



NEXUS

Research & Policy Center

3701 Sacramento Street, Suite 297
San Francisco, CA 94118

"Exploring the Frontiers of Higher Education"

Docket ID ED-2014-OPE-0039

May 27, 2014

VIA WWW.REGULATIONS.GOV

The Honorable Arne Duncan
Secretary
U.S. Department of Education
400 Maryland Ave., S.W., Room 7W301
Washington, D.C. 20202-1510

Re: Comment on Gainful Employment Rulemaking

Dear Secretary Duncan:

To help make up for the lack of information on the impact to the states of the proposed Gainful Employment Rule, Nexus Research and Policy Center undertook a study on what the financial effect would be, by state, of the proposed regulations. The study is based on the data provided in the Gainful Employment Notice of Proposed Rulemaking (Gainful Employment NPRM), which your Department published on March 14, 2014. The results are summarized in Tables 1 and 2 below.

The object of this study was to calculate the costs state taxpayers would incur if they had to educate, in their two- and four-year public institutions, the 2012 graduates of proprietary institution programs that fail or are in the (warning) zone of the Department of Education's requirements under the proposed Gainful Employment Rule.

Basing our estimates on the 2011-12 data, Table 1 shows the number of 2012 associate's and bachelor's graduates whose programs would have been ineligible for Federal aid (73,493) or would likely become ineligible for such aid (23,071). Note that these figures, and the numbers in Table 2, represent a significant **undercount** for two reasons: *all certificate completers have been excluded and, per the Gainful Employment NPRM, programs with fewer than 30 students were also excluded.*

TABLE 1

2012 Degreed Graduates of Proprietary Institution Programs that Fail or Are in the Warning Zone of the Department of Education’s Requirements under the Proposed Gainful Employment Rule

| Associate's Degrees | | Bachelor's Degrees | |
|---------------------|------------------|--------------------|------------------|
| Failed Programs | Programs in Zone | Failed Programs | Programs in Zone |
| 58,078 | 9,707 | 15,415 | 13,364 |

Table 2 breaks down the cost to each state if they were obliged, through the implementation of the proposed regulations, to educate in their two-year or least selective four-year institutions those graduates of 2012 whose program would have been ineligible for Federal aid or would likely become ineligible for such aid. The cost to state taxpayers to educate those in the ineligible programs would be \$1,586,226,890, and for those in programs in the zone, *which experts expect will enter failed status*, the cost is \$689,732,555. If we subtract from the sum of these figures (\$2,275,959,445) the total state appropriations that some proprietary institutions received for the benefit of individual students (\$582,660,359), we are left with nearly \$1.7 billion in state appropriations which would be required to educate a single cohort of graduates from failed and failing programs.

For the following reasons, the \$1.7 billion is a conservative estimate representing a significant undercount:

We assume,

- no capital appropriations for additional physical space or for the expansion of technology platforms to fully accommodate online instruction;
- that the programs desired by the students will be available at public institutions and therefore no startup costs would be involved;
- that the closing of one or more programs at a specific proprietary institution would not lead to the need to shut down the whole campus; and, as previously noted,
- all certificate completers have been excluded and, per the Gainful Employment NPRM, programs with fewer than 30 students have also been excluded.

This last point helps to explain why some of the cells in Table 2 are empty. They are also empty for the following additional reasons:

- there were no failing or zone programs reported in those states by USDOE;
- we subtracted from the cost to each state the total state appropriations that some proprietary institutions received for the benefit of individual students, which in some cases represented a larger amount than the estimated state appropriation needed to educate students from closed programs; and lastly
- we made no adjustment for the fact that many proprietary institutions operate large online programs and students enrolled in these are sometimes counted as enrolled in a central

location regardless of where they actually reside (this explains the unexpectedly large numbers for a state such as Arizona).

TABLE 2

Appropriations Needed, by State, to Pay for the Education of 2012 Graduates of Proprietary Institution Programs that Fail or Are In the Warning Zone of the Department of Education's Requirements Under the Proposed Gainful Employment Rule*

