Education Policy 2026 Preview

THE EDUCATION INDUSTRY'S BUDGET CONUNDRUM

How Federal and State Budget Drivers Will Drive Education Firms

CAPSTONE

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Education Policy 2026 Preview:

THE BOTTOM LINE

Capstone expects a mixed outlook for K-12 vendors, universities, and higher education services in 2026. While federal education funding is likely to remain stable despite disruptions at the US Department of Education, state-level budget pressures threaten K-12 vendor revenues. Policies targeting international student enrollment create headwinds for universities and related service providers, while changes to graduate loan limits open opportunities for private student loan lenders.

Outlook at a Glance

- RISKS STEMMING FROM US DEPARTMENT OF EDUCATION RESTRUCTURING OVERSTATED, AS K-12 VENDOR FUNDING OUTLOOK REMAINS STABLE
- FEDERAL APPROPRIATIONS FOR TITLE I AND IDEA EXPECTED TO REMAIN FLAT; RISK TO K-12 VENDOR REVENUES EXAGGERATED
- OBBBA TO PRESSURE STATE BUDGETS, POSING A RISK TO DISTRICT EDUCATION SPENDING AND K-12 VENDOR REVENUES
- TAILWINDS FOR PRIVATE LOAN PROVIDERS AS ED TO LOWER GRADUATE FEDERAL LOAN LIMITS; FEDERAL SCHOOL CHOICE RULEMAKING PRESENTS OPPORTUNITIES FOR PRIVATE SCHOOL OFFERINGS
- TRUMP ADMINISTRATION TO CONTINUE TO TARGET INTERNATIONAL ENROLLMENT IN 2026, POSING HEADWINDS FOR UNIVERSITIES, INTERNATIONAL STUDENT RECRUITERS, AND LOAN PROVIDERS

Risks Stemming from US Department of Education Restructuring Overstated, as K-12 Vendor Funding Outlook Remains Stable

Winners	K-12 curriculum providers such as McGraw Hill Inc. (MH), special education vendors, and EdTech platforms reliant on Title I and IDEA funding
Losers	N/A

Capstone believes threats to K-12 vendors due to ongoing US Department of Education (ED) restructuring are overstated, as Title I and IDEA funding will continue to flow to states and districts despite administrative shifts to other agencies.

On November 18th, ED announced six new interagency agreements (IAAs) to outsource key education programs to four other federal agencies, moving the Trump administration closer towards its goal of dismantling the department. In September, Education Secretary Linda McMahon took a first step in this direction by signing two agreements—one giving the US Department of Labor shared administration of Career and Technical Education (CTE) programs, and the second transferring several ED employees to the US Department of the Treasury to support the operation of student aid functions. The agreements announced in November go a step further and move the administration of core ED programs to other departments (see Exhibit 1). For example, those programs authorized under the Elementary and Secondary Education Act (ESEA) will shift to the US Department of Labor.

EXHIBIT 1

Interagency Agreements Announced by ED in November

ED Office/Program	Receiving Federal Agency
Office of Elementary and Secondary Education	Department of Labor
Office of Postsecondary Education	Department of Labor
Indian Education programs	Department of the Interior
Foreign Medical Accreditation	Health and Human Services
Child Care Access Means Parents in School Program	Health and Human Services
International Education and Foreign Language Studies	Department of State

Source: US Department of Education

Details on the mechanics of the interagency agreements are relatively scant, but available information makes clear that ED, in combination with other agencies, will continue to execute on the statutory requirements laid out in relevant education laws. Notably, while many headlines discuss the dismantling or elimination of ED, Secretary McMahon does not have the authority to shutter the agency. The 1979 Department of Education Organization Act established a number of required offices for ED and mandates that the agency oversee multiple federal education statutes; the department will technically continue to retain those prescribed authorities but will outsource execution to other agencies. For now, all administrative functions under the Individuals with Disabilities Education Act remain with ED. A coalition of 20 states and the District of Columbia has filed suit arguing that the ED reorganization plan violates ED's authorizing statute.

Capstone continues to believe that legislation to close ED is extremely unlikely to pass in 2026. There is no legislative momentum around the small number of ED closure bills that have been put forward and we do not expect any serious consideration of those bills in the coming year.

For state education agencies (SEAs) and local education agencies (LEAs), the shift in administration to other agencies could create some modest disruption related to technical assistance, reporting, etc. More than anything, we expect the noise in the news cycle to make SEA and LEA leaders skittish about federal education support and funding stability. However, we believe that ED funding for statutory formula programs will continue to flow largely unimpeded. For vendors in the space, the negative news cycle may temporarily impact SEA/LEA buying behavior, but we do not expect funding to be materially impacted by the newly announced IAAs over the coming year.

