Gainful Employment Regulation (GE)

Presentation to OIRA / OMB

21 October 2014

GE: Potential Impact on Students, Taxpayers, Communities and Schools

- Proposed Gainful Employment (GE) regulation based upon unsound and retroactive metrics with thresholds inconsistent with the post-secondary education sector

- Immediate adverse impact to approximately one million students[1]

- $13 billion increased cost to taxpayers[2]

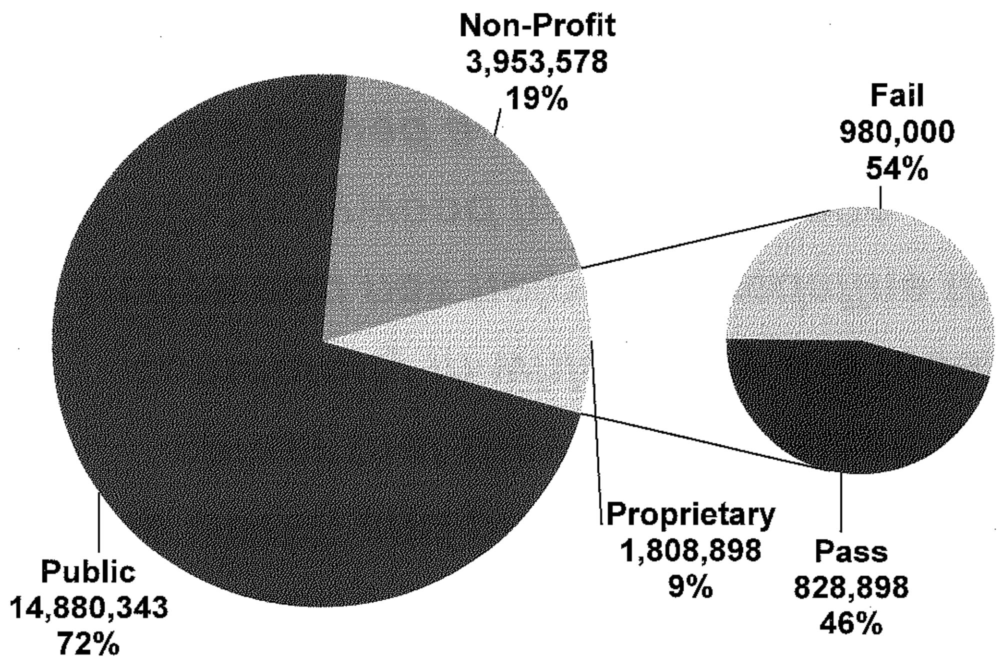
- Additionally, more than 400 proprietary institutions could be forced to close over time[1], impacting all students and their communities – not just those in GE programs that do not pass the measurements

(1) U.S. Department of Education press release and Gainful Employment 2012 Informational Rate Calculations data release (3/14/14); institutions closing figure represents proprietary institution OPEIDs with 50% or more failing GE programs

(2) Robert Shapiro and Nam Pham, Sonecon (2010); does not include potential costs associated with the lay-off of faculty and staff due to program failures and eliminations, or the costs associated with potential campus closures including the displacement of students in programs that are in compliance with GE but cannot be sustained

GE: Adverse Student and Taxpayer Impact

Enrollment in Degree-Granting Post-Secondary Institutions – Fall 2012[1]



- **About 1 million students are enrolled in programs that would either fail or fall in the zone…[2]**
- **…98 percent of them are in programs at for-profit institutions[2]**
- **These 1 million students will cost taxpayers approximately $13 billion dollars to educate[3]**

(1) U.S. Department of Education, National Center of Education Statistics: Digest of Education Statistics 2013 – Advanced Release, Table 303.10

(2) U.S. Department of Education press release (3/14/14)

(3) Taxpayers' Costs to Support Higher Education: A Comparison of Public, Private Not-for-Profit, And Private For-Profit Institutions (Robert Shapiro and Nam Pham, Sonecon)(2010) [Federal, state and local government support per enrolled student at 4-year proprietary institutions = $2,394 vs. $15,540 at public institutions; includes indirect and direct subsidies, loan defaults and taxes paid]

