THE STATE OF HIGHER EDUCATION

Jeff Selingo

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Behind This Report



Jeff Selingo

Jeffrey Selingo is a higher education author and strategist who has written three New York Times bestselling books. His book *Who Gets In & Why: A Year Inside College Admissions*, published in 2020, was named among the 100 Notable Books of the year by The New York Times. His latest book is *Dream School: Finding the College That's Right for You*. A regular contributor to *The Atlantic* and *The New York Times*, Jeff is a special advisor for innovation and professor of practice at Arizona State University, where he founded the ASU-Georgetown University Academy for Innovative Higher Education Leadership. He also writes a regular newsletter called Next. You can find out more about him at jeffselingo.com.

Acknowledgments

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About this Report

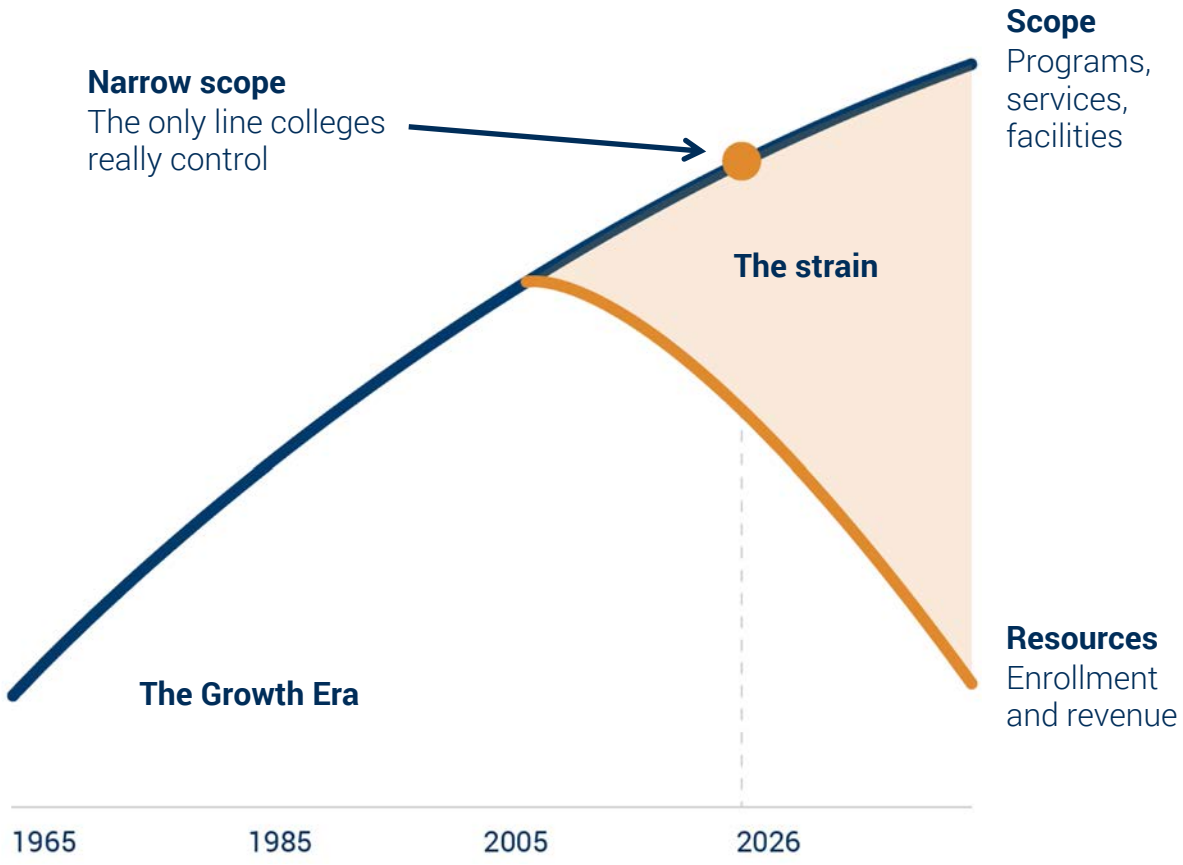
For nearly 60 years, higher education had one answer to almost every strategic question: get bigger. Add academic programs and schools, research labs, campuses, athletic teams, international students, and online degrees. Comprehensive was the aspiration; the sector spent six decades pursuing it.

That era is ending.

One in seven colleges lost money cumulatively over the past decade. International graduate enrollment fell 12% in fall 2025. Access to government-backed student loans is tightening, and so, too, are federal grants. The familiar engines of growth are weakening just as institutions need them most in an uncertain era in which technology is threatening to reshape the very meaning of a college degree.

The economist Carlota Perez has described technological revolutions as periods of disruption followed by the possibility of broader prosperity.

Redefining the Comprehensive University for the 21st Century



About this Report *(continued)*

The question is where we sit in that cycle. Are today's anxieties just the turbulence before a "golden age," when the benefits of technology spread more widely? Or is AI beginning another cycle of disruption, with new models of education challenging established institutions and their economics? We cannot yet know. Either possibility calls into question the assumptions on which universities have built their strategies for decades.

The challenge for leaders is that these risks arrive together and compound. Declining numbers of high school graduates intensify enrollment competition. Geopolitical shifts can drain tuition revenue and the supply of graduate researchers at once. AI is reshaping entry-level work while campuses are still debating how students should use it. A decision in one area can deepen exposure in another.

This is enterprise risk, and it demands a view across the entire institution. Presidents and trustees need to test the assumptions behind enrollment projections, research ambitions, and spending commitments. They need to see the connections before they show up in annual budgets and decisions about which programs to close. Waiting for each threat to become a crisis leaves fewer choices and less money to make them.

Getting smaller or more focused (to even grow) need not mean decline or reduced ambitions. But it requires a decision that decades of growth allowed many campuses to postpone: where to play, and where to win. Not every institution can be comprehensive. Choosing where to concentrate resources, which students to serve, and when to partner will define the next era of higher education.

This report examines six areas, from the business model and federal policy to research, AI, athletics, and governance. Its purpose is to help leaders distinguish what is temporary from what is structural, see around the corner, and act while they still have room to shape their institutions' future.

Executive Summary / *Six themes*

1. THE BUSINESS MODEL

The financial squeeze on campuses is now structural. Labor and benefit costs outrun revenue, the graduate and international enrollment that masked operating losses is shrinking, and the margin that once appeared on its own has to be created through cuts or new revenue.

2. HIGHER ED IN WASHINGTON

Federal policy shifted from funding colleges to capping unbridled growth without evidence of outcomes. Grad PLUS loans are gone, Parent PLUS loans are capped, Workforce Pell arrives with the highest performance bar ever attached to federal aid, and every undergraduate program now has to prove its graduates out-earn a high school diploma.

3. RESEARCH

The research enterprise is at its largest just as the federal government pulls back funding. Universities already cover a quarter of their own research costs, and none of the proposed substitutes—industry, philanthropy, or commercialization—is big enough to replace federal dollars.

4. ARTIFICIAL INTELLIGENCE

Students adopted AI as a work tool while institutions treated it as an integrity problem. That gap now shows up in the curriculum, and campuses are paying for compute out of tight budgets. Most campuses are funding AI with no new money and no plan for what the technology replaces.

5. ATHLETICS

College sports stopped paying for itself and then acquired a new fixed cost in paying players. Departments are selling future revenue for present cash, while small colleges keep adding teams that reshuffle students rather than bring in new ones.

6. GOVERNANCE

The hardest decisions in a generation are landing on boards built for a calmer era. Presidents have shorter tenures and few institutions have a bench behind any of their cabinet officers. Meanwhile, there's a divide between public opinion and what's happening on the ground, leading to a confusing narrative for leaders to navigate. Polling shows Americans have lost confidence in colleges even as enrolled students say they trust their own degree.

Unknown Unknowns

Uncertainty isn't new to colleges, but the pace of what Donald Rumsfeld called the "unknown unknowns" is increasing, and on a number of fronts. This report is a snapshot in time. Here are the developments most likely to overtake the pages that follow:

New federal loan policies. Nobody knows what fills the gap with the caps on federal loans: private lenders, home equity, students trading down, or nothing. Institutions won't know the enrollment picture under the new rules until deposits come in.

Tax exemption turns conditional. Treasury has proposed stripping tax-exempt status from any school the IRS finds has discriminated based on race, admissions and scholarships included. Unless the courts intervene, after May 31, 2027, donors could lose their charitable deduction and institutions their exemption on investment income if they don't comply with new rules.

OPT disappears. Optional practical training lets foreign graduates work in the U.S. for up to three years. About half of international graduate students and postdocs say they wouldn't have enrolled without it. The administration is reportedly weighing a $100,000 fee instead, with no word on who pays: employers, students, or universities.

The research enterprise. Federal awards are fewer, with tighter strings on indirect costs, personnel, and subject matter. Universities built capacity for the old volume and carry buildings and researchers into a grant economy that supports neither.

A recession. Downturns historically push adults back to college. A cyclical bump would relieve pressure at the institutions that most need to narrow scope, and some would call it proof the structural argument was overblown.

Artificial intelligence. The next capability jump pushes institutions past policies written for the last one. Leaders who have signaled acceptance of AI are already drawing fire from their own faculty and students, and questions about how to use AI on campus remain unsettled even under current models.

The athlete pay cap gets tested. Schools can pay athletes up to $20.5 million this year, and the cap rises 4% a year. A bill in the Senate would lock that cap in permanently and count booster money against it, closing the biggest workaround. If it fails, the wealthiest programs will keep spending past the cap through outside money, and everyone else will be pressured to match.



THE BUSINESS MODEL

Ryan Herron / iStock

For one in seven colleges, deficits are now chronic, not cyclical.

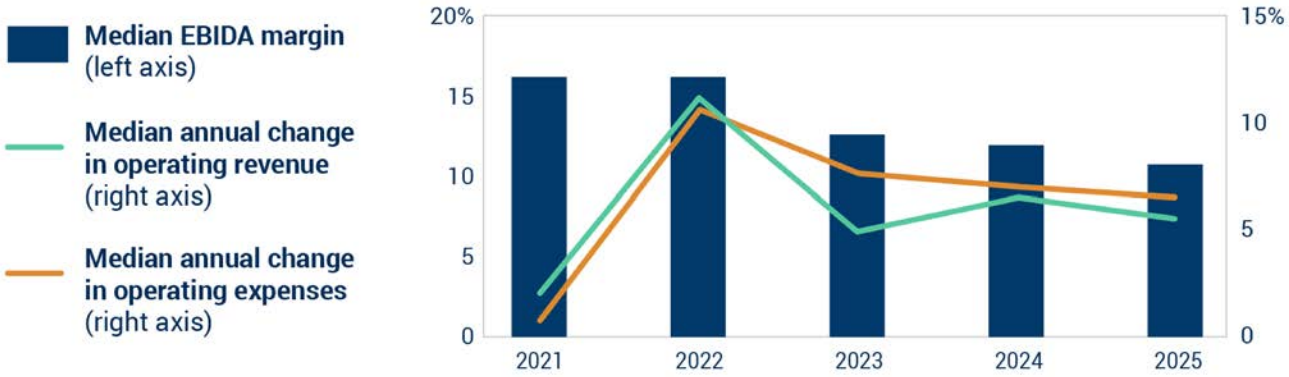
- **The financial squeeze on campuses is structural, not a temporary downturn:** Labor and health insurance costs are pushing expenses up faster than revenue can grow, and operating margins at rated private colleges are now the thinnest in the two decades Moody's Ratings has tracked them. Revenue at more than half of privates rated by Moody's no longer outpaces inflation.
- **Some 387 colleges (one in seven) lost money cumulatively over the past decade**, and 135 of them posted losses in at least eight of those ten years.
- **Investment returns and gifts had papered over the operating losses.** Small privates saw gift revenue fall 13%, according to Moody's, and are now discounting nearly 55 cents of every $1 on their sticker-price tuition.
- **Mission runs on margin.** The old sources that provided the recommended 3-5% margin, such as overenrollment, investment returns, gifts, unfilled positions, no longer appear on their own. Now margin has to be created by cuts or new revenue.

A sea of red ink

The share of private colleges posting a financial loss in FY 2024 was almost double that of publics…



...as expense growth outran revenue and margins shrank.



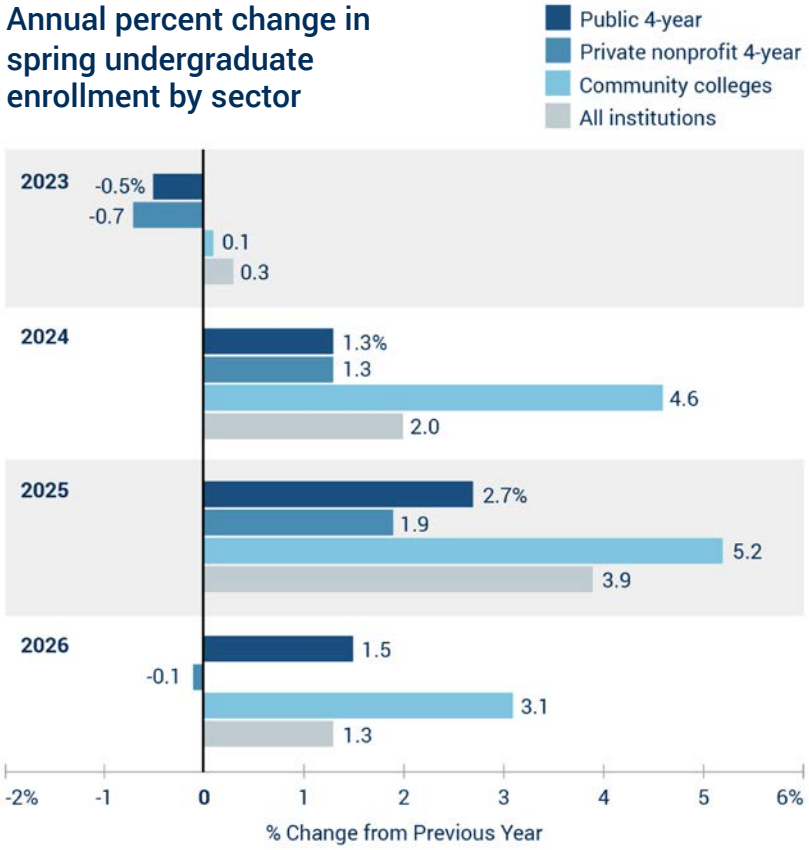
Footnote: EBIDA margin is the share of each operating dollar left after expenses, before debt payments and depreciation.
Source: Moody's Ratings

Undergraduate enrollment remains volatile by sector and by academic programs.

- Undergrad enrollment rose in the spring of 2026 to 15.5 million, up 1.3% from the previous spring. Most gains came from public colleges, led by two-year colleges, where dual-enrolled high school students surged.
- Enrollment is the lifeblood of colleges, and overall, **undergrad enrollment remains nearly 400,000 students below 2019.**
- While higher ed had been helped by a surge in graduate enrollment in recent years (more on that next), **the rise in undergrad enrollment won't continue,** given declining numbers of high school graduates and a mismatch between what today's students want (i.e., affordable, experiential options in a few academic fields) and what institutions offer.