Federal Appropriations for Title I and IDEA Expected to Remain Flat; Risk to K-12 Vendor Revenues Exaggerated

Winners	K-12 curriculum providers such as McGraw Hill Inc. (MH), special education vendors, and EdTech platforms reliant on Title I and IDEA funding
Losers	N/A

Capstone believes the risk of federal K-12 education funding cuts is minimal, as Title I and IDEA appropriations are likely to remain flat, supporting stable revenues for K-12 education vendors.

As part of the Trump administration's ongoing efforts to dismantle ED, the president's FY2026 budget proposal sought to consolidate multiple ESEA programs into a single block-grant formula, while leaving Title I-A and IDEA funding intact. Subsequently, in July, the administration withheld ~$6 billion in formula funding, primarily from programs slated for elimination under the budget proposal. This funding was eventually released after a nearly month-long delay. A formal budget deal for FY2026 has not yet been reached, but Capstone continues to believe federal education spending on formula programs will remain largely flat under any future FY 2026 budget and that no new block-grant program will be created.

Federal appropriations to ED were flat-funded as part of the Continuing Resolution (CR) signed into law by President Trump on November 12th. The funding runs through January 30, 2026. Existing House and Senate appropriations bills, which will form the basis for ED funding negotiations, differ significantly in approach. The Senate's appropriations bill includes modest increases in funding for IDEA and Title I-A, while largely keeping other program funding flat. The House's appropriations bill would significantly reduce Title I-A funding and make cuts to a host of other programs. However, the Republican-controlled House has routinely proposed Title I-A cuts that have not been enacted.

Capstone continues to believe that the Senate's stance on education funding is a more reliable predictor of ED funding outcomes. We believe several Senate Republicans and Democrats would oppose significant federal education funding cuts in upcoming appropriations discussions. As a result, we expect any budget deal to include flat-to-modestly increased federal education spending. This is positive for vendors serving the K-12 ecosystem, particularly in the context of threats by the president to significantly reduce spending on education and broader noise surrounding ED's overall stability.

OBBBA to Pressure State Budgets, Posing a Risk to District Education Spending and K-12 Vendor Revenues

Winners	N/A
Losers	K-12 curriculum providers such as McGraw Hill Inc. (MH), special education vendors, and EdTech platforms

Capstone believes OBBBA-driven state revenue pressures pose a threat to district education spending in 2026, creating headwinds for K-12 vendor revenues.

The One Big Beautiful Bill Act (OBBBA), the Trump administration's signature piece of legislation that passed in July, is projected to reduce total state revenues through a multitude of provisions (see Exhibit 2). Impacts will vary across states, but funding changes for Medicaid and the Supplemental Nutrition Assistance Program (SNAP) are concerns across most. For example, federal Medicaid revenue to states is set to decline by between 3% and 21% per state. As the budgetary impacts of OBBBA become clear, federal-to-state transfers are reduced, and new tax provisions are applied, we expect states to holistically review their fiscal health and be forced to make tough budgeting choices.

EXHIBIT 2

Projected Impacts of OBBBA Provisions on Select State Budgets

State	Projected Budgetary Impact from OBBBA
Maryland	General Fund revenue is projected to decrease by $77.9 million in FY2026 and $71.4 million in FY2027. Local income tax revenue, a key source of funding for public schools, is estimated to decrease by $11 million in FY2026, and then increase by $61.9 million in FY2027.
Michigan	Overall state revenue expected to decline by $677 million and $613 million in FY2026 and FY2027, respectively.
Colorado	Overall state revenue is expected to decline by $1.2 billion in FY2026, and by roughly $700 million across FY2027 and FY2028.
Oregon	Estimated to lose $15 billion in federal funding because of OBBBA provisions over the next decade, with an estimated $1 billion of this funding lost between 2025 and 2027.
Wisconsin	OBBBA is expected to cost "Wisconsin taxpayers at least $142 million per year at full implementation, or more than $284 million over a two-year biennial budget cycle."
New York	The state budget is expected to decline by $10 billion annually as a result of OBBBA.

Source: State revenue projections

States are already preparing to address the potential revenue strains created by the reconciliation package. Several states legislatively "decoupled" from the tax provisions in OBBBA, aiming to limit projected revenue shortfalls. For example, Colorado's governor signed multiple tax bills to increase taxable income, and thus state revenue. Other states that have taken similar legislative action include Michigan, Rhode Island, California, Alabama, and New Jersey. As the 2026 legislative session begins, we anticipate that more states will take legislative action to counter projected revenue shortfalls.

Capstone will closely monitor governors' budget recommendations and state legislative sessions to track projected state spending on education. While we expect states to largely protect education spending, K-12 and higher education are often among the largest state budget expenditures, and downward fiscal projections may weigh on state education spending. As state funding comprises ~45% of overall education funding, any decline or stagnation in state funding will have significant knock-on effects on LEA spending.

