SPECIAL REPORT

Reconstructing Higher E

Operating a public system of colleges and universities with less money may require a fundamental redesign.

AP PHOTO/REED SAXON

BY RICHARD LEE COLVIN AND FORREST HINTON

We have long been proud of our colleges and universities, and rightly so.

During the 20th century, the United States created the model of the modern research university that became the envy of the world. We invented the community college and built systems of high quality, low-cost public institutions that made higher education accessible to soldiers returning from the war, baby boomers, low-income students, immigrants and racial minorities.

Twenty years ago, the nation topped the world in the percentage of adults age 25 to 34 with college degrees. Our elementary and secondary schools might have been cause for concern but, with students from around the world wanting to enroll, our colleges and universities were above reproach.

No longer. Today, the United States ranks 10th among developed nations in the percentage of young workers holding a postsecondary credential or degree. It's not that today's young people are less educated than their elders. Rather, it's that other nations are doing all they can to boost college participation and attainment and have surpassed the United States.

President Obama—backed by leading foundations, many economists, other politicians and education experts—argues the nation's long-term economic competitiveness depends in large measure on increasing the percentage of the American workforce holding postsecondary credentials or degrees.

But the recession battered the public purse as well as private pocketbooks. Public colleges and universities, which educate the vast majority of Americans, will have to take on the president's historic challenge with no near-term prospects of large revenue increases.

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>
> **Patrick M. Callan, president, National Center for Public Policy and Higher Education**

State appropriations per student fell in 30 states between 2005 and 2010, according to a report by the State Higher Education Executive Officers. Tuition increases covered the loss of state funds in only 12 of those states, leaving the higher education systems in 18 states with less revenue overall. Higher education was spared from much deeper cuts in 2010 thanks to extra funds provided through the federal American Recovery and Reinvestment Act. ARRA funds, however, are running out and fiscal year 2012 is expected to be much worse.

Pennsylvania Governor Tom Corbett, for example, wants to slash support for his state's higher education system by $271 million or 54 percent even though a consulting company hired last year to find efficiencies identified only $1.5 million in potential cost savings.

"Without sitting down—almost with a blank piece of paper—and saying we start over again, there's not much left on the efficiency side," says John Cavanaugh, the system's chancellor.

Other hard-hit states include Oregon, Washington and Georgia, which raised tuition for University of Georgia students by 46 percent over the past two years. Georgia also is restricting its popular Hope Scholarship program, which covers tuition and fees, to only the most highly accomplished high school graduates. The Center on Budget Priorities, a liberal Washington, D.C., policy research organization, projects that at least 17 states are considering "large, identifiable cuts in support for state colleges and universities with direct impacts on students" in 2012.

Neither the demand for increased post-secondary credentials and degrees nor the budget pressures are going to abate soon. But policy analysts and others who have long called on higher education to make fundamental reforms to reduce costs while maintaining high quality programs and boosting graduation rates see the situation as an opportunity, rather than a tragedy. They say now is the time for legislatures to push colleges to make wider use of online instruction,

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ducation

Several hundred college students, faculty and staff of the California State University system protested state budget cuts to higher education in April on the campus at California State University Long Beach. The cuts may result in higher tuition and larger class sizes.

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> John Cavanaugh, chancellor of the Pennsylvania higher education system

re-examine degree requirements and give incentives to students to finish more quickly and to colleges to help them. They also need to ease the transition from community colleges to universities, re-examine spending on athletics, and even consider reducing health benefits and salaries.

Rather than undertake such efficiency and cost-saving measures, however, most colleges and universities are responding to this fiscal downturn as they have in the past: lobbying states for more money, raising tuition and shrinking their offerings, even as more students than ever want to enroll.

CALIFORNIA'S EXPERIENCE

Since the 1960s, California has been a pioneer in providing high-quality, low-cost education to all comers. The experience there provides a good example of the formidable challenges facing higher education.

Confronted with a $25.4 billion budget deficit, Governor Jerry Brown earlier this year pushed through nearly $11 billion in spending cuts, affecting services to children, the poor, the sick, the elderly, the mentally ill—and college students. Support for the state's three systems of higher education was cut by $1.4 billion, a number that could double for fiscal year 2012 unless voters agree to extend $12 billion in temporary tax hikes. But Republicans in the Legislature so far haven't agreed to put that question on a ballot.