Dual enrollment propping up undergrad numbers

Annual percent change in spring undergraduate enrollment by sector

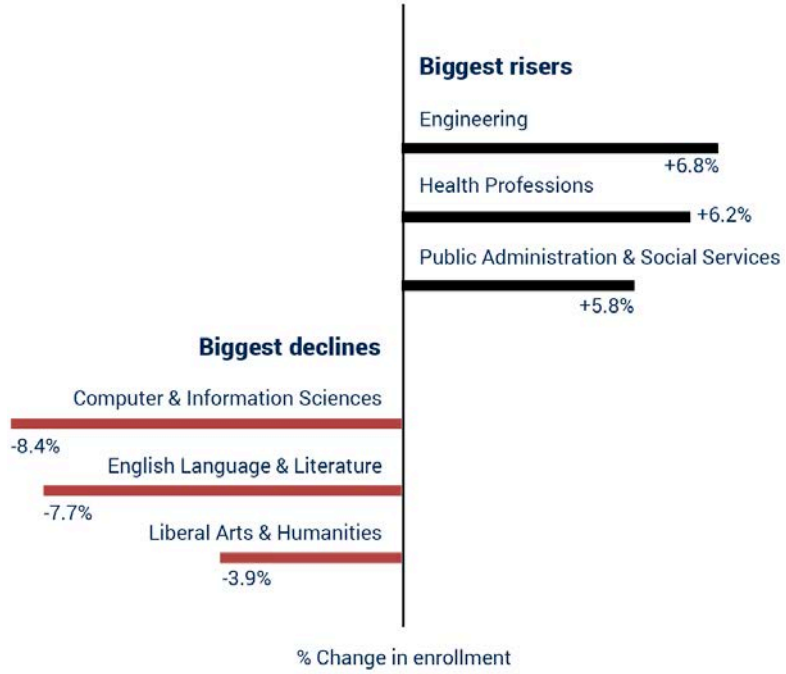


Source: National Student Clearinghouse Research Center

A student's choice of major often follows the job market, which is quickly shifting.

Biggest declines and biggest risers in undergraduate major fields.

2026 enrollment change from 2025.

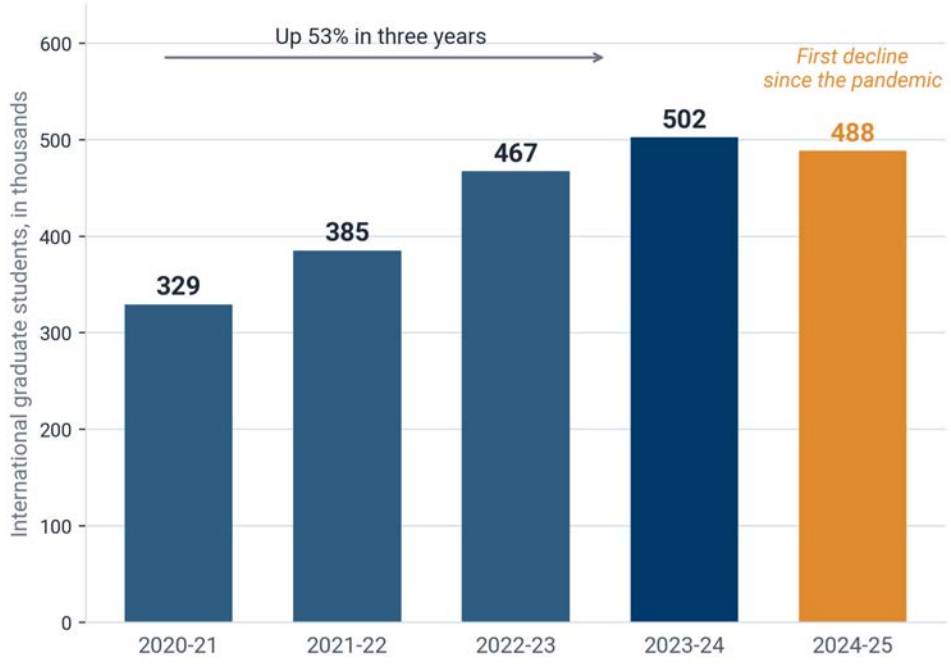


The graduate enrollment boom was made abroad. And now it's unraveling…

- The post-pandemic surge in graduate enrollment was substantially imported: **foreign graduate students grew by half from the pandemic low in 2020 to a 2023-24 record,** driven heavily by master's students from India.
- The exposure sits on both the revenue and expense sides. Most of these students (59%) paid their own way, while universities themselves financed another 36% as research and teaching assistants. **The decline in grad enrollment hits the revenue line and the cost of the research enterprise at the same time.**
- The current dip is the beginning, not the bottom. Early data for fall 2025 show **international graduate enrollment down another 12%,** and the exposure is concentrated, with nearly half of these students in just two fields, computer science and engineering.
- The decline forces a rethinking of graduate programs built on foreign enrollment. Can campuses make it up with domestic students? Can departments rethink how they supply teaching and research assistants without relying on graduate labor? If not, should the grad programs continue at their size—or at all?

A boom that just peaked

Foreign graduate students at U.S. universities make up about 15% of enrollments, and rose to a record in 2023-24, then turned down for the first time since the pandemic.



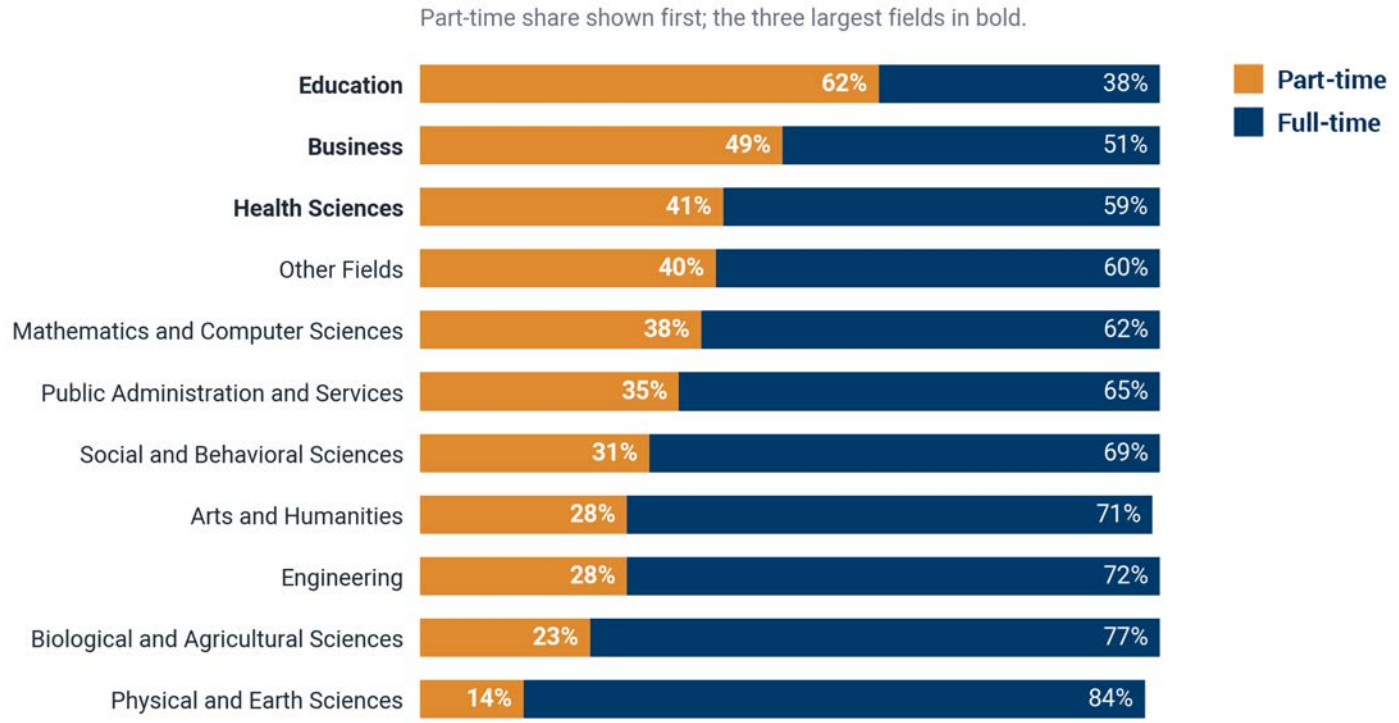
Source: Institute of International Education. (2025). Open Doors Report on International Educational Exchange; IIE Fall 2025 International Student Enrollment Snapshot.

…leaving programs competing for the domestic part-time working professional.

- **The three biggest graduate fields are increasingly built around students who work while they study:** Education is now nearly two-thirds part-time, and Business has reached the halfway mark, confirming last year's prediction that part-time demand was coming for programs beyond Education.
- Part-time growth is what held up total enrollment in the biggest fields in 2024, and it was **concentrated at large institutions, which pair part-time formats with online delivery.**
- These students weigh cost, time, and return on investment more than full-time students do. **Pacing, price, and online options — not the campus experience — are now the competitive battleground** in the fields where most graduate students actually enroll.

Working students dominate the biggest fields

Share of enrolled graduate students attending part-time vs. full-time, fall 2024.



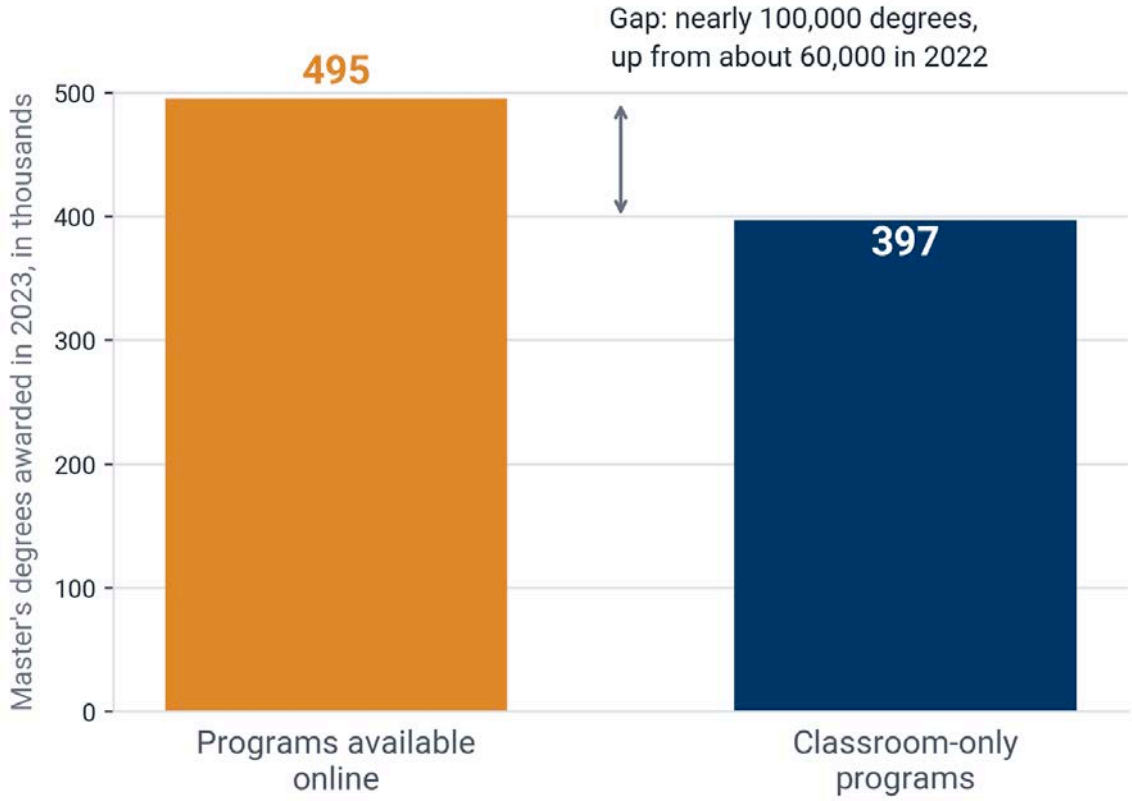
Source: Council of Graduate Schools, Graduate Enrollment and Degrees 2025, (November 2025), Figure 8.

Online was a growth strategy for grad programs. Now it's a matter of survival.

- The online master's degree is now the default product: **programs that can be completed online award roughly 100,000 more master's degrees a year than classroom-only programs**, and the gap has widened every year since online first pulled ahead.
- At the same time, **the overall master's market has flattened.** Enrollment slipped slightly in fall 2025. So online expansion now means taking share from classroom programs, not riding a rising market.
- A new risk for master's programs is in the next section of this report: tighter federal loans for graduate programs. So **the battle for enrollment will now also be fought on price and ROI.** Several institutions have already slashed their prices.

The online degree is the default

Master's degrees awarded by programs available online vs. classroom-only programs.



Note: 2023, most recent year available.

Source: RNL analysis of Integrated Postsecondary Education Data System (IPEDS) degree conferral data (2024).

Opportunities: The Business Model



1. **Develop dual-enrollment programs at four-year institutions.** Community colleges captured nearly all of the dual-enrollment surge, which means four-year institutions have ceded the earliest point of contact with students. Building these programs reaches students before the college-going decision is made.

2. **Create experiential learning at scale.** Internships, co-ops, and real-project coursework do two things at once: they demonstrate relevance to a workplace changing faster than the curriculum can, and they build the professional social capital students no longer acquire in entry-level jobs.

3. **Diversify where international students come from.** Two countries (India and China) account for more than half of all international enrollment. Broadening the mix is a hedge against any one government's decisions.

4. **Put every program through a payoff test.** Four questions separate degrees that add value from ones that don't: Is there durable regional employer demand? Does the credential raise earnings beyond what graduates would have earned anyway? Does it move people into new fields or roles? And can this institution credibly win in this market? Such certificates and degrees create the margin needed to pursue mission-aligned programs that do not pass those tests.

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HIGHER ED IN WASHINGTON



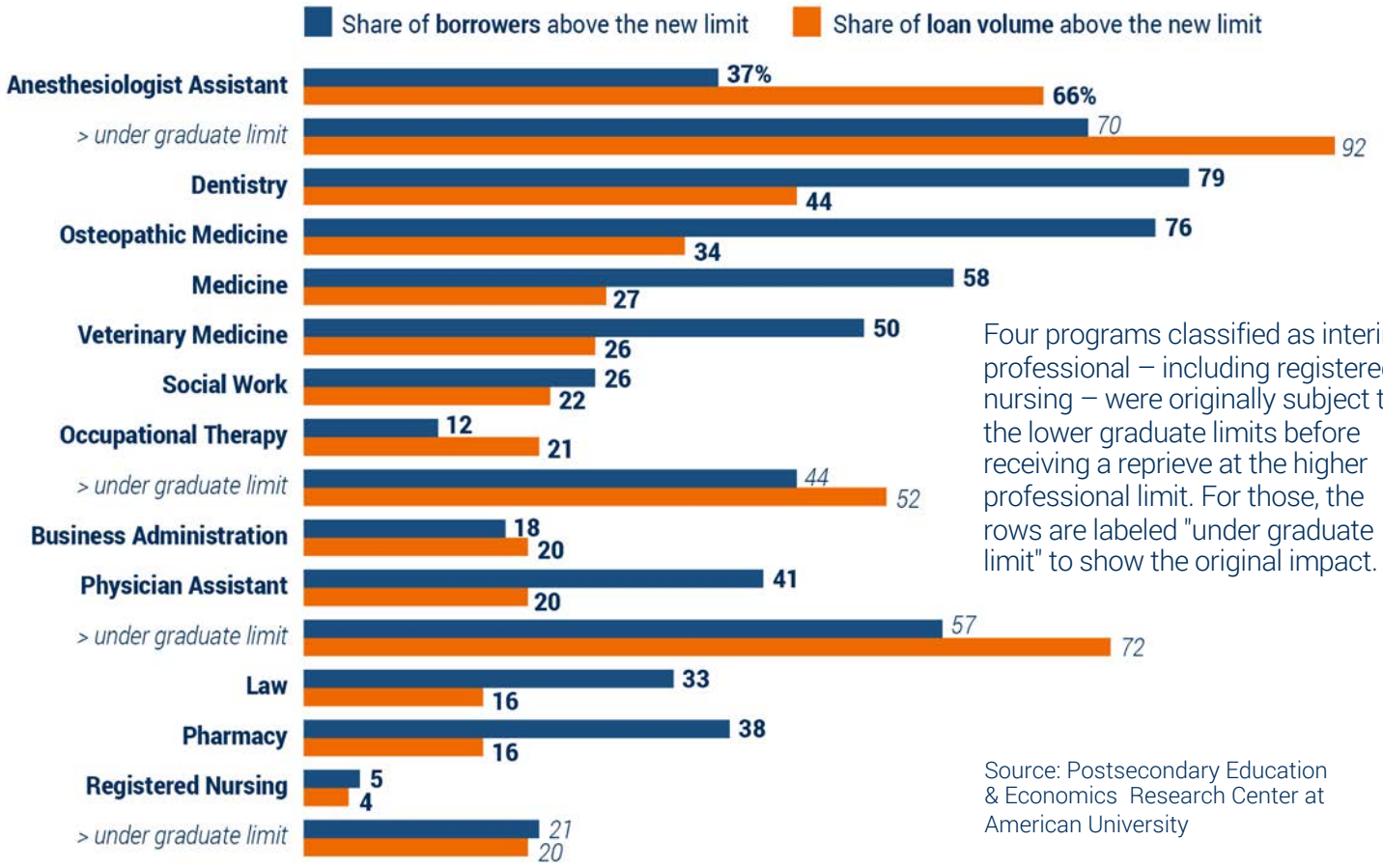
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Grad PLUS is gone, and with it a financing engine for graduate programs…

- For years, graduate students were able to borrow up to the **cost of attendance with Grad PLUS loans.** But as of July 1, 2026, when the provisions of the One Big Beautiful Bill went into effect, **the federal government now limits how much graduate students can borrow.**
- Most **graduate** borrowing is capped at $20,500 a year and $100,000 total; **11 professional** programs originally had a higher limit, at $50,000 and $200,000.
- **Exactly which programs are impacted, however, remains in flux.** A decision in a lawsuit against the Department of Education led officials to add 18 programs to the professional list on an interim basis, while they fight the case in court.
- **Colleges must audit their graduate portfolio and ask three questions:** Which programs push students past the cap? Which degrees earn a return worth financing with private loans or institutional aid? Which need redesigning at a lower price?

