Resources and Reform

THE OBAMA ADMINISTRATION'S HIGHER EDUCATION LEGACY AND THE 45TH PRESIDENT'S CHALLENGE

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KEY POINTS:

- President Obama invested more in student financial aid than any American President in history. The deeper story though is Obama extended the federal higher education policy paradigm beyond financial aid into areas of college *quality* and degree *completion*.

- He cracked down on shoddy for-profit trade schools, moved to hold teacher education programs accountable for K-12 outcomes, and challenged states and colleges to increase degree attainment levels.

- How will the next President proceed? Will he or she retreat to a politically comfortable role, promoting only Resources <u>OR</u> Reform? Or will he or she rise to the challenge of embracing the new paradigm of Resources <u>AND</u> Reform in higher education? Recommended are a series of steps toward the latter.

RESOURCES AND REFORM

THE OBAMA ADMINISTRATION'S HIGHER EDUCATION LEGACY AND THE 45TH PRESIDENT'S CHALLENGE

By Michael Dannenberg and Mary Nguyen Barry

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EXECUTIVE SUMMARY

President Obama has invested more in student aid than any American president in history by far. Record resources in the form of more and bigger Pell Grants, better student loan repayment benefits, and substantially increased higher education tax benefits have boosted college enrollment, especially for historically underserved groups of students. Those investments also have helped stem the effects of increased tuition. But the Obama higher education legacy centers not only on big fiscal investments that have supported increased college access. It includes, in equal parts, a relentless push to link those resources to improved student outcomes.

The federal financial stake in higher education is enormous. Through grants and loans, as well as tax credits and deductions, the federal government provides over $180 billion a year in student financial aid.[1] In addition, the federal government allocates some $40 billion each year directly to institutions of higher education to benefit students and improve the public good in areas such as health, security, and agriculture.[2]

For years, policymakers assumed colleges were providing quality instruction in return for those taxpayer dollars. College degrees were equated with graduates attaining some meaningful level of knowledge and skills. Accordingly the federal higher education debate was simply a matter of how best to support college access and affordability, primarily through student aid.

President Obama used virtually every lever at his disposal to make increased investments in pursuit of that traditional federal role. Since 2009, for example, Obama has:

- Nearly *doubled* annual Pell Grant program funding. Extended grant aid to 2.7 million more students each year. And increased the maximum Pell Grant award by 25 percent from $4,731 to $5,830 per year.

- More than *tripled* tuition and fee tax relief for the middle class. Created the American Opportunity Tax Credit, extending HOPE tuition and fee-related tax relief from a maximum of $3,000 over two years to $10,000 over four years. Some $4,000 in tax benefits is now refundable for those without tax liability.

- Lowered minimum federal student loan payments from 15 percent to 10 percent of a borrower's discretionary income and made loans forgivable after 20 instead of 25 years.

These Obama investments, in turn, helped boost college access, particularly for minority students.

- Underrepresented minority access immediately after high school increased by 20 percent between 2008 and 2014; the number of racial minorities enrolled in college immediately after high school increased by over 700,000.

- The proportion of black high school students who immediately enrolled in college after graduation increased by 12 percent between 2008 and 2014; nearly 300,000 more black students enrolled in college immediately after high school.

- Latino college-going rates immediately upon high school exit increased by 26 percent; over 400,000 more Latino students enrolled in college immediately after high school.

But the Obama Administration's deeper conceptual higher education legacy lays in extending the policy paradigm beyond student aid and college access to college student outcomes. Two areas of work are especially notable:

- **Gainful employment** benchmarks for graduates of career colleges and trade schools. Following Obama reforms:

    - One of the largest and worst providers of for-profit postsecondary vocational training, Corinthian Colleges, parent to the notorious Everest Institute schools, has closed.

    - For-profit spending on instructional services is up over 25 percent as compared to spending on marketing, sales, and profit.

    - Graduation rates at four-year for-profit institutions have increased by nearly 40 percent, from 23.2 percent in 2009 to 31.9 percent in 2013.

- **Accountability for programs that prepare teachers**. Although they are still pending, draft teacher preparation regulations direct States to rate teacher education programs as per a set of outcome indicators of quality, including program graduate impact on K-12 student achievement. The "saber rattling" alone already has had an impact:

    - In 2011, only six states tied information on how teachers perform in K-12 classrooms back to their teacher preparation programs. Now, 22 states do.

    - Tennessee and Louisiana make the teacher performance results a factor in program approval and renewal. Other states are considering the same.

    - The main teacher education accreditation agency is pursuing new standards that take into account K-12 student outcomes associated with program graduates when consecrating college and university teacher education programs.

The Obama Administration fell short, however, in its efforts to drive reform through legislation that would use federal dollars to leverage State action in support of college access, affordability, and success.

- It tried to encourage States to maintain minimum levels of higher education funding in order to receive new federal funds. But Congress set a low bar for States to pass and created loopholes for them to escape responsibility.

- It requested nearly $100 billion to support various new federal-state grant programs that would support State initiatives to enhance higher education affordability and quality. Congress rejected these proposals because they all required new spending or were paid for by raising taxes on high-income individuals.

- As a result, while the Obama Administration succeeded in holding net prices steady, it did not bend the college cost curve or reduce the relentless growth in the size of upfront student loans. The nation's college degree attainment rate among young adults only inched up by 2.1 percentage points between 2009 and 2013, from 38.8 percent to 40.9 percent. This rate likely will fall short of President Obama's stated goal to have the highest proportion of college graduates – 60 percent – in the world by 2020.

RECOMMENDATIONS

The 45th President, regardless of party, should affirm and continue the Obama record on pairing increased higher education investments with a relentless insistence on quality and accountability. To make good on that legacy, we have three concrete reform recommendations for the next president to follow:

1. **Establish minimum performance standards for colleges to access federal financial aid;**

2. **Cap student loan debt for students, colleges, and states that meet their shared higher education responsibilities; and,**

3. **Set the stage for the next big policy movement around student learning outcomes. It's time for a "Higher Ed NAEP."**

Going forward, as in K-12 education, there are forces that would prefer to debate "resources versus reform" rather than "resources and reform" in higher education. Will the 45th President retreat to playing a politically comfortable role? Or will he or she be up to the challenge of engaging in the newly extended higher education policy paradigm? We urge the latter.

INTRODUCTION

There's a new debate in higher education policy circles focused on student outcomes. For years, policymakers assumed that colleges were providing quality instruction and degree conferral meant graduates had attained some meaningful level of knowledge and skills. At the federal level, the higher education debate simply was a matter of how best to support college access and affordability. Partisan lines were drawn over direct financial aid (e.g. Pell Grants) vs. the optimal amount of resources to be devoted to student loan bank subsidies. That conflict drowned out all other questions and debate. But in 2010, Democrats and President Obama essentially won that partisan war by dramatically reducing the bank-guaranteed loan program (the Federal Family Education Loan (FFEL) program) with full, 100 percent embrace of direct government lending going forward (the William D. Ford Direct Loan program). Tens of billions of dollars in saved resources were reinvested into the Pell Grant program. In fact, the Obama higher education legacy is replete with major investments in traditional and non-traditional forms of student aid, including increased higher education-related tax benefits. That's a little known story in and of itself.

But the 30,000-feet high story of the Obama Administration's higher education legacy is that Democrats extended the policy paradigm beyond simply addressing college access and affordability to focus also on college *completion* and college *quality*. That expanded focus and associated pursuit of reform has not escaped controversy. In fact, it has generated substantial opposition from college leaders. Given the discomfort of these traditional allies with the expanded higher education policy debate, and now that the fight between FFEL and Direct Loans is over, will progress on the college quality issue be stymied by partisan lines drawn anew? Will Democrats retreat to supporting simply more resources and Republicans calling for little more than laissez-faire reform?

Will the 45th President retreat to playing a politically comfortable role? Or will he or she be up to the challenge of coupling resources with rigorous reforms? It's essentially the same issue present in elementary and secondary policy: "resources OR reform" vs. "resources AND reform."

