Center for American Progress

FACTSHEET

Improving the Formula for Federal Higher Education Coronavirus Funding

By Viviann Anguiano May 12, 2020

In March 2020, as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress authorized the largest one-year, direct investment in colleges since the Great Recession. Yet it's still nowhere near enough. America's public postsecondary education system will need at least $46 billion in additional stimulus funding to survive looming state budget cuts and other effects of the novel coronavirus. This estimate is based on state cuts to higher education during the Great Recession and accounts for how much worse this recession may be. As Congress considers additional stimulus funding for state and local governments, it will need to ensure that higher education also receives support. In doing so, it should not use the same formula it created in the CARES Act.

This fact sheet summarizes policies that Congress can enact to make sure future higher education dollars are dispersed more equitably. In particular, this means prioritizing the interests of public colleges, which have fewer resources to draw on than private institutions and that serve a larger share of historically marginalized students.

Congress can do this by providing a separate pot of dollars that is directed exclusively to public institutions of higher education, instead of continuing the single program created in the CARES Act that provides funds for all institutions. Congress should:

- Send these funds through states and require them to maintain a floor of funding to higher education as well as equitably allocate resources to institutions.
- Remove complex restrictions imposed by the Trump administration on which students can receive funds, including restrictions on undocumented students.
- Allow a broader use of funds than the CARES Act does, such as allowing schools to use funds for backfilling operating support and replacing lost revenue.
- Continue the CARES Act's separate funding program for minority-serving institutions.

If Congress does not authorize a separate funding pot for public colleges, it will have to fix the CARES formula to direct more funds to public institutions of higher education. It can do so by:

- Prohibiting private for-profit schools from receiving any of the funds or limiting them to just emergency grant aid for students
- Giving greater weight to community colleges that serve more part-time students by running allocation formulas based on total head count instead of full-time equivalent enrollment

While the Center for American Progress is adamant that a direct pot of funding for public higher education is the superior policy option, the higher education lobby recently endorsed using the CARES Act formula in future stimulus bills. Recognizing this reality, CAP modeled the effects of possible changes to the formula using the allocation amounts and methodology used by the U.S. Department of Education. For a full description of this model, see the recent CAP issue brief, "A Better Formula for Higher Education's Federal Coronavirus Funding." The brief provides a download-able package that allows readers to replicate the analysis, as well as full citations for the information provided in this fact sheet.

As shown in Table 1, the current CARES Act formula:

- Allocated $12.5 billion through a formula that distributed 75 percent of funds based on an institution's national share of Pell Grant recipients and 25 percent of funds based on an institution's national share of non-Pell Grant recipients. Pell Grants are the main federal program for low-income students.
- Based both Pell and non-Pell populations on full-time equivalent (FTE) enrollment, which treats each part-time student as equal in value to a portion of one full-time student, depending on their enrollment intensity.
- Did not include students enrolled exclusively online.
- Required that colleges use at least half of the funds received for emergency aid for students. They can use the other half for institutional support.

TABLE 1

There are several ways to modify the CARES Act formula so it provides more funds to community colleges

Estimated effects of different changes to the CARES Act formula on shares of funds awarded, by sector

	Current CARES Act formula	For-profits only receive emergency aid		Use head count instead of FTE*		Use head count and limit for-profit aid to emergency grants	
Sector	Share of total CARES Act dollars awarded	Share of total CARES Act dollars awarded	Percentage-point change	Share of total CARES Act dollars awarded	Percentage-point change	Share of total CARES Act dollars awarded	Percentage-point change
Public 4-year institutions	44.0%	46.2%	2.2%	36.7%	-7.3%	38.4%	-5.6%
Private nonprofit 4-year institutions	18.3%	19.2%	0.9%	14.6%	-3.7%	15.2%	-3.1%
Private for-profit 4-year institutions	1.3%	0.7%	-0.7%	1.2%	-0.1%	0.6%	-0.7%
Public 2-year institutions	20.8%	21.8%	1.0%	29.4%	8.6%	30.7%	9.9%
Private nonprofit 2-year institutions	0.9%	1.0%	0.0%	0.8%	-0.1%	0.9%	0.0%
Private for-profit 2-year institutions	1.4%	0.7%	-0.7%	1.3%	-0.1%	0.7%	-0.8%
Public <2-year institutions	6.6%	6.9%	0.3%	9.9%	3.3%	10.3%	3.7%
Private nonprofit <2-year institutions	0.4%	0.4%	0.0%	0.3%	-0.1%	0.4%	0.0%
Private for-profit <2-year institutions	6.2%	3.1%	-3.1%	5.6%	-0.6%	2.8%	-3.4%
Public institutions	71.4%	74.9%	3.5%	76.0%	4.6%	79.4%	8.0%
Private nonprofit institutions	19.7%	20.6%	1.0%	15.8%	-3.8%	16.5%	-3.2%
Private for-profit institutions	8.9%	4.5%	-4.5%	8.1%	-0.8%	4.1%	-4.8%