GE: Impact on Local Communities

"Schools such as the Art Institute do more than simply provide an entry way to sustainable careers and develop students into professionals. The Art Institute helps nurture talented individuals by connecting them to mentors in Hollywood, the Creative Capital of the world, and provides them with the opportunity to succeed in a career that they love. They also serve as institutions for the community in which they are located. The Art Institute in North Hollywood has helped to redefine the surrounding neighborhoods. North Hollywood has undergone a renaissance and the Art Institute has played a pivotal role in attracting creative talent and new professionals into the area. North Hollywood has blossomed with the influx of new restaurants and businesses that cater to students and hire graduates."

– Congressman Tony Cardenas (D-CA)

Note: email dated September 25, 2014

GE: Impact on Local Communities and Industries

- "As the Mayor of the City of Charleston, South Carolina, I have worked relentlessly to make my city one of the top travel destinations in the world. Tourism has become a vital element of our region's economy, but our continued success relies on the availability of a trained, dedicated and educated workforce. That is why our hospitality community worked so hard to get the Art Institute to open a campus in Charleston upon the departure of Johnson & Wales to Charlotte, North Carolina." – City of Charleston, SC Mayor Joseph P. Riley (5/27/14)

- "….NABHOOD members have hired many graduates of proprietary institutions. They have been a foundation for making our members' establishments successful. Members of the NABHOOD know first-hand the devastating impact this [GE rule] could have on both our companies and our nation's economy." – National Association of Black Hotel Owner, Operators & Developers (5/22/14)

- Culinary Arts case study:
  - As a result of GE, the restaurant and foodservice industry will experience a significant reduction in the availability of trained culinary arts professionals
    - During the five-year period 2007 to 2011, proprietary institutions awarded 53% of the 87,140 Associate's and Bachelor's culinary & personal services degrees awarded(1)
    - ~51% of culinary programs did not pass the GE measures, primarily due to the debt-to-earnings ratio(2)
  - "…The programs proprietary institutions offer in the culinary arts are very much needed by the restaurant and foodservice industry. …The restaurant and foodservice industry is expected to face a long-term labor challenge where demand for employees outpaces the supply in the U.S. labor workforce. …proprietary institutions and their programs are an important source of training…" – National Restaurant Association (5/27/14)

(1) awards data from National Center for Education Statistics – IPEDS Data Center, based upon all 2- & 4-year post-secondary institutions and 2-digit CIP codes

(2) U.S. Department of Education Gainful Employment 2012 Informational Rate Calculations data release (3/14/14)

Our Contribution to Higher Education, Local Employment and Our Communities

- **More than 400,000 alumni**

- **125,560 students***
  - 109 campuses in 32 states
  - Largest presence by state (students; employees):
    - Arizona (4,190; 1,740)
    - California (17,500; 2,530)
    - Florida (11,520; 1,720)
    - Georgia (9,890; 1,260)
    - Illinois (5,800; 970)
    - Ohio (4,960; 760)
    - Pennsylvania (6,180; 2,770)
    - Texas (10,310; 1,430)

- **20,600 employees***
  - 10,800 full-time and 9,800 part-time/adjunct

- **$1.1 billion invested annually in employee salaries, benefits and payroll taxes***
  - $879MM in salaries, $96MM in benefits, $75MM in payroll taxes

- **Our employees generate local economic benefits of approximately $4.4 billion**
  - Reflecting a salary multiplier effect of 5 times (based on a marginal propensity to consume assumption of 80%)[(1)]

* student enrollment as of October 2013 and represents starting student body enrollment (including enrollment in fully-online programs of 29,620); employee data as of June 30, 2014 and excludes 200 employees on leave status; salary, benefit, and payroll tax data as of the twelve months ending June 30, 2014 (i.e., Fiscal 2014)

(1) multiplier effect methodology based on Professor Krumme, University of Washington; the Chartered Financial Analyst (CFA) Level 1 exam guide; A Simple Method to Compute Fiscal Multipliers (International Monetary Fund)(June 2014)