THE OBAMA RECORD

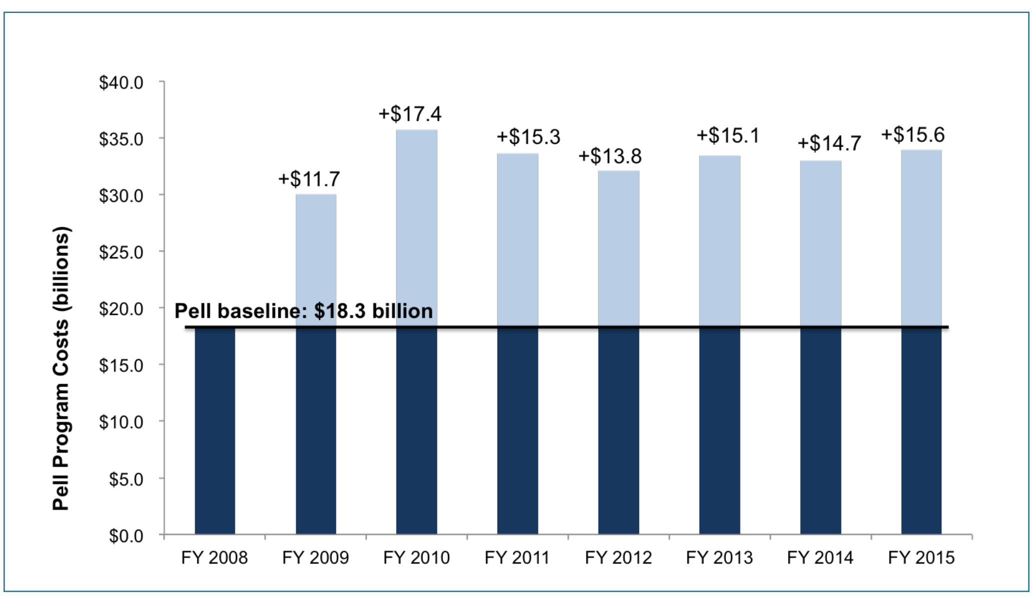
The Obama higher education legacy is now clear. It centers not only on big fiscal investments that have supported increased college access and stemmed losses on college affordability, but also a relentless push to link those resources to improved student outcomes. First, consider the record on resources alone and the controversial political decisions associated with sustaining each major investment.

BIG INVESTMENTS IN PELL GRANTS, TAX CREDITS, AND STUDENT LOANS

In the time since President Obama took office, between FY2008 and FY2015, the Administration **nearly doubled *annual* Pell Grant funding** from $18.3 billion to $33.9 billion.[3] In fact, measured against baseline levels, President Obama boosted Pell Grant funding by a total of **more than $100 billion over the last seven years**.[4] *See Figure 1.*

The maximum Pell Grant award increased by 25 percent from $4,731 to $5,830.[5] The number of Pell Grant recipients grew by 50 percent, from 6.2 million to 9.4 million students in 2011 before receding to 8.9 million in 2015.[6] To put that growth in recipients into perspective, imagine every major league baseball stadium sold out, filled to capacity. Imagine every seat filled by a college student. That's barely half

Figure 1: President Obama Boosted Pell Funding by $104 Billion Over Baseline Levels



Source: Education Reform Now analysis of Pell program costs above baseline levels from fiscal year 2008 to fiscal year 2015. See: U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2015 Budget Request: Justifications," p. Q-21.

"Never let a serious crisis go to waste."

Rahm Emmanuel, Obama White House, Chief of Staff 2009-2011

of the 2.7 million increase in the annual number of Pell Grant recipients. It's a tremendous accomplishment. These students overwhelmingly come from very low-income families. The median Pell Grant recipient comes from a family with an income of just $17,000 a year.[7]

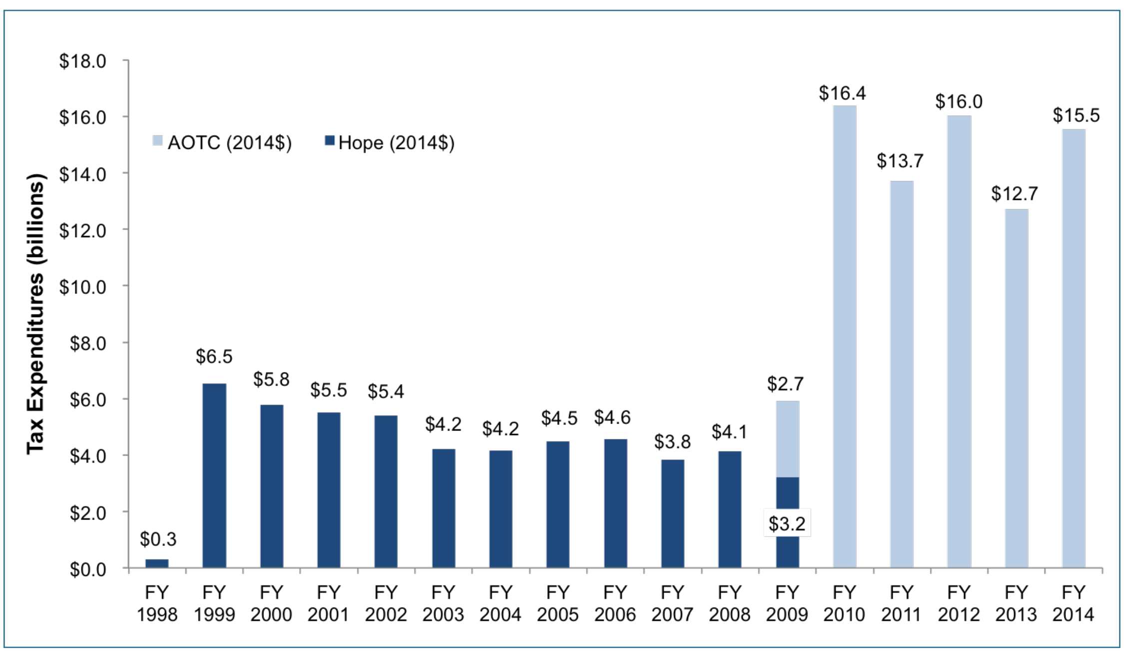
How did the Obama Administration achieve the big increase in Pell Grant funding? As an initial matter, it prioritized education in the American Recovery and Reinvestment Act (Recovery Act). To counter the effects of a cratering economy and compensate for sharp reductions in consumer spending and business investment, the Obama Administration and Congressional Democrats joined in early 2009 to enact a massive short-term increase in government spending focused on education. One in eight Recovery Act dollars went to education. Over $17 billion alone was dedicated to the Pell Grant program.[8]

And while the short-term increase in Recovery Act-generated funding timed out, the Obama Administration worked with Congress to sustain newly elevated Pell Grant funding levels in the out years. In 2010, an additional near $40 billion in student loan bank subsidies was transferred to direct student financial aid, specifically the Pell Grant program.[9] The shift represented the culmination of a 20-year Congressional Democratic effort to replace the wasteful Sallie-Mae-led student loan system with direct federal lending. Legislatively, it was made possible only by Democrats taking advantage of the filibuster-proof budget reconciliation process. Republicans bitterly opposed the technique as well as its larger motivating engine, which was funding for the Affordable Care Act. But the Health Care and Education Reconciliation Act still passed on a party line majority vote. The American Council of Education and 30 higher education groups cheered the new law as a "critical investment in America's students and economic future."[10] Today, there is little debate about Sallie Mae bank subsidies, and Republican efforts to roll back Pell Grant funding increases have abated.[11]

For middle-class families, the Obama Administration **tripled higher education tax benefits**. *See Figure 2.* This, too, was accomplished initially through the Recovery Act, through which the American Opportunity Tax Credit (AOTC) was created to replace the Hope Scholarship Credit created in 1997. But whereas Hope provided families with a maximum benefit of $3,000 in tax relief over two years, the AOTC provides a maximum benefit of $10,000 in tax relief over four years. Whereas Hope was limited to middle-class families, AOTC is now partially refundable to families with incomes so low that they have no tax liability. Over 11 million students and families benefit each year.[12] According to one estimate, refundability alone opened the tax credit to an additional 4 million high school students from very, very low-income families.[13]

Like Recovery Act-increases in Pell Grant funding, AOTC benefits initially were set to expire in 2011. Again though, the Obama Administration pursued a controversial political strategy to sustain increased investment in higher education. The President cut a deal with Congressional Republicans. He agreed to extend a number of Bush-era tax cuts first passed in 2001 that were set to expire in 2012 in exchange for an extension of the AOTC benefit, among

Figure 2: Higher Education Tax Credit Expenditures Grew Nearly Four-Fold Under The Obama Administration



Source: Education Reform Now analysis of tax expenditure data from the Office of Management and Budget, "Budget of the United States Government – Analytical Perspectives, Fiscal Year 1998-2015" (Washington, D.C.: Federal Reserve Archive, 1998-2015).

"Take the Hill by storm."

David Stockman, former OMB Director, on his pioneering use of reconciliation to pass President Reagan's 1981 budget.

other tax policies. Whereas the President engendered political opposition from Republicans in making use of the filibuster-proof reconciliation process to maintain Pell Grant increases, he engendered political opposition from liberal Democrats in making a deal with Republicans to maintain AOTC benefits. Nevertheless, he secured a bipartisan majority as well as an extension of the AOTC, including its refundability provision that Congressional Republicans continue to oppose.

