How Do Federal Resources Support Higher Education Funding and Equity?

#3 IN THE SERIES • APRIL 2024

Several funding streams, including those from federal sources, work together to finance higher education in the United States.[1] Federal funds play an essential role in supporting students, expanding postsecondary access, strengthening institutions of higher education (IHEs) that serve systemically marginalized students, and subsidizing research and innovation. Policy decisions related to federal funds for higher education have far-reaching impacts on student outcomes, institutional revenues, and other funding streams such as state funding and tuition.

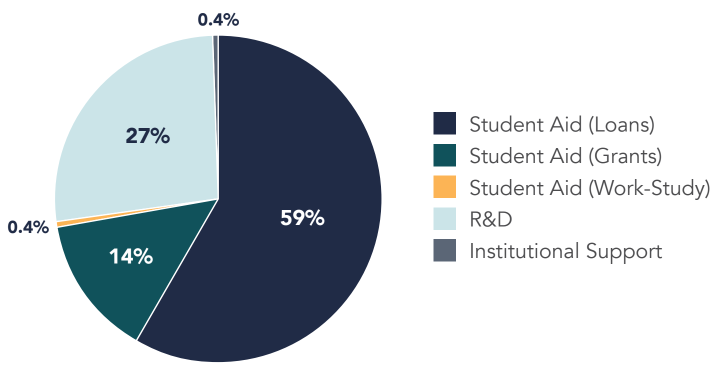
NOTE

Defining Systemically Marginalized Students
This series defines systemically marginalized students as those who are first-generation, from low-income backgrounds, from underrepresented groups (e.g., Black, Hispanic, and Native American), from rural areas, or face other barriers and discrimination that limit their access to and success in higher education.

What Are Sources of Federal Funding for Higher Education?

Federal funds for higher education are primarily distributed in three ways: 1) student aid, including loans, grants, and work-study; 2) research and development (R&D); and 3) institutional support.

FEDERAL FUNDING TO ALL POSTSECONDARY INSTITUTIONS, BY SOURCE, FISCAL YEAR 2022[2]



***Note**: Totals may exceed 100 due to rounding. **Sources**: Authors' analysis of data from the U.S. Department of Education, "The Budget for Fiscal Year 2024"; National Center for Science and Engineering Statistics, "Table 1: Higher Education R&D Expenditures, By Source of Funds: FYs 1953-2022,"; U.S. Department of Education, "Fiscal Year 2024 Budget Summary," Page 84.*

PRIMARY FEDERAL FUNDING SOURCES FOR ALL POSTSECONDARY INSTITUTIONS: DEFINITIONS AND APPROPRIATIONS, FISCAL YEAR 2022

Definition	Appropriation
Student Aid The largest source of federal funding, student aid includes three types of support for students:[3] • **Loans ($119.3 billion)**: These are funds that students borrow to help pay for the costs of attending eligible postsecondary programs and must be repaid with interest. • **Grants ($28.1 billion)**: These are funds that students do not typically have to repay and are disbursed based on student need. • **Work-Study ($0.8 billion)**: This is a part-time employment program that allows students enrolled in college to earn money to help pay for school. Student aid funds are administered through the U.S. Department of Education's Federal Student Aid office.[4]	$148.2 billion
R&D The second-largest source of federal funding, R&D funding is provided through at least six different federal agencies.[5] R&D funding is typically provided to IHEs in the form of grants and contracts, which support scientific research, development of new technologies, and other types of innovation.[6] Since 1953, the federal government has been the principal funder of R&D at IHEs.[7]	$54.1 billion
Institutional Support The federal Higher Education Act authorizes several programs that provide general operating funds for IHEs serving students of color who have been historically underrepresented in higher education, including historically Black colleges and universities (HBCUs), tribal colleges and universities (TCUs), and other minority-serving institutions (MSIs). Institutional support programs enhance the academic, administrative, and fiscal capacity of these types of IHEs.[8]	$0.8 billion

***Sources**: Authors' analysis of data from the U.S. Department of Education, "The Budget for Fiscal Year 2024"; National Center for Science and Engineering Statistics, "Table 1: Higher Education R&D Expenditures, By Source of Funds: FYs 1953-2022,"; U.S. Department of Education, "Fiscal Year 2024 Budget Summary," Page 84.*

In addition to the three funding streams above, the federal government also distributes funding to support higher education in the form of veterans benefits, federal TRIO programs that support students from systemically marginalized backgrounds, institutional support for military academies or land-grant institutions, tax credits, and other direct federal expenditures.[9] Various federal agencies, including the Department of Veterans Affairs, Department of Labor, and Department of Agriculture, administer these funds. For simplicity and clarity, this analysis omits those sources.

