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THREATS TO THE DEPARTMENT OF EDUCATION:

PRIVATE EQUITY REPLACING PUBLIC FUNDING

Christian Collins | January 2025

Throughout the 2024 campaign cycle, post-election messaging, and proposed administrative appointments, the incoming Trump Administration has sent a clear message that undermining educational access for marginalized populations will be a priority. These pledges include loosening protections placed by the outgoing Biden Administration against sex and gender identity discrimination at federally funded schools,[1] weakening educational accessibility for immigrant students,[2] and decreasing the racial diversity of the postsecondary system.[3] The most direct threat has been the repeated promise of closing the federal Department of Education (ED) in its entirety, a move that has been attempted multiple times since the department was founded in 1979 but that has failed in every instance.[4]

This brief details the threat that the new administration poses to ED and its impact on post-secondary institutions. It analyzes how there is little political will to close ED, but significant federal education funding cuts are a possibility. Next, the brief outlines how postsecondary institutions are looking to private equity firms to cover potential financial shortfalls and provides policy recommendations for institutions, policymakers, and advocates on pathways to fiscally protect the postsecondary system.

SHUTTERING THE DEPARTMENT OF EDUCATION AND REDISTRIBUTING PUBLIC EDUCATION FUNDS TO PRIVATE ENTITIES LACK POLITICAL MANDATE

Closing ED would drastically impact every state not only by reducing federal K-12 and special education funding, but also through the potential cuts to postsecondary student aid and dedicated funds for minority-serving institutions (MSIs). Federal postsecondary education spending is largely not transferred to state and municipal governments but instead distributed to students and institutions directly through financial aid programs and development funds. This spending from ED totaled over $30 billion for FY 2024, almost 40 percent of total appropriations for the department.[5] ED also provided $400 million in funds to Historically Black Colleges and Universities (HBCUs), nearly $350 million for Hispanic-serving institutions, and over $80 million for tribal colleges and universities.[6] Only seven states – Iowa, Maine, New Hampshire, Rhode Island, Utah, Vermont, and Wyoming – do not currently have an institution with at least one of those three MSI designations.[7] Although most federal postsecondary funds are not distributed similarly to K-12 spending, ED can still appropriate funds to states and cities for scenarios like the COVID-19 pandemic where smaller governments may face difficulty with fiscal sustainability. Despite the total allocation having been reduced by approximately 27 percent from FY 2022, federal stimulus funding was still used by 28 states and Washington, D.C. in FY 2023; in both Connecticut and Vermont, around 17 percent of postsecondary funding came from federal stimulus.[8]

ED's importance is not just evident in the money it provides to state and local governments, but also in the power it can wield. The most direct threat to state postsecondary systems is not the loss of ED but the stated goals of the Trump Administration that it would need ED to enforce. Undoing existing civil rights and racial equity initiatives,[9] reversing recent progress on national student loan forgiveness efforts,[10] and reducing the federal aid available for students with low incomes[11] are easier for the new administration to accomplish through ED versus attempting to distribute across multiple federal agencies within a limited timeframe and with a slim Congressional majority.

The lack of political mandate to fully close ED is not just evident within state governments, Congress, and the federal executive branch, but also with the American public. Policymakers were not the only choices on the ballot in many states during the 2024 election. Residents of both Kentucky and Nebraska voted on statewide ballot initiatives centered on the concept of redistributing public education funding to private sources.

Kentucky's Constitutional Amendment 2 was a state constitutional amendment proposed by the Kentucky State Legislature that would have given the legislature direct authority for providing schools outside the public K-12 system with state funding. That the measure overwhelmingly failed, with almost 65 percent of voters voting against it, indicates how unpopular the policy was.[12] In Nebraska, voters had the opportunity to approve or reject Nebraska Referendum 435. This veto referendum would've authorized the state treasurer to administer an education scholarship program, with a $10 million budget beginning during FY 2024, which would distribute scholarships to eligible students to cover all or part of the cost of attending any nongovernmental, privately operated elementary or secondary school in the state.[13] The Nebraska electorate convincingly rejected the referendum with 57 percent of voters voting no, another example of the unpopularity of redistributing public education funding.