Finally, the Obama Administration also pursued key investments in making student loans more affordable and manageable. The Reconciliation Act that provided Pell funding also provided $1.5 billion to expand income-based student loan repayment options for new borrowers.[14] Obama's expansion of **Income-Based Repayment (IBR) lowered student loan payments from 15 percent to 10 percent of borrowers' discretionary incomes** and forgave outstanding balances after 20 instead of 25 years for new borrowers as of 2014. Loan forgiveness is realized after 10 years for those who work in public service.[15]

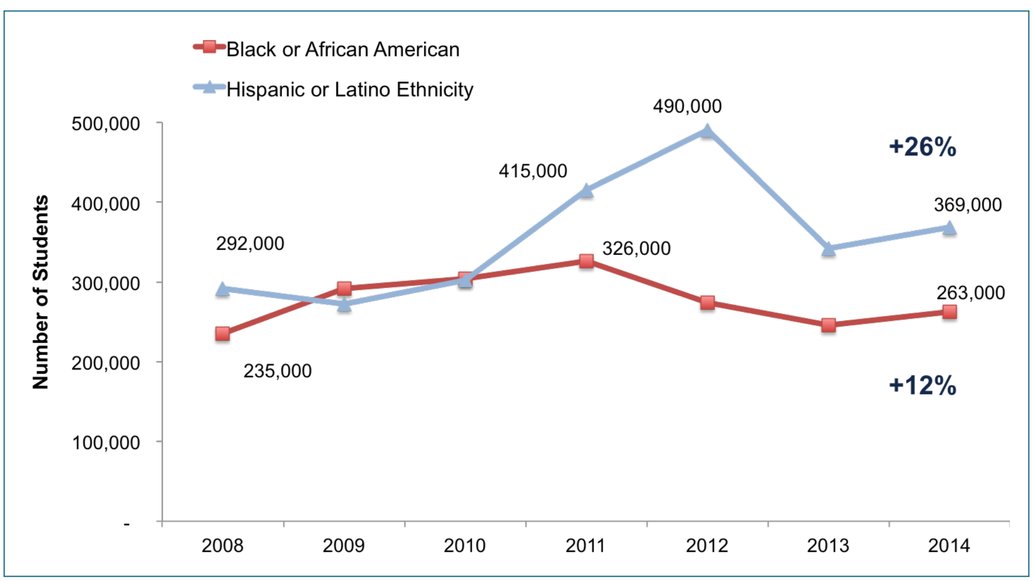
Again accomplished through controversial political means, the Administration extended student loan repayment benefits further. In 2011, the President announced he would use regulatory authority to extend future IBR benefits to an additional 1.6 million borrowers – those who took out their *first* federal loan after October 2007 *and* had at least one loan after October 2011. He dubbed the expansion, '**Pay As You Earn' (PAYE)**.[16] Later in 2014, President Obama made even further use of his executive authority to extend PAYE to an additional 5 million borrowers with loans assumed prior to 2007 as well as those without loans after 2011.[17] The Administration encouraged those with outstanding FFEL-based loans to consolidate into the Direct Loan program and dedicated associated savings to expand PAYE.[18]

BIG IMPACT ON COLLEGE ACCESS AND AFFORDABILITY

Altogether, Obama-era investments in Pell Grants, higher education tax expenditures, and student loan benefits have contributed to significant improvements in college access and affordability. Minority student college enrollment immediately after high school has increased by 20 percent. The proportion of black high school students who immediately enrolled in college after graduation increased 12 percent between 2008 and 2014 – an increase of nearly 300,000 more students. Latino college-going rates, again immediately after high school, which increases the likelihood of postsecondary degree completion, went up 26 percent between 2008 and 2014 – an increase of over 400,000 more students (*see Figure 3*).[19] All told, over 700,000 more minority students went to college immediately after high school after President Obama took office in 2009.

Moreover, after years of marked declines due to steep tuition increases and flat family income, college affordability has held steady since 2008. Sticker price has risen sharply, but net price – the price students must pay out-of-pocket after grants and scholarships – has stayed mostly flat thanks to expanded federal and institutional financial aid.

Figure 3: Immediate College-Going After High School for Minority Students Increased Substantially Over the Past 6 Years



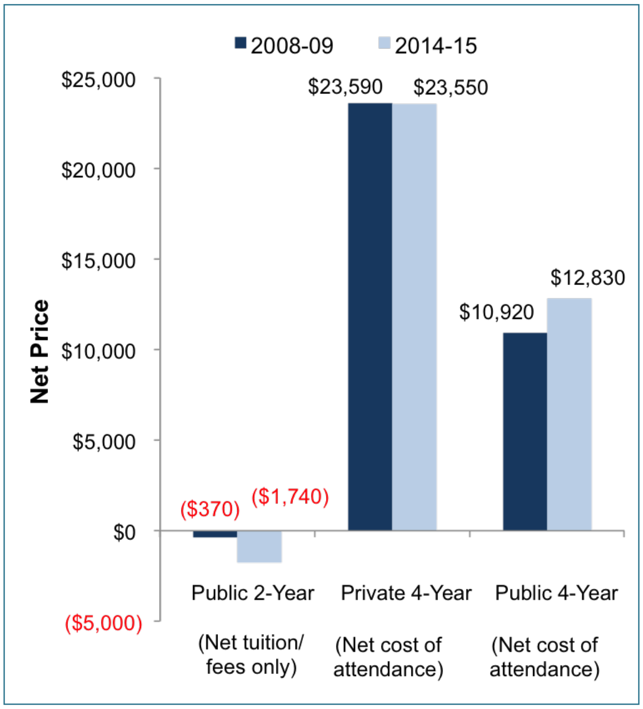
Source: Education Reform Now analysis of Bureau of Labor Statistics College Enrollment and Work Activity of High School Graduates, 2008-2014.

"We can't wait for Congress to do its job. So where they won't act, I will."

President Barack Obama, Speech at University of Colorado-Denver, 2011

According to the College Board, increases in average levels of grant aid and higher education tax benefits like the AOTC have kept net prices at private non-profit four-year institutions and public two-year colleges essentially neutral. And while there has been an increase in net prices at public four-year colleges, the increase was minimal: average net prices rose by only $1,900 from 2008 to 2014 (*see Figure 4).*[20]

Figure 4: Expanded Financial Aid Programs Kept Net Price Mostly Flat for Students

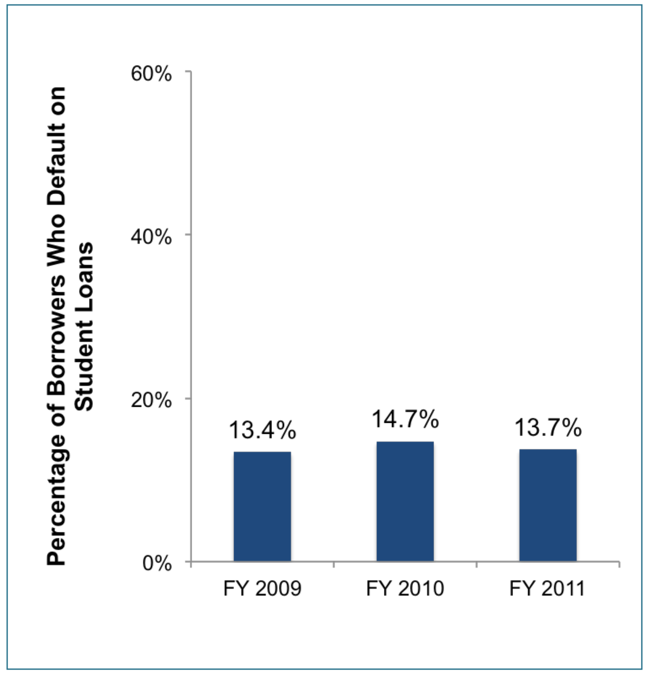


Source: Sandy Baum and Jennifer Ma, "Trends in College Pricing 2014" (Washington, D.C.: College Board, 2014).

Likewise, while there is larger aggregate student loan debt because more students are going to college and consequently there are more borrowers, we've seen student debt *management* indicators hold steady in terms of student loan repayment, delinquency, forbearance, and default rates. Though only two years' worth of data are available to examine the impact of Obama-era student loan management policies, they are the years where the economic downturn resulting from the 2008 financial crisis bottomed. In those years, over the eight quarters between the end of 2013 and beginning of 2015, the percentage of Direct Loan borrowers in on-time active repayment stayed higher than 50 percent.[21] The percentage of Direct Loan borrowers who were more than three months late in making loan payments stayed relatively constant at 10 percent.[22]

Similarly, the percentage of Direct Loan borrowers who were in forbearance remained relatively steady at 12 percent.[23] Finally, the percentage of borrowers who defaulted on their loans (missing payments for over one year) within three years of entering repayment remained fairly stable from 13.4 percent in 2009 to 13.7 percent in 2011.[24] *See Figure 5.*

Figure 5: The Percentage of Borrowers Who Have Defaulted on Their Student Loans Within Three Years of Exit Remain Steady



Source: U.S. Department of Education, "Comparison of FY 2011 Official National Cohort Default Rates to Prior Two Official Cohort Default Rates" (Washington, D.C.: July 2014).

These relatively positive (or neutral) student loan management indications came in spite of a slow economic recovery with minimal gains at the bottom of the income scale. They appear to be due to the sharp increases in the percentage of borrowers gravitating to the newly-enhanced income-based student loan repayment plans.

An outreach campaign in the fall of 2013 saw the number of borrowers enrolled in an income-based repayment plan increase by 20 percent in just three months.[25] By the end of 2014, 2.2 million federal student loan borrowers – 12 percent of all federal borrowers – were enrolled in the Pay as You Earn or Income-Based Repayment plan.[26] Think tanks and a variety of higher education groups are now calling for universal IBR enrollment as a default for all student loan borrowers.