Tailwinds for Private Loan Providers as ED to Lower Graduate Federal Loan Limits; Federal School Choice Rulemaking Presents Opportunities for Private School Offerings

Winners	Private loan providers, private schools, K-12 providers with private school offerings
Losers	Universities with high concentration of non-professional graduate programs (e.g., accounting, public health, social work, nursing)

Capstone believes ED will finalize rulemaking in 2026 to lower federal loan limits for some graduate students. While this will deter some students from enrollment, we expect it to drive others to private lenders. Separately, forthcoming Treasury rules on the federal school voucher program—which will primarily create opportunities for private schools and vendors with private school offerings—will provide clarity and shape blue states' decisions on whether to participate.

OBBBA authorized reforms to the federal student loan system and created the first federal education voucher system—the Qualified Elementary and Secondary Education Scholarships program. To establish the specifics of both provisions, the programs are subject to rulemaking by the ED and the US Department of the Treasury, respectively. We expect both departments to post Notices of Proposed Rulemaking (NPRMs) to the Federal Register in early 2026, with rules being finalized before the respective program launch dates in July 2026 and January 2027.

PRIVATE LOAN PROVIDERS TO SEE RISE IN DEMAND AS ED TO FINALIZE GRADUATE LOAN RULEMAKING

The ED Reimagining and Improving Student Education (RISE) committee convened in 2025 to develop regulations implementing federal student loan system reforms stipulated by OBBBA. As part of the phase out of graduate and professional PLUS loans, OBBBA authorized new annual loan limits for graduate and professional students and parent borrowers. Under the bill, student borrowers in "graduate" programs are limited to borrowing up to $100,000 in total, while students in "professional" programs are able to borrow double that amount, up to $200,000. One major point of discussion during RISE committee meetings was which programs will qualify for "graduate" versus "professional" designation, and the potential exclusion of high-demand and expensive healthcare programs from the latter designation and associated higher borrowing cap.

The RISE committee reached consensus on November 6th, defining a professional degree as a program that 1) signifies completion of academic requirements for beginning practice in a given profession and a level of professional skill beyond a bachelor's degree, 2) generally requires at least six years of postsecondary education coursework, 3) generally requires professional licensure, and 4) includes a four-digit program code consistent with ED rulemaking. While this is more expansive than ED's original proposal and will include an estimated 650 professional degree programs, it still excludes a variety of programs that had hoped for inclusion.

Notably, the proposal excludes high-demand healthcare careers, including physician assistants, nurse practitioners, and audiologists. Other excluded programs include social workers, physical therapists, architects, accountants, and educators. To the extent that these programs exceed $100,000 in lifetime tuition, or $20,500 in annual costs, students will be forced to seek alternative loan solutions to cover the full cost of attendance. We believe this is positive for private loan provider demand and will likely weigh slightly on program enrollment.

ED will post an NPRM on the Federal Register early next year. As the negotiated rulemaking committee reached consensus, ED is required to publish the rules as agreed. They will be open for public comment for a 30-day period, and after comment review the rule will be finalized, with regulations going into effect on July 1, 2026.

DEPARTMENT OF TREASURY RULEMAKING ON FEDERAL TAX-CREDIT SCHOLARSHIP PROGRAM

While school choice vouchers have historically been a state-level initiative, OBBBA authorized a federal tax credit scholarship program in July 2025—the Qualified Elementary and Secondary Education Scholarships program. Funded by taxpayer donations in return for a 1:1 tax credit, scholarship granting organizations (SGOs) give donated funds to families to cover certain K-12 expenses, such as private school tuition, tutoring, technology, and costs of transportation for traveling to public or private schools. While intended as a 50-state program, states can choose whether to opt-in. Thus far, four red states—South Dakota, Nebraska, Tennessee, and North Carolina—have decided to opt in, while three blue states—Wisconsin, Oregon, and New Mexico—have declined. In the near term (0-2 years), we expect more red states to opt in, using this federal program to supplement their state-level school choice measures.

The Treasury Department is expected to commence rulemaking in 2026, given the program's expected launch date in 2027. In late November, it published an informal request for comment on potential rules for SGOs, but a more formal proposed rule will be released next year. Decisions made during rulemaking could have implications for whether the remaining Democratic states decide to opt in or opt out. A key determinant of these decisions will likely be the extent to which states are able to regulate SGO activities, which the rulemaking is expected to address. If states have autonomy to determine which organizations qualify as SGOs, state governors will be able to select organizations in alignment with their priorities. This would allow Democratic governors to choose organizations focused on the provision of supplementary K-12 services over those prioritizing funds for private school attendance. With more red states than blue states likely to opt in, we expect the program to primarily provide modest tailwinds for private school providers and vendors that have well-developed private school offerings.