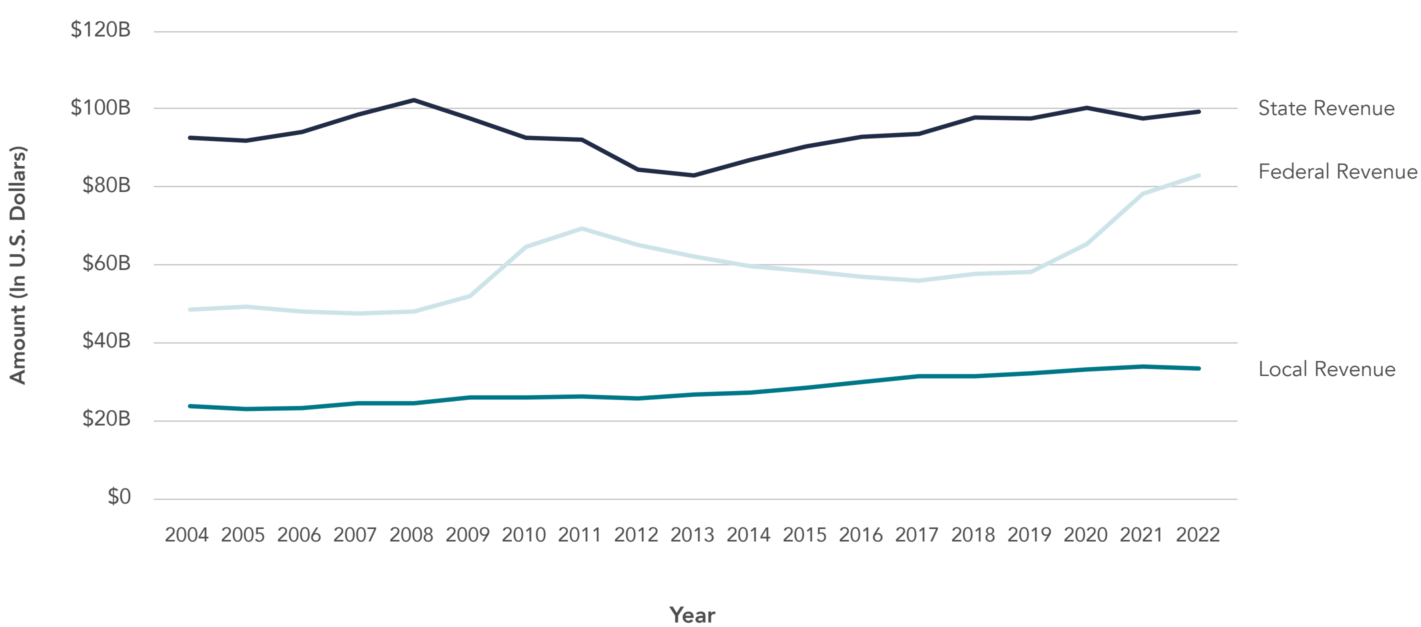
This series focuses on funding for public IHEs. However, a significant portion of federal funds support private nonprofit and for-profit IHEs, which are eligible to receive federal student aid dollars (e.g., Pell Grants, work-study programs, loans, and other grant programs) and veterans benefits for eligible students they enroll, as well as R&D funding and other grants and contracts.[10] Note: While data and figures in this section include federal funding for all types of IHEs to give a picture of scale, subsequent sections of this brief specifically examine the role of federal funds in supporting *public* IHEs.

What Are Notable Trends in Federal Funding for Public IHEs?

The gap between federal and state funding has narrowed, primarily due to responses caused by significant national disruption.