BIG VISION: EXTENDING THE POLICY PARADIGM FROM "ACCESS AND AFFORDABILITY" TO "QUALITY AND ACCOUNTABILITY"

As with elementary and secondary education, Obama-era investments in higher education have been coupled with reforms directed at improved student outcomes.[27] And as with elementary and secondary education, those reforms have been controversial, pursued with aggressive political tactics, and are beginning to yield positive results for students and families.

To be sure, not all reforms and tactics carried the same degree of controversy or aggressiveness. One approach the Obama Administration took, for example, was to build upon the transparency movement established by the 2008 Higher Education Act reauthorization signed by President George W. Bush requiring greater consumer information disclosure. It was that legislation that mandated, for instance, the creation of a model financial aid award letter, which later played a major role in the Obama Administration's "Know Before You Owe" campaign.[28] The resultant products from this movement and that campaign included the Obama administration-developed and widely adopted model award letter, now known as the "Financial Aid Shopping Sheet," the College Scorecard, a college-by-college report card on key success outcomes, as well as an automated IRS data retrieval tool that imports tax return data into the FAFSA and IBR application forms. Still to come this summer is a new college consumer data tool that will feature a broad range of data – some publicly available for the first time – about college costs and outcomes that will allow students and families to compare and rate colleges.

Obama-era higher education transparency efforts were not entirely uncontroversial, because the shopping sheet, scorecard, and the still-to-come consumer tool constituted conceptual attempts to hold colleges publicly accountable by showcasing key outcome metrics to students and families. The forthcoming college consumer tool, in particular, drew wide debate within the higher education community given one of its original goals was to use the data to rate individual colleges on access, affordability, and student success metrics.[i] Colleges and financial aid administrators balked at the idea that diverse student needs could be standardized and varied personal outcomes captured. But these non-financially binding accountability efforts still went ahead.

The transparency movement, however, is only one approach to accountability. At its heart still resides the assumption that better information will lead to better consumer decision-making. But information alone can't protect students completely, and the Obama Administration likely knew that they couldn't rely on – or wait for – consumer behavior to change on the assumption that it will. That's why the Obama higher education legacy's conceptual and political breakthrough primarily lays in the President's support of college quality and completion through aggressive executive action as well as legislation.

That story is next.

REFORM THROUGH EXECUTIVE ACTION:

GAINFUL EMPLOYMENT AND TEACHER PREPARATION

Reform in higher education is certainly warranted. On top of expensive taxpayer-subsidized services and poor outcomes, rampant misrepresentation and fraud in the for-profit trade school sector, in particular, has left hundreds of thousands, if not millions, of Americans in worse financial shape than prior to enrollment. Consider the following statistics. In 2009:

- For-profit education companies enrolled approximately 11 percent of all postsecondary education students. They received $32 billion, approximately 25 percent of all U.S. Department of Education student financial aid funds. They accounted for 47 percent of all student loan defaults.[29]
- For-profit schools charged tuition and fees that were 4.5 times the cost of comparable certificate programs at community colleges, 4 times the cost of comparable associate degree programs, and 20 percent more than the cost of comparable bachelor's degree programs at four-year public colleges.[30]
- Over 86 percent of all for-profit school income derived from federal financial aid dollars. Over 24 percent of revenue was spent on marketing and recruitment. Some 20 percent was devoted to company profit. Trade school companies examined by the U.S. Senate Education Committee paid their chief executive officers an average of $7.3 million. They employed two-and-a-half times as many recruiters as student support staff members, and ten times as many recruiters as career service staff members.[31]
- Recruiters, paid on a per-student attracted basis, employed high-pressure sales tactics and misrepresented costs and job placement figures to 'churn' students into enrolling. Everest College (Corinthian Corporation) recruiters targeted low-income, high-minority communities and individuals irrespective of academic preparation levels.[32] University of Phoenix (Apollo Corporation), Chancellor University, and Drake School of Business recruiters targeted homeless shelters to generate enrollment.[33] And Ashford University (Bridgepoint Corporation) recruiters targeted military barracks for wounded veterans who also bring GI Bill financial aid. In fact, they even went so far as to enroll seriously brain-damaged Iraq war veterans in pursuit of federal aid.[34]

[i] The Administration faced major technical challenges in constructing a rating system based on existing data that simultaneously would apply to both two and four-year colleges. The Administration also faced political challenges because it would have had to rely on future Congressional action to tie those ratings to federal financial aid eligibility. Therefore, it tabled the ratings plan for consideration until the coming Higher Education Act reauthorization.

- Within one year, 54 percent of those enrolled in for-profit programs, almost 600,000 students, dropped out without a degree or certificate. Over 95 percent had student loan debt.[35]

Concerned about the increasingly large sums of student aid that flowed to low-quality career colleges and trade schools, poor student outcomes, and rising student loan debt levels, the Obama Administration announced in fall 2009 that it would pursue new regulations designed to protect the integrity of federal financial aid programs. The most controversial of those program integrity rules defined the term "gainful employment." Over $34 million was spent lobbying against it.[36]

Under the Higher Education Act, for a for-profit or non-profit career education provider to receive federal financial aid – the lifeblood of higher education institutions - its

ADDITIONAL DEMOCRATS TAKE ON THE FOR-PROFIT TRADE SCHOOL INDUSTRY

Photo by:
Gage Skidmore

Shortly after taking office in 2008, Jack Conway, Kentucky's attorney general, became skeptical of the business practices of a number of for-profit colleges. He found Kentucky struggling to meet high student demand for previously promised state student financial aid and a wave of consumer complaints against for-profit colleges. The Kentucky Attorney General's (AG) office intervened in several for-profit school bankruptcies and successfully secured multi-million dollar loan forgiveness guarantees for former students.[1] In the process, Conway uncovered cases of fraud, misrepresentation, and abusive lending tactics – often preying on the most financially vulnerable students.

In December of 2010, Conway filed his first suit against a for-profit college operating in Kentucky. He's since filed suit against three other for-profit institutions in the Commonwealth for misleading students.

By the spring of 2011, Conway convened a coalition of state attorney generals to launch a multi-state review of potential consumer protection law violations at for-profit colleges. His coalition initially comprised 10 primarily Democratic attorney generals, but grew to include a bipartisan representation of 32 states. Several AGs, including those in New Mexico, New York, California, Kentucky, and Massachusetts, filed their own lawsuits.

By January 2014, 13 states had gathered enough evidence to file a lawsuit against the country's four largest for-profit corporations: Career Education Corporation, ITT Educational Services, Corinthian Colleges, and Education Management Corporation. Kentucky, Iowa, Pennsylvania, and Connecticut took the lead for each company, with Arizona, Arkansas, Idaho, Missouri, Nebraska, North Carolina, Oregon, Tennessee, and Washington providing support. Perhaps more significantly, they joined forces with federal entities, including the Department of Justice, the Securities and Exchange Commission, the Federal Trade Commission, and the Consumer Financial Protection Bureau. Settlements associated with individual state lawsuits created agreements that went far beyond what was currently required by state or federal law or accreditors. In 2013, for example, New York State, led by AG Eric Schneiderman, negotiated a $10.25 million settlement with Career Education Corporation (CEC) after it inflated job placement rates. To ensure real job placements and permanent employment, New York now requires CEC to verify employment after the graduate has completed at least 18 days on the job, instead of only one day, as required by accreditors. New York now also requires CEC to no longer offer programs with low placement rates or that lack accreditation, a requirement for qualifying exams and credentials.[2]

But perhaps the biggest victory came as a result of the coalition's lawsuit against Corinthian Colleges, parent to the widely panned Everest Institute schools.[3] That lawsuit, in conjunction with lawsuits from California and Massachusetts, and federal pressure from the Department of Education and the Consumer Financial Protection Bureau (CFPB), helped topple Corinthian in the summer of 2014. In July 2014, the company announced it would close or sell all 107 of its campuses nationwide. In February 2015, as per a settlement agreement with federal authorities, CFPB and the Department of Education announced that Corinthian's new owner, ECMC Corporation, would pay $480 million to current and former Corinthian students to finance forgiveness of their private student loans. Those who took out Corinthian's high cost private student loans saw an immediate reduction of 40 percent in the amount owed.[4] As of June 2015, the Department of Education announced it will forgive the federal loan debt of up to 350,000 Corinthian College students at a taxpayer cost of up to $3.5 billion.

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[1] Paul Fain, "Kentucky Showdown" (Washington, D.C.: Inside Higher Ed, Nov. 2011), https://www.insidehighered.com/news/2011/11/03/ky-attorney-general-jack-conway-battles-profits.

[2] "A.G. Schneiderman Announces Groundbreaking $10.25 Million Dollar Settlement with For-Profit Education Company that Inflated Job Placement Rates to Attract Students" (New York: State Office of the Attorney General, Aug. 2013), http://www.ag.ny.gov/press-release/ag-schneiderman-announces-groundbreaking-1025-million-dollar-settlement-profit.

[3] Stephen Burd, "The Subprime Student Loan Racket" (Washington, D.C.: Washington Monthly, 2009).

