

Federal Budget Reconciliation and Oversight: The Impacts on Higher Education

Brownstein



Brownstein Education Team

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Marc Lampkin is a seasoned Republican lobbyist and trusted political advisor with deep experience in legislative, campaign, and advocacy work. A former member of House Speaker John Boehner's inner circle, Marc served as General Counsel for the House Republican Conference and played key roles in the Bush for President campaign. Since transitioning to the private sector in 2001, he has led major public advocacy efforts, including the Gates- and Broad-funded "Education in '08" campaign. Known for his extensive network across Capitol Hill, the administration, and policy circles.

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Radha Mohan is a strategic policy advisor who helps companies shape and communicate their tax, education, workforce development, and corporate social responsibility priorities to lawmakers. At Brownstein, she represents a wide range of education clients—from early childhood to higher education and ed-tech—and serves as executive director of the Early Childhood Education and Care Consortium (ECEC), a national alliance representing over 6,000 programs. Her expertise spans public relations, media, and grassroots engagement, enabling clients to lead on key issues and navigate the complexities of Washington effectively.

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Evan Corcoran is a seasoned attorney specializing in white collar criminal defense and complex civil litigation, with a track record of representing high-profile clients in landmark legal cases. His experience spans decades and includes defending a former U.S. president, senior Justice Department officials, and presidential advisors in matters involving unprecedented legal questions. Evan also brings deep expertise in managing large-scale civil cases for corporate clients in regulated industries, guiding them through federal investigations, regulatory challenges, and litigation. A former assistant U.S. attorney and investment firm executive, he began his career in the U.S. House of Representatives and has since built a reputation for navigating sensitive legal and political landscapes with strategic insight.

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Budget Reconciliation Overview

- The One Big Beautiful Bill Act (OBBBA) passed the House and Senate and was subsequently signed into law by President Donald Trump on July 4.
- OBBBA is a sweeping legislative package that covers major policy areas including tax reform, health care, Medicaid and SNAP changes, energy policy, defense, education and immigration.
- This presentation will focus on the provisions in the bill that affect higher education.

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Reconciliation and Student Loan Programs

Reconciliation: Congressional Intent and Key Takeaways

Rationale	Solution
There has been an unsustainable growth in federal student aid, which has contributed to rising tuition and excessive student debt.	Simplify and Restructure Repayment Plans: Lawmakers streamlined the repayment system by consolidating overlapping income-driven plans, thereby lowering long-term federal costs through the elimination of income exemptions that previously allowed some borrowers to pay nothing.
Colleges have not been held accountable for providing students with a return on investment.	Create Accountability Metrics: Lawmakers increased institutional accountability by tying financial aid eligibility to student outcomes, such as post-graduation earnings.
Colleges have driven up the cost of higher education and advocated for increased borrowing limits.	Limit Over-Borrowing and Encourage Fiscal Responsibility: Lawmakers instituted new borrowing caps to curb excessive borrowing and reduce the risk of default.
A college education is not the only path to success—there are lower-cost ways to obtain the skills necessary to earn a good living.	Refocus Aid Toward Workforce Development: Lawmakers expanded Pell Grant eligibility to include shorter-term workforce training programs, signaling a shift toward supporting nontraditional education paths and aligning federal aid with labor market needs.
These measures reflect a broader conservative philosophy around the need to shrink the federal role in higher education, promote fiscal responsibility, and encourage colleges to focus on value and outcomes rather than expanding access at any cost. The measures also fulfill the GOP's fiscal objective of slashing the federal debt by about \$300 billion.	

Key Takeaways on Higher Education

- **Student Loan Changes:** The elimination of Grad PLUS loans, along with new borrowing caps, limits how much students and families can borrow, potentially making college less accessible for those with fewer resources.
- **Changes to Need Determination:** Several narrow provisions make changes to how financial need is assessed for various programs, including Pell.
- **New Repayment Program:** Changes to loan repayment programs aim to streamline several existing programs. However, the shift away from using discretionary income and other new changes will likely result in many borrowers owing more for their monthly payments.
- **Accountability and Outcomes:** Tying federal loan eligibility to graduate earnings pressures colleges to ensure strong job outcomes, but may disadvantage programs serving lower-income or nontraditional students. It could push schools to stop offering programs that lead to lower wage jobs.
- **Expanded Pell and 529 Uses:** The bill allows Pell Grants and 529 plans for short-term credentials, broadening educational options, supporting workforce development and enabling non-degree pathways. This highlights the GOP's emphasis on moving away from a college degree as a prerequisite for all career pathways.