State governments are the largest funders of public IHEs.[11] However, the gap between federal and state funding has periodically narrowed over the last two decades, especially during and immediately following economic downturns when significant federal policy responses have driven temporary surges in federal higher education appropriations.[12] Amid the Great Recession, the American Recovery and Reinvestment Act increased federal funding to IHEs by raising Pell Grant awards for low-income students and expanding eligibility.[13] Similarly, as the economy and IHEs were severely disrupted by the COVID-19 pandemic, the Higher Education Emergency Relief Fund provided billions of dollars in federal support to colleges and universities, as well as direct aid to students.[14] When adjusted for inflation, federal funding for public IHEs rose by 53% from 2004 to 2022, while state funding rose by less than 7% over the same time period.[15] Meanwhile, enrollment at public IHEs has grown by just 6%.[16]

PUBLIC IHE REVENUES BY SOURCE OF FUNDS, 2004 TO 2022



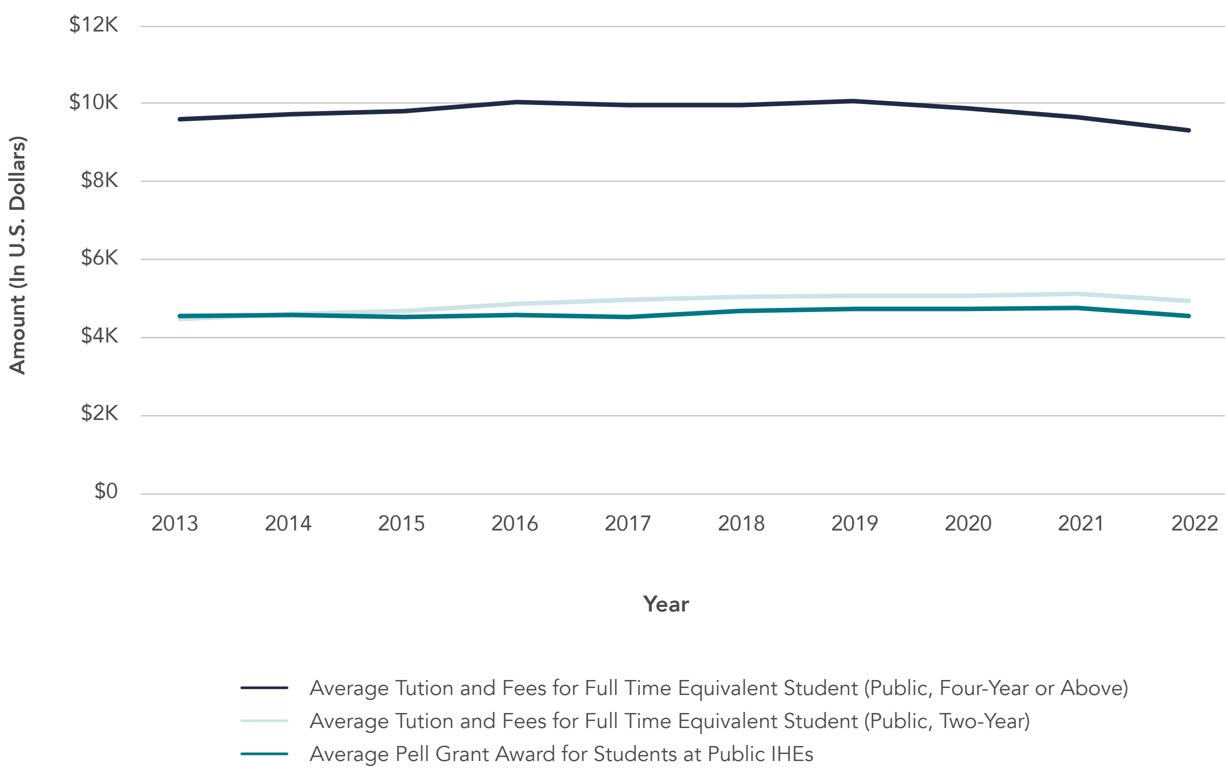
Sources: Authors' analysis of data from the National Center for Education Statistics (NCES), "Trend Generator for Financial Aid" and "Trend Generator for Student Charges."

The purchasing power of the federal Pell Grant is decreasing.