[4] Press Release, CFPB Secures $480 Million in Debt Relief for Current and Former Corinthian Students, Feb. 5, 2015. http://www.consumerfinance.gov/newsroom/cfpb-secures-480-million-in-debt-relief-for-current-and-former-corinthian-students/.

programs must prepare students for "gainful employment" in a recognized occupation. Federal aid to those entering vocational training programs at the postsecondary level was intended to help individuals get a good job, not leave them saddled with high levels of debt and working in low-paying jobs. Yet for over 40 years, the term "gainful employment" was undefined and unregulated. In truth, it was the proverbial "check the box" requirement that allowed institutions simply to attest to the employment outcome when they applied to participate in the federal financial aid system. Obama changed that despite millions of dollars spent lobbying against the effort, a series of legislative attempts to block action, and at least two major court cases seeking to do the same.[37]

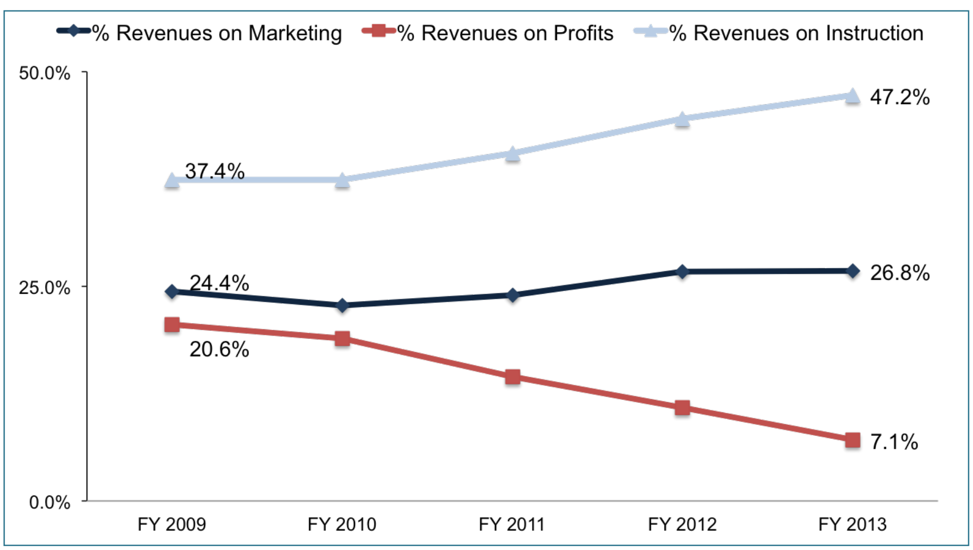
The final Obama gainful employment regulation established quantitative standards to measure a postsecondary vocational education program's value in terms of associated future income of program graduates relative to student debt burden: career education program graduates must have a debt-to-income ratio below 12 percent of total earnings or 30 percent of discretionary income. Programs that fail both debt-to-income tests twice in any three-year period, or are in a nearby "danger zone" for four consecutive years, will be ineligible for all Higher Education Act financial aid as of July 2017.[38]

Whether the Obama gainful employment regulation ultimately survives continued litigation and threatened legislative action, the heightened scrutiny that accompanied the program integrity and gainful employment efforts already has produced results:

- **For-profit enrollment is down over the past five years**. Between fall 2009 and fall 2013, for-profit enrollment dropped over 10 percent.[39] To be clear, for-profits are not inherently bad, but previous enrollments were inflated with individuals, including those with traumatic brain injuries, who could not be expected to benefit from the services provided.[40] The University of Phoenix, with its 16 percent first-time, full-time student completion rate saw its enrollment drop from 443,000 students to 251,500 students between 2009 and 2014, according to Securities and Exchange Commission (SEC) filings.[41]
- One of the largest and worst for-profit providers, **Corinthian Colleges, parent to the notorious Everest Institute schools**, has **closed**.[ii] And in a breathtaking acknowledgement that the federal government bears some responsibility for college quality, the Department of Education announced it will forgive the federal loan debt of up to 350,000 Corinthian College students at a taxpayer cost of up to $3.5 billion – and beyond, for students who have been defrauded at other colleges other than Corinthian.
- The percentage of for-profit postsecondary sector **revenue devoted to instructional services**, as opposed to sales and marketing or after expenses profit, has **increased by over 25 percent**, from 37 percent to 47 percent, according to Securities and Exchange Commission filings *(see Figure 6)*.[42]
- Six-year first-time, full-time student **graduation rates at four-year for-profit institutions** have **increased by nearly 40 percent**, from 23.2 percent in 2009 to 31.9 percent in 2013.[43]

Aside from vocational postsecondary training, the second key area within higher education that the Obama Administration targeted for outcome-oriented policy work

Figure 6: The Percentage of For-Profit Revenue Devoted to Instructional Expenses has Increased Over 25 Percent



Source: Education Reform Now analysis of Securities and Exchange Commission filings for eight publicly-traded companies.

[ii] In the 2009 Washington Monthly profile on the worst actors in the for-profit college industry, author Stephen Burd wrote: "Corinthian and Career Education…have faced the most damning allegations when it comes to educational quality and steering students into shady private loans." Stephen Burd, "The Subprime Student Loan Racket," (Washington, D.C.: Washington Monthly, 2009).

was teacher preparation. Here again, the case for action was strong:

- Teacher quality is the single greatest in-school influence on student achievement.[44]

- Yet the highest-poverty schools with the neediest students have substantially more novice teachers than the lowest-poverty schools.[45] In other words, the neediest children get the lowest-quality teaching.

- Some 62 percent of novice teachers report their educator preparation training "did not prepare them for classroom realities."[46]

- According to surveys of principals, between 67 percent and 84 percent of new teachers are not prepared to maintain classroom order, work with parents, address the needs of students with disabilities, and address the needs of limited English proficient children.[47]

- And yet, the National Council on Teacher Quality reports that teacher preparation students are almost 150 percent as likely to graduate with honors-level grades as students in other academic majors.[48]

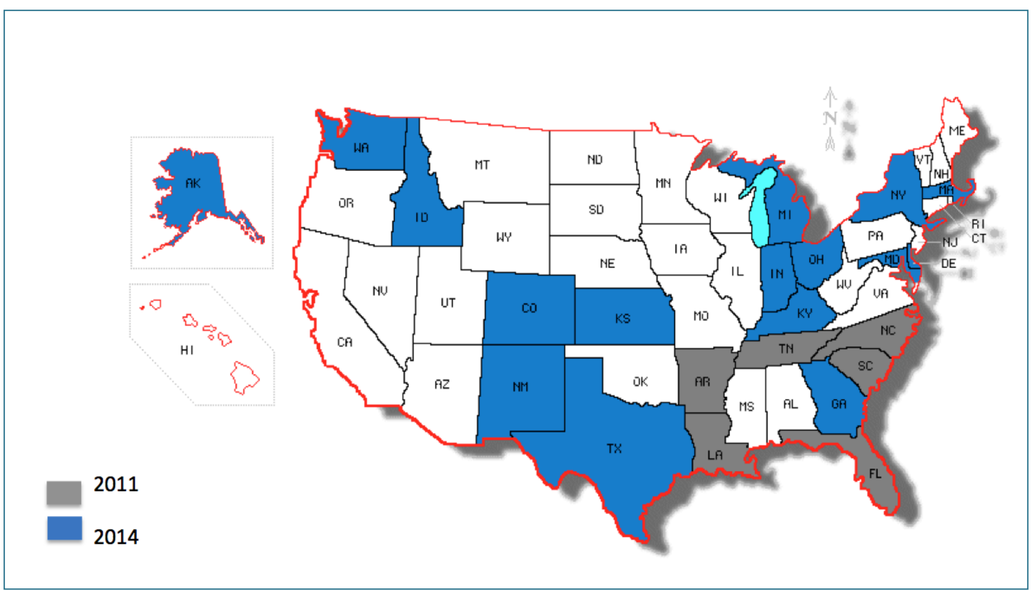
- In 2010, less than 2 percent of all teacher preparation programs were identified as low-performing or at-risk of being low-performing. Accreditation was disconnected from K-12 classroom success.[49]

Accordingly, and building on the template of the gainful employment effort, the Obama Administration in fall 2011 initiated regulatory work directing States to upgrade their assessments of teacher preparation program quality in terms of student outcomes. The 2008 Higher Education Act requires States to identify "at risk" and "low-performing" teacher preparation programs and stipulates that only "high-quality" programs are to receive TEACH Grants, a $100 million financial aid program for aspiring teachers who plan to teach in high-need schools and fields.[50] Again, as with gainful employment, amid controversy and heavy lobbying, the Obama Administration proposed new rules defining statutory terms and eliminating federal financial aid to low-quality providers.