Reconciliation—Changes to Federal Direct Loan Program Limits

New Federal Direct Loan Program Limits

Key Change

Eliminates subsidized and Grad PLUS loans for graduate/professional students, effective July 1, 2026. Replaces the Grad PLUS loan with capped Federal Direct Unsubsidized Loans:

- Graduate students: \$20,500/year, \$100,000 lifetime (does not include amounts borrowed as an undergraduate)
- Professional students: \$50,000/year, \$200,000 lifetime (does not include amounts borrowed as an undergraduate)
- Parent PLUS loans: \$20,000/year per student, \$65,000 lifetime
- Total student cap: \$257,500 (excludes Parent PLUS)

Impact

For students that attend graduate school and professional school, the total borrowing limit is \$200,000. Reduced federal loan access may limit affordability of advanced degrees and increase pressure on universities to offer more institutional or private aid. Caps on Parent PLUS loans could also affect undergraduate enrollment, especially among middle-income families.

Reconciliation—Streamline Loan Repayment Plans

New Student Loan Repayment Plans

Key Change

Streamlines repayment into two plans, starting July 1, 2026, and phases out all existing income-driven repayment (IDR) plans by June 30, 2028:

- Repayment Assistance Plan (RAP): Income-driven, starts at \$10/month, caps at 10% of AGI, forgiveness after 30 years. Monthly payments rise in tandem with a borrower's income, as illustrated in the chart.
- Standard Plan: Fixed terms (10–25 years) based on loan balance.

Adjusted Gross Income (AGI)	RAP Monthly Payment
Less than \$10,000	\$120
\$10,001 - \$20,000	1% of borrower's AGI
\$20,001 - \$30,000	2% of borrower's AGI
\$30,001 - \$40,000	3% of borrower's AGI
\$40,001 - \$50,000	4% of borrower's AGI
\$50,001 - \$60,000	5% of borrower's AGI
\$60,001 - \$70,000	6% of borrower's AGI
\$70,001 - \$80,000	7% of borrower's AGI
\$80,001 - \$90,000	8% of borrower's AGI
\$90,001 - \$100,000	9% of borrower's AGI
More than \$100,000	10% of borrower's AGI

Reconciliation—Streamline Loan Repayment Plans

Impact

Borrowers in current IDR plans (e.g., SAVE) must transition and monthly payments may rise, especially for those with \$0 payments under SAVE. Universities may need to expand borrower education and financial counseling. Institutions with large graduate programs could face enrollment challenges due to these changes.

Reconciliation—Streamline Loan Repayment Plans

Deferment, Forbearance and Loan Rehabilitation

Key Change

Eliminates economic hardship and unemployment deferments for new borrowers, effective from July 1, 2027, and limits forbearance to nine months per 24-month period. Allows two rehabilitations for defaulted loans and raises minimum rehab payment from \$5 to \$10/month.

Impact

Reduced deferment and forbearance flexibility may increase delinquency risk, requiring stronger financial counseling. Expanded rehab options could lower long-term default rates and improve institutional accountability metrics, though higher minimum payments may be a barrier for some borrowers.

Reconciliation—Streamline Loan Repayment Plans

PSLF Eligibility & Loan Servicing Support

Key Change

On-time payments under the new Repayment Assistance Plan (RAP) count toward Public Service Loan Forgiveness (PSLF), effective for borrowers who take out loans after July 1, 2026. The final law also eliminates a proposal to make medical or dental internship or residency programs not count towards a public service job.

Impact

Ensures PSLF remains accessible under the new repayment system. The Department of Education recently concluded its negotiated rulemaking session on PSLF, and the committee voted to refine the definition of a qualifying employer for the purposes of determining eligibility. The department will now begin drafting a notice of proposed rulemaking to publish in the *Federal Register* for public comment.

Reconciliation—Changes to How Financial Need Is Analyzed and Determined

Federal Student Aid Eligibility

Key Change

Original proposal to restrict aid based on immigration status was removed. The new provision exempts family-owned farms, small businesses (≤ 100 employees) and fishing operations from asset calculations in aid eligibility. Effective July 1, 2026.