State Governments Have Placed Their Postsecondary Systems in Fiscal Danger Through Consistent Underfunding

Despite the animosity of the American public toward dismantling the public education system through the redistribution of funding, state policymakers have in large part enabled that redistribution within their postsecondary education systems for the past several decades. State legislatures, regardless of political makeup, have been cutting postsecondary education funding, leaving the federal government with more of the tab and public blame for education funding inequities. Though the national amount of state-level public postsecondary funding per student recently rose following the COVID-19 pandemic, this trend has not been experienced uniformly across every state. Half of all states remain below their pre-2008 educational appropriations per student, and 32 states remain below their appropriations from 2000.[14]

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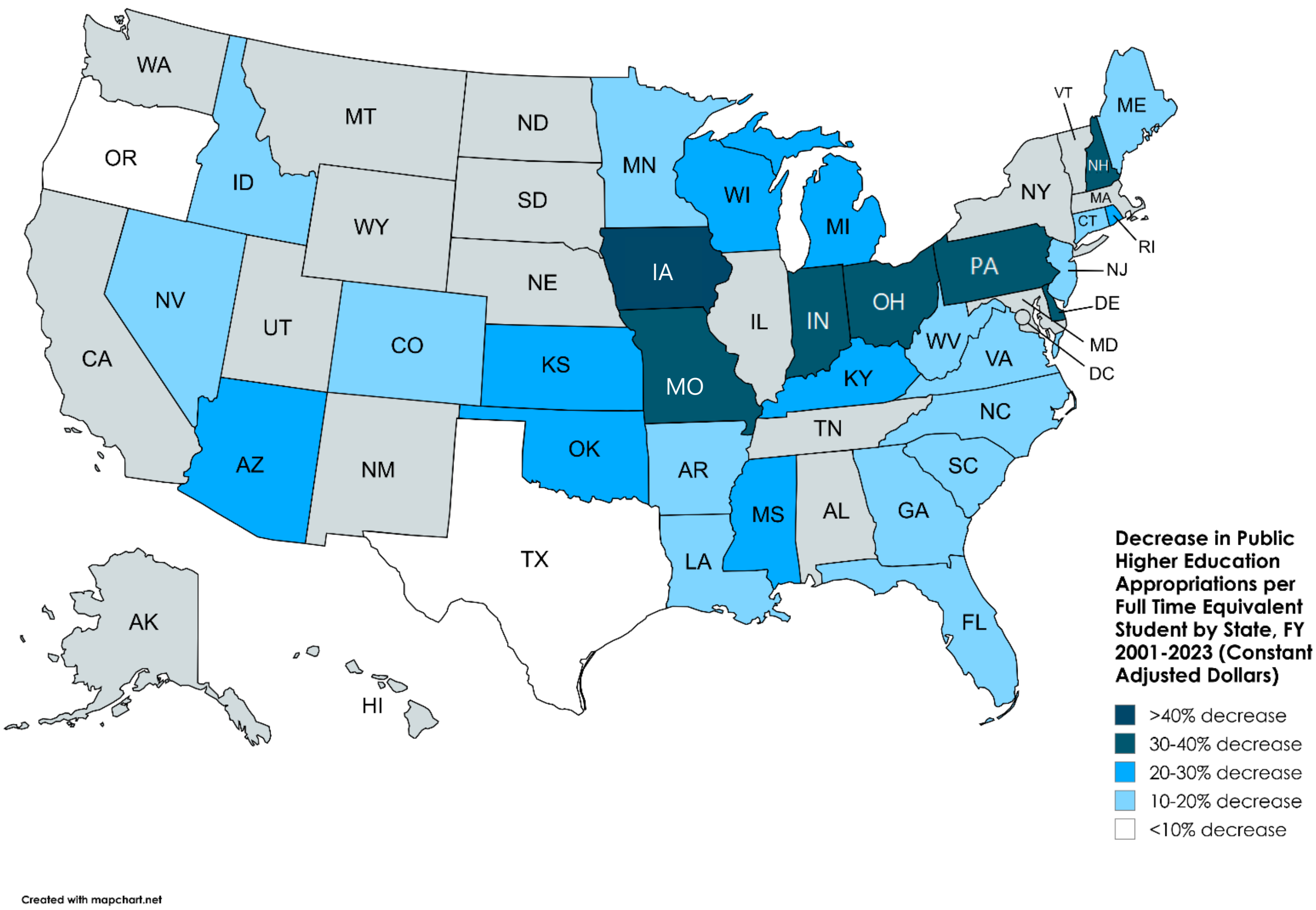

The trend of declining public investment from states into their postsecondary education systems, combined with mostly stagnant federal funding, has placed an unsustainable share of costs directly onto students. Despite a recent national recovery in public educational investment, students in FY 2023 were responsible for just over 40 percent of all education revenue, well above the 29 percent share they were responsible for in FY 2001.[15] Placing such a large revenue burden on a student population that has only just recovered from the COVID-19 pandemic is a recipe for disaster that is already impacting the national system.[16]

Institutions ranging from large statewide systems to regional public schools serving primarily rural students are cutting back on courses, staff, and vital services like campus libraries due to revenue challenges stemming from declining or stagnating enrollments.[17] This establishes an inequitable patchwork education system where students are deprived of educational opportunities, and the resulting socioeconomic mobility, solely because of where they live. Roughly 13 million Americans live in locations lacking access to a postsecondary institution,[18] and that figure will grow if more institutions are forced to reduce services or permanently close.