* Full-time equivalent

Note: Sector is based on the predominant degree awarded, not the highest.

Sources: Author analysis of data from the Integrated Postsecondary Education Data System for the 2017-18 academic year and fall 2018, and Pell Grant receipt in 2018-19 from the Federal Student Aid Data Center. See National Center for Education Statistics Integrated Postsecondary Education Data System, "Use the Data," available at https://nces.ed.gov/ipeds/use-the-data (last accessed April 2020); U.S. Department of Education Office of Federal Student Aid, "Title IV Program Volume Reports: 2018-2019 Award Year Grant Volume by School: Quarter 4," January 1, 2020, available at https://studentaid.gov/data-center/student/title-iv.

To improve the CARES Act formula, Congress can take the following steps. For additional recommendations, see CAP's "A Better Formula for Higher Education's Federal Coronavirus Funding." The brief provides additional recommendations to improve the CARES Act formula.

- **Limit or exclude for-profit colleges from all or some support.** For-profit colleges received $1.1 billion—9 percent—of stimulus funds, including more than $500 million for operating assistance. (see Table 1) The for-profit sector is meant to rely on its viability in the market to survive, not on public funds.

  Congress should limit for-profits to emergency aid, since their students have needs irrespective of college sector. Eliminating institutional aid would decrease funding for for-profit colleges by 4.5 percentage points, an almost direct transfer of funds to public colleges—about 3.5 percentage points more of the total fund—with a significant amount going to four-year schools. (see Table 1) Congress could also exclude for-profits entirely, driving 10 percent more money to public colleges. Another option would be to cap for-profits at the same dollar amount they received in the CARES Act; this would mean that collectively, for-profits would not receive more than $1.1 billion.

- **Use headcount instead of FTE.** Because the CARES Act formula used a full-time equivalent enrollment instead of head count, community colleges received a disproportionately small allocation amount of funds—27 percent—compared with the share of students they educate—40 percent. The use of FTE essentially shrinks enrollment at community colleges from 7.6 million students to 3.4 million students. These institutions are in particular need of assistance, as they enroll students who are generally lower income than their peers at four-year institutions.

  As shown in Table 1, using a head count approach would increase the amount of funds allocated to community colleges by 8.6 percentage points. Public and nonprofit four-year schools, however, would see declines under this approach, further reinforcing the need for a direct pot of funds for public institutions that excludes for-profit institutions.

- **Employ both head count and the limiting of for-profit aid to emergency grants.** The most feasible option that drives the most dollars to public colleges is to combine the first two formula options. Table 1 shows the effects of both limiting for-profit funding to emergency aid and using head count to measure enrollment, instead of FTE—with the main difference being that public institutions would receive 79.4 percent of the total stimulus funds. In addition, this option is more favorable for private nonprofit institutions than solely using headcount instead of FTE. Private nonprofit institutions would get a share of the aid that would have gone to for-profit colleges in this combined scenario, thereby taking less of a hit. In the combined scenario, private nonprofits would receive 16.5 percent of funds compared with 15.8 percent of funds in the head-count scenario, which is substantial when discussing billions of dollars.

The best policy option that would allocate the most funding to institutions and students who need it most is a separate pot of dollars that is directed exclusively to public institutions of higher education. If Congress doesn't enact a specific pot for public colleges, it can fix the CARES Act formula to drive more dollars to public colleges in the next stimulus bill.

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