Our Contribution to Supporting the Administration's Policy

"... our ratings have to be carefully designed to increase, not decrease, the opportunities for higher education for students who face economic or other disadvantages..."
– President Obama (8/22/13)

"A viable system... must thoughtfully measure indicators like earnings, to avoid overemphasizing income or first jobs..."
"The best question of all... is what institutions are successfully contributing to college completion with a meaningful education for students with the least income and the least historic opportunity..."
– Deputy Under Secretary Jamienne S. Studley

"If the President's proposed Postsecondary Institutional Rating System ("PRIS") does not take into account student demographics it would have failed."
– Secretary Arne Duncan (4/30/14)

"If we create a ratings system that pushes institutions to accept fewer low-income students, then we've failed."
– Under Secretary Ted Mitchell

- **Our colleges and universities support the Administration's education policy by serving a diverse student population(1):**
  - Female (63%)
  - Older than 25 years old (52%)
  - Minority (57%)
  - Military-aid recipient (~9,000 students)
- **However, our programs that may not pass the measurements as proposed directly impact(2):**
  - >30,000 female students
  - >5,000 military-affiliated students
  - >20,000 minority students

Note: military-aid recipient and military-affiliated students refer to students (active military, veterans, or military families) who received financial aid from the U.S. Department of Veteran Affairs and/or the U.S. Department of Defense

(1) Student demographics as of October 2013 starting student body enrollment based on those who supplied such information

(2) GE student figures represent January 2014 enrollment for all programs measured in the Gainful Employment 2012 Informational Rate Calculations; the figures exclude ~22,000 students in more recently introduced programs that were not assessed by the U.S. Department of Education as part of the GE program measurement

GE: Inconsistent with the Administration's Policy

- **The proposed regulation will disproportionately impact students of color, women and the economically disadvantaged**
  - These students, who are not being served by traditional institutions, are more likely to borrow
  - As the regulation judges programs based on the amount students borrow, this will lead to proprietary institutions enrolling fewer of these students

- **Student borrowing is consistent across all sectors of post-secondary education yet the sectors are treated inequitably**
  - The average debt-to-earnings ratio across all sectors of post-secondary education is well above the proposed GE measure "pass" ratio of 8%(1)

    Public institutions = 12%
    Non-Profit institutions = 16%
    Proprietary institutions = 13%

    versus the proposed GE debt-to-earnings measure "pass" ratio of 8%
  - The debt incurred by graduates of our bachelor degree creative art programs ($36,938)(2) is comparable to the debt incurred by students at non-profit art schools(3) yet our programs are subject to the proposed regulation while their programs are not
    - Johnson & Wales University = $29,491
    - Savannah College of Art & Design = $37,247

(1) U.S. Department of Education, Stats in Brief (NCES 2014-011), Degrees of Debt - Student Borrowing and Loan Repayment of Bachelor's Degree Recipients 1 Year After Graduating: 1994, 2001, and 2009 [Oct-2013]

(2) Gainful Employment 2012 Informational Rate Calculations (U.S. Department of Education; 3/14/14)

(3) Johnson & Wales University debt from Federal Loans webpage on J&W website (https://www.jwu.edu/content.aspx?id=53414); Savannah College of Art & Design debt from U.S. News & World Report 2015 Best Colleges Rankings (http://colleges.usnews.rankingsandreviews.com/best-colleges/scad-29289/paying)

GE: Additional Negative Aspects

- **The health of the economy has a significant affect on employment opportunities – especially for younger workers**
  - Total U.S. unemployment increased 60% from 2006 to 19 million workers in 2012
  - "[Lower wages] persist for the first several years of a career [if the individual graduated during a recession]…" – Joseph G. Altonji, Lisa B. Kahn, Jamin D. Speer (National Bureau of Economic Research, 9/14)