In response to across-the-board cuts, campuses are considering reducing library hours, imposing fees and charging students to use a campus computer. Adjunct teachers have lost their jobs. The number of required courses in some majors may be reduced. Faculty have been furloughed. The percentage of out-of-state students, each of whom pays an extra $23,000 in tuition, will be allowed to grow.

Mostly, though, the systems will offset the cuts by turning away students and raising tuition. The community college system expects to turn away 400,000 students next fall because of fewer classes. CSU and UC plan to reduce their total enrollments by at least 18,000 students. There are more than 400,000 students on the 23 campuses of the CSU system. The UC system has nearly 200,000 students on 10 campuses.

University of California boosted tuition and

"You need to have enough at stake so that the universities have enough incentive to pay attention."

Senator Luke Kenley, Indiana

fees by 32 percent in 2009, sparking protests, and an additional 8 percent in 2010. The California State University system's fall tuition will be 15 percent higher than a year ago.

Despite the likelihood of even deeper cuts in state funding and additional tuition increases, UC Chancellor Mark G. Yudof in March said no tenured professors would lose their jobs, even though personnel costs, including those of compensating tenured professors, make up nearly three-quarters of the system's core budget.

"Almost everything else would be up for grabs," he said.

WORKFORCE SHORTFALL

The Western Interstate Commission for Higher Education, a Colorado-based education policy organization, estimates that by 2025, 55 percent of the nation's jobs will require at least an associate degree; currently, less than 40 percent of American workers between 25 and 34 years old would qualify. President Obama wants to boost that percentage to at least 60 percent.

An analysis by the National Center for Higher Education Management Systems estimates increasing college completion to that level would cost an additional $33 billion a year, and twice that if the cost of health benefits continues to rise at the current rate.

It's highly unlikely states will be willing, or able, to foot that bill. The alternative, the fiscal experts argue, is for lawmakers and governors to work with college administrators and others to redesign public higher education systems around the needs of their states and then give colleges incentives for meeting them. If, for example, as in many states, the proportion of Latino students completing postsecondary programs is low, colleges should be given financial incentives for increasing it.

But higher education funding decisions in most states are not made strategically. Colleges and universities and their governing boards are left to deal with the budget cut compromises and their implications, usually with little guidance.

Patrick M. Callan, president of the National Center for Public Policy and Higher Education, says state colleges and universities are reactive. They "pretty much spend more when they have more, cut when they have to and replace the revenues with tuition."

"What this environment ought to do is make it really clear that every dollar has to be looked at to see if it is being spent to promote access, completion and quality," he says. "And that's something we've been the least good at."

But the state of Tennessee is going to try. It took the first step by crafting the Complete College Tennessee Act of 2010. The legislation sets specific targets for increasing student retention and graduation rates and then ties higher education institutions' funding to whether they meet those targets.

"They're thinking of money less as an institutional support and more as an investment," Callan says.

In addition to Tennessee, Indiana, Ohio and Pennsylvania are using funding incentives to increase higher education productivity, or, in other words, reduce the cost per degree given. Indiana, for example, will distribute $123 million based on the colleges' results this year.

"You need to have enough at stake so that the universities have enough incentive to pay attention," says Indiana Senator Luke Kenley. "This might be the best time to implement this since we have fewer dollars, and universities are searching for new efficiencies."

THE ONLINE ALTERNATIVE

Indiana also is getting national attention in education and policy circles for its push for online learning. Through an executive order last year, Governor Mitch Daniels created what he calls the state's "eighth public university," the Western Governors University Indiana, at no cost to the state.

The Indiana virtual campus is an outpost of the successful all-online college established in 1997 by the governors of 19 Western states.

SENATOR
LUKE KENLEY
INDIANA

WGU awards 50 accredited degrees in teaching, health care, business and information technology. It is able to do so inexpensively because the university has no tenured faculty members and no physical campus.