Impact

Maintains current aid eligibility standards, while expanding access to need-based aid—especially for rural and coastal students—supporting greater socioeconomic diversity in higher education.

Reconciliation—Changes to How Financial Need Is Analyzed and Determined

Federal Student Aid Eligibility

Key Change

New provisions make several changes to how Pell Grant eligibility is determined. Specifically, students who receive grants from non-federal sources that cover their entire cost of attendance may not receive a Pell Grant. Effective July 1, 2026.

Impact

Tighter eligibility rules may reduce Pell access for students with complex finances or large scholarships, increasing reliance on institutional aid. This could affect student athlete populations—while NIL income has always been included in SAI calculations, student athletes were previously eligible for Pell Grants even if other scholarships covered the cost of tuition. This is no longer allowed if the amount is equal to or exceeds the student's cost of attendance. Private nonprofit universities may need to adjust aid strategies and enhance advising to help students retain federal support.

Reconciliation—Student Loan Programs

Short-Term Workforce Pell Grants and Funding Increase

Key Change

Expands Pell Grant eligibility to students in short-term workforce programs (150–600 hours over 8–15 weeks), provided programs meet state/federal quality and employment standards and are approved by the governor and U.S. Secretary of Education. Limits eligible institutions to those already authorized under Section 401 of the Higher Education Act (HEA). Increases Pell Grant funding from \$2.17 billion to \$12.67 billion to address projected shortfalls. Effective July 1, 2026.

Impact

Supports adult learners and career changers by funding high-quality, job-aligned training programs. Encourages colleges to develop or partner in short-term workforce programs that deliver measurable economic outcomes.

Reconciliation—Create Institutional Accountability

Accountability

Key Change

Disqualifies undergraduate and graduate degree and graduate certificate programs from federal student aid if median graduate earnings fall below those of a typical working adult (individuals aged 25–34, not enrolled in college) for two out of three years. Includes an appeal process for institutions to challenge ineligibility determinations.

Impact

May prompt institutions to reassess or restructure low-earning programs. The appeal process provides a safeguard for programs with broader educational or societal value, helping institutions preserve aid eligibility where justified.

Reconciliation—Employer-Provided Educational Assistance

Employer-Provided Educational Assistance

Key Change

Adjusts the \$5,250 cap on employer-provided education assistance for inflation (starting in 2027). Permanently excludes employer student loan payments from taxable income (effective after Dec. 31, 2025). Estimated to reduce federal revenue by \$11.2 billion.

Impact

May encourage nonprofit universities to enhance employee benefits and partner with employers or alumni on loan repayment support. However, the revenue loss could increase pressure on federal higher education funding and tax incentives.

Reconciliation—Endowment Excise Tax

Endowment Excise Tax

Key Change

Maintains the current 1.4% tax for schools with a student adjusted endowment between \$500,000 and \$750,000; increases the tax to 4% for schools with endowment assets between \$750,001–\$2,000,000; and increases the tax to 8% for schools with endowment assets over \$2,000,000. Schools with less than 3,000 students are exempt from the tax.

Impact

Punishes schools with larger endowments and provides a reprieve to smaller schools. Previous versions attempted to exempt international students from the total student count, which would have increased the number of schools subject to the tax, but this was ultimately taken out of the final bill.

Reconciliation—Money Accounts for Growth and Advancement (MAGA)

MAGA Accounts

Key Change

Creates a new savings account, MAGA, that allows parents, relatives, other taxable entities, nonprofits and government entities to contribute up to \$5,000 annually of after-tax dollars for a child's future educational, homeownership and entrepreneurial expenses. These distributions may not be taken out until the account holder is 18.

Impact

Once the child turns 18, up to 50% of the funds can be withdrawn to be used for higher education and job training programs, among other purposes. At age 25, the beneficiary can withdraw up to the full balance for higher education and job training programs.

Reconciliation—Additional Expenses for 529 Accounts

529 Accounts

Key Change

Expands qualified higher education expenses to include curriculum and curricular materials, books or other instructional materials, online educational materials, tuition for certain tutoring or educational classes outside of the home, fees for certain tests, fees for dual enrollment in an institution of higher education, and certain educational therapies for students with disabilities incurred while enrolled in an elementary or secondary public school or in a private or religious school. Increases the limitation on expenditures for elementary or secondary public, private or religious schools from \$10,000 to \$20,000.