The federal Pell Grant program is a cornerstone of federal student aid, accounting for 95% of all federal student aid grant funds awarded in 2022.[17] Funding for the Pell Grant program has been relatively steady in terms of the average award amount per student, but neither the average nor the maximum grant students can receive have kept pace with inflation and the rising cost of attendance.[18] This has decreased the purchasing power of one of the country's most important forms of student aid. Whereas in the mid-1970s, the maximum Pell Grant covered more than three-quarters of the cost of attending a four-year public IHE, today, it covers less than one-third of these costs.[19] When adjusted for inflation, the average Pell Grant award for students attending public IHEs is no longer sufficient to cover tuition and fees, even at public two-year IHEs.

The Pell Grant program is projected to face a significant funding shortfall in the coming decade if the U.S. Congress does not provide additional annual appropriations in line with estimated program demands.[20] This could put additional fiscal pressure on states to ensure higher education is accessible for students from low-income backgrounds.[21]

AVERAGE TUITION AND FEES AT PUBLIC IHEs AND AVERAGE PELL GRANT AWARD, 2013 TO 2022



***Sources**: Authors' analysis of data from the National Center for Education Statistics (NCES), "Trend Generator for Financial Aid" and "Trend Generator for Student Charges."*

Is Federal Funding Equitably Distributed?

Federal Pell Grants and institutional support target the highest need, but funding falls short.

Of the levers of student aid — grants, work-study, and student loans — the Pell Grant program is one of the most significant ways the federal government directs dollars to students from systemically marginalized backgrounds and increases access to higher education opportunities that might otherwise be inaccessible due to cost.[22] Pell Grants have been shown to narrow achievement gaps, improve retention, and boost college graduation and earnings among students from low-income backgrounds.[23] While eligibility is based on household income, Pell Grant funds flow toward student populations that are traditionally underrepresented in higher education — Black, Hispanic, and Native American college students, as well as first-generation students and student-parents.[24] Since higher proportions of these students attend public IHEs, more than two-thirds of Pell Grant dollars subsidized student costs at these institutions.[25]

Despite the program's proven benefits, Pell Grants fall increasingly short of meeting students' entire financial needs, and state and local funding has not filled the gap.[26] As a result, Pell Grant recipients must often rely on loans, both federal and private, and data show they are taking on more debt than their higher-income peers.[27] The issue is compounded by lower completion and higher default rates among systemically marginalized student groups, who are a large portion of Pell Grant recipients.[28] This combination of growing debt, barriers to postsecondary completion, and higher default rates has the potential to create significant repayment challenges for Pell Grant recipients and can also perpetuate inequitable disparities in wealth and well-being.[29]

Compounding this challenge, students from low-income backgrounds and students of color disproportionately attend institutions receiving fewer resources, including MSIs and community colleges.[30] A strong research base demonstrates that funding disparities among institutions result in unequal opportunities and outcomes due to differences in per-student spending and varied capacities in program offerings, faculty hiring, and student services.[31]

To mitigate these disparities, the federal government makes additional investments in HBCUs, TCUs, and other MSIs.[32] However, the current federal support levels are not sufficient to close gaps in total revenue per student between MSIs and non-MSI counterparts.[33] As of 2022, federal institutional support for MSIs was less than 1% of all federal higher education spending and comparatively small given the number of institutions[34] — more than 700 federally designated MSIs, serving more than 5 million students.[35] Federal funding for HBCUs and TCUs is allocated by the U.S. Department of Education through non-competitive, formula-based grants that ensure any qualifying institution receives at least some funding.[36] Other MSIs, which become eligible for funding based on student demographics, must submit applications and compete for grants.[37] These variations in process and the differing funding levels across these programs lead to inequities in per-student funding even among different types of MSIs.[38]

Federal R&D funding favors well-resourced research IHEs.

Federal R&D funding is intended to bolster U.S. national defense, health, safety, environmental and energy security; advance knowledge; develop scientific workforce; innovate technology; and enhance global competitiveness.[39] Although federal R&D funding does not have clear goals related to accessibility or equity, it can still lead to impacts on both for students and institutions.

More than 60% of federal R&D funding was awarded to public IHEs in fiscal year (FY) 2022, primarily concentrated among those that are doctoral institutions with medical schools.[40] Meanwhile, in 2022, public HBCUs received less than 1% of the total federal R&D funding that went to public IHEs.[41] Year over year, there is minimal change in the distribution of R&D funds; among public IHEs, the largest portions of R&D funds consistently go to the same selective, highly ranked public research IHEs with established medical centers.[42] These IHEs have existing research capacity, top staff and facilities, and strong track records that position them well to meet federal R&D program goals. The "overhead" provided under most R&D grants and contracts supports administrative costs and contributes to faculty salaries and student fellowships, further advantaging recipients.[43] However, the significant federal R&D funds flowing to these institutions can also serve as an additional federal subsidy for already well-resourced public IHEs.