WGU Indiana is a key element of the state's strategy for increasing the number of bachelor's degrees awarded by 10,000 annually, keeping college affordable and serving a portion of the 750,000 adults in the state who have taken some college courses but not earned a degree.

"The current funding and operating models of public higher education are not sustainable."

Charles Reed, chancellor, California State University system

"We're serving students who aren't served well by the [current] state systems," says Robert Mendenhall, the president of WGU. "These are working adults, mostly low-income, many who are minority. A lot of them are rural students."

In Washington, a bipartisan bill to bring WGU to that state is meeting resistance, especially from some college professors, who oppose expanding online courses that could diminish the need for tenured faculty.

"As the bill started moving and picking up, there's now a clear force of faculty from the universities who have come out against the legislation," says Senator Jim Kastama, who supports WGU.

BACK TO BASICS

The growing emphasis of online education is pushing colleges in 21 states to join with The National Center for Academic Transformation to fundamentally redesign their introductory and remedial courses. Participating academic departments will be able to teach more students at lower costs by using computer-based instruction and online forums to supplement or replace classroom lectures. This spring, 38 redesigned basic-level math classes will be part of a pilot project at community colleges across the nation as part of the center's Changing the Equation program.

SENATOR
JIM KASTAMA
WASHINGTON

In California, the UC system is just beginning to experiment with large-scale online learning, announcing in April that it would take out a $2 million loan to pilot several online undergraduate courses by the start of 2012.

Yet, even for states that have made major changes to higher education in recent years, more transformative innovations may be on the horizon. An analysis by the National Center for Higher Education Management Systems conducted for the Lumina Foundation on Education found that increasing the student-faculty ratio by 10 percent would save $10 billion annually over the next 15 years. Reconfiguring faculties and responsibilities could reduce the cost of instructional salaries by another $3.6 billion a year. Slimming down benefits packages, eliminating some extracurricular activities, creating institutional collaborations and offering incentives for students to take fewer courses not needed for graduation also would significantly cut costs.

CONFRONTING CHANGE

But other changes would be easier. Community college students in California, for example, can take as many class credits as they want and some take advantage of that to keep going to school for years without ever planning to finish a credential program or transfer. Such students take up seats that first-time students who want to finish and join the workforce could be occupying. The nonpartisan Legislative Analyst's Office found that simply capping the number of credits at 100—far more than the 60 required for transfer to a four-year college—would save $250 million, more than half the amount the governor proposed cutting and would lead to more students receiving degrees.

Charles Reed, chancellor of the California State University system, understands that more must be done. He has long argued that colleges should operate year-round instead of shutting down for the summer, faculty should teach more classes and take fewer sabbaticals, and students should be required to take fewer classes so they can complete a degree in three years.

"The current funding and operating models of public higher education are not sustainable," Reed says. Legislators should push for innovation, but, he adds, "do it in a careful way so they don't throw the baby out with the bath water because the economy and jobs and competitiveness are really based on the higher education the workforce gets."