Programs most affected by the new graduate loan limits

Ranked by the share of loan volume above the new borrowing limit.



Four programs classified as interim professional – including registered nursing – were originally subject to the lower graduate limits before receiving a reprieve at the higher professional limit. For those, the rows are labeled "under graduate limit" to show the original impact.

Source: Postsecondary Education & Economics Research Center at American University

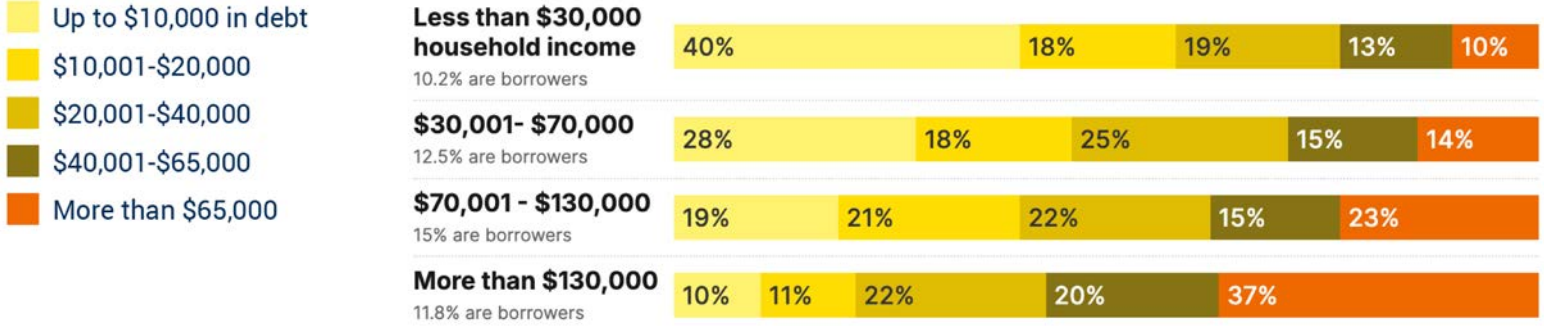
…while Parent PLUS survived with a cap that hits privates and affluent families.

- Also as of July 1, 2026, **Parent PLUS borrowing is capped at $20,000 a year and $65,000 per student.**
- A second change got less attention: new **Parent PLUS loans aren't eligible for income-driven repayment.**
- **The caps impact higher-income families.** 79% of borrowers who would hit the aggregate cap received no Pell Grant.
- **Exposure is concentrated in private higher education,** where 54% of cap-constrained borrowers enroll.
- **Parent PLUS quietly financed high sticker prices at privates with thin institutional aid.** Those campuses now choose: lose the students, hope parents find private credit, or fund the gap themselves.

Parent PLUS annual borrowing by household income



Parent PLUS cumulative borrowing by household income



Source: Arnav Dharmagadda and Sarah Turner, "Capping the wrong problem: Why Parent PLUS loan limits may miss the mark," Brookings Institution, September 2025.

Workforce Pell is open. Few programs will clear the screens.

- As of July 1, 2026, Pell Grants can be used for **short-term training.**
- The performance bar is the **highest ever attached to Pell.** Credentials must also be stackable and portable.
- **Three approvals stand between a program and the money:** accreditor, governor, and the Department of Education. Governors and state workforce boards decide what counts as high-skill, high-wage, or in-demand.
- **The gap between eligible programs and those ultimately approved is enormous.** Credential Engine estimates tens of thousands of programs meet the length requirement, but the federal government says as few as several hundred nationwide currently qualify because they don't meet the three-part test.
- The upside is that community colleges get access to a population that most have lost. **Community colleges shed about a third of their students over age 24 in the past decade**, roughly 1.3 million students.

A three-part test for programs to be eligible...

1. Structural screen

- 150 to 599 clock hours
- 8 to 15 weeks
- Offered for at least 1 year
- Leads to a recognized credential
- Stacks into a credit-bearing certificate or degree
- Offered by an accredited institution

2. Outcomes screen

70% completion rate
Measured within 150% of normal time to finish

70% job placement rate
Measured by employment in the second quarter after exit

Both thresholds must be met to keep eligibility.
Programs that fall short lose access for at least 2 years.

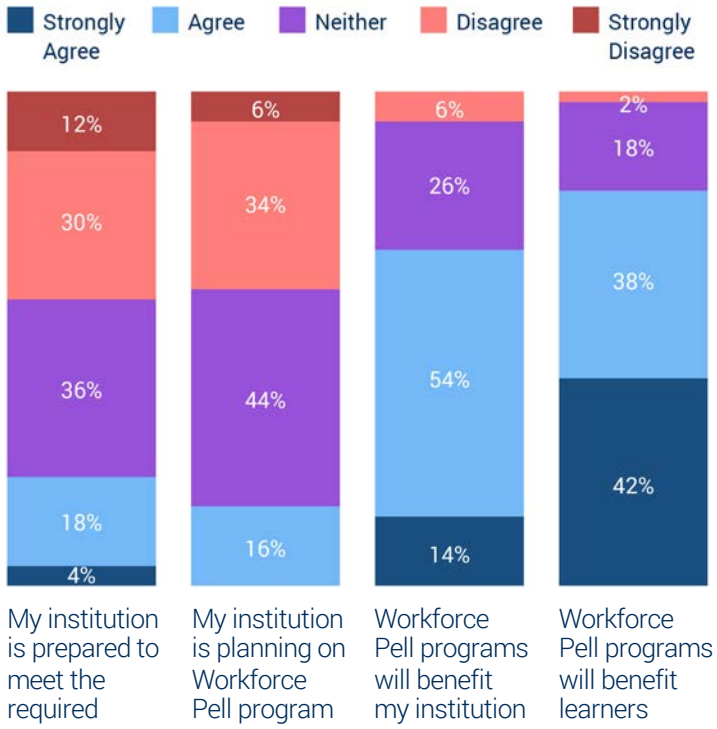
3. Value-Added Earnings screen

Published tuition and fees cannot exceed the earnings boost graduates actually receive.

Timing matters: Because the test measures earnings 3 years after completion, it will not apply to new programs until the 2030–2031 award year. Until then, completion and placement thresholds do most of the work.

...but most colleges don't feel ready.

Survey of continuing education leaders by UPCEA about Workforce Pell readiness



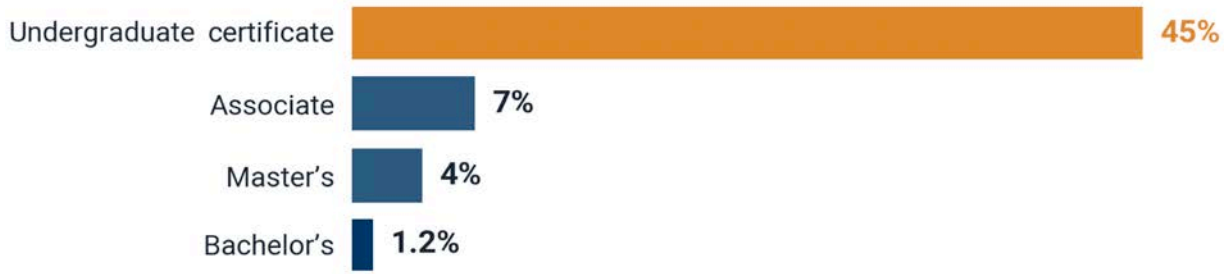
Source: UPCEA, 2026 State of Continuing Education report

Every academic program now has an earnings floor.

- **Undergraduate programs whose graduates don't out-earn a high school diploma holder in the same state can lose access to federal loans.** Fail twice in three years and the loans stop.
- **95% of students are already in programs that clear the bar,** but more than 644,000 students and $2.7 billion in loans flowed to failing programs in 2024-25.
- **The risk is concentrated among a set of institutions and programs.** Bachelor's degrees almost all pass. The exposure sits in short-term workforce credentials, the same category of programs Workforce Pell is theoretically about to expand.
- Nearly 2,000 of America's roughly 5,000 colleges have **at least one failing program.**
- **Passing the federal test means graduates out-earn a high school diploma.** It doesn't mean the degree was worth its price. Colleges need to design their own test around what the program costs, what graduates borrowed, and what graduates earn, to see whether the campus is delivering value.

Which programs are at risk?

Share of programs falling below the earnings benchmark, by credential level.



Where the failures cluster

Credential	Highest-risk fields
Certificate	Cosmetology (93% fail), medical assisting, somatic bodywork
Associate	Health and medical administrative services; design and applied arts
Bachelor's	Theater, music, fine arts, religious studies — all above 15%
Master's	Mental and social health services — the only large field where most fail

Source: U.S. Department of Education 2026 Program Performance data, as analyzed by Robert Kelchen and by Preston Cooper (American Enterprise Institute), January 2026; Phil Hill, On EdTech, (June 2026). Rates cover programs with sufficient earnings data.

Opportunities: Higher Ed in Washington



1. **Encourage states to create a shared Workforce Pell implementation infrastructure.** State coordination can streamline program certification, connect institutions with employers and workforce data, and help smaller colleges meet Workforce Pell's program-level accountability requirements.

2. **Work with states to build longitudinal data that links education and employment records.** Most states still can't connect what students studied to what they earn. This means institutions can't demonstrate which programs qualify for Workforce Pell or which are exposed under the earnings test. The states that build these systems will have colleges positioned to move first.

3. **Build the cross-state data picture the federal government won't.** State systems stop at state lines, and graduates don't. NC-SARA put more than 2,400 institutions across 49 states under one set of distance-education rules without an act of Congress. The sector can do the same for earnings data: one interstate agreement on alumni wage records, chartered by the regional compacts, not waiting on Washington.

4. **Build experiential learning into degrees through apprenticeships and paid placements.** Programs that embed paid work lower what students borrow while raising what they earn, the same two levers that determine whether a program clears the earnings test. Redesign is often cheaper than defending a program that fails.

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RESEARCH

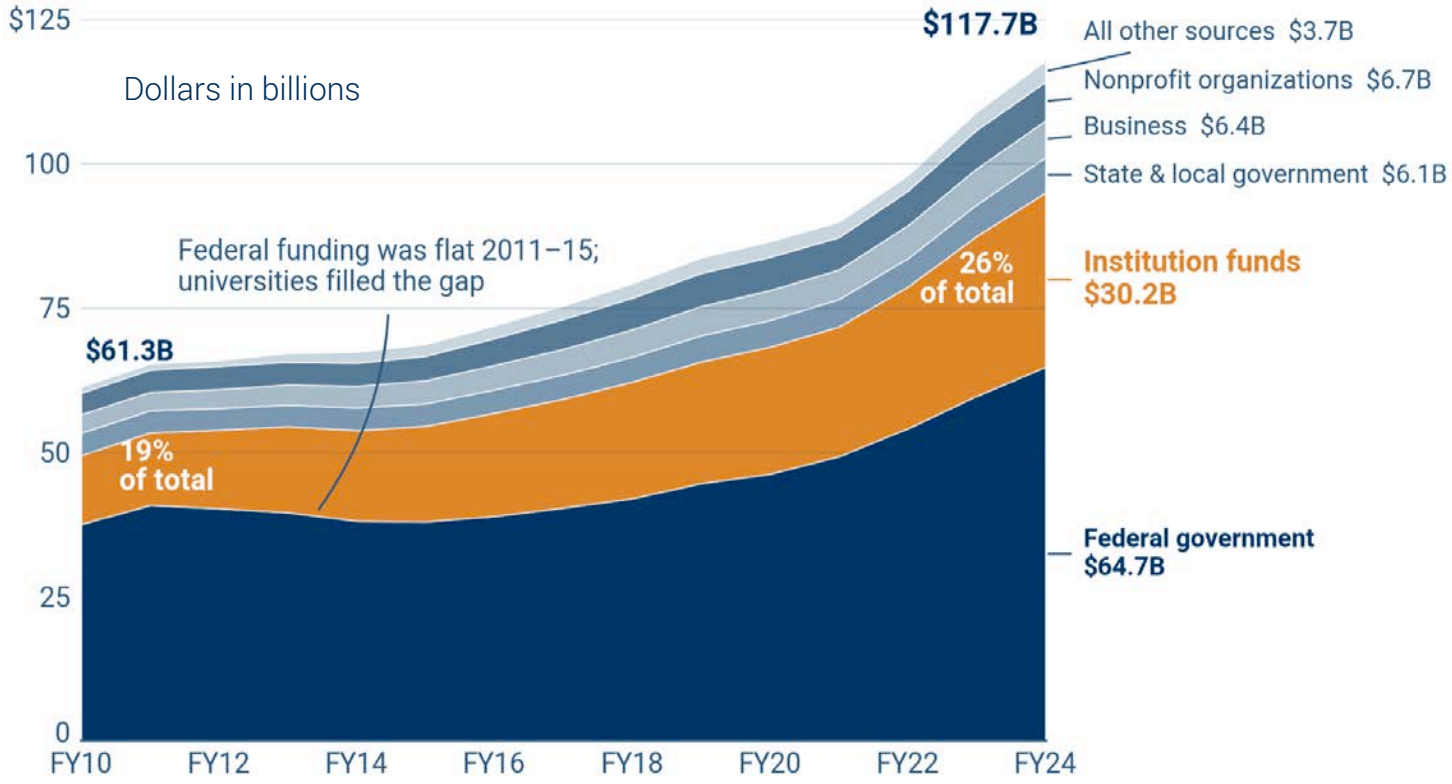
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University R&D hit a record $117.7 billion, then the rules changed.

- Total university R&D expenditures **increased by $8.9 billion (8.1%) in FY 2024.**
- **FY24 closed seven months before the first terminations of grants in the current administration.** Because NSF measures spending, which lags awards by a year or more, the FY25 release will still look strong. The first full-disruption data arrives in late 2027.
- **Universities' own funds accounted for more than 25% of all spending,** up $2.1 billion in one year. Institutions were already the second-largest funder of their own research before any federal cuts landed.
- Business funding grew just $131.5 million and nonprofit funding $16 million, **a reality check on hopes that industry and philanthropy can backfill the federal retreat.**

Universities are funding a growing share of their own research

Higher education R&D expenditures by source of funds, FY2010-FY2024.