The still-pending teacher preparation regulation directs States to rate teacher education programs in one of four categories – from low-performing to exceptional – as per a set of federal indicators of quality, which includes teacher candidate placement and retention rates, surveys of employers' and program graduates' satisfaction with academic quality, and critically, growth in K-12 student achievement levels associated with program graduates. Only programs with the top two ratings will be able to receive federal TEACH Grant funds.[51]

As with gainful employment, the regulatory saber rattling already has produced changes in the field. The Council for the Accreditation of Educator Preparation (CAEP) has embraced new standards that tie teacher education program evaluation to teacher candidates' proven impact in raising K-12 student achievement.[52] Whereas in 2011 just six states were providing teacher K-12 performance data back to teacher preparation programs voluntarily, today some 22 states loop back data so programs can self-improve and be held accountable by everyone from prospective students to future employers *(see Figure 7)*.[53] Tennessee recently announced it plans to link State approval to operate a teacher education program to proven teacher candidate success in raising K-12 student achievement.[54]

Figure 7: In 2011, only 6 states shared information on how teachers perform in the classroom back to their teacher preparation program. Today, it's up to 22.



Source: "Understanding Teacher Effectiveness: Providing Feedback to Teacher Preparation Programs" (Washington, D.C.: Data Quality Campaign, 2014).

INNOVATION

Separate from national gainful employment and teacher education regulatory efforts, the Obama Administration also supported a series of *local projects* aimed at improving student outcomes. Support was aimed at discovering and validating best practices linked to improved student outcomes. There were three primary postsecondary innovation efforts:

1. An **Experimental Sites** initiative that allowed a small number of colleges to test alternative methods of administering federal financial aid programs;

2. Embrace of **Direct Assessments** that allowed various colleges to continue to receive federal student financial aid while measuring student learning competencies via "direct assessment" rather than through the accumulation of credit hours; and

3. **First in the World** program priorities that support colleges advancing higher education reform models from development to scale.

Projects under the Experimental Sites initiative, for example, looked at whether it would be beneficial to disburse loans in unequal amounts over short periods of time for individual students. The Direct Assessment initiative supported individual colleges creating self-paced educational programs that include measurement of student learning competency rather than rely on the seat-time-based credit hour system. Finally, the First in the World program provided "venture capital" to colleges to test new approaches - like project-based learning, wraparound coaching, and other digital mentoring tools – designed to promote college access and completion.

REFORM THROUGH LEGISLATION:

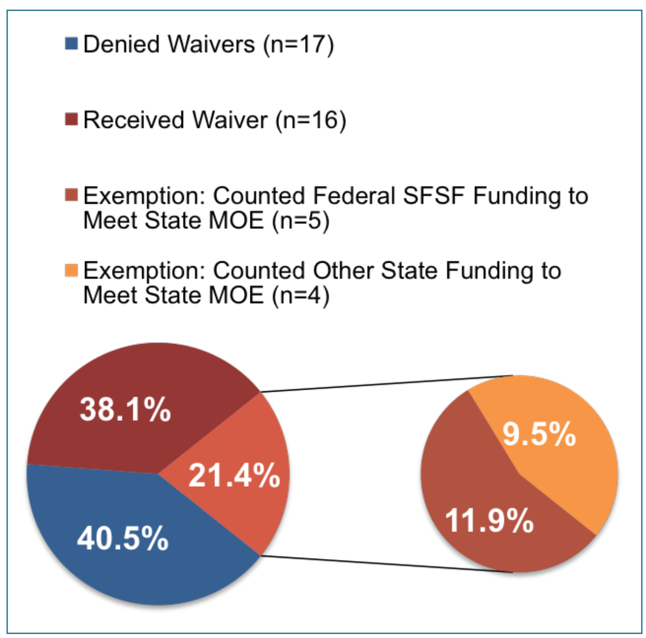
MAINTENANCE OF EFFORT & A NEW FEDERAL-STATE GRANT PROGRAM

The bigger, more *systemic effort*, however, lays in the Obama Administration request to *Congress* for additional federal dollars aimed at leveraging existing State and institutional funds in support of college access, affordability, and success. Unfortunately, they repeatedly failed. But understanding the nature of the failure suggests a path for the next President to pursue.

Initially, the Obama Administration tried to force States to invest in higher education through "maintenance of effort" (MOE) provisions, whereby States would have to maintain minimum levels of their own higher education funding in order to receive federal funds. But Members of Congress set a low bar for States to pass and created loopholes that allowed others to escape responsibility. The 2009 Recovery Act, for example, provided governors with $48.6 billion in "State Fiscal Stabilization Funds" (SFSF) and included an MOE provision in exchange for receipt.[55] But Congress only required States to fund higher education to fiscal year 2006 levels (three years prior) and only required States to uphold aggregate education funding levels as opposed to per-student funding levels that take into account growth in student enrollment. A report from the New America Foundation found six states – Tennessee, Arkansas, Pennsylvania, Wyoming, West Virginia, and New York – actually cut State higher education spending upon receipt of SFSF dollars – while increasing total state spending (education plus non-education spending) – and still remained in full compliance with the underlying law.[56]

An MOE provision attached to the much smaller College Access Challenge Grant (CACG) program, a state block grant for higher education, evidenced additional shortcomings. To receive CACG funds, States were required to maintain their higher education funding at a level equal to at least the average amount appropriated during the previous five years.[57] The program, however, was arguably too small to effect meaningful change: it was initially funded at $66 million a year, and was expanded only to $150 million a year for five years with the healthcare reconciliation law.[58] Further, the Department of Education faced the unpalatable prospect of sending any improperly claimed funds back to the Department of Treasury rather than to compliant States and aspiring college students. The political pressure led the Administration ultimately to exempt many States from the MOE provision – either through waivers or other exemptions – permitting those States to receive CACG funding. *See Figure 8*.

Figure 8: Nearly 2 in 3 States That Applied for a "Maintenance Of Effort" (Moe) Waiver Either Received One or Another Exemption



Source: Education Reform Now analysis of U.S. Department of Education, "Laws & Guidance: College Access Challenge Grant Program – Performance|State Maintenance of Financial Support Waivers" (Washington, D.C.: March 2014).

Over seven consecutive budgets, President Obama requested significantly greater resources, nearly $100 billion, to support initiatives that would leverage State support for higher education affordability and quality.[iii] Obama proposed nearly $80 billion – through the America's College Promise (i.e. free community college) initiative, the American Graduation Initiative, and joint projects with the Department of Labor – to help community colleges graduate more students. Other new spending programs, such as the proposed College Access Completion Fund, College Completion Incentive Grant program, and Race to the Top for Higher Education program, each would have provided competitive grants to States willing to drive systemic change directed at improving higher education student outcomes.

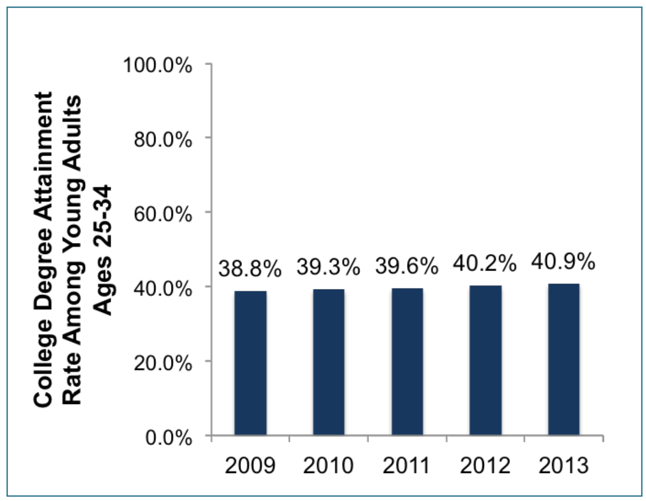
All these State-centered initiatives share several key traits. As prerequisites for application, states had to show a strong prior record of affordability and quality. They had to set quantifiable targets to improve quality, such as by overall and subgroup graduation rates. States also had to commit to new reforms in exchange for the federal funds. Examples included aligning high school graduation rate requirements with college entry and placement standards to reduce postsecondary remediation costs; creating new credit attainment and degree pathways to speed completion; and devising a performance-based funding formula to distribute new federal and a portion of existing state aid to higher education. The proposed free community college initiative spelled out specific expectations for the colleges themselves, requiring them to offer academic programs that fully transfer to local public four-year colleges or in-demand occupational training programs with high graduation rates, as well as adopting promising institutional reforms to improve student outcomes.[60]

Congress, specifically Congressional Republicans, rejected the Obama proposals repeatedly for three key reasons – each of which, however, can be overcome. First, they all relied on new spending and an expansion in the number of government programs at a time of a Tea Party-led desire for government retrenchment. Hal Rogers, the Kentucky Republican Chairman of the House Appropriations Committee, asked in one negotiation: "Is this important enough that we borrow from Red China to pay for it and give the bill to our grandkids?"[61] Second, they all came with an MOE mandate that is opposed by, among others, Senate Education Committee Chairman Lamar Alexander (R-TN). During conference negotiations for the 2008 reauthorization of the Higher Education Act, for example, Alexander stated: "I don't think it's our business to be allocating state tax dollars…If we want to do that, we should run for governor or for the state legislature."[62] Finally, President Obama proposed paying for many of these State initiatives by increasing taxes on the nation's highest earners – a fight in which the college groups did not want to engage. As the American Association of Community Colleges said, "Our overwhelming emphasis will be on the contributions the funding would help our colleges make…as opposed to getting involved directly in the issue of the Bush tax cuts."[63]

It's not surprising then that President Obama will likely fall short of his stated goal for the nation to have the world's highest proportion of college graduates – 60 percent by the end of this decade. Census estimates indicate the nation's college degree attainment rate among young adults has only inched up by 2.1 percentage points (5 percent), from 38.8 percent to 40.9 percent in the period between 2009 and 2013 *(see Figure 9)*.[64] Initial estimates released by the Obama Administration projected that the proportion of college graduates in the U.S. would need to increase by 50 percent – or 8 million more young adults with associate's and bachelor's degrees – to reach the 2020 attainment goal.[65]

Thus, it's clear that **while additional resources are essential to boost college access and completion and do have that effect, increased financial aid resources alone are not sufficient** to promote the level of college attainment sought by the Obama Administration and others.[iv]

Figure 9: The Nation's College Degree Attainment Rate among Young Adults Has Only Inched Up by 2.1 points between 2009 and 2013



Source: Education Reform Now analysis of U.S. Census Bureau: American Community Survey, Education Attainment Ages 25-34, Three-Year Averaged Estimates for 2009-11, 2010-12, and 2011-13. Data for 2007-2009 and 2008-10 come from the U.S. Department of Education, "New State-by-State College Attainment Numbers Show Progress Toward 2020 Goal" (Washington, D.C.: U.S. Department of Education Press Office, July 12, 2012).