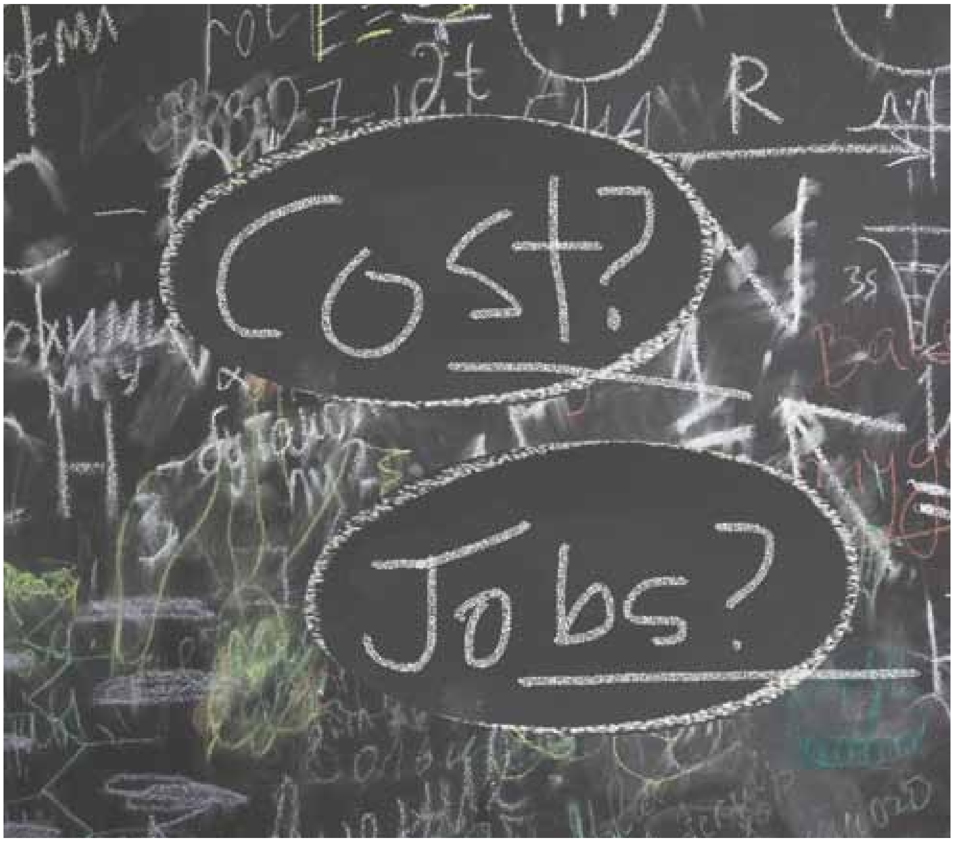
Steve Boilard, director of higher education for California's Legislative Analyst's Office, agreed. "We've been trying to say, 'Don't allow the disruption created by this crisis to be temporary and then go back to business as usual when the money comes back.' "

But, he says, "that seems to be the game plan: Brace ourselves for this and then get back to the old days."

SPECIAL REPORT

Do For-Profit Schools Pass the Test?

The growing popularity and criticism of these universities have caught lawmakers' attention.



BY MICHELLE CAMACHO LIU

Undercover investigations, congressional hearings, advertising campaigns, lawsuits, blocked funding, new federal regulations, public service announcements, and too many newspaper opinion pieces to count. For-profit colleges and universities are clearly in the spotlight.

Today these institutions enroll some 3.2 million people in everything from small vocational programs to traditional degree programs, with flexible schedules and online options.

Budget cuts to state and community colleges that have triggered higher tuition, larger classes and limited class selection in states across the country make for-profit colleges increasingly attractive to nontraditional students looking for programs that better meet their needs.

The popularity of these proprietary schools grew from a mere 2 percent of students in 1986 to more than 10 percent in the 2008-2009 school year. But this growth has raised concerns—at both the state and federal levels—about the quality of education these institutions offer, the amount of money in scholarships and loans they receive, the tactics they use to attract students and the success of their graduates in finding jobs.

Lawmakers in 18 states have considered at least 30 bills this year, many of which would

Michelle Camacho Liu tracks postsecondary issues for NCSL.

increase oversight and regulation, as well as establish additional consumer protections. So far, seven of these bills have become law, with provisions varying from restricting recruiting practices to requiring schools to pay into a student protection fund, to limiting eligibility of state student aid programs.

REPRESENTATIVE
PEGGY SCOTT
MINNESOTA

States should ensure that "students know, with clear definition, the expectations placed on them and those placed on the institution," says Minnesota Representative Peggy Scott, who introduced a bill to research graduate education in the for-profit sector.

Officials at the U.S. Department of Education also have concerns. "For-profit institutions can and should be important contributors" in reaching President Obama's goal of having the highest proportion of college graduates in the world by 2020, says James Kvaal, deputy undersecretary at the department. "They have been innovative pioneers in delivering online education, and thoughtful of meeting the needs of older students, parents, and others who are not on the traditional academic calendar."

There are, however, concerns about disproportionately high default rates, student loan debt and questionable recruiting practices at these institutions, he says, coupled with substantial growth in federal grants and loans. "It is incumbent on us to make sure every penny is well spent," Kvaal says. "Our view is we need to strike the right balance to make sure the strengths of the sector are enhanced while making sure students are not being taken advantage of."

