

Federal Policy Digest

February 5, 2026

Education Department Funded at \$79B for FY26 (2.3.26)

The Department of Education (ED) is fully [funded](#) through September 30, 2026, following enactment of the FY26 appropriations bill. Congress appropriated \$79B in discretionary funding for ED—an increase of \$217M over FY25 levels. This stands in sharp contrast to the Trump administration’s FY26 budget request, which [proposed](#) cutting the department’s budget by roughly \$12B. Congress also maintained funding at FY25 levels for programs that the Trump administration had wanted to reduce or eliminate, including for the Pell Grant, Federal Supplemental Educational Opportunity Grant, Federal Work Study, TRIO, and GEAR-UP. The maximum Pell Grant award remains fixed at \$7,395 for the 2026-27 award year. In addition to topline funding decisions, the legislation includes several implementation and oversight provisions, including:

- Directing agencies to provide Congress with biweekly reports on the implementation of interagency agreements, though this does not prevent the ED from transferring statutorily required program responsibilities to other agencies
- Requiring on-time distribution of formula grant funds to states and districts at the funding levels specified in the appropriations bill
- Maintaining Department of Education staffing at levels necessary to carry out statutory responsibilities

Elsewhere in the appropriations process, the National Institutes of Health (NIH) received an additional \$400M in funding, despite the administration having proposed an \$18B cut. Congress is still negotiating funding for the Department of Homeland Security (DHS); however, DHS funding outcomes will not affect ED’s FY26 funding. A partial shutdown tied to DHS negotiations would not directly disrupt ED operations.

Implications/next steps: For higher education institutions, this budget represents a reprieve from the steep cuts proposed by the Trump administration. That said, as NASFAA President and CEO Melanie Storey has [cautioned](#), “flat funding should not be viewed as a long-term solution,” as it fails to keep pace with inflation and rising costs for students and institutions alike. Attention will now shift to the FY27 budget cycle, which must be completed by September 30, 2026. The Trump administration is expected to release its FY27 budget request in the coming weeks.

Heritage Foundation Releases New Guidance for Higher Education Reform (1.26.26)

The conservative Heritage Foundation released a [new report](#) on higher education reform that builds on the framework it outlined in Project 2025. Over the past year, the Trump administration has advanced policies aligned with several of Project 2025’s recommendations. While many of the report’s goals mirror those in Project 2025, a notable shift is its emphasis on states—rather than the federal government—as the primary drivers of reform. The report calls for eliminating the Department of Education and significantly reducing the federal government’s role in higher education. At the federal level, the report advocates for decoupling accreditation from federal financing (replacing it with state and private quality-

assurance entities), lowering student loan caps, phasing out Parent PLUS loans, and winding down loan forgiveness. The report also suggests that the federal government could use discretionary grants to reward institutions that align with the administration's priorities. At the state level, the report urges state leaders to increase accountability and transparency and to consider consolidating or closing programs with low financial returns and poor job placement outcomes. At the institution level, it argues that colleges and universities can independently address many of the issues outlined in Trump's Compact for Academic Excellence, including nondiscrimination in admissions, hiring, and programming; promoting civil discourse and institutional neutrality; disclosing foreign entanglements; and reforming tuition policies.

Implications/next steps: Adam Kissel, a co-author of the report, [noted](#) to *Inside Higher Ed* that Plan A is to "return education to the states, dismantle the [Education] Department, privatize everything, or at least have block grants," but given these steps are not currently feasible, Plan B is "to use the tools available." Andrew Gillen of the Cato Institute's Center for Educational Freedom noted that he thinks that much of what can be accomplished at the federal level without congressional action has likely already occurred, which he thinks explains the report's shift toward state-level reform. Robert Kelchen, head of the Department of Educational Leadership and Policy Studies at UT Knoxville, argues that this report reflects ongoing tensions within conservative circles over the appropriate federal role in higher education. With the possibility that Republicans could lose control of Congress in the midterms, the foundation appears to view states as a more viable vehicle for advancing its agenda. Given the influence Project 2025 has had on the Trump administration's higher education agenda, higher education leaders should view this report as a potential signal of where conservative higher education policy may head next, particularly at the state level.

States Move to Address Graduate Loan Gaps as Grad PLUS Winds Down (1.22.26)

Some state-based nonprofit lenders are [exploring](#) ways to bridge the gap created by the scheduled elimination of Grad PLUS loans. (Under OBBBA, Grad PLUS loans are set to end in July 2026, and new caps on other federal student loans are also scheduled to take effect at that time.) There are roughly two dozen state-based nonprofit lenders nationwide; some are directly operated by states, while others function as quasi-governmental entities. Historically, most have offered graduate loans on a limited scale due to the availability of Grad PLUS at the federal level, but its impending elimination is prompting some to consider expansion. Connecticut and Iowa illustrate how states are beginning to respond. In Connecticut, a [proposal](#) has been put forward to create a state-level graduate student loan program open to students enrolled in graduate programs within the state, with the goal of launching in the 2026–27 academic year. The proposal would effectively expand the reach of Connecticut's Higher Education Supplemental Loan Authority (CHESLA), which is a quasi-public body that oversees Connecticut's state-level student loans. In Iowa, the Iowa Student Loan Liquidity Corporation is exploring outcomes-based lending that would extend loans to graduate students who do not meet traditional credit standards but are enrolled in programs with strong graduation or job placement outcomes.

Implications/next steps: Addressing gaps left by the elimination of Grad PLUS is particularly salient in states facing workforce shortages in fields such as nursing and teaching. Peter Granville, a fellow at the Century Foundation who studies college affordability, has [warned](#) that states may be worse off if they rely solely on private lenders to fill these gaps, as private lenders may be unwilling to issue such loans. At the same time, state-based nonprofit lenders may also face limitations. These lenders typically avoid borrowers with poor credit histories and often require co-signers, so it is possible that these lenders will not replicate the broad access previously provided by Grad PLUS. Research from the Federal Reserve Bank of Philadelphia found that nearly four in ten borrowers who took out loans exceeding the new federal loan limits had credit scores below 670 or no credit profile at all. Students should also carefully assess the consumer protections offered by state-based lenders, which have faced scrutiny in the past.