[iii] Between proposed budgets for Fiscal Years 2010-2016, President Obama requested: $60.3 billion over 10 years for the America's College Promise initiative (FY16 budget); $10.6 billion over 10 years for the American Graduation Initiative (FY11 budget); $8 billion over 3 years for a community college initiative between the Departments of Education and Labor (FY13 budget); $2.5 billion, then $3.5 billion, over 5 years for the College Access and Completion Fund (FY10 and FY11 budget); $350 million over 2 years for College Completion Incentive Grants (FY12 budget); and $1 billion in the first year for Race to the Top for Higher Education (FY13 and FY14 budgets).

[iv] Note that the Obama Administration did not include certificate holders into its count of adults with college degrees. Alternatively, the Lumina Foundation has launched a slightly different "2025 goal" to increase the proportion of Americans with degrees, certificates, and other credentials to 60 percent by 2025.

CHALLENGES FOR THE 45TH PRESIDENT

For continued progress, the 45th President, regardless of party, should affirm and continue the Obama record on pairing increased higher education investments with an increased insistence on quality and accountability. To make good on that legacy, we have three concrete reform recommendations for the next president to consider: (1) Establish minimum performance standards for colleges to access federal aid; (2) Cap student loan debt for students, colleges, and states that meet their shared higher education responsibilities; and (3) Set the stage for the next big policy movement around student learning outcomes.

1. Establish Minimum Accountability Standards for Colleges to Access Federal Aid

The 45th President should begin by establishing bare minimum performance standards on access and success metrics for at least four-year degree granting institutions of higher education. Absent improvement, the federal government should end various forms of financial support to colleges that operate as engines of inequality, dropout factories, and diploma mills.

How might that work? To start, the federal government should draw a line at the bottom fifth percentile of performance in the core areas that federal investment in student financial aid is meant to address: low-income student access, degree completion, and college affordability. Our analysis of 2011 data for four-year colleges identified the following minimum benchmarks at that percentile: a 17 percent Pell Grant recipient enrollment rate; a 15 percent *six-year* graduation rate for first time, full-time students; and a 28 percent cohort student loan default rate (a temporary substitute measure until repayment rates are available). Colleges that fall below any of these bottom five percent standards should be put on notice and given between three and six years to get up to those standards. Colleges that are nonprofit and struggling with graduation rates or student loan repayment rates should receive additional federal technical and financial assistance to meet these benchmarks.[66]

In 2011,105 four-year colleges had graduation rates below 15 percent. Fifty-six percent were for-profit institutions, 32 percent were non-profit private institutions, 11 percent were public colleges; 10 percent were Historically Black Colleges and Universities. [67] Approximately 600,000 students were enrolled in these exceptionally low-performing colleges (9 out of 10 ranked in the bottom of their peer group of similar institutions serving similar students) and an additional 94 schools that had cohort default rates above 28 percent.[68] Nearly $8 billion in federal aid annually goes to colleges and universities that currently rank in the bottom 5 percent on student success metrics.[69] *See Figure 10* for examples.

We submit that upon notice, the 45th President should work to ensure that persistently poor-performing colleges – that *after getting turnaround assistance, including additional resources for underfunded institutions,* but still don't improve – lose access to certain federal financial benefits.

"In 2011, 105 four-year colleges had first-time, full-time student dropout rates in excess of 85%. Approximately 600,000 students were enrolled in these institutions and an additional 94 that had student loan default rates above 28%."

Source: Authors' analysis of Integrated Postsecondary Education Data System reports, 2013

Figure 10: Sample List of Colleges Graduating Fewer Than 15 Percent of Students in 2011

College Name	Sector	2011 6-Year Graduation Rate	2011 Federal Student Aid (Title IV & Campus-Based)
University of Phoenix-Online	For-Profit	6.2%	$3,690,074,122
Western International University (AZ)	For-Profit	2.4%	$21,437,109
Louisiana State University-Alexandria (LA)	Public	12.1%	$12,116,332
East-West University (IL)	Nonprofit	7.7%	$8,798,223
Concordia College-Selma (AL)	Nonprofit HBCU	3.4%	$5,568,132

Source: Education Reform Now analysis of the 2010-11 Title IV Program Volume Reports at U.S. Department of Education, "Title IV Program Volume Reports" (Washington, D.C.: Federal Student Aid).

"Engines of Inequality," which are typically very wealthy institutions that fail to enroll a minimum number of qualified low-income students, such as **Yale University,** the **University of Virginia,** and **Washington University at St. Louis**, should lose access to federal institutional grants – such as TRIO, campus-based aid, and any potential competitive federal-state money – as well as institutional tax benefits, such as the charitable deduction for the institution and affiliated foundations if they fail to improve. Senator Charles Grassley (R-IO) proposed a similar consequence in 2007.[70] Wealthy colleges quickly responded with improved financial aid plans.

"College Dropout Factories" and "Diploma Mills," which are typically for-profit and non-selective public and non-profit private colleges, should lose access to the same forms of institutional benefits and all other forms of student financial aid, including grants, loans, and student tax benefits such as the AOTC and the Lifetime Learning Credit. Students attending these schools are at exceptionally high risk of being saddled with debt they cannot repay and no degree. Closing down a college with a dropout rate in excess of 85 percent, year after year after year, is a matter of consumer protection. The same applies to institutions with a higher graduation rate but an unconscionable debt-to-earnings ratio among graduates.[71]

2. Establish Personal Responsibility Standards for High School and College Students in Exchange for "A Cap on Student Loan Debt"

The 45th President should double down on accountability in higher education in exchange for a big student responsibility commitment. In the second half of its second term, the Obama Administration proposed to make community college tuition-free for those who met minimum responsibility requirements. We recommend the 45th President pursue a bigger and bolder strategy that grants students a concrete promise of *"A Cap on Student Loan Debt,"* in exchange for meeting additional personal responsibility requirements. The cap on student debt should not apply just to tuition, but should cover all expenses (i.e. tuition, fees, books, supplies, and room and board) at any public or non-profit private two or four-year college. Students would have to meet minimum responsibility requirements that are more demanding than President Obama's proposed minimum 2.5 G.P.A. at the postsecondary level.

Our current financial aid system has it backwards. It focuses aid on students already enrolled in college and borrowers who already graduated. The Obama Administration increased backward-looking higher education benefits, such as the AOTC expansion and a student loan repayment cap equal to approximately 10 percent of income. In contrast, the 45th President should flip at least some proportion of the college aid design so that students see increased benefits at the time most critical for them – when deciding whether to pursue a college education and choosing which college to attend.

Toward that end, low- and middle-income students that uphold academic preparation and completion responsibilities such as part-time work or service, should get a cap on their student loan debt principal equal to 10 percent of family income prior to enrollment, as opposed to a cap on monthly payments as a percentage of income after exit. The next President should attack debt aversion *up front,* for all students from low-income and hard-pressed middle-income families attending two and four-year degree granting institutions. Higher education should counter income inequality and operate as an engine of upward socioeconomic mobility rather than calcify inequality.