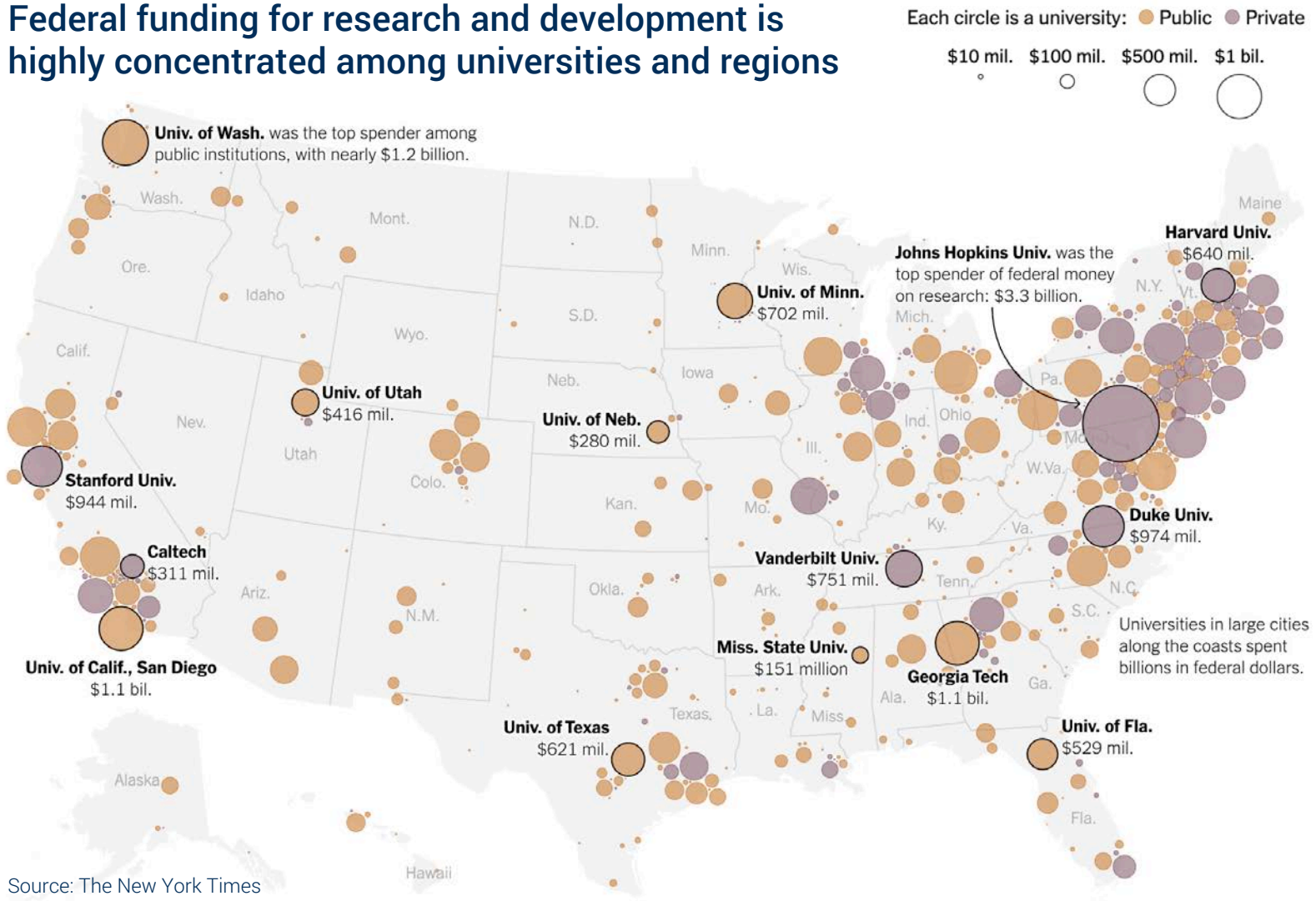


Source: NSF National Center for Science and Engineering Statistics, Higher Education Research and Development Survey, FY 2024 (NSF 26-304), Table 2.

And while universities won the battle over indirect costs, the war isn't over.

- Congress has **barred changes to federal reimbursement rates for so-called indirect costs** (buildings, utilities, maintenance, and some administrative costs) through FY 2026.
- **The administration's budget plan for FY 2027 revives its call for across-the-board caps,** and it now becomes a political game with Congress trying to protect the interests of the biggest research institutions in their states.
- What's more, **NIH's topline budget held at $47.2 billion for FY 2026.** By the end of February 2026, the agency had **issued 66% fewer competitive grant awards than its average from 2021-2024.** And the monetary value of the awards is down 54% against the same baseline.

Federal funding for research and development is highly concentrated among universities and regions

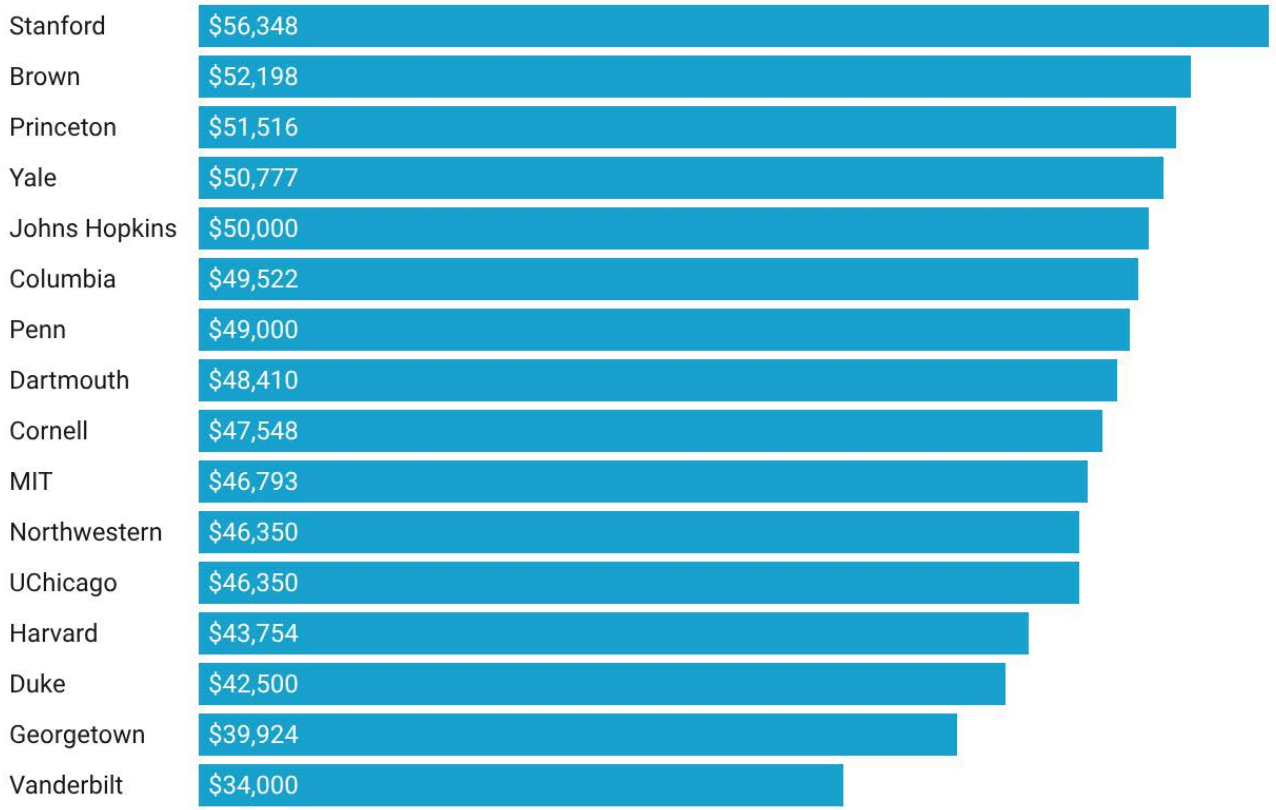


Source: The New York Times

Graduate students keep getting more expensive.

- Graduate students have made wage gains in recent years **thanks to unionization and new contracts.**
- In some disciplines, **the cost of supporting a PhD student is now nearly on par with a postdoc.** Programs are responding by taking fewer students.
- **PhD admissions for fall 2026 fell 15% year-over-year across 55 of the country's 69 top research universities.** The applicant pool is splitting too: international PhD applications dropped 21% while domestic applications ticked up 3%.
- The squeeze is three-sided: federal funding uncertainty removed the grants that carry PhD lines, union contracts raised the per-seat cost, and the **expanded endowment tax hit the discretionary funds that filled gaps.**

Graduate stipends at selected universities, 2025-26



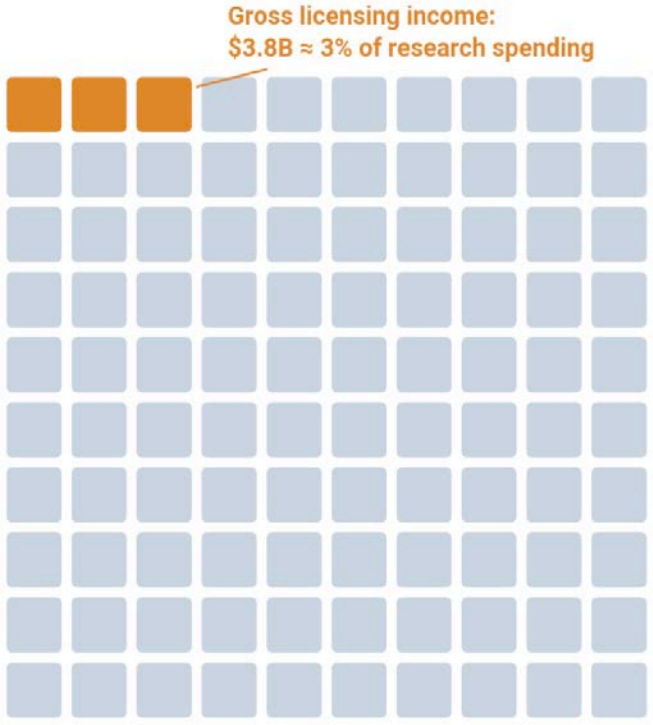
Source: Jack Guerin, The Daily Pennsylvanian

Commercialization is being asked to replace federal dollars, but it can't.

- **University research produced 1,095 startups, 761 new commercial products, and 13,729 new patent applications in 2025,** with roughly 7,000 university-born startups in operation.
- Gross licensing income across U.S. and Canadian institutions was roughly 3% of the sector's $117.7 billion research enterprise, **but most technology transfer offices still don't cover their own operating costs.**
- Returns are also concentrated: **a small minority of institutions capture the vast majority of licensing income.**
- Bottom line: Commercialization is strategically essential but financially marginal. **Presidents who pitch it internally as the answer to federal retreat are setting up for disappointment.**

Licensing income as a share of research spending

Gross licensing income vs. the $117.7B university research enterprise | Each square = 1%



3¢

of licensing income per dollar of university research spending

1,095 startups launched in 2025

761 new products brought to market

13,729 new patent applications

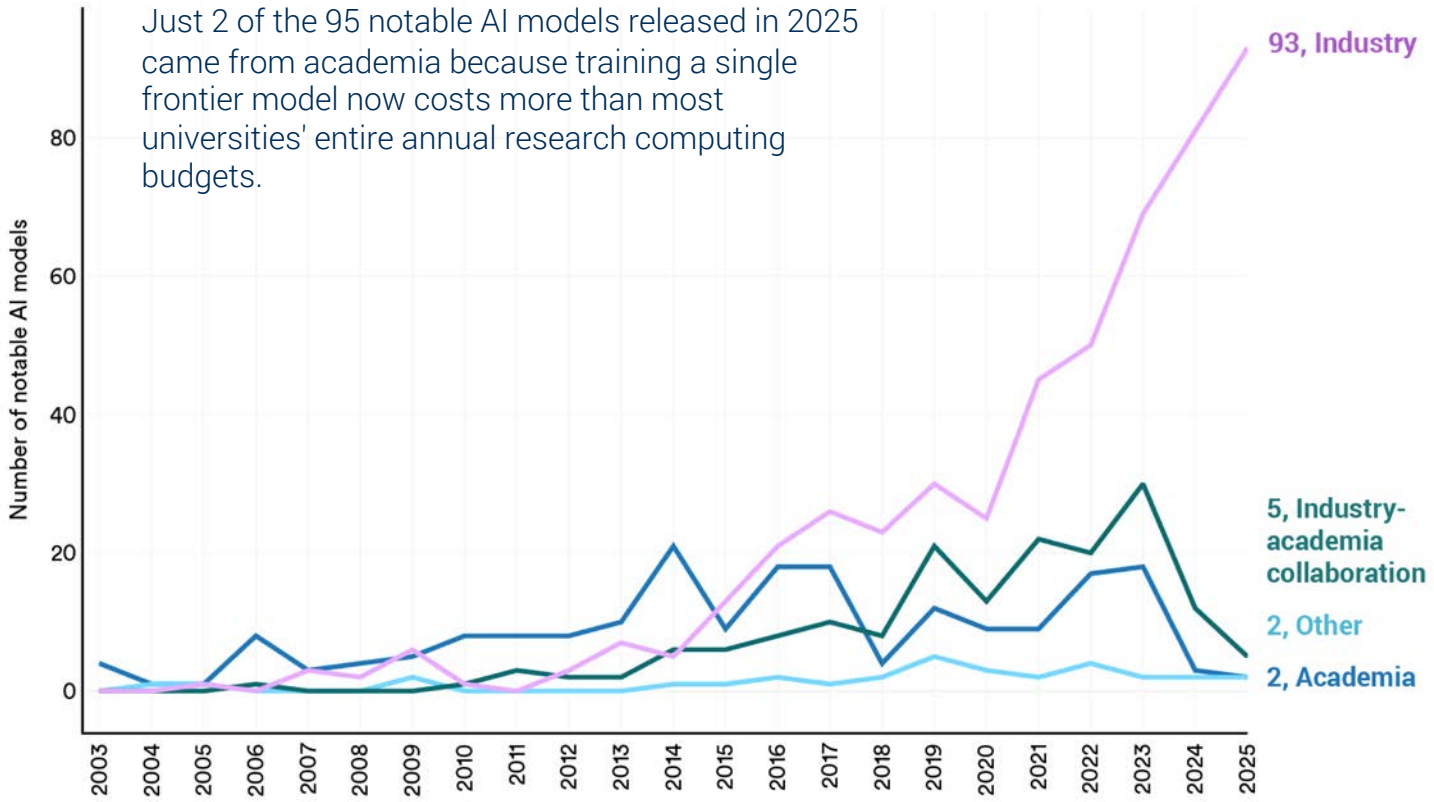
A record year for activity — but returns concentrate in a few blockbuster licenses, and most tech-transfer offices don't cover their own operating costs.

Source: AUTM Licensing Survey 2025, via AAU (July 2026); NSF HERD Survey FY 2024, Table 2.

The new research arms race is over computing power.

- The capital question in research has changed: **the scarce asset is no longer lab space or researchers; it's computing power, data storage, and staffing.**
- **No university can buy its way in alone.** A single leading AI system now costs more to build than most universities' entire annual research computing budgets.
- **The infrastructure is growing, however.** The federal government's shared AI resource (NAIRR) has already supported research at institutions in all 50 states and will double in size this year, while the Energy Department's new Genesis Mission puts more than $5 billion behind using AI to speed up American science.
- **Faculty will go where the compute is.** Institutions that help their researchers win access to these national resources effectively import infrastructure they could never afford to build—and will out-recruit the ones that don't.