Impact

Expands how these savings accounts can be utilized by families and students for a wider variety of educational paths and associated expenses.

Reconciliation: Looking Ahead

- Once a bill becomes law, it is assigned to the relevant federal agency or agencies for implementation and enforcement.
- The agencies determine what rules are needed for implementation and commence the rulemaking process according to the Administrative Procedure Act (APA).
- Agencies may publish an Advance Notice of Proposed Rulemaking to gather early public input.
- Agencies must publish a Notice of Proposed Rulemaking in the *Federal Register*, including the proposed rule text, legal authority and rationale.
- The public comment period typically lasts for 30–60 days in which the public is invited to submit feedback and agencies may hold hearings or meetings.
- Agencies review comments and may revise the rule accordingly.
- The final rule is published with an effective date, and it includes responses to major comments and justifications for provisions in the rule.
- Agencies implement the rule through guidance documents and training or compliance assistance, and enforcement mechanisms are established (e.g., inspections, penalties).

Reconciliation: Next Steps



- Congressional oversight of accreditation is intensifying.
- On June 25, 2025, the House Education & Workforce Committee marked up two bills: the Accreditation for College Excellence (ACE) Act (H.R. 2516) and the Accreditation Choice and Innovation Act (H.R. 4054).
- These bills aim to shift accreditation standards toward measurable student outcomes and away from ideological criteria such as DEI. These reforms could significantly reshape the landscape of institutional eligibility for federal aid.
- Institutions should also monitor the House Education and Workforce Committee's continued activity, as these accreditation bills are expected to move to the House floor later this year.

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Federal Oversight

Federal Oversight—Key Takeaways

- Major Rollback of DEI Initiatives and New Compliance Mandates
 - The Trump administration and Congress have enacted sweeping measures to eliminate Diversity, Equity, and Inclusion (DEI) programs in higher education. The administration would like to tie federal funding to strict bans on DEI offices, race-conscious policies and related activities, with new compliance requirements emphasizing academic merit and intellectual diversity.
- Heightened Federal Response to Campus Antisemitism
 - In response to rising antisemitic incidents, the federal government has intensified oversight and enforcement. Executive orders and new legislation require colleges to protect Jewish students, with significant penalties—including funding freezes—for institutions failing to address antisemitism swiftly and effectively.
- Aggressive Efforts to Curb College Spending
 - Congress and federal agencies are imposing new caps on student loans, limiting federal support for graduate and parent borrowing, and restricting indirect (F&A) cost reimbursements on research grants. These actions aim to reduce what is seen as wasteful spending and rising student debt, but they also introduce financial and operational challenges for universities.

Federal Oversight—Antisemitism

Congressional Investigations and Hearings

- Congressional Republicans continue to target universities over accusations of antisemitism on their campuses. This includes the House Committee on Education and Workforce hearing in May 2025 that included President Manuel.
- Congressional Republicans will continue to demand clear evidence of progress from universities. Congressional Republicans expect to see:
 - Clear accountability measures for students, faculty, and staff;
 - Security upgrades;
 - Institutional reforms; and
 - Acknowledgement of past harms.
- Given the political upsides and eagerness to target universities generally, congressional Republicans are expected to maintain their focus on antisemitism on university campuses.

Federal Oversight—Antisemitism

Congressional Investigations and Hearings

- There was a House Committee on Education and Workforce hearing on July 15 on “Antisemitism in Higher Education: Examining the Role of Faculty, Funding, and Ideology.”
- Witnesses included:
 - **Dr. Robert M. Groves**, Interim President, Georgetown University
 - **Dr. Félix V. Matos Rodríguez**, Chancellor, The City University of New York
 - **Matt Nosanchuk**, Principal, Mattnos Strategies and Former Deputy Assistant Secretary, Office for Civil Rights, U.S. Department of Education
 - **Dr. Rich Lyons**, Chancellor, University of California, Berkeley