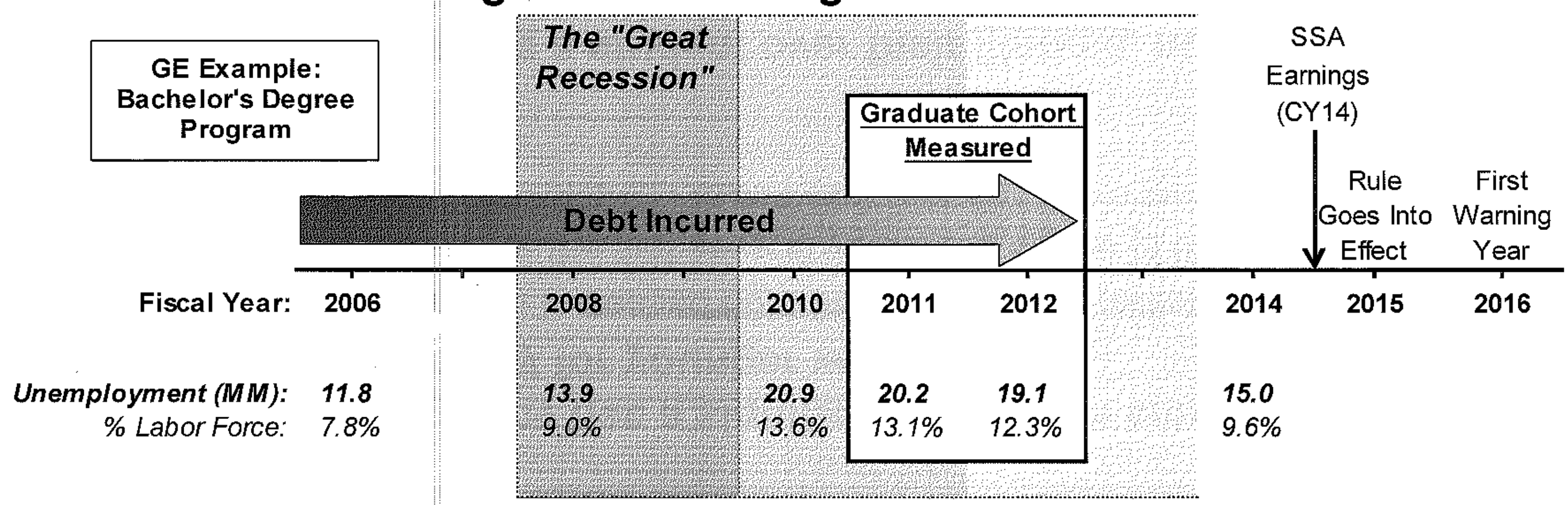
- **Higher education benefits a student over their lifetime, not just the first few years of their career – as measured by the proposed regulation**
  - A Bachelor's graduate will earn $1 million more than a high school graduate

- **The requirement that a program must pass both the debt-to-earnings and default rate measures implies a strong, predictive linkage between them; however, the published informational rates suggest an uncertain linkage between these two measures**
  - ~1% of all GE programs measured failed both metrics
  - "[The two metrics] do not work together in concert to allow a program to pass. They work separately to fail programs." – Kevin Jensen, College of Western Idaho, community college negotiated rulemaking representative (12/13/13)

Sources: U.S. Bureau of Labor Statistics and U.S. Census Bureau; U.S. Department of Education NPRM and Gainful Employment 2012 Informational Rate Calculations (3/14/14)

GE: Retroactive Nature Prevents Ability to Influence Debt

- **For Bachelor's degree programs, many of the students measured began their education up to six years prior to their graduation cohorts**
  - For the first official measurement period in 2015, the majority of the students began their education between 2006 and 2009
- **Since the majority of student debt was incurred years before GE was even proposed, it cannot be substantially influenced with current efforts to address college affordability**
  - The "Transition Period" provides no realistic opportunity to improve the debt-to-earnings measures because of the lag effect of debt reduction efforts, as these efforts can neither adjust the debt of prior graduates nor the Federal loan entitlements already granted to currently enrolled students which occurred before this proposed regulation becomes final or effective
- **First cohort measured graduated during the midst of the economic crisis**



Source: U.S. Bureau of Labor Statistics and U.S. Census Bureau; total unemployment includes both the unemployment level and those not in the workforce but want a job now``

GE: Key Recommendations

- Delay release of the rule until complete, accurate, and <u>audit-ready data</u> is compiled and released that shows the effect of the metrics on all sectors of post-secondary education