Capstone will also closely monitor ED's Accountability in Higher Education and Access through Demand-driven Workforce Pell (AHEAD) Committee, which will convene to conduct negotiated rulemaking sessions on changes to the Pell Grant program and implementing the new Workforce Pell Grant program, as authorized by OBBBA.

Trump Administration to Continue to Target International Enrollment in 2026, Posing Headwinds for Universities, International Student Recruiters, and Loan Providers

Winners	N/A
Losers	Universities with high international student enrollment, international student recruitment and loan providers

In the past year, the Trump administration has continually targeted international student enrollment, citing national security concerns. We expect this to continue through formal rulemaking in 2026, posing headwinds for universities, international student recruitment firms, and loan providers. Rhetoric, unsuccessful attempts to limit Harvard's international student enrollment, changes to endowment taxation to incentivize enrolling US students, among other measures, have already had a chilling effect.

In August 2025, the US Department of Homeland Security (DHS) announced new rulemaking to implement a four-year cap on international students attending a US university/college. Other measures include pausing visa interviews, imposing a $100,000 fee on H-1B visas, and capping international student enrollment at 15% of a university's total enrollment under the White House's Higher Education Compact. According to the Institute of International Education (IIE), total international student enrollment declined by 1% during the 2025-2026 academic year. New enrollments, a subset of total enrollments, decreased by 17% for international students. We anticipate further declines in international student enrollment under the Trump administration.

PROPOSED RESTRICTIONS ON OPTIONAL PRACTICAL TRAINING THREATEN INTERNATIONAL ENROLLMENT

On November 12th, DHS promulgated a new item in its Spring 2025 Unified Agenda to amend OPT programs. Per the agenda, "the proposed rule will better align practical training to the goals and objectives of the program while providing more clarity to the public. The proposed rule will amend existing regulations to "address fraud and national security concerns, protect U.S. workers from being displaced by foreign nationals, and enhance the Student and Exchange Visitor Program's capacity to oversee the program." The OPT program, which enables foreign students to gain work experience at US firms after completing studies in the US, could be officially discontinued or heavily amended to discourage US firms from hiring foreign students. Currently, the program allows F-1 nonimmigrant students to work for up to 12 months before or after graduation. Those with STEM degrees can apply for a 24-month extension.

Because the OPT program is a regulation rather than a congressional mandate, DHS retains the authority to amend it without congressional approval. In 2022, the US Court of Appeals for the DC Circuit confirmed in Washington Alliance of Technology Workers v. DHS that the agency possesses statutory authority under the Immigration and Nationality Act to establish the "time" (duration) and "conditions" of F-1 nonimmigrants' stay in the US. DHS has already proposed a rule to limit duration. In March, House Representative Paul Gosar (R-AZ-09) proposed the Fairness for High-Skilled Americans Act of 2025 (HR 2315) to amend the Immigration and Nationality Act to eliminate the OPT program. The bill has 22 cosponsors to date, all Republicans. The bill, while broadly similar to the DHS proposal, seeks to prevent future administrations from restarting the OPT program.

While details are currently limited, we believe DHS's proposal could restrict OPT for specific majors, including STEM. This will likely significantly impact students from India. During the 2024/2025 academic year, international student enrollment grew by 5% year-over-year (y/y), primarily driven by OPT participation, which increased by 21% y/y (with Indian students a key driver of this growth). According to IIE, just under half (49%) of students on OPT programs are from India.

We believe the DHS proposed rule threatens the attractiveness of US degree programs by reducing the prospects for postgraduate employment in the US.

WHITE HOUSE HIGHER EDUCATION COMPACT TO CONTINUE TO SEE MUTED ENGAGEMENT

In October, the White House invited nine universities to sign a Compact for Academic Excellence in Higher Education to secure preferential federal research grant funding. Notable provisions under the 10-point agreement include: 1) tuition freezes for five years, 2) a 15% cap on international student enrollment, 3) banning race-based admissions and faculty hiring, and 4) adopting biological definitions of sex. While initially sent only to nine schools (most of which declined), Trump informally extended his invitation to every school in the nation via Truth Social. The initial deadline of November 21st was extended to encourage participation.

While the Compact promises to provide signatory institutions with preferential treatment, it does not specify the statutory authority under which the federal government would grant this. We continue to believe that any attempts by the White House to grant such treatment to signatories would be met with legal challenges. To date, none of the initial institutions have signed the Compact, citing concerns related to institutional independence, academic freedom, and the view that research funding should be based on merit rather than compliance with federal policy priorities. As the White House looks to reform higher education, we remain skeptical that the promises included in the Compact will be sufficient to drive intended reforms put forward by ED Secretary Linda McMahon and President Trump. Further, given opposition to many of the administration's education-related reforms, the prospect of midterms shifting political tides, and the lack of clarity around benefits and statutory authority associated with the Compact, we expect university receptivity to the administration's overtures to remain tepid.

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