declined by 17%, largely due to visa application issues, long application backlogs, and the suspension of new student visa interviews last May. For institutions, this is a significant financial loss, as international students typically pay full tuition and help subsidize financial aid and services for domestic students. Compounding these challenges, the administration's FY2026 budget proposal seeks to eliminate TRIO, GEAR UP, and Supplemental Educational Opportunity Grants (SEOG), cut Federal Work-Study by $980 million, and withhold certain grant funds over diversity concerns. Although the funding law passed in February 2026 rejected essentially all proposed cuts, maintaining funding for programs such as TRIO and GEAR UP, the appropriations process has been marked by significant uncertainty and competing proposals, including cuts to campus-based aid programs. This ongoing instability around federal student aid may disrupt institutional planning and threaten essential support systems for first-generation students and students from low-income backgrounds. Together, these pressures are reshaping the financial foundation of higher education at a time when institutions are already navigating enrollment shifts, affordability concerns, and growing demands to demonstrate value and return on investment.

RISK: Increased Financial Instability in the Higher Education Landscape

As institutions face uncertainty in federal aid, absorb cuts to research funding, and experience declines in enrollment, students may experience uncertainty related to tuition, financial aid packages, reduced Work-Study opportunities, and the elimination of support programs for first-generation students and students from low-income backgrounds. Over time, these pressures may shift financial risk onto students and their families, widen equity gaps, and reduce access to college.

How State Advocates Can Drive Change

Advocates should urge legislators to:

Expand need-based first-dollar state grant programs: Increase investments in first-dollar state grant programs to partially offset lost federal awards for students from low-income backgrounds. Ensure that these programs cover undergraduate, graduate, and professional students who received Pell Grants during their undergraduate studies.

Create state student emergency aid funds: Establish state-funded emergency aid programs for students facing sudden financial hardship due to reduced grant aid or those who forgo federal financial aid due to data privacy concerns. These funds can help students cover immediate needs and remain enrolled.

Develop state-funded student employment programs: If the Federal Work-Study Program is reduced or eliminated, states can create or match funding for student employment programs that provide meaningful work opportunities while helping students finance their education.

Expand streamlined college credit pathways in high school: Invest in streamlined and coherent pathways that give students opportunities to earn college credit while still in high school, enhancing college affordability by shortening the time to degree or certificate.

Pursue innovative revenue strategies to support higher education: Identify new and sustainable ways to generate additional funding for higher education.

> *Examples: The Fair Share Amendment in Massachusetts provides dedicated funds for higher education revenue; and the Business and Occupation Tax in Washington supports public priorities for the state.*

Invest in research and innovation funds: Establish dedicated research and innovation funds to stabilize universities, retain top talent, and protect high-skill jobs.

Examples: Massachusetts introduced the Discovery, Research, and Innovation for a Vibrant Economy (DRIVE) initiative, a $400 million investment strategy to grow the innovation and research economy. Similarly, California legislators have proposed a bipartisan $23 billion bond, backed by the University of California system, representing the largest state-level investment in scientific research in U.S. history, aimed in part at offsetting federal funding cuts and pending voter approval. Utah lawmakers are also responding to federal cuts by directing millions toward research programs, including a $45 million grant initiative for workforce-aligned innovation, along with additional funding for cancer research and AI computing.

How Advocates Can Engage Institutions to Drive Change

Advocates should engage institutions to:

Strengthen institutional data capacity: Invest in strengthening internal capacity to collect, analyze, manage, and publicly report student outcomes based on key demographic factors to better identify student needs and guide evidence-based resource allocations.

Expand institutional and community-based financial aid: Increase institutional grants for students from low-income backgrounds and proactively help students access private grants and community-based scholarships.

Monitor the impact of financial aid losses: Track how federal funding losses affect enrollment, persistence, and completion rates to inform policy advocacy and budget requests.

Develop partnerships for student employment opportunities: Collaborate with local governments, nonprofits, and businesses to create student work opportunities in place of or in addition to the Federal Work-Study Program.

Advocate for sustained higher education investment: Prepare to defend essential higher education investments and make the case that higher education supports long-term state economic interests, even in challenging budget environments.