An executive with the organization that represents the schools maintains they are an "important alternative channel, that takes into account the fact that incoming students are not on the college track, and have certain issues that need to be addressed, whether academic or something to do with individual circumstances." Bob Cohen, senior vice president of the Association of Private Sector Colleges and Universities (APSCU), a membership organization of more than 1,500 private, postsecondary institutes, adds that these for-profit institutions are specifically designed to "provide the counseling and support services that are really needed to help the students succeed."

APSCU President Harry Miller says inconsistent policies in how states deal with for-profit schools "make it difficult to keep a focus on what is best for the students."

FEDERAL SCRUTINY

The for-profit sector also has come under the scrutiny of Congress and the U.S. Department of Education. Federal concern centers on the fact that the schools, through their students, received $4.3 billion in Pell grants and $20 billion in federal loans during the 2008-09 school year, an increase in federal student aid funds of 109 percent between 2005 and 2009.

Students who attend for-profit schools carry more debt than those at public schools and are more likely to default on student loan repayments. According to the Government Accountability Office (GAO), students from low-income families and whose parents don't have college degrees are more likely to default on their loans.

> "[For-profit schools] provide a great avenue for a lot of our young men and women, giving them skills necessary in the workforce."
>
> Mississippi Senator Perry Lee

And data show they are the types of students who, in large part, attend proprietary schools.

Students who do not complete school also have high default rates. The National Center for Public Policy and Higher Education found they are 10 times more likely to default on loans. A report issued by U.S. Senator Tom Harkin, looking at 16 for-profit schools, found that 57 percent of students who entered these schools between June 2008 and June 2009 withdrew before completing their programs.

"Ultimately, when student loan defaults occur, both taxpayers and the government, which guarantees the loans, are left with the costs," according to a 2009 study by the GAO. "Although students must meet certain eligibility requirements to demonstrate that they have the ability to succeed in school before they receive federal loans, weaknesses in [the U.S. Department of] Education's oversight of these requirements place students and federal funds at risk of potential fraud and abuse at proprietary schools."

The student loan default rate for those attending for-profit institutions is 25 percent, compared with 10.8 percent at public colleges and 7.6 percent at private nonprofit institutions, according to recently released data from the Education Department.

Between June 2010 and March 2011, the Senate Committee on Health, Education, Labor and Pensions conducted four hearings and one subcommittee hearing on the high dropout rates, student loan debt and default rates, use of military tuition assistance funds, and lack of data on graduation and job placement rates for propriety schools. Lawmakers at the hearings called for increased regulation to address concerns that range from recruitment practices to national accreditation standards.

According to a report released by the GAO at one of the hearings, investigators visited 15 different for-profit schools posing as students, and at all the institutions were given "deceptive or otherwise questionable statements" regarding accreditation, guarantees of employment and financial aid.

The most recent committee hearing looked at Bridgepoint Education's Ashford University. While the hearing was highly critical of the university's large profits compared with its per-student spending and high dropout and loan default rates, it also focused on the regional agency that accredited the school. Questions were posed about current accrediting agencies' abilities to adequately assess the viability and quality of these rapidly growing, multi-state corporations.

The senators suggested an overhaul of the federal, state and regional systems to increase oversight of these schools and eliminate "the bad apples" of the industry. The U.S. House Committee on Education and the Workforce, on the other hand, has questioned whether increased regulations will hurt student choice and job growth.

"What's lost in the conversation [regarding default and graduation rates] is the fair comparison of like students," says Miller of APSCU.

Rather, criticisms focus on "apples and oranges comparisons of nontraditional students [attending for-profit institutions] with traditional students at traditional colleges and universities." The for-profit schools, Miller says, "have similar default rates to traditional institutions with similar student demographics, and have higher graduation rates than traditional institutions with similar student demographics."