Cutting and diverting federal education funding would not only undo the recent progress in bringing down the share of education costs that students are directly responsible for but would also compromise the ability of the postsecondary system to provide equitable access to educational

> ***Losing federal education funding would instantly put almost every state's postsecondary education system in an existential crisis not only from state-level budgetary impacts but also the likely effect on enrollment.***

opportunities. Public institutions and MSIs, regardless of public or private status, provide most of the educational opportunities for all postsecondary students and especially those marginalized by race (Appendix A), gender (Appendix B), and immigration status (Appendix C).[19]

The bulk of federal postsecondary education spending overseen by ED is for providing financial assistance to individual students through programs like the Pell Grant. If the new administration delivers on its promise to eliminate ED, states will immediately face the challenge of how to continue easing financial barriers for students while also maintaining fiscal sustainability in funding state institutions.

Private Equity Firms Are Pursuing, and Being Courted to Purchase, Ownership Stakes of Fiscally Vulnerable Institutions

Postsecondary education is an invaluable public good as determined not just by the measurable economic mobility impact for both individual students and entire communities,[20] but also by the amount of subsidy provided to the system at all levels of government. Private equity firms have begun to create monetary footholds and build influence on the educational system through increasing ownership of admissions exams[21] and operation of for-profit colleges,[22] but have been unable to gain increased access to federal postsecondary funding. If the Trump Administration successfully reduces the total amount or oversight of that funding, however, firms will have an opportunity to increase their footholds.

In attempting to navigate this new policy landscape, statewide postsecondary systems and individual institutions like HBCUs and other MSIs will be exploring options to balance the loss of federal funding and maintain fiscal stability. Given how state-level public postsecondary funding is traditionally unpredictable and is especially popular for state policymakers to cut when facing a fiscal crisis,[23] institutions will look at other options for funding. Those that are financially vulnerable may increasingly turn to sources like private equity investment.

House v. NCAA, a class-action lawsuit involving violations of federal antitrust law by institutions in not compensating college athletes, brings not only a multi-billion-dollar settlement for former athletes but also provides structure for a system of direct revenue compensation to athletes paid by their institutions.[24] In anticipation of the *House* settlement and direct compensation system, institutions are actively exploring proposals to sell off ownership stakes of their athletic departments in exchange for operational funds. The most notable example has been Florida State University, which was engaged in conversations between 2022 and 2023 regarding investment opportunities within the athletic department.[25] Under the proposed agreement, Florida State would license out intellectual property rights to the investing firm, with said firm gaining at least some control over management of intellectual property to raise revenue.[26] Not only would the firm benefit from being less accountable for financial transparency than Florida State as a public university, but it would also gain leverage in maneuvering for financial control of other aspects of Florida State like the university-affiliated hospital system.[27] Florida State's initial discussions advanced to the point of having a deal structure in place with a firm but conversations ended in late 2023, although the university has indicated an openness to future discussions with other firms.[28]

Relationships between private equity firms and institutions are not just being sought by firms themselves. College and university administrators are actively courting firms for investment without regard for long-term consequences. Multiple college athletic directors have engaged in at least preliminary conversations with Collegiate Athletic Solutions, a firm specifically formed to invest capital in athletic departments.[29] The president of the National Collegiate Athletic Association, an organization with over 1,100 member institutions that is responsible for governance of over 500,000 college athletes, has provided public encouragement for firms to invest in schools.[30] Howard University's men's basketball coach has revealed his efforts to sell off a 33 percent ownership stake of the team to private equity firms to help finance facilities upgrades and player compensation.[31] Avenue Capital Group CEO Marc Lasry has admitted that his firm has bid on ownership stakes in college athletics programs,[32] and the president emeritus of the University of Arizona proposed institutions use land as assets for negotiating deals with firms.[33]

> ***The educational mission of the national postsecondary system and the short-term monetary interests of private equity firms are incompatible.***

Firms have a detailed history of pursuing profit without regard to the educational experiences of students within the for-profit education sector,[34] mainly by securing as much profitability through governmental aid as possible while cutting educational expenses at every opportunity.[35] Public and private non-profit institutions are greedily attempting to preserve the amounts of revenue they generate from the labor of their students while avoiding the responsibility of compensating them, in turn increasingly exposing themselves and their students to the risk of private equity capture.