Universities have been priced out of building frontier AI



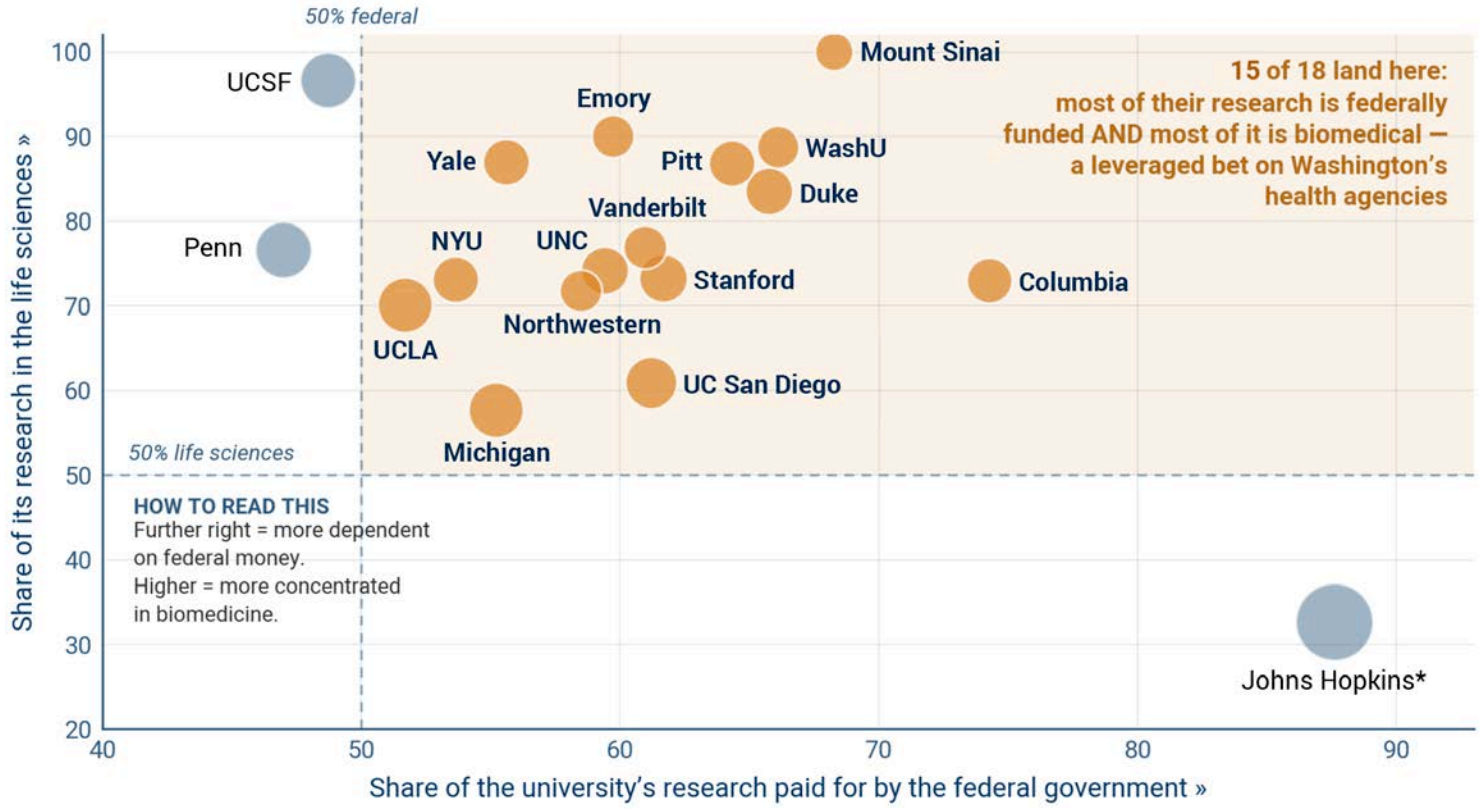
Source: "The AI Index 2026 Annual Report," AI Index Steering Committee, Institute for Human-Centered AI, Stanford University, Stanford, CA, April 2026

Academic medical centers were an asset. Now they're a bigger bet.

- The academic medical center flywheel defined two decades of strategy: **hospital revenue subsidized research, NIH grants built reputation, reputation drove patients and rankings,** all while universities without a medical center wanted one.
- The concentration runs deeper than the chart shows: **at most of these institutions, 75–95% of all federal research funding flows from a single agency,** Health and Human Services, home of the NIH.
- **The clinical side can no longer absorb cuts to research** as hospital operating margins remain thin, and the Medicaid reductions enacted in 2025 fall hardest on teaching hospitals.

15 of the 18 largest universities with medical centers are single-sector businesses

Each bubble is a university (size = total FY2024 research spending), Orange = majority federal AND life sciences.



* Johns Hopkins includes the defense-funded Applied Physics Laboratory; excluding APL, its profile is far more federal and biomedical.

Source: NSF NCSES, Higher Education Research and Development Survey FY 2024 (NSF 26-304), Tables 14, 15, and 18. Bubble area proportional to total FY24 R&D expenditures.

Opportunities: Research



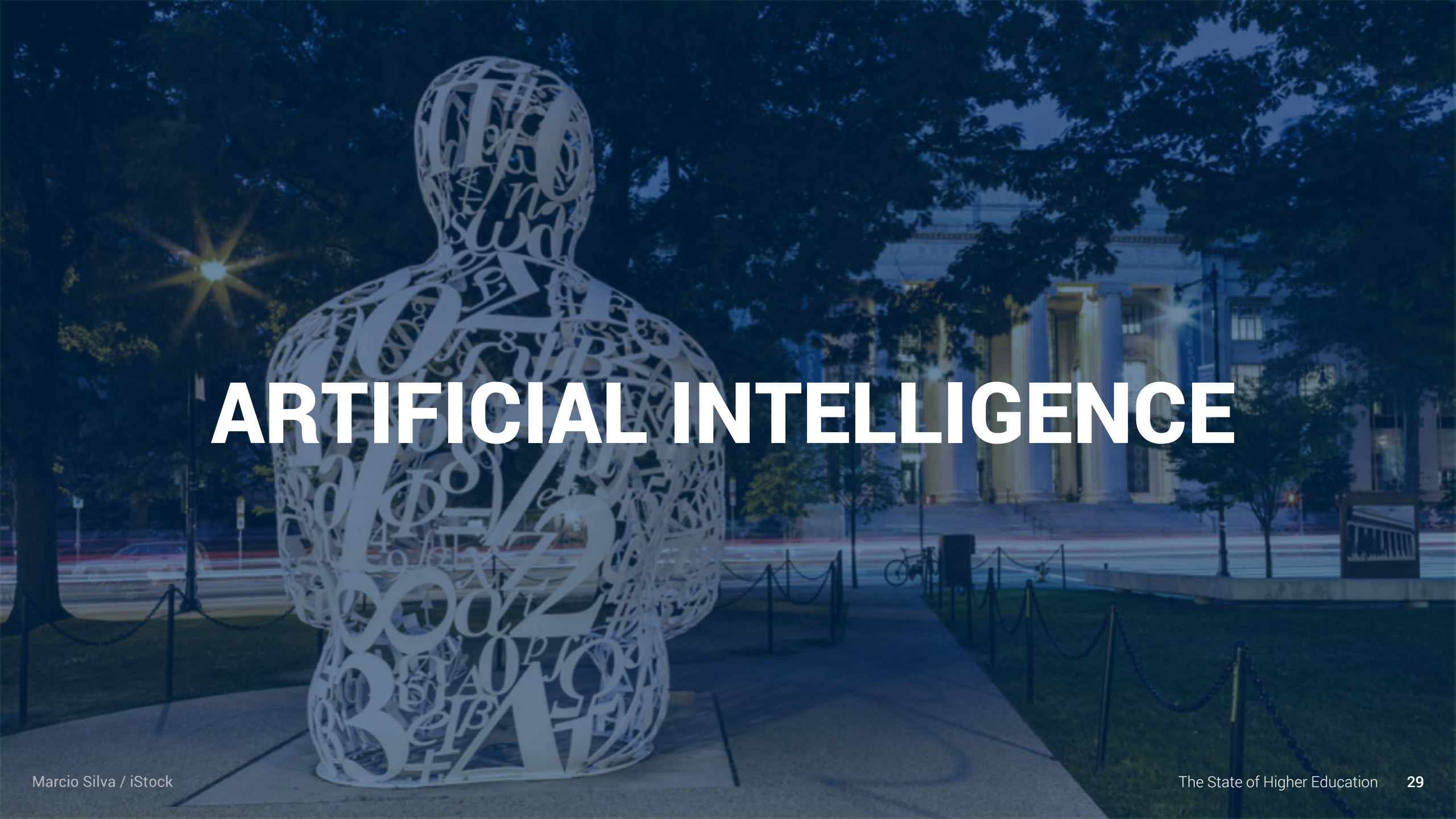
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1. **Replace the wait with decision gates.** Washington's new science plan favors individual researchers over institutions, and many campuses have frozen hiring and building until the politics settle. The stronger research universities are swapping five-year plans for rolling ones, with worst-case models and triggers set in advance for what gets delayed, cut, or protected. Delay the buildings. Protect the people. A lab team that scatters doesn't come back when the grants do.

2. **Build a corporate partnership function inside the research office.** Industry supplies roughly 6% of university research spending nationally and hasn't grown measurably in decades, so this is diversification at the margin, not a replacement for federal support. The institutions gaining ground are inverting the usual approach by asking companies what problems they need solved, then matching researchers to them, rather than pitching faculty agendas outward.

3. **Ask what AI does to the cost structure of research itself.** Computational modeling that substitutes for bench work changes the capital intensity of doing science. The question isn't just whether AI accelerates discovery; it's whether it lets institutions run a research enterprise at materially lower cost.

4. **Decide which fields you'll lead in, and fund those first.** Leaders at several top research universities now ask department chairs to make explicit grow-or-shrink calls instead of spreading cuts evenly. The test is blunt: where can this institution be pre-eminent with the money it will realistically have? Everything else gets maintained, shared with a peer institution, or wound down.



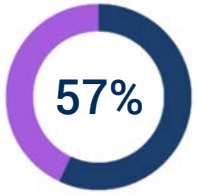
ARTIFICIAL INTELLIGENCE

Marcio Silva / iStock

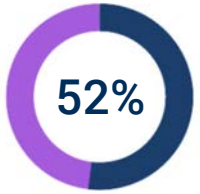
Four years in, higher ed is still struggling to define an approach to AI…

- **The last four years followed the same pattern on many campuses:** fascination, then fear, then regulation. Institutions wrote policies to police AI as an academic-integrity problem while students adopted it as a work tool. The result: rules that vary by academic department, professor, and course.
- **Inconsistency has become inequity;** what students learn about using AI for work depends on the professors they happen to have.
- The ambiguity of this moment has consequences: **47% of undergrads say AI has made them consider changing their major.**

Students report a confusing maze of rules and inadequate exposure…

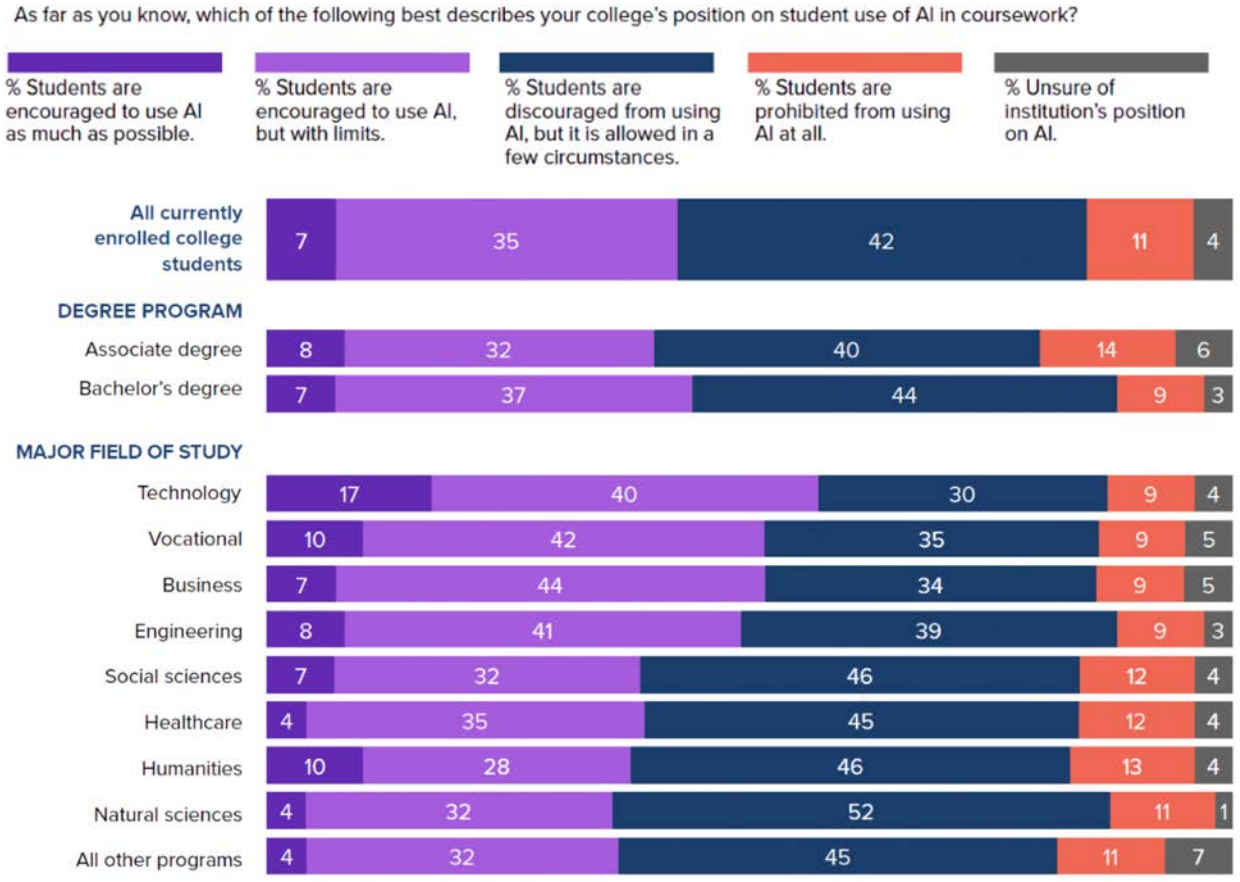


College students who use artificial intelligence in their coursework on a daily or weekly basis.



Students who frequently experience unclear or uneven course rules about artificial intelligence.

…which leads to a very uneven AI experience for students.



Source: Lumina Foundation-Gallup, "AI in Higher Education," 2026

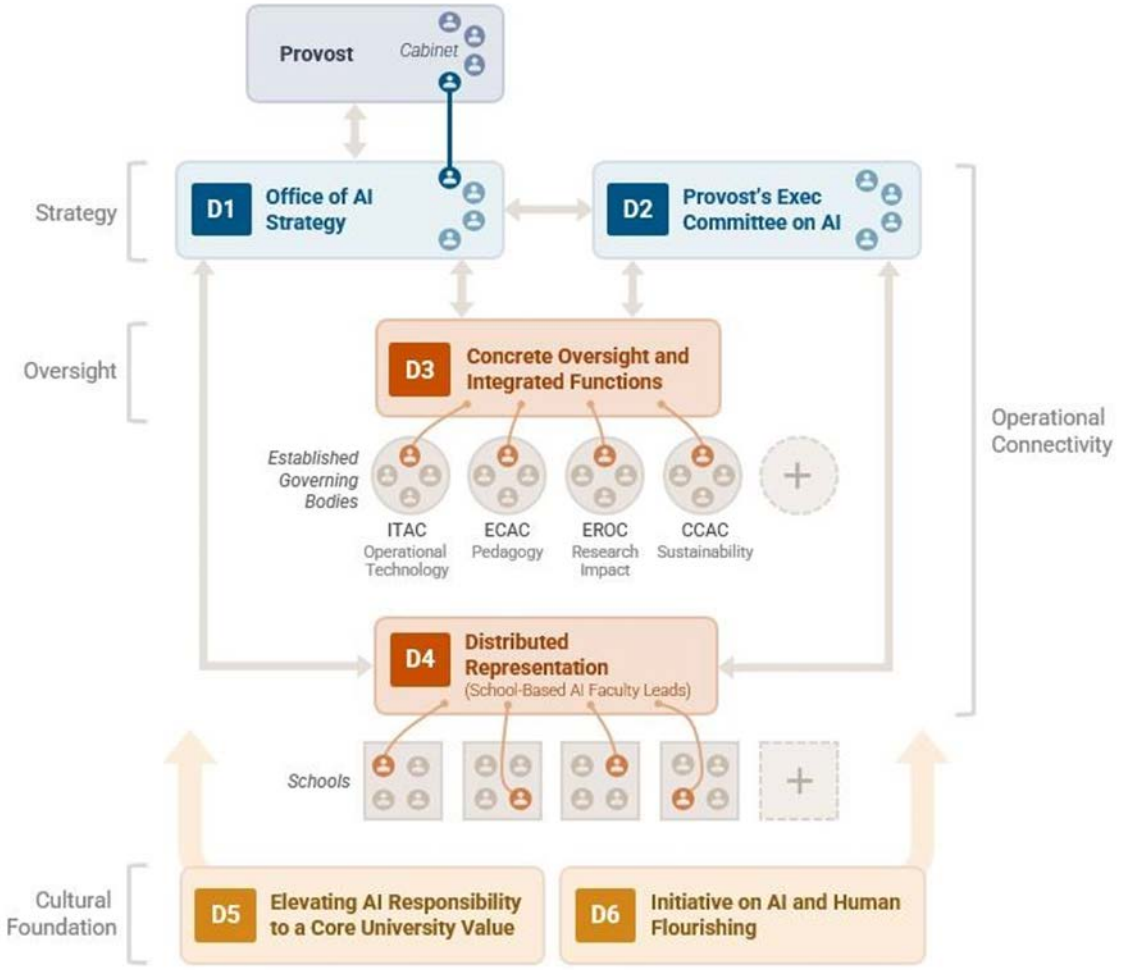
…including who owns AI governance on campuses.