Federal Oversight—Antisemitism

Recent Congressional Hearings

- Beyond the Ivy League: Stopping the Spread of Antisemitism on American Campuses (House Education and Workforce Committee) (May 2025)
- Antisemitic Disruptions on Campus: Ensuring Safe Learning Environments for All Students (Senate Health, Education, Labor and Pensions Committee) (March 2025)
- Never To Be Silent: Stemming the Tide of Antisemitism in America (Senate Judiciary Committee) (March 2025)
- Fueling Chaos: Tracing the Flow of Tax-Exempt Dollars to Antisemitism (House Ways and Means Committee) (July 2024)
- Confronting Union Antisemitism: Protecting Workers from Big Labor Abuses (House Education and Workforce Committee) (July 2024)
- Combating Workplace Antisemitism in Postsecondary Education: Protecting Employees from Discrimination (House Education and Workforce Committee) (June 2024)

Federal Oversight—Antisemitism

Recent Congressional Hearings

- The Crisis on Campus: Antisemitism, Radical Faculty, and the Failure of University Leadership (House Ways and Means Committee) (June 2024)
- Calling for Accountability: Stopping Antisemitic College Chaos (House Education and Workforce Committee) (May 2024)
- Antisemitism on College Campuses (House Judiciary Committee) (May 2024)
- Oversight of D.C.'s Response to Unlawful Activity and Antisemitism (House Oversight Committee) (May 2024)
- Confronting Pervasive Antisemitism in K-12 Schools (House Education and Workforce Committee) (May 2024)
- Columbia in Crisis: Columbia University's Response to Antisemitism (House Education and Workforce Committee) (April 2024)
- Antisemitism at Postsecondary Institutions (House Education and Workforce Committee, member round table)

Federal Oversight—Antisemitism

Legislative Proposals

- Along with congressional investigations and hearings, Republicans will also continue to introduce legislation to combat antisemitism on college campuses. Some bipartisan proposals would amend Title VI to include a definition of antisemitism.
- Proposals include:
 - Protecting Students on Campus Act of 2025 (S.163) (requires audits of universities that report high ratios of discrimination complaints);
 - Stop Antisemitism on College Campuses Act (H.R.2446) (rescinds federal funding from universities that encourage or facilitate antisemitic events on campus); and
 - Antisemitism Awareness Act of 2025 (S.558) (directs the Department of Education to use the International Holocaust Remembrance Alliance's (IHRA) definition of antisemitism when investigating antisemitic acts on campus).

Federal Oversight—Antisemitism

Trump Administration

- The administration established a multiagency Task Force to Combat Anti-Semitism. The Task Force includes officials from the departments of Education, Health and Human Services, and Justice. This Task Force recently accused Harvard University of “violent violation” of Title VI.
- The Task Force, and the administration more broadly, has an array of tools to target universities for alleged antisemitism on their campuses:
 - Funding cancellation or suspension;
 - Suspending international student visas; and
 - Title VI investigations.
- Like congressional Republicans, the administration is likely to continue its focus on antisemitism given the significant political upsides.

Federal Oversight—Diversity, Equity, and Inclusion (DEI)

- President Trump's DEI-related executive orders make clear that the administration believes many DEI policies are unlawfully discriminatory.
- The administration and congressional Republicans are likely to continue their attacks on DEI through investigations, hearings and allegations of Title XI violations.
- Many Republicans view DEI as the root of antisemitism and other forms of discrimination because DEI advances a narrow oppressor-oppressed mindset. Republicans will want to see that mindset curtailed on campus.
- To avoid targeting, universities can:
 - Rename DEI-related offices to avoid focus on DEI;
 - Expand the traditional notion of "diversity" to include more than race, ethnicity and gender;
 - Permit race, ethnic or gender-specific student associations that are inclusive of all students without specifically endorsing them.

Federal Oversight—Diversity, Equity, and Inclusion (DEI)

America First Legal Foundation (ALF)

- AFL is leading an outside effort to investigate universities' DEI policies (including course offerings), submit Freedom of Information Act (FOIA) requests to public schools and submit a wide range of complaints to the Department of Education's Office of Civil Rights (OCR).
- In the last two months, AFL has targeted:
 - Colorado State University (OCR Complaint, Investigation Opened)
 - Michigan State University (FOIA Request)
 - University of Michigan (Lawsuit)
 - Johns Hopkins University (OCR Complaint)
 - University of Virginia (DOJ Referral, Investigation Opened)
- AFL is functioning as an arm of the Trump administration and serving an investigatory role, referring schools to OCR and DOJ for investigation. The pace of investigations has continued to accelerate.