Nevertheless, the U.S. Department of Educa-

> "When student loan defaults occur, both taxpayers and the government, which guarantees the loans, are left with the costs."
>
> Government Accountability Office, 2009 report

tion in July 2010 proposed several regulations to "protect students from aggressive or misleading recruiting practices and to provide consumers with better information about the effectiveness of career college and training programs." The regulations would apply to programs at public and private nonprofit institutions that do not lead to a degree, and to all programs at for-profit, proprietary institutions, except those that lead to a degree in liberal arts.

In October 2010, the Education Department issued final regulations that require institutions to report to the department certain information on students and release information on completion and job placement rates, median student loan debts, and program costs to prospective students. These regulations become effective in July.

The most contested regulation requires programs to meet benchmarks for loan repayment and debt-to-earnings ratios in order for students to be eligible for certain federal student aid. The department received about 90,000 comments regarding this regulation and has postponed a final decision on these performance measurements until later this year.

Kvaal stresses the regulations are not meant to target any specific sector. In discussing this final regulation he highlights that "it applies to occupational programs at all institutions. But, it is fair to say that for-profit programs are over-represented in the worse performing under these metrics."

Minority groups are split on the issue. The NAACP says certain rules will protect students from high debt and low-quality programs. The National Black Chamber of Commerce, however, argues the regulations will limit access to programs that better fit the needs of minority and low-income students already struggling to find options to further their education.

In an attempt to block the new regulations, APSCU sued the Education Department, arguing the rules are unfairly biased against for-profit schools and are "vague and poorly written," exposing their member institutions to frivolous lawsuits at the expense of students. APSCU's Miller believes the regulations "would end higher education opportunity for hundreds of thousands of students, primarily low income individuals and working adults."

The U.S. House of Representatives attempted to block funding for the department to implement final gainful employment rules. The funding remains intact, however, because the provision blocking the money was not included in the final fiscal year 2011 spending bill.

STATE CONCERNS

State lawmakers are paying particular attention to a new regulation from the Education Department that sets minimum requirements for approving and monitoring for-profit colleges and universities that operate within a state.

Some see this as an opportunity to support for-profit schools within their state. Mississippi Senator Perry Lee sponsored a bill that passed this session allowing proprietary schools to qualify for state licenses if they have proof of national accreditation from an agency designated by the U.S. Department of Education.

SENATOR
PERRY LEE
MISSISSIPPI

These schools "provide a great avenue for a lot of our young men and women, giving them skills necessary in the workforce," Lee says. His bill will simplify the state authorization process and "make it easier for [proprietary schools] and students to make sure they get the quality of education they pay for."

Kentucky Representative Reginald Meeks sees a need for additional regulation and protection for students. His bill, which failed to pass, would have shifted oversight of for-profit schools that offer associate degrees or higher from the State Board for Proprietary Education to the state's Council on Postsecondary Education. It also would have required for-profit schools to pay into a student protection fund that would refund students if a school closed, lost its license or accreditation or discontinued a program.

REPRESENTATIVE
REGINALD MEEKS
KENTUCKY

Maryland passed a comprehensive law this session that increases regulation of for-profit schools in many areas. It prohibits deceptive recruiting practices, bans incentives for recruiting students, requires disclosure of student data to the state, sets requirements for a state license, and requires schools to contribute to a student protection fund. In 2009, North Carolina passed a similar bill focused on protecting students from losing tuition and fees when schools close.

> "When students pay tuition, they are going to be delivered the education as promised."
>
> Senator Curtis Bramble, Utah

Also in 2009, California lawmakers created a new governing board to oversee for-profit educational institutions. This session, legislators passed a law under which measures of student success, such as default rates and debt-to-income ratios, will determine an institution's eligibility for CalGrant, the state student aid program. Under the law's provisions, an estimated 50 schools in the state would lose their eligibility for CalGrant money, 48 of which are for-profit schools.

SENATOR
CURTIS BRAMBLE
UTAH

Utah Senator Curtis Bramble wants to be sure that, "when students pay tuition, they are going to be delivered the education as promised." Bramble's bill, passed this session, amends Utah's proprietary school regulations, including what information schools must provide to show they are financially viable.

While Bramble agrees there can be resistance to federal mandates, he sees his bill as "a cooperation with the federal government, rather than a top-down mandate" since it makes "good business and policy sense in Utah and at the same time meets federal regulations."