- Increase the debt-to-earnings ratio to <u>15%</u> (from 8%) and remove the "zone"

- Satisfaction of one measure – debt-to-earnings ratio <u>or</u> default rate

- Apply rule <u>prospectively</u> – begin measurement period with students who enroll on or after July 1, 2015 to provide a rational opportunity for institutions to address and help lower student debt

- Allow students currently attending programs deemed ineligible to <u>remain eligible</u> for Title IV aid through graduation

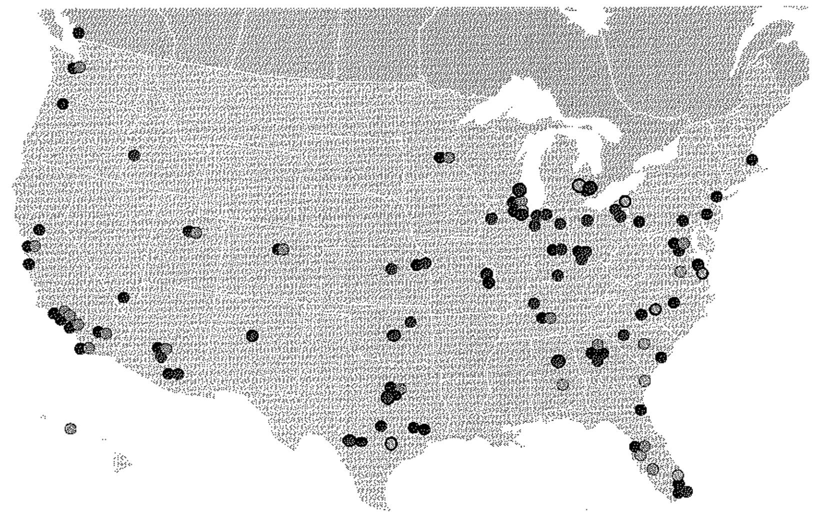
Thank You

Appendix

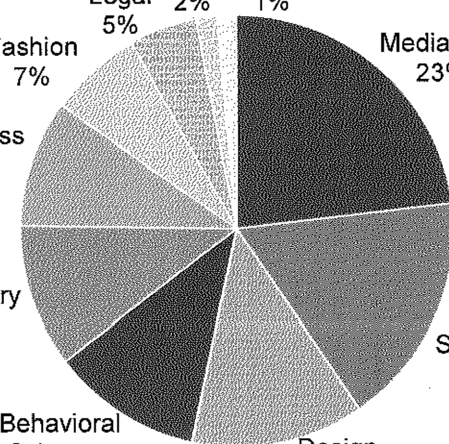
Our Overview

- **One of the largest and most diverse providers of proprietary post-secondary education in the United States**
  - 40+ years of operating history
  - 110 locations
  - 125,560 students
  - Four respected and differentiated education systems
  - Multiple learning modalities
  - Ability to serve nearly every segment of the market
- **Strong commitment to academic quality and student achievement**
  - Student-centric model
  - Diverse array of academic offerings aligned to jobs and careers
  - Faculty with real-world experience
  - More than 400,000 alumni
  - Solid community ties