Federal Oversight—Diversity, Equity, and Inclusion (DEI)

Case Study: Resignation of University of Virginia President

- On April 28, 2025, the Department of Justice opened an investigation into UVA's DEI programs. DOJ argued UVA was in open defiance of federal civil rights law, as interpreted by President Trump's DEI orders.
- The DOJ investigation was followed by a May 21 letter from the America First Legal Foundation supporting the administration's investigation. That letter referenced UVA's DEI-related offices, DEI curriculum and administrative terms designed to evade "accountability," such as "inclusive excellence" and "inclusion and belonging."
- To resolve the DEI-related investigation, the Trump administration asked that President Ryan resign his post. He agreed to do so roughly a month later.
- The pressure campaign illustrates the administration's continued effort to root out "illegal" DEI practices and the leaders who support them.

Federal Oversight—International Students

- President Trump's January EO mandates increased vetting for all visa applicants, including F-1 and J-1 students. This includes scrutiny of applicants' backgrounds, affiliations and attitudes toward the United States.
- It directs agencies to intensify scrutiny for individuals from countries with identified security risks and to monitor those within the U.S. to ensure they do not harbor hostile attitudes toward American citizens, culture or government, or support designated foreign terrorists and other national security threats.
- This EO could lay the groundwork for future travel bans or stricter visa requirements, particularly affecting students and scholars from Muslim and Arab countries as well as those deemed adversarial to the United States.
- This EO could also potentially impact international students involved in campus protests.

Federal Oversight—International Students

- In May 2025, Secretary of State Marco Rubio announced a policy to aggressively revoke visas for Chinese students, especially those with alleged ties to the Chinese Communist Party or studying in “critical fields” such as AI, quantum computing and aerospace.
- The policy also includes enhanced vetting for all future visa applications from China and Hong Kong.
- About 277,000 Chinese students studied in the United States last year, making them the second-largest group of foreign students in the United States .
- Restrictions on Chinese students could significantly reduce university revenue (as many Chinese students pay full tuition), hinder research output and innovation by limiting access to top graduate talent, increase administrative burdens related to compliance and monitoring, and diminish campus diversity and weaken the U.S.’s global competitiveness in higher education.

Federal Oversight—Transgender Athletes

- Along with DEI, the administration and congressional Republicans made prohibiting transgender athletes a central piece of their agenda.
- President Trump's executive order conditioned federal funding to universities in compliance with the ban on transgender women's participation in women's sports. The president's order clarifies that Title XI is violated when biological men compete against women.
- Like other social issues, transgender athletes is another opportunity for the administration to restrict federal funding or target universities with Title XI investigations.
- In Congress, Republicans are expected to maintain a close eye on schools and universities' compliance with the president's order—as well as continue to introduce legislation codifying the ban on transgender women competing in women's sports.

Federal Oversight—Indirect Research Cost Caps

- The Trump administration is attempting to cap indirect research costs (facilities and administrative costs) for universities at 15%. This will limit the federal funding universities can use for overhead and administrative costs associated with federally funded research.
- The Department of Defense, National Institutes of Health (NIH), National Science Foundation (NSF) and Department of Energy (DOE) have all attempted to cap costs at 15%.
- Federal judges have prohibited DOD, DOE and NIH from moving forward with the 15% caps. The Supreme Court's recent decision limiting nationwide injunctions may mean that the funding caps can proceed.
- Separately, the Trump administration included a 15% cap in its NIH funding request. This indicates the administration's continued interest in the 15% cap and would bring congressional Republicans into the fight.

Federal Oversight—Looking Ahead

- **Antisemitism and DEI**: congressional hearings and investigations are expected to continue; Trump administration expected to continue Title VI actions and condition federal funding.
- **Transgender Athletes**: congressional oversight is expected to continue as schools change policies for the fall semester; Trump administration expected to continue Title IX enforcement.
- **Indirect Research Cost Caps**: Republicans in Congress and the administration are expected to continue to push for the 15% cap through statute and regulation.
- **Federal Funding**: the administration is likely to continue to use federal funding (contracts, grants, etc.) as leverage as it seeks policy changes at universities.
- **University Leadership**: the administration will continue to target university leaders who resist (or appear to resist) administration orders on DEI, antisemitism, and transgender athletes.

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