To diversify the field of institutions receiving R&D funding, the U.S. Department of Education introduced the Research and Development Infrastructure Program in FY23.[44] The program provides grants to HBCUs, TCUs, and other MSIs to strengthen their physical infrastructure, faculty expertise, graduate programs, and partnerships to enhance external funding opportunities.[45] The program is designed to enhance the research capacity of traditionally underfunded institutions, positioning them to better compete for R&D funding and affording their students greater opportunities to gain experience in cutting-edge fields.[46] Investments like this represent one way the federal government can support a more equitable distribution of R&D funds.

How Does Federal Funding Policy Intersect With and Influence State Higher Education Funding Policies?

Higher education is funded through a variety of sources, including federal funding, state revenues, local revenues, tuition, investment income, endowments, and other revenue sources. Decisions made by federal policymakers can significantly change conditions under which state policymakers and IHE leaders must operate.

State financial aid policy often builds from federal financial aid policy.

Federal student aid eligibility serves as the foundation for many state aid programs. To apply for federal funds, families complete the Free Application for Federal Student Aid (FAFSA), and a formula is used to determine their eligibility for aid and expected need.[47] The federal government shares FAFSA information with state agencies and IHEs, who often use the same information and criteria as federal programs when determining which students are eligible for state financial aid.[48] In Arizona, state leaders use the Pell Grant's income standards to determine which low-income residents are eligible for the AzLEAP scholarship.[49] The practice of linking state financial aid policy to federal financial aid policy helps to streamline processes for students and institutions but means that changes at the federal level have significant implications for state aid programs. For example, beginning in the 2024-25 award year, the FAFSA Simplification Act will bring significant changes to the way student federal aid eligibility is determined; state and public IHEs will have to implement analogous policies if they want to stay in alignment.[50]

However, it may not always make sense for states to align their financial aid policies with federal policy. The FAFSA formula used to assess student need does not factor in the differences in the cost of living across states. Particularly in high-cost-of-living areas, advocates are calling for state policymakers to amend their state aid calculations to better reflect the economic realities of different regions. California, for example, has one of the highest costs of living.[51] Several legislative efforts in the state have sought to reform the state's financial aid system to account for total costs of attendance rather than tuition alone, though none have been successful to date.[52]

Federal policy can incentivize state higher education investments and practices.

Federal policymakers are exploring strategies for strengthening state-federal partnerships and incentivizing states to implement practices that improve affordability, access, and equitable investment in higher education. In one example, the pending America's College Promise Act aims to create federal-state partnerships that provide two years of tuition-free access to community or technical college programs and incentivize greater state investment in higher education.[53] The recently created Postsecondary Student Success Grant (PSSG) Program is a competitive grant to improve student retention, transfer, and completion rates through data- and evidence-based strategies.[54] Though not included in the final bill, earlier drafts of PSSG would have mandated that states conduct equity audits in order to receive federal grant funds under the program.[55] These efforts are one way federal policy can help drive state dollars toward particular IHEs or otherwise encourage state policymakers to take student populations into account when making funding decisions.

Questions for the Field

- *How has the reduced purchasing power of the federal Pell Grant affected IHEs and students in your state? Have these effects varied across different types of IHEs or among specific student groups?*
- *How is your state working to ensure equitable support and opportunities for students at IHEs that have historically received less funding, such as community colleges and MSIs?*
- *Has your state implemented any measures in response to the effects of federal higher education policies or funding changes? If so, what objectives were these actions intended to achieve, and have they been successful?*

Endnotes

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About Bellwether

Bellwether is a national nonprofit that exists to transform education to ensure systemically marginalized young people achieve outcomes that lead to fulfilling lives and flourishing communities. Founded in 2010, we work hand in hand with education leaders and organizations to accelerate their impact, inform and influence policy and program design, and share what we learn along the way. For more, visit **bellwether.org**.

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