| State | Associate's Degree | | Bachelor's Degrees | |
|-------|--------------------|------------------|--------------------|------------------|
| | Failed Programs | Programs in Zone | Failed Programs | Programs in Zone |
| AK | \$ - | \$ - | \$ - | \$ - |
| AL | \$ 4,896,288 | \$ 2,825,309 | \$ - | \$ 2,465,163 |
| AR | \$ - | \$ - | \$ - | \$ - |
| AZ | \$ 341,570,896 | \$ 13,210,936 | \$ 31,386,528 | \$ 122,938,331 |
| CA | \$ 49,450,349 | \$ 22,667,278 | \$ 111,095,501 | \$ 77,196,912 |
| CO | \$ 4,306,151 | \$ 655,669 | \$ - | \$ - |
| CT | \$ 2,425,224 | \$ 678,241 | \$ - | \$ - |
| DC | \$ - | \$ - | \$ - | \$ - |
| DE | \$ - | \$ - | \$ - | \$ - |
| FL | \$ 41,320,569 | \$ 8,361,593 | \$ 171,979,906 | \$ 32,607,087 |
| GA | \$ 5,960,397 | \$ 1,623,582 | \$ 11,926,400 | \$ 11,692,549 |
| HI | \$ - | \$ - | \$ - | \$ 29,270,614 |
| IA | \$ 18,160,208 | \$ 945,289 | \$ - | \$ - |
| ID | \$ - | \$ - | \$ - | \$ - |
| IL | \$ 102,797,429 | \$ 1,200,504 | \$ 124,274,579 | \$ 127,668,719 |
| IN | \$ 276,529,940 | \$ 14,551,971 | \$ 44,977,088 | \$ 72,754,072 |
| KS | \$ 1,250,855 | \$ 625,428 | \$ - | \$ - |
| KY | \$ 3,185,752 | \$ 597,328 | \$ - | \$ - |
| LA | \$ - | \$ - | \$ - | \$ - |
| MA | \$ 3,095,263 | \$ - | \$ 9,440,276 | \$ 2,350,741 |
| MD | \$ 713,836 | \$ - | \$ - | \$ - |
| ME | \$ - | \$ - | \$ - | \$ - |
| MI | \$ - | \$ - | \$ - | \$ - |
| MN | \$ 8,164,314 | \$ 8,115,205 | \$ 15,135,238 | \$ 2,149,892 |
| MO | \$ 3,845,657 | \$ 6,333,464 | \$ - | \$ - |
| MS | \$ - | \$ - | \$ - | \$ - |
| MT | \$ - | \$ - | \$ - | \$ - |
| NC | \$ 3,230,189 | \$ 3,403,622 | \$ 8,705,955 | \$ - |
| ND | \$ - | \$ - | \$ - | \$ - |
| NE | \$ 670,207 | \$ 1,474,456 | \$ - | \$ 1,349,342 |
| NH | \$ - | \$ - | \$ - | \$ - |
| NJ | \$ 421,248 | \$ - | \$ - | \$ - |
| NM | \$ - | \$ - | \$ - | \$ - |
| NV | \$ 487,595 | \$ - | \$ - | \$ - |
| NY | \$ 23,475,543 | \$ 12,400,388 | \$ 8,302,922 | \$ 24,502,643 |
| OH | \$ 10,616,353 | \$ 8,297,839 | \$ - | \$ - |
| OK | \$ 795,486 | \$ - | \$ - | \$ - |

| | | | | |
|--------------------------|------------------|----------------|------------------|----------------|
| OR | \$ 43,489,530 | \$ 1,113,613 | \$ 8,865,206 | \$ 6,304,147 |
| PA | \$ 33,791,563 | \$ 13,514,170 | \$ 12,069,547 | \$ 2,096,337 |
| RI | \$ 2,288,337 | \$ 1,830,670 | \$ - | \$ - |
| SC | \$ - | \$ - | \$ - | \$ - |
| SD | \$ 311,024 | \$ - | \$ - | \$ - |
| TN | \$ 1,893,294 | \$ 1,414,652 | \$ - | \$ - |
| TN | \$ 21,514,877 | \$ 5,764,932 | \$ 5,659,323 | \$ 2,037,356 |
| UT | \$ 4,411,282 | \$ 1,454,908 | \$ - | \$ 17,853,821 |
| VA | \$ 2,457,124 | \$ 3,787,297 | \$ - | \$ - |
| VT | \$ - | \$ - | \$ - | \$ - |
| WA | \$ 1,115,918 | \$ 1,321,482 | \$ 3,274,471 | \$ 10,852,534 |
| WI | \$ - | \$ 4,134,590 | \$ - | \$ - |
| WV | \$ 491,253 | \$ 1,337,880 | \$ - | \$ - |
| WY | \$ - | \$ - | \$ - | \$ - |
| | \$ 1,019,133,949 | \$ 143,642,296 | \$ 567,092,941 | \$ 546,090,259 |
| Total | \$ 1,162,776,245 | | \$ 1,113,183,200 | |
| State Approps | \$ (129,802,436) | | \$ (452,857,923) | |
| Grand Total | \$ 1,693,299,086 | | | |

* All amounts have been converted into 2013 dollars.

Of course, both students and states could choose different options. For instance, states could have turned away the nearly 100,000 graduates from failed or failing programs due to lack of funds, but this would deviate from the nation's education goals and take away the many economic and social benefits that come with a citizenry that has advanced training and postsecondary education. The states could also choose to enroll these new students without increasing appropriations or increasing them only marginally—but that would lead to other consequences, such as lowering student success rates, offering fewer services or course offerings, and likely increases in tuition for all.

In conclusion, as noted above (and as supported by the recently published *Report on the Proposed Gainful Employment Regulation* by Charles River Associates [<http://chronicle.com/items/biz/pdf/Guryan%20CRA%20Public%20Comment.compressed.pdf>]) when the cohorts in failed and failing programs are multiplied in future years due to the implementation of the proposed Gainful Employment Rule, states will be saddled with many billions of dollars more in additional appropriations as they are pressed to educate in their institutions the numerous students unable to study in shuttered proprietary programs. Or, state institutions will be forced to abandon the education of many of their residents or significantly increase their tuition, making them even less affordable—results completely at odds with your and the administration's goals.

Sincerely,
/signed/
Dr. Jorge Klor de Alva
President
Mobile: 602.684.5401
Email: jorge@nexusresearch.org

Note: For a summary of the methods used in this study, please see *Do Proprietary Institutions of Higher Education Generate Savings for States? The Case of California, New York, Ohio, and Texas* (www.nexusresearch.org).