Financial Accountability on the Horizon

A 'perfect storm' is brewing for lawmakers to focus on higher education funding — with potential impacts to community colleges and their students.

BY CARRIE WARICK-SMITH

SINCE THE BEGINNING OF THE 119TH CONGRESS AND the Trump Administration, Washington has been whirring at a frenetic pace. The President has passed a record number of executive orders, many of which have resulted in one or more court cases. The Senate has confirmed all cabinet secretaries. Congress passed a fiscal year 2025 full-year Continuing Resolution and immediately started on FY 2026 appropriations. And both chambers have laid out plans for a reconciliation process with a goal of completion by early summer.

Yet, when my colleague José Miranda, ACCT's director of government relations, and I had a meeting with House staffers in mid-March, this was the line that stuck with me: "accountability is coming." For a brief minute I thought we had been transported to the world of George R.R. Martin's Game of Thrones, Westeros, and were to fear the arrival of winter. Beyond my penchant for all genres of fantasy, this struck me and has stuck with me throughout this spring, particularly given the possibility that some kind of accountability for higher education institutions could be included in the final budget reconciliation package as a revenue generator. And in fact, the House Education and Workforce Committee passed one such proposal out of committee in late April.

There is always uncertainty in the legislative process, but a perfect storm is brewing for legislators to focus on higher education funding. The value of higher education continues to be questioned, and wealthy elite universities have become culture war lightning rods. The federal student loan portfolio is still expanding. And three events have caused the Pell Grant program to face a funding shortfall: the Pell Grant maximum was increased during the Biden administration, FAFSA simplification with its eligibility formula expansion went into effect, and enrollment started increasing, all in rapid succession.

As Congress moves through the reconciliation process, higher education accountability will be front and center for the House and Senate education committees as they look to find savings.

Meanwhile, the Republican caucus is seeking ways to save money or generate revenue to offset the costs of their budget reconciliation package that would bring about a number of the President's campaign promises on defense, energy, border security, as well as tax cut extensions. Limiting program participation in federal financial aid programs, lowering the amount of need-based aid, or changing loan repayment plans would save the federal government money. Risk-sharing payments and taxing endowments would generate revenue.

Given this landscape, let's dive in on several of the proposals currently circulating, who proposed them, how much funding they would generate, and how they would impact community colleges.

Proposal: Student Success and Taxpayer Savings Plan (aka House Education Reconciliation bill)

Lead: 119th Congress, Rep. Tim Walberg (R-Mich.), Chair of the House Education and Workforce Committee

Savings generated: $351 billion over ten years (Congressional Budget Office)

Summary: This bill takes the carrots and sticks approach to accountability and includes several other changes to Pell Grants and federal student loans. To motivate colleges to provide high quality programs and improve completion, it creates the PROMISE Grant program, which pays colleges based on a formula related to Pell Grant participation and student cohort on-time completion. On the stick side, institutions must pay back proportions of student loans that went unpaid or forgiven by each student cohort.

Process: This proposal was introduced and passed through the House Education and Workforce Committee to fulfill its requirement of cost savings for the FY25 budget reconciliation process. Next it will head to the House floor along with reconciliation proposals from other authorizing committees.

Community college impact: This risk-sharing proposal could cause some community colleges to stop participating in the federal student loan program or to pay fines back to the U.S. Department of Education. The PROMISE Grant could benefit many community colleges, but that depends on the cash flow over time from the risk-sharing penalty payments.

Proposal: Streamlining Accountability and Value in Education (SAVE) for Students Act

Lead: 118th Congress, by now Senate Health, Education, Labor, and Pensions (HELP) Committee Chair Bill Cassidy (R-La.) as part of the Lowering Education and Debt Act.

Savings generated: Estimate not available

Summary: This bill would measure graduate earnings by program and compare them to the median high school graduate. Any programs not providing earnings above the high school median threshold would no longer be eligible for the federal student loan program.

Process: This proposal could be reintroduced as is, or considered as one way to change the federal loan program to save funds during reconciliation.

Community college impact: Community college programs that result in earnings lower than the high school median could no longer participate in borrowing, which could hurt student enrollment and retention.

Proposal: Endowment Tax Fairness Act (21% tax) or Tax Endowment Expansion to 14% Rate

Lead: Rep. Troy E. Nehls (R-Texas) in the 119th Congress; House revenue generation proposal document obtained by media sources

Savings generated: $69.8 billion over 10 years (estimate from Tax Foundation); $10 billion over 10 years (House revenue generation proposals)

Summary: The first endowment tax on institutional endowments was levied as part of the Tax Cuts and Jobs Act of 2017, requiring private, non-profit colleges with at least 500 students enrolled and $500,000 per student FTE to pay a 1.4% tax on their endowment payout annually. Current proposals suggest an increase in the tax percentage with the possibility of also adjusting the qualifying formula so that more colleges are affected.

Process: This proposal will be part of the Tax Cuts and Jobs Act extension, which was passed using reconciliation in 2017. If passed again, it would be under the same process.

Community college impact: Community colleges will not be affected by this tax as long as public institutions remain exempt. Even without the exemption, the qualifying formula would need to change in order for community colleges to be impacted.

As Congress moves through the reconciliation process, higher education accountability will be front and center for the House and Senate education committees as they look to find savings within their jurisdiction. While community colleges embrace responsible accountability, including having supported guardrails in Workforce Pell proposals and elements of the Gainful Employment metrics, our institutions must oppose any type of risk-sharing that would require colleges to pay funds back to the federal government. As open access institutions, community colleges have no control over who they admit or how much debt they accrue within federal limits. Given these circumstances, community colleges should not be held responsible for repaying borrower loans.

To contact your member of Congress about these proposals, particularly in opposing risk-sharing in the budget reconciliation process, visit the Action Center under the Advocacy tab on ACCT.org.

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