- **AI is owned in silos between the provost, CIO, faculty, and other offices on campus.** The gaps between them are where the risk sits: procurement, employee use, data governance, and vendor relationships routinely belong to everyone and no one.
- **The decision structures for governance weren't built for this pace of change with AI.** For leaders, it's often easier to just let a thousand flowers bloom than establish governance structures around AI.
- **Faculty read the vacuum as exclusion: only 31% say they're meaningfully involved in shaping AI policy,** turning a management gap into a shared-governance fight.
- **This is now a credit risk, not just a management problem.** Moody's cites the "decentralized IT governance and security structure" of universities — academic units running their own systems and controls — as a reason the sector leads all others in unpatched security flaws.

How one university is approaching the governance question

A Duke University committee has proposed a small AI strategy office reporting to the provost, oversight folded into committees that already exist, and a named AI lead in every school.

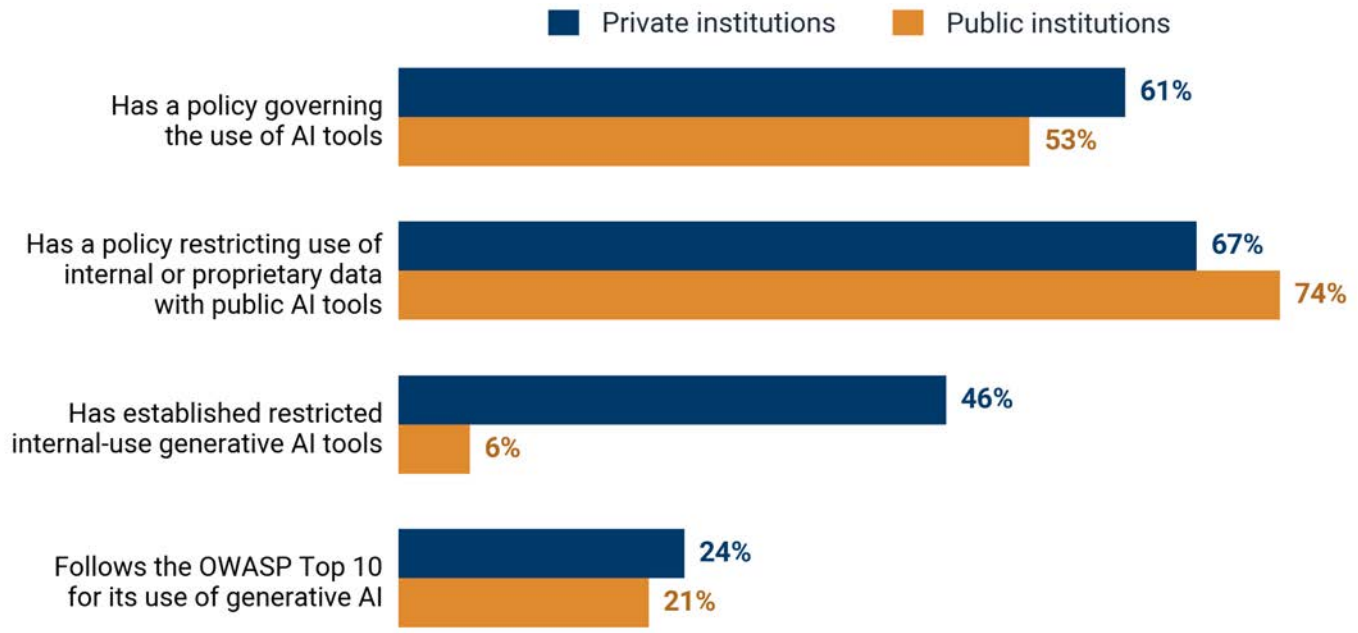
Source: Report to the Duke University Provost, "AI at Duke" Steering Committee.



Cybersecurity moves from the IT budget to the bond rating.

- **Education now has the highest prevalence of unresolved known-exploited vulnerabilities of any sector Moody's tracks.** A majority of institutions had at least one such flaw unresolved for over a year.
- **Bigger isn't safer:** 97% of institutions with more than $5 billion in revenue had a known-exploited vulnerability unpatched for more than a year.
- The disruptions are now operational, not hypothetical: **Canvas, the learning management system for thousands of institutions, went down in a May 2026 cyberattack.**
- **Only 9% of institutions consider their cybersecurity and privacy policies adequate for AI-related risks.** Meanwhile, the median education ransom demand is now $420,620, up 53% in six months.

Adoption of recognized security protocols in higher ed is limited across institution type



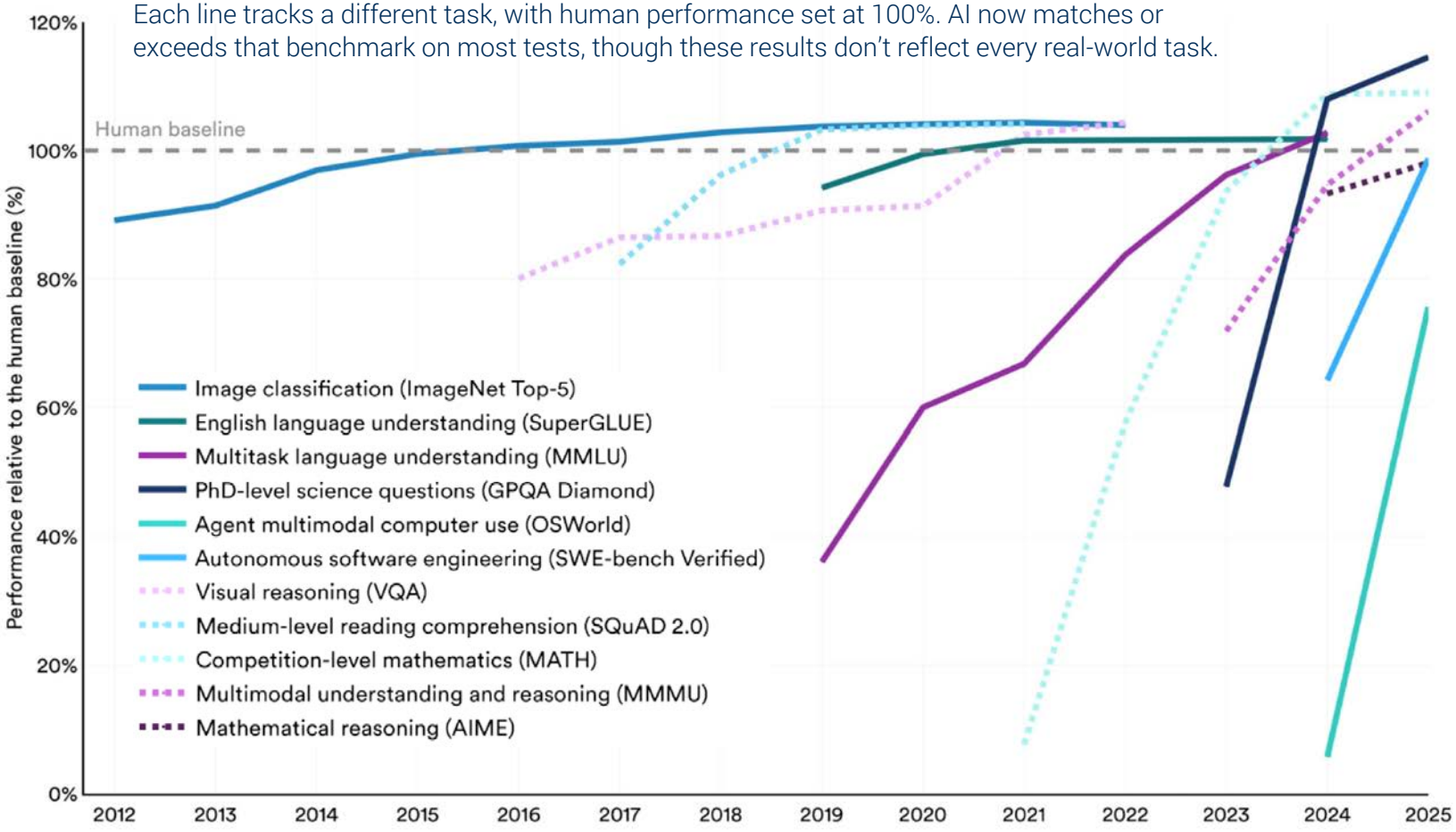
OWASP: the Open Web Application Security Project, which publishes a widely used list of the most critical security risks and vulnerabilities in web applications, including a version specific to generative AI.
Source: Moody's Ratings survey, 2026.

Campuses are paying for AI by not paying for it.

- The marginal cost of AI is real. The more money institutions have, the more agents they can build. That creates another **haves-and-have-nots risk with AI in higher ed.**
- **Institutions now put roughly two-thirds of AI spending into data, storage, and compute,** and consumption pricing means the pilot that succeeds is the one that breaks the budget line.
- **Most campuses are paying for AI compute by not really paying for it:** no new money, no reallocation decision, no plan.

The AI tools keep getting better, and more expensive to run

Each line tracks a different task, with human performance set at 100%. AI now matches or exceeds that benchmark on most tests, though these results don't reflect every real-world task.



Source: AI Index, 2026

AI is coming for the back office first, but the savings arrive slower than promised.

- **Just 29% of campus technology chiefs say AI investments met or exceeded ROI expectations;** half say returns are unclear or below expectations.
- **Yet 41% name falling behind peers by 2030 as a top worry.** Unclear returns plus fear of missing out is the classic condition for overspending.
- **Where returns are real, they're administrative.** But the costs in question are people, and no one wants to move first at eliminating jobs. Efficiency and headcount don't move on the same timeline.

Where AI is making an impact in the back office

CTOs on where AI has delivered the most tangible value to their institution so far, selecting up to three options:



CTOs characterize their institution's ROI from AI-related spending to date:



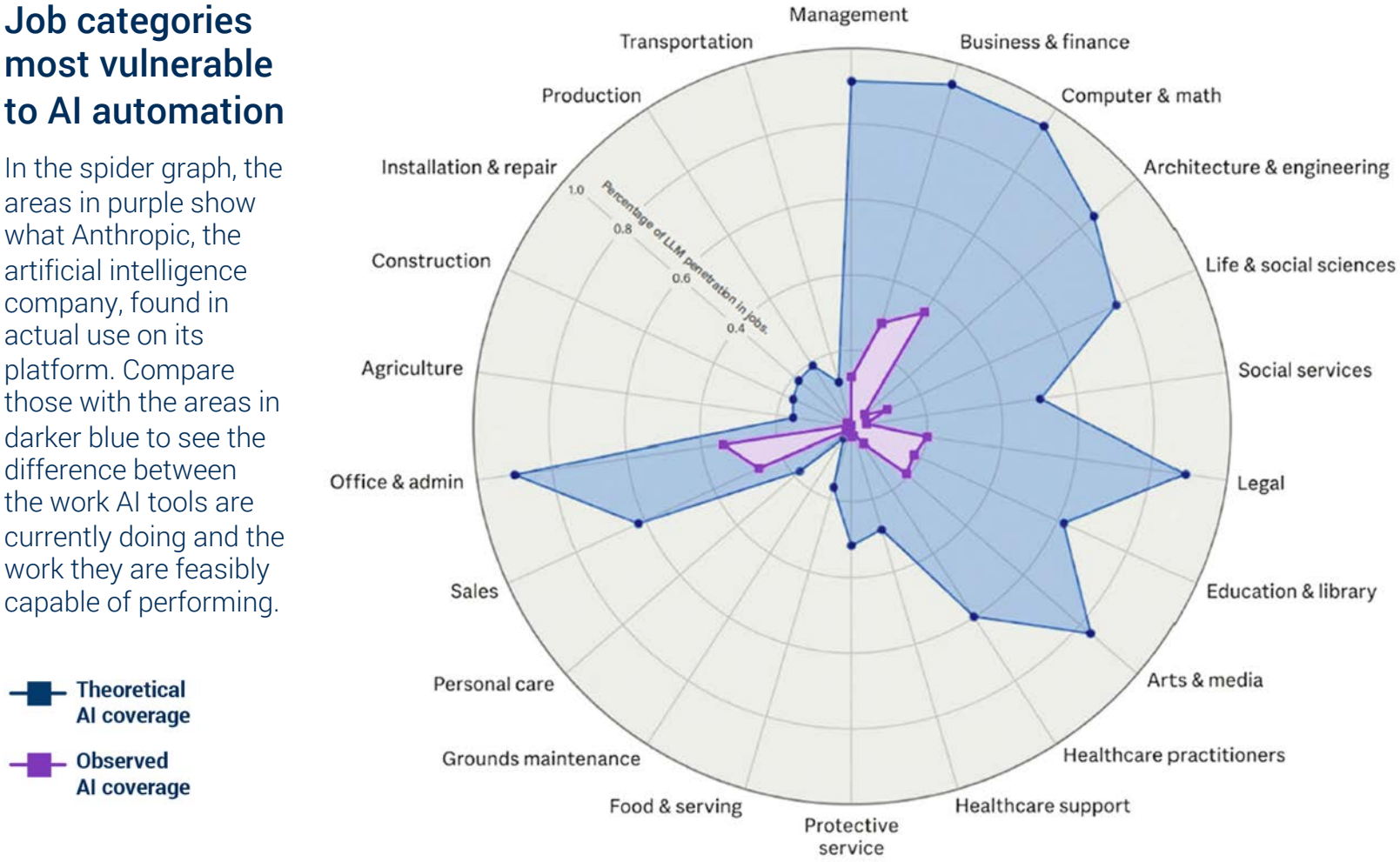
Source: Inside Higher Ed, 2026 Survey of Chief Technology Officers

The workforce question comes back to the curriculum.

- This chart is a curriculum map in disguise: the **fields most exposed to AI** (management, business and finance, computer and math, legal, education, arts and media) are exactly the ones most colleges built their enrollment on.
- But look at the gap between the purple and blue shapes. **What AI can do is far larger than what it's actually doing.** The work being automated first is the entry-level task work, the same work that used to teach new graduates how their profession functions.
- **If graduates can no longer learn the ropes on the job, then entry-level work has to move into the degree:** real projects, applied work, and judgment under ambiguity, sequenced across four years rather than saved for the capstone.