Without state-level action, private equity firms will be emboldened to financially exploit the postsecondary education system. In their new legislative sessions and while preparing for the Trump Administration, states must be guided by the principle that education is meant to be funded by the public.

POLICY RECOMMENDATIONS

PROHIBIT PRIVATE EQUITY FROM BUYING OWNERSHIP STAKES IN PUBLIC INSTITUTIONS

Increased fiscal investment into institutions and public postsecondary systems is only one part of the equation. Private equity firms must be pre-emptively cut off from access to public funds through a prohibition on buying ownership stakes in public institutions. The operational logic of private equity investment indicates that any opportunities that firms see to gain access to federal education funding through investing in postsecondary institutions will be taken. Institutions have already shown a willingness to balance that risk by attempting to avoid sharing revenue with the students responsible for generating it. Without robust investment into their postsecondary systems, states would potentially have other public institutions weigh engagement with private equity as a matter of fiscal sustainability.

PROACTIVE AND SUSTAINED STATE INVESTMENT IN PUBLIC POSTSECONDARY SYSTEMS

The greatest protection that states can offer their postsecondary systems is proactive action to ensure their fiscal sustainability. Funding reductions for public institutions are directly tied to increased tuition and loss of supportive services.[36] Without investment into public postsecondary systems to offset and overcome federal cuts, marginalized students will bear the brunt of the consequences.[37] These investments must be both immediate, to protect postsecondary institutions from anticipated federal cuts, and include developing consistent educational funding formulas that can account for factors like annual inflation and enrollment rates.[38] Codified formulas offer sustainable access to funding that can aid institutions and states in preparing for changing economic environments. Dedicated state funding formulas also provide opportunities for policymakers to directly address existing funding inequities that weaken the sustainability of institutions enrolling higher populations of marginalized students.[39]

EXPAND EXISTING FINANCIAL AID PROGRAMS AND/OR IMPLEMENT TUITION-FREE PROGRAMS

The postsecondary pledges of the incoming administration are not just targeted discrimination against certain groups of marginalized students. Actions to undermine public perception of the value of education to build political capital for further funding cuts are a core aspect of the Trump administration. State governments can fiscally protect institutions both by increased direct appropriations to reduce their reliance on tuition revenue, and through counteracting any executive branch attempts to shrink enrollments. For example, states have the option of offering their own expanded financial aid programs or tuition-free education. These programs not only can alleviate the proportion of postsecondary system funding provided directly by students but can also determine eligibility and provide awards without reliance on federal data, as already demonstrated by several states.

Through legislation passed in spring of 2024, Washington expanded an existing program that provides full in-state tuition for students from families with low incomes, using state Supplemental Nutrition Assistance Program data to determine eligibility without reliance on whether a student completes the Free Application for Federal Student Aid (FAFSA).[40] West Virginia also used state benefits program data to award financial aid while navigating challenges faced by students in completing the 2023-2024 FAFSA.[41] Likewise, New Mexico's 2022 expansion of its statewide Opportunity Scholarship program used state data to determine eligibility and award financial aid independent of FAFSA and other applications.[42] However, state-level financial aid and tuition-free programs often don't cover out-of-classroom costs.[43] Implementing these programs is a vital first step in preserving the accessibility of postsecondary systems, but it cannot be the only step.

APPENDIX A

Fall 2024 Non-white Undergraduate Student Enrollment[44]		
Institution Type	**Total # of Undergraduates**	**% Share of Undergraduates**
Public 4-year	2,424,388	37.92
Public 2-year	2,221,775	34.75
Private, Nonprofit 4-year	927,980	14.51
Private, For-profit 4-year	297,266	4.65
Public Primarily Associate Degree Granting Baccalaureate	521,969	8.16
Total	**6,393,378**	

APPENDIX B

Fall 2024 Female Undergraduate Student Enrollment[45]		
Institution Type	**Total # of Undergraduates**	**% Share of Undergraduates**
Public 4-year	3,292,031	38.98
Public 2-year	2,655,317	31.44
Private, Nonprofit 4-year	1,520,404	18.00
Private, For-profit 4-year	424,600	5.03
Public Primarily Associate Degree Granting Baccalaureate	553,335	6.55
Total	**8,445,687**	

APPENDIX C

Fall 2024 International Undergraduate Student Enrollment[46]		
Institution Type	**Total # of Undergraduates**	**% Share of Undergraduates**
Public 4-year	73,495	45.43
Public 2-year	23,951	14.81
Private, Nonprofit 4-year	46,858	28.96
Private, For-profit 4-year	3,360	2.08
Public Primarily Associate Degree Granting Baccalaureate	14,112	8.72
Total	**161,776**	

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