Broad, National Footprint



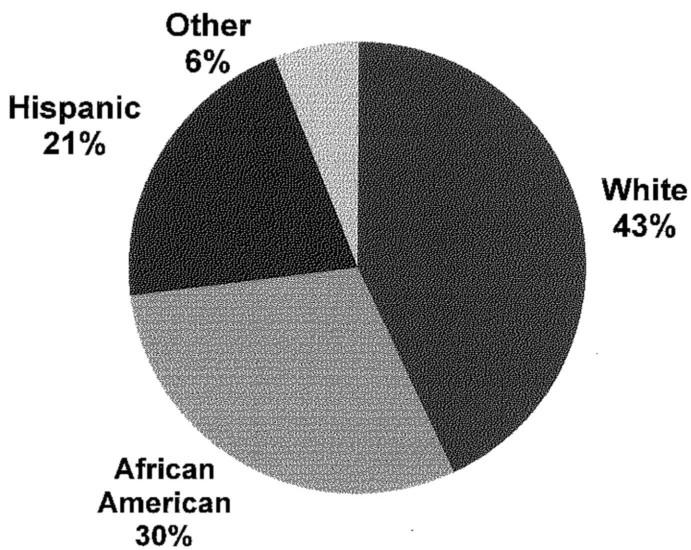
Enrollment by Discipline



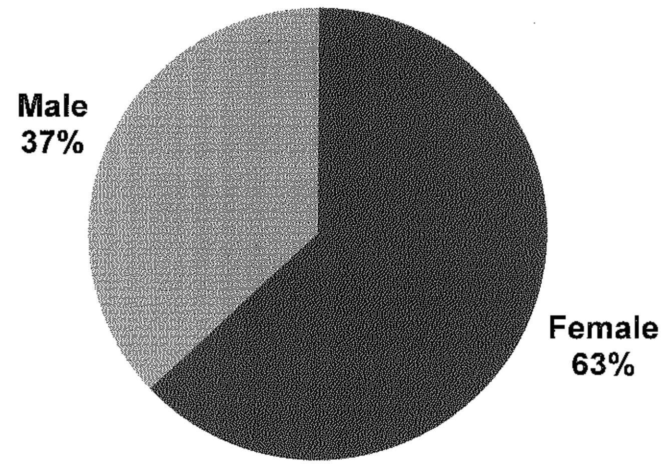
Note: Student enrollment and discipline data as of October 2013; discipline data represents percentage of starting student body enrollment including enrollment in fully-online programs; number of locations reflects count as of 10/6/2014

Our Student Profile

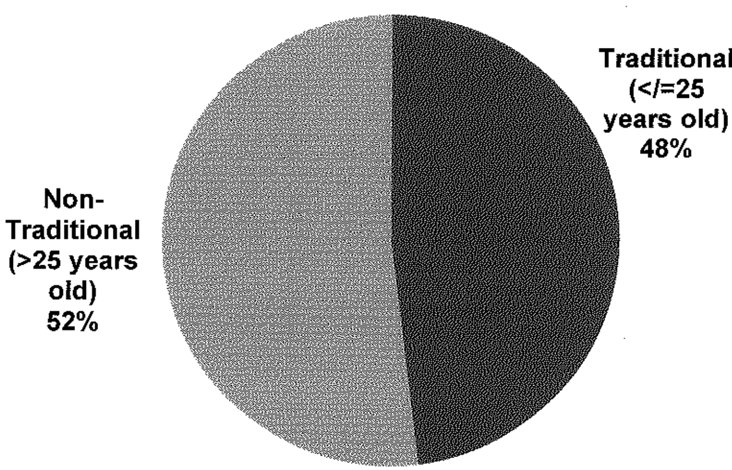
Ethnicity



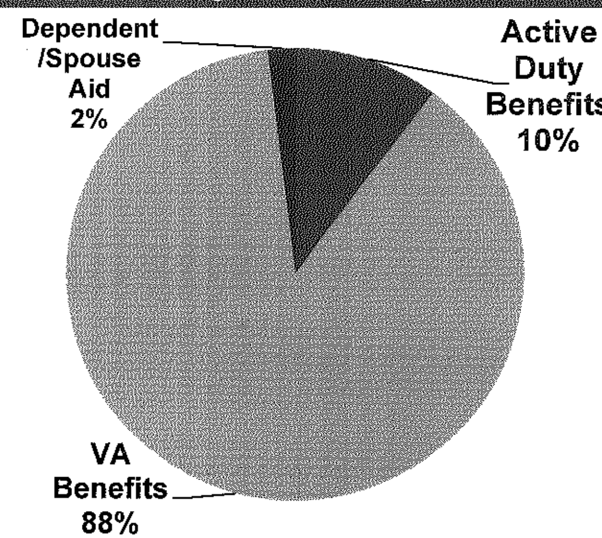
Gender



Age



Military-Aid Recipient



Note: student demographics as of October 2013 starting student body enrollment based on those who supplied such information; military-aid recipient and military-affiliated students refer to students (active military, veterans, or military families) who received financial aid from the U.S. Department of Veteran Affairs and/or the U.S. Department of Defense