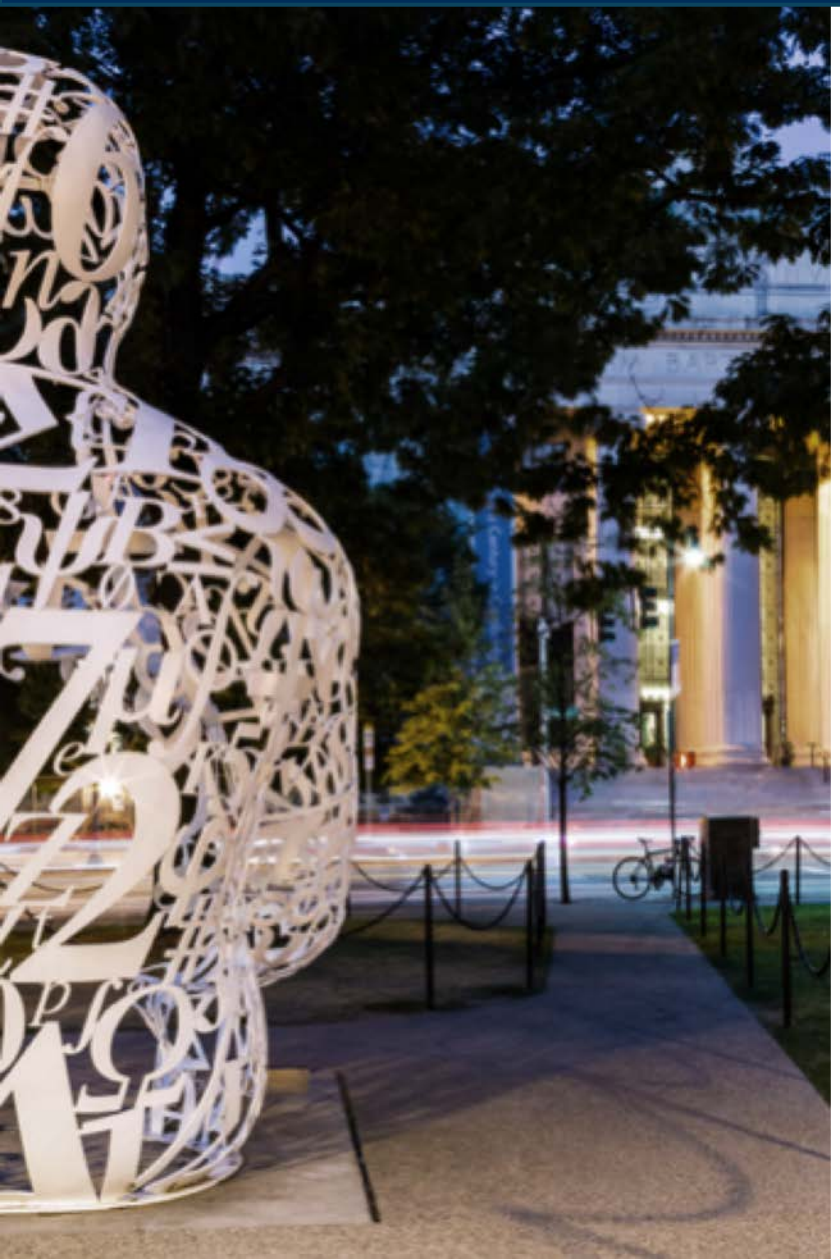
Job categories most vulnerable to AI automation

In the spider graph, the areas in purple show what Anthropic, the artificial intelligence company, found in actual use on its platform. Compare those with the areas in darker blue to see the difference between the work AI tools are currently doing and the work they are feasibly capable of performing.



Source: Anthropic, "Labor Market Impacts of AI," March 2026

Opportunities: Artificial Intelligence



1. **Decide which work students still have to do themselves.** Entry-level task work is what AI automates first. It's also how new graduates learned the way a profession actually functions, watching the routine work. That learning is disappearing from the first job. If students don't learn to navigate friction in their learning while they're in college, then the degree is worth less in the job market.

2. **Shift the effort from policing cheating to rebuilding assessment.** Four years of integrity rules have produced a system where fewer than half of students say their college encourages AI use, and 52% say the rules are unclear or uneven. Detection hasn't closed that gap and won't. Assessment that requires oral exams, visible reasoning, and work built in stages makes the question of who did the work largely irrelevant.

3. **Set an AI floor every graduate clears, then let schools build above it.** Establish a baseline level of AI fluency that every graduate should know. Then disciplines can layer very different requirements on top of that.

4. **Establish an AI governance structure.** Only 31% of faculty say they're meaningfully involved in shaping AI policy, and 9% of institutions call their privacy and security policies adequate for AI risk. Procurement, employee use, data governance, and vendor relationships currently belong to everyone. A small strategy office reporting to the provost, oversight folded into committees that already exist, and a named AI lead in every school is one working model.

Marcio Silva / iStock



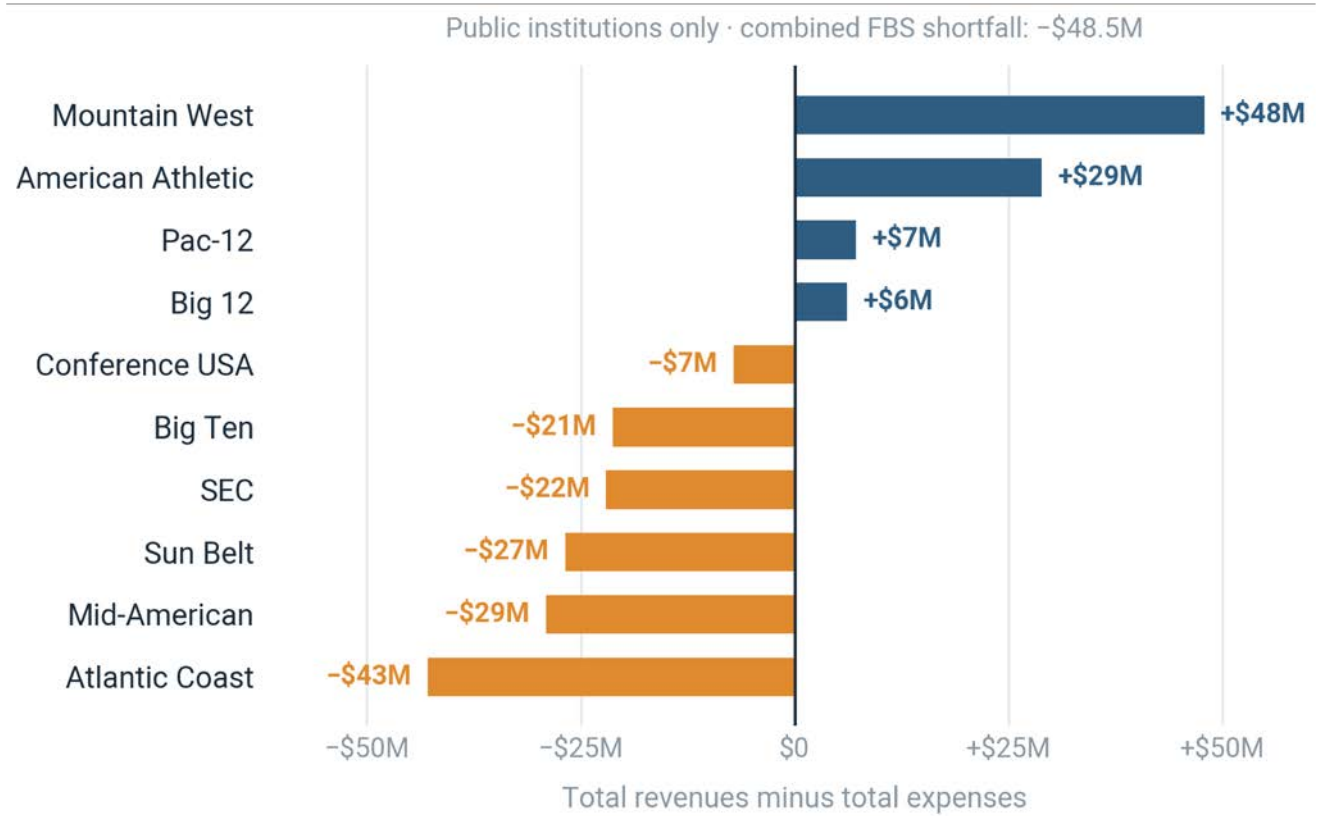
ATHLETICS

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Athletics stopped paying for itself in 2024…

- Public institutions in Division I's top football tier reported $13.06 billion in athletic expenses against $13.02 billion in revenue, **the first year the institutions spent more than they brought in.**
- **Scale offered no protection.** The Big Ten and SEC, the two richest leagues in college sports, both finished underwater. Bigger media contracts have meant bigger spending, not bigger margins.
- **Moody's expects expense growth to keep outpacing revenue,** which turns athletics from a self-funding auxiliary into a standing claim on institutional resources.

Six of ten FBS conferences spent more than they took in

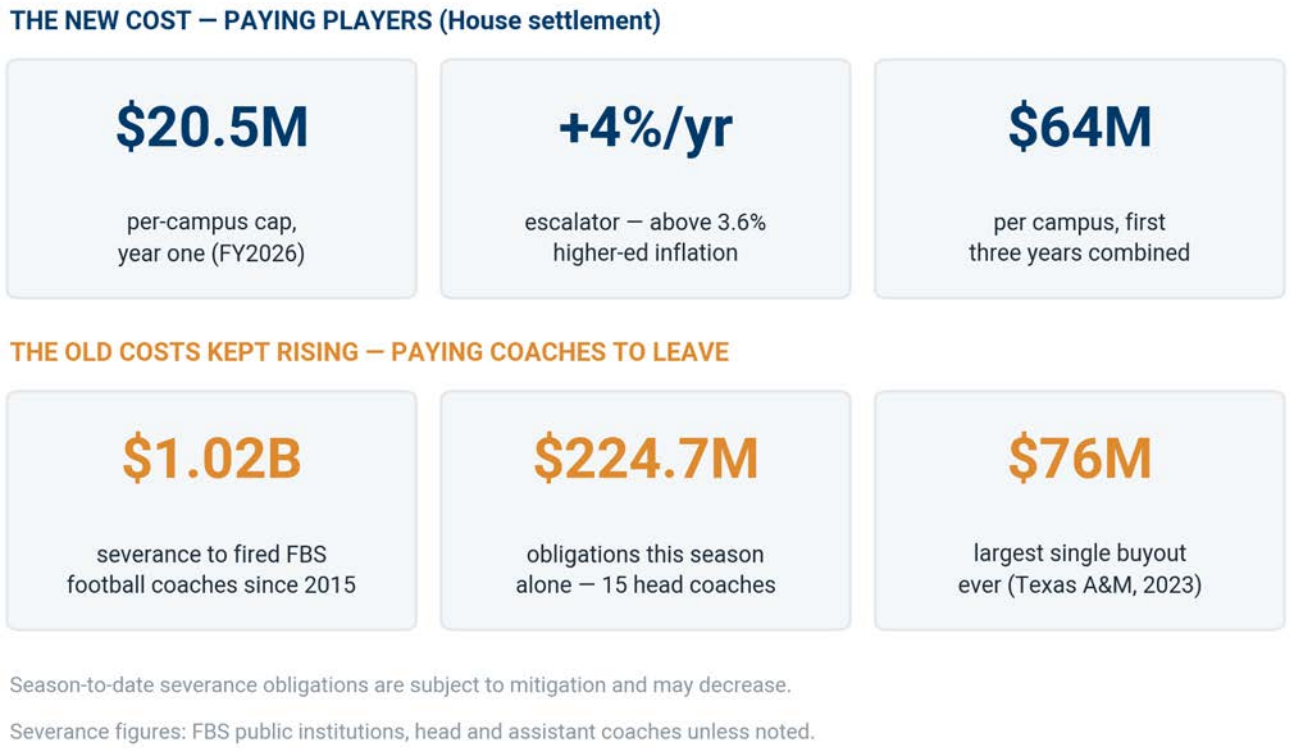


Source: Knight-Newhouse College Athletics Database (Knight Commission on Intercollegiate Athletics / Syracuse University), Division I public institutions; Moody's Ratings, Jan. 29, 2026.

…and then paying players became a fixed cost.

- The *House v. NCAA* settlement lets institutions pay athletes directly beginning in fiscal 2026. The wealthiest conferences can fund the full cap; **many other Division I programs face harder choices about whether to participate at all.**
- **Paying players landed on a base already inflating.** Coaching compensation in the top football tier rose more than $1 billion between fiscal 2015 and 2024 and now runs near a fifth of its total athletic expenses.
- The Protect College Sports Act doesn't cap coach pay. It requires schools with more than $80 million in athletic revenue to fund any athletics salary above $500,000 from department revenue or donations, not university money.

The new obligation arrives on top of the old ones



Source: House v. NCAA settlement terms (approved June 2025); Knight Commission on Intercollegiate Athletics severance resource, updated Dec. 31, 2025; Moody's Ratings, Jan. 29, 2026. Cap values calculated from the settlement's 4% escalator.

Outside capital buys time by selling the future at Division I universities…

- Compared with pro sports, **colleges and universities still depend on legacy revenue streams, such as tickets and TV.**
- **Both are under threat from cord-cutting and the increased expectations among fans on game day.** The share of scanned tickets among 55 football teams in the top tier put actual attendance as much as 40% below the announced gate.
- **For now, new revenue is thinner than announced.** Uniform patches drew a reported $15–20 million at Ohio State and Notre Dame.
- **So departments are converting future commercial rights into present cash,** but all come with risks from a second governance structure around athletics.

Every structure trades a present shortfall for a future claim

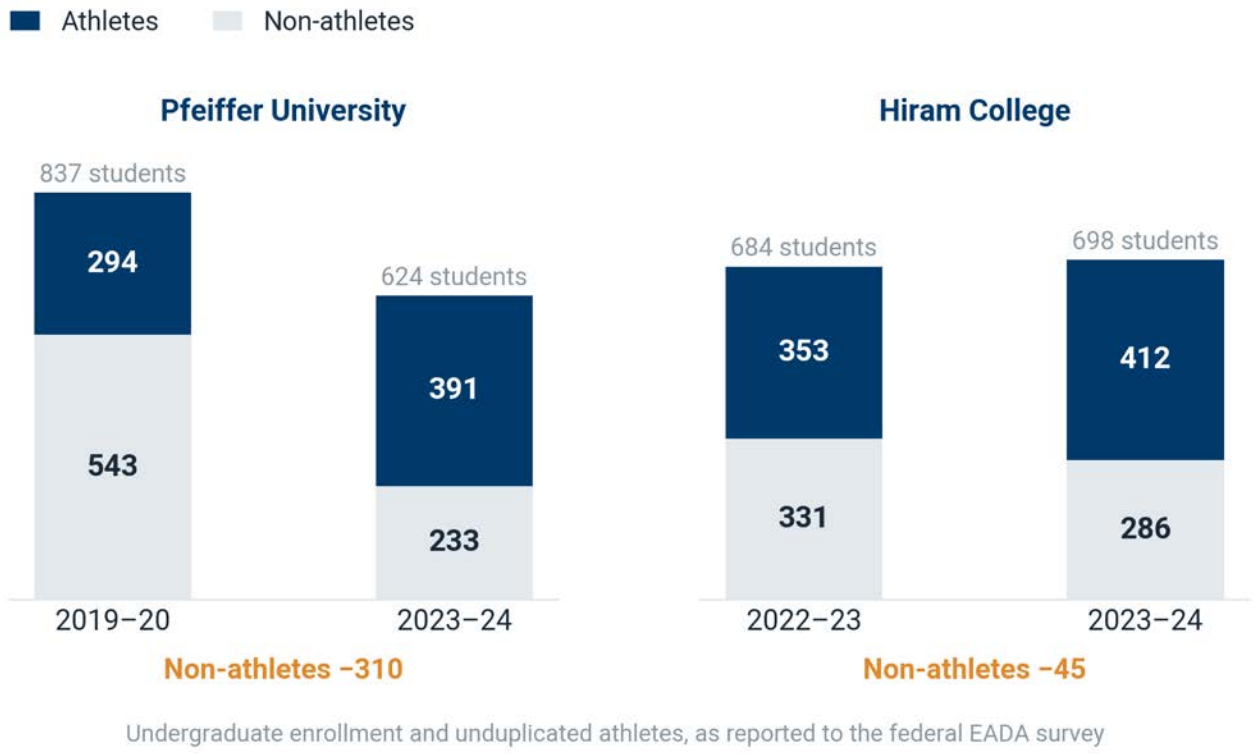
STRUCTURE	WHAT THE CAMPUS GETS	WHAT IT GIVES UP
Private-equity joint venture	Commercial rights into a separate LLC	Investor can be paid first from ticket, sponsor and media money
Public-private partnership	Developer finances, builds and operates the venue	Long-term revenue stream leaves the department
Commercialization vehicle	In-house entity to monetize brand assets	Tax-exemption scrutiny, organizational complexity
Revenue-sharing loan	Cash now against future ticketing and media	Debt-like claim without appearing as debt

Source: Moody's Ratings, July 23, 2026; NCAA Division I Cabinet, Jan. 2026; Extra Points (Matt Brown); scanned-ticket analysis by NILnomics and FOIABall, 55 FBS programs.

…while Division III institutions add teams that don't add new students.

- **An Urban Institute study found little evidence that adding sports leads to increased enrollment.** Moreover, when Division III football was added, the share of female students on campus fell.
- **What the numbers show is athletics as a substitution for students, not an addition.** Pfeiffer University added to existing rosters with varsity, JV, and development teams, but overall enrollment fell. Hiram College added nine sports; track and cross country netted 59 athletes but only 14 new students.

Rosters grew. The rest of the class shrank.



Source: Urban Institute; Economics of Education Review (2025); Steve Dittmore, Glory Days, from federal Equity in Athletics (EADA) filings. Most recent available year: 2023-24.

Opportunities: Athletics



1. **Start with the mission statement, then ask what athletics is doing for it.** Most institutions can tell you what athletics costs and can't tell you what it's for. Tying athletics to the mission means it gets judged by the same metrics as any academic or student-life program.

2. **Make athletics an experiential program for the whole campus, including the athletes.** A department runs media operations, analytics, licensing, event management, and sports medicine, all professional work, but not enough of it is open to students who aren't on a roster. The athletes need it, too. Connect what they learn in the sport to transferable skills for careers.

3. **Reorganize the traditional divisions by mission, the way Carnegie does.** Divisions I, II, and III describe scholarship rules, not purpose. Sorting by what athletics is for (a commercial enterprise, an enrollment strategy, a student-life program) would put institutions in with peers who want the same thing from it, much like the Carnegie classifications do for institutional mission.

4. **Rebuild the oversight structures, which were designed for a much smaller enterprise.** Most governance structures at the board or faculty level weren't designed to evaluate payroll, private-equity joint venture, or NIL deals. A standing board committee and a faculty committee whose charge includes the commercial side rather than just compliance, are the minimum for an operation this size.

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GOVERNANCE

Stephen Barnes / iStock

Boards are chosen for philanthropy just when governing matters most.

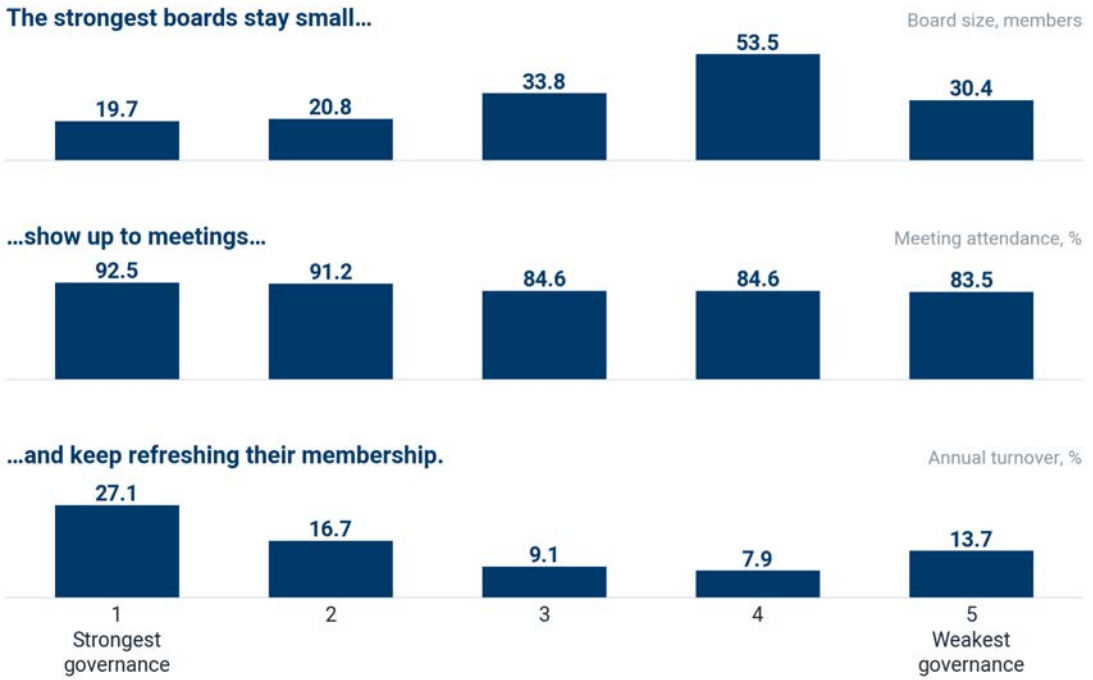
- **Two different currencies buy a seat, and neither is governance.** At privates, boards have grown to recognize donors or lead capital campaigns. Public boards are smaller, but seats are appointed or elected, and trustees increasingly describe governors nominating candidates aligned with their own preferences.

- **Bad governance has real consequences:** In May 2026, Michigan State University President Kevin Guskiewicz dramatically resigned, citing severe board dysfunction, only to reverse course and stay after the Board of Trustees tightened its rules.

- **The hardest calls are now landing on bodies assembled for a different job in a calmer era.** Deficits, program elimination, athletics spending, AI and federal policy are all arriving and can't be delegated to management or waited out.

Three qualities of effective boards

College and university governing boards, by FEQ quintile



FEQ = Fiduciary Effectiveness Quotient, the study's composite measure of governance strength and fiduciary effectiveness, Quintile 1 = highest FEQ scores.
Source: Commonfund-FGA Study of Governance in Higher Education (CFSG)

Shared governance is tested by the narrowing scope of institutions.

- **Cuts are now a standing agenda item for faculty senates.** Program elimination, buyouts, and consolidation have moved from a crisis response to the annual budget process. Indiana's public campuses alone have taken action on 1,279 programs since June 2025.
- These are the decisions the shared-governance machinery was built to slow and are now arriving at **a pace faculty senates and boards were not designed to handle.**
- Instead of every college trying to be like the one across town or another rung up the ladder in the rankings, **the fiscal and demographic realities will require institutions to figure out where they want to "play" in the decade ahead.** Not every college and university can be comprehensive.

What happens when universities try to cut

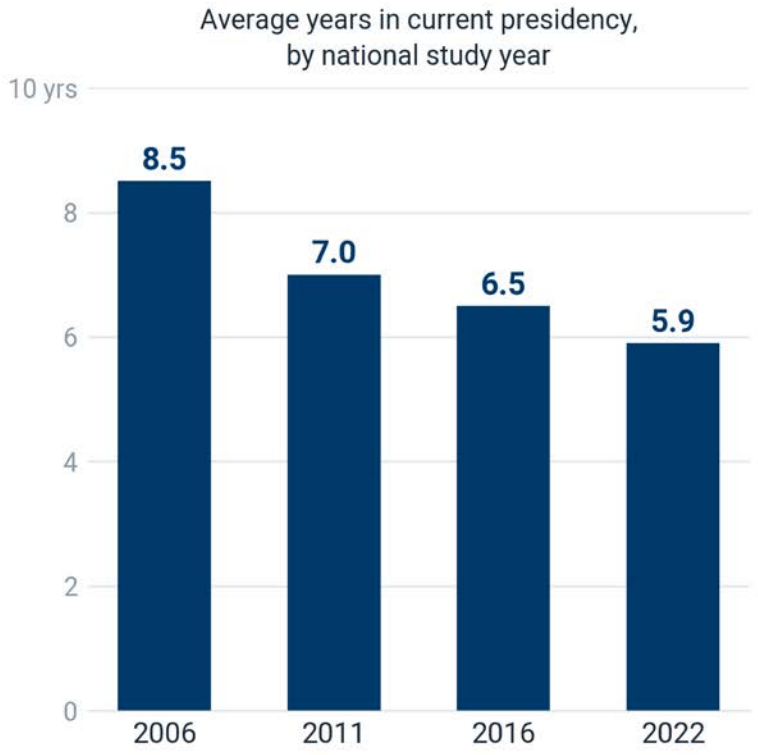
WHO / WHEN	WHAT WENT	WHO DECIDED	HOW FAST	DID IT HOLD?
Emporia State 2022	33 faculty, incl. tenured	Administration, under emergency regents policy	**Weeks**	Yes — then AAUP sanction, federal suit
West Virginia 2023	28 programs, 143 faculty lines	Admin + consultant; board approved after 797–100 no-confidence vote	**~5 months**	Yes
UNC Greensboro 2024	20 programs	Chancellor, after portfolio review	**~8 months**	Yes — no litigation
Sonoma State 2025	22 programs, 6 depts, all NCAA sports	Interim president, by campus-wide email	**One announcement**	Cuts stood in court; sports return 2027
Indiana publics 2025	400+ programs statewide	Legislature, via budget bill	**Law in 2 days**	Yes — now 1,279 program actions
Penn State 2025	7 campuses	Board vote, over senate objection	**~3 months**	Yes — closures spring 2027

Source: Author reporting; institutional and board announcements; AAUP; Indiana Commission for Higher Education; court filings. Case details as of Aug. 2026.

The leadership pipeline is thinning at the top.

- **The tenure of college presidents has fallen for two decades straight**, from 8.5 years in 2006 to 5.9 years. More than half of sitting presidents say they plan to leave within five years, a quarter within the next year or two.
- **Boards are hiring for a different job than the one on paper.** Searches increasingly draw from outside traditional academic ranks, for a role whose authority faculty still confer on academic terms.
- **There is no bench.** Only about a quarter of institutions report a presidential succession plan, and cabinet turnover remains above pre-pandemic levels.

Shorter stays, planned departures, no bench



And the exits are already scheduled

55%
of presidents plan to leave within five years

25%
plan to leave within the next year or two

~1 in 4
institutions report having a succession plan

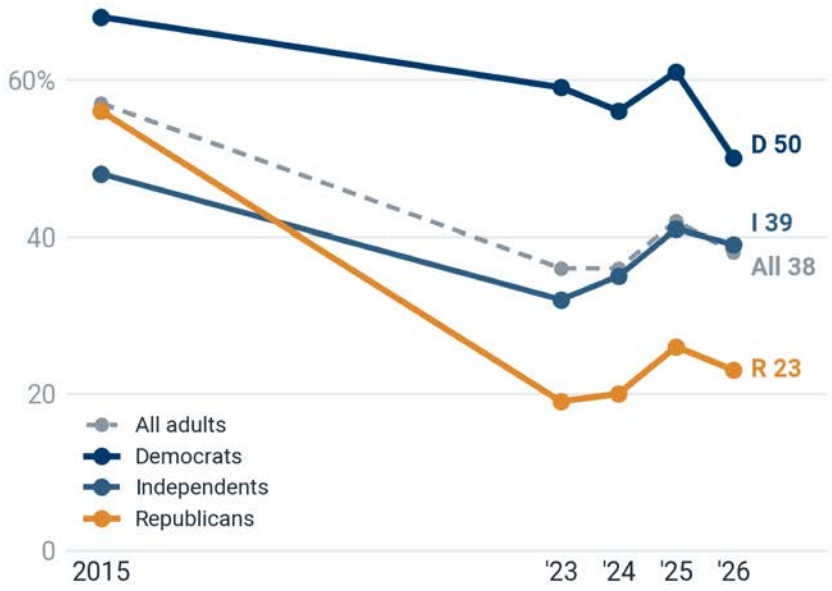
Source: American Council on Education, American College President Study, 2006–2023 editions; published research on presidential career paths; CUPA-HR workforce data.

And leaders are governing in a low-trust environment.

- **Confidence in higher ed has fallen to 38%,** a decline almost entirely from people who identify as Democrats. Republicans (23%) and independents (39%) held roughly steady at already-low levels.
- **Meanwhile, nine in ten enrolled students say they're confident their degree** will equip them for the job they want, the sector's widest gap between the people using it and the public judging it.
- **Boards, presidents, faculty senates, and the public are increasingly out of alignment** over what they want from higher ed and its institutions. The debates on campuses and in board rooms are more often than not made public and debated by different constituencies, making the stakes for those discussions and decisions even higher than before.

The public is leaving. The customers are staying.

Adults with high confidence in higher education, by party



Meanwhile, the people enrolled right now

~9 in 10

students confident their degree will equip them for the job they want

Different survey and question: enrolled students, fall 2025, State of Higher Education Study

Source: Lumina Foundation-Gallup, Confidence in Higher Education, June 2026; Lumina Foundation-Gallup State of Higher Education Study 2026.

Opportunities: Governance



1. **Rebuild the board around expertise, not affiliation.** Boards built around alumni, giving capacity, or political connections cannot move at the speed the model now demands. Make boards smaller, recruit against an expertise matrix built for the needs of the university, and stagger terms.

2. **Redefine shared governance as consultation with a deadline.** Faculty input should shape a decision, not ratify it. Put in writing which decisions require a vote, which require consultation, and which belong to administration alone. Attach a calendar to each. Then publish what the consultation actually changed, so speed doesn't read as exclusion.

3. **Align the short-term scorecard for the president with the long game.** Boards and presidents both optimize for the near term, which produces quick wins that provide good PR but do little to change the structure of the institution. Set explicit long-range goals at hiring and evaluate annual performance and progress toward the distant goals as separate lines.

4. **Grow the bench.** The provost job stopped being presidential training when it became academic middle management. Give three or four internal leaders real budget authority, a revenue line, and board exposure.

Stephen Barnes/ iStock

What to Watch / 2027

1. **Instability in operations.** Most colleges have enough margin in their budget and cash to absorb one bad year. Operations only break under a real shock, like 2008 or 2020. 2027 brings no single shock, but it does bring the long tail of enrollment uncertainty, visa rules, research funding, and inflation all together. While some colleges started to fix their structural deficits in 2026, not enough of them did.

2. **International student recruitment.** Two years of new visa rules have pushed international enrollment down. While campuses want favorable policy, what they really want is predictability they could plan for. 2027 is likely to deliver it, giving us visibility into the steady state.

3. **Research funding.** Research funding reaches its own steady state in 2027, with administration policy largely set. The open question is how much Congress intervenes. Members have research universities in their districts and causes they have championed for years.

4. **College sports.** The money at stake makes separation from the majority of institutions the rational move for the power conferences in 2027. Congressional legislation either slows that down or clears the path.

5. **AI.** Calls to slow AI development and regulate it are getting louder, and campuses have always been where social protest starts. Students have absorbed the tools into how they learn while worrying about the jobs waiting for them. Faculty are split on AI. 2027 is when those forces meet, giving us a sense of where most of higher ed stands on the issue.

6. **Turnover among presidents.** Presidential tenure keeps getting shorter, and the churn has moved into the jobs that were once career destinations. Michigan has cycled through multiple presidents in five years. Instability in the sector makes the role harder to hold and harder to fill. Elevated turnover in 2027 will be a symptom of the other issues facing higher ed.

THE STATE OF HIGHER EDUCATION

Jeff Selingo

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