We believe coupling an entitlement of up-front, college affordability with a personal responsibility component is good policy and good politics. Research shows that students who complete a college preparatory track in high school, enroll full-time, and work or serve approximately 10-15 hours per week are substantially more likely to complete a degree than those who do not.[v] Among pre-college factors, high school curricular rigor is more highly correlated with completion than race, family income, or parent education.[72] Students who attend college full-time are four times more likely to complete than those enrolled exclusively part time.[73] Those who work or serve a minimal amount (20 hours a week is a tipping point) manage their time better, take their studies more seriously, and get better grades.[74] In addition to these student responsibility elements, we would also attach a student requirement to complete their degree program within 150 percent of regular time (e.g. 6 years full-time for a 4 year degree).[vi]

If the past is prologue, the 45th President will need to do more to insulate against political opposition by delineating clear offsets that don't raise taxes and embracing a design that nudges state policy without mandating state spending. How? There are three main sources of annual funding capable of providing substantial financing to cap student debt. First, already a number of student advocacy groups, including the National College Access Network, Young Invincibles, Education Trust, and New America have identified the current $5 billion a year in-school interest subsidy as a suboptimal federal higher education investment that warrants redirection. Mandatory funds are spent each year to pay interest on subsidized Stafford loans for low, middle, and in some cases upper middle-income students in school. The investment reduces debt loads upon higher education exit, but does not reduce the upfront costs of a college education. Moreover, no student responsibility component is attached. Students who fail to complete or make satisfactory academic progress get the same subsidy as those who meet minimal expectations. Instead of raising taxes, the 45th President could suggest

Figure 11: Student Responsibility Standards in Exchange for "A Cap On Student Loan Debt"

Student Responsibility Standards
Complete a college preparation curriculum in high school
Enroll full-time
Work or volunteer for 10-15 hours/week
Complete degree within 150 percent of time *(3 years for 2-year degrees, 6 years for 4-year degrees)*

A CAP ON STUDENT LOAN DEBT: 10% OF FAMILY INCOME

Source: For more detail, see: Michael Dannenberg and Mamie Voight, "Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families (Washington, D.C.: The Education Trust, Feb. 2013) and The Reimagining Aid Design and Delivery Consortium for Higher Education Grants and Work-Study Reform, "Beyond Pell: A Next-Generation Design for Federal Financial Aid" (Washington, D.C.: Oct. 2014).

[v] Fulfilling a 15-hour per week work expectation over a nine-month academic year at the federal minimum wage translates into $3,915 in gross income. That's an amount for maximum Pell Grant recipients more than sufficient to pay up front student loan debt capped at 10 percent of family income. In other words, for this subgroup of students at least some could earn a college degree debt-free. For more details, see Michael Dannenberg and Mamie Voight, "Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families (Washington, D.C.: The Education Trust, Feb. 2013) and The Reimagining Aid Design and Delivery Consortium for Higher Education Grants and Work-Study Reform, "Beyond Pell: A Next-Generation Design for Federal Financial Aid" (Washington, D.C.: Oct. 2014).

[vi] As a condition of eligibility, we would insist that participating colleges commit to making all necessary courses and course pathways available to students so they can complete within 150 percent of regular program time. If a student enrolls full-time, successfully completes his or her courses, and does not meet the 150 percent requirement because a necessary course was not offered, his or her institution should have to assume financial responsibility for any benefit loss.

redirecting the in-school interest subsidy to help cap student debt.[vii]

Second, the federal government provides institutions of higher education nearly $1 billion a year in Supplemental Education Opportunity Grants (SEOG) to assist students with exceptional need. But only about half of all colleges nationwide participate. Institution amounts vary based on an archaic formula rife with multiple 'hold harmless' provisions linked to historic program participation rather than institution characteristics and need. Better would be to repurpose SEOG funds to finance a broader, more generous, and more transparent cap on student loan debt that is targeted to needy, hard-working students, and is available at any public or non-profit, private institution of higher education that meets minimum performance benchmarks.

A third financing mechanism for a cap on student debt would be for the federal government to hold back a portion of federal funds to institutions of higher education in furtherance of a 'risk sharing' agreement with colleges.[viii] Currently, when either a college or student, depending on one's perspective, fails to provide or gain a postsecondary education of sufficient value enabling the student to repay his or her loan debt, only the student and federal taxpayer are exposed financially. The college gets paid either way. Full embrace of the concept of shared responsibility for student success would require colleges to put 'skin in the game.' Colleges with high student loan default rates should in essence pay the federal government a small penalty proportionate to the amount of defaulted debt. A five percent risk share would generate approximately $2 billion a year based on current federal taxpayer default costs.[75] Recently, Senator Lamar Alexander chaired a hearing on just such a proposal.[76]

Finally, to provide initial seed funding to support the state education block grant, we recommend following a recommendation from New America: Provide incentives for existing federal guaranteed loan borrowers (the Federal Family Education Loans program) to switch into the Direct Loan program. As detailed by New America, a 1-percentage-point interest rate reduction for borrowers who agree to "refinance" their debt into the direct loan program could provide the federal government with $17 billion in immediate savings over two years.[77]

Together, that $7.5-$10 billion in annual offsets combined with an upfront savings of $17 billion can be channeled anew into state education block grant aid. That aid would help counter: (a) state and local costs associated with ensuring all students get a fair opportunity to complete a college preparatory curriculum in high school; and (b) state or institution costs associated with capping student loan debt. Critically, this approach would not require a state maintenance of effort, although we still recommend one. In exchange for block grant aid, States would be free to meet the cap on student loan debt guarantee as they see fit. They could spend more of their own resources and channel increased funds to supplement or grow their own Pell Grant-like State need-based aid programs, like New York's Tuition Assistance Program. They could mandate public institutions of higher education redistribute existing operating and financial aid funds to need-based, as opposed to non-need based aid. Or they could invest in new institutions, open education programs, courses, or any other initiative they believe will help meet the required cap on student debt.

3. Set the Stage for the Next Big Higher Education Policy Movement: Accountability for Student Learning Outcomes

We have seen a marked rise in college access over the last 40 years and a small increase in degree attainment for certain groups. But a dirty little secret of higher education is that degree conferral does not signify any particular knowledge or skill level. A postsecondary degree is a proxy for academic achievement, but the evidence suggests it's a disturbingly inaccurate one:

- Employers are unimpressed with the writing skills of recent college graduates – even those from elite institutions. They report satisfaction with the workforce preparation of barely a quarter of all four-year college graduates.[78]
- Academic studies are equally troublesome. In 2011, researchers Joseph Arum and Josipa Roksa reported that over one-third of 2,300 tested postsecondary education students demonstrated no significant gains in critical thinking, complex reasoning, and writing skills after four years of undergraduate education.[79]
- The 2003 National Assessment of Adult Literacy survey found over two-thirds of postsecondary education graduates lacked basic numerical literacy and could not comprehend and compare common narrative texts like two opposing newspaper op-eds.[80]
- International comparisons, the latest from the 2013 Programme for the International Assessment of Adult Competencies (PIAAC), have found U.S. college graduates lag the international average in math and technology skills.[81]

In short, evidence from individual students, institutions of higher education, and international surveys suggest that the United States higher education system is threatened by its own rising tide of mediocrity accompanied by ever-increasing prices.

[vii] To be clear, however, this is a suggested compromise. Our preference would be to increase aggregate higher education resources coupled with further reforms.

[viii] It's important to note, however, that risk-sharing may not be required if the CBO agrees to revise its cost estimate methodology to account for losses in program and institutional eligibility due to the Gainful Employment regulations and our recommended minimum performance standards for institutions of higher education overall. See Recommendation #1 (p. 14).

Unfortunately, whereas the groundbreaking *Nation at Risk* report pointed to National Assessment of Educational Progress (NAEP) scores of elementary and secondary school students to pierce the nation's consciousness on education quality and track improvements, there is no higher education counterpart. There is no national indicator of performance that draws on a representative sample of institutions and sectors (public, private, for-profit) or provides results for disaggregated groups. We don't know if diversity efforts are manifested only in college admission offices or if they continue and lead to meaningful educational opportunities for historically underserved groups in terms of learning outcomes. We have no trend data to see if the nation is gaining more skilled and knowledgeable citizens in exchange for increased public resources and private tuition. States claim they have leading systems of higher education warranting employer relocation, but we don't know if postsecondary students are learning more in California, Pennsylvania, or North Carolina.

The 45th President should set the stage for work in the next big higher education policy domain: student learning outcomes. It's time for a "Higher Ed NAEP." Critics of testing might blanche at the idea of another testing regime imposed upon students. But it's important to understand what this proposal is and is not. Similar to NAEP, we recommend a national assessment of a representative sample of graduating college students in the United States. Student-learning data would be aggregated and presented at the national, sector, and state level. Data would be disaggregated by age, gender, race, and family income to illustrate achievement gaps clearly. It would *not* be an individual student-testing regime where all 18 million undergraduates are tested. It would be an assessment of vital academic skills – reading, critical thinking, numerical problem solving, and writing – involving approximately 50,000 students every two to four years.

HOW WOULD A "HIGHER ED NAEP" WORK?

By Mary Nguyen Barry

1. **What should be assessed and how?** While a number of options exist, we recommend starting with the Collegiate Learning Assessment (CLA) from the Council for Aid to Education for the four-year sector.

   The CLA provides the most compelling example of an assessment of student learning outcomes at four-year institutions due to its ability to measure general – and growth in – higher-order cross-discipline skills, such as critical thinking, analytic reasoning, problem solving, and written communication. The CLA performance task component is widely used among student-learning assessment efforts and is widely considered to be the most reliable and state-of-the-art.[1] Students are assigned a role in a scenario, such as a mayor's advisor, and are asked to analyze a set of disparate materials, synthesize the information, and draw conclusions about a real-world problem.

   We recommend beginning in the four-year college sector because their degree-oriented missions are clear and there is some agreement on the general education goals of a traditional four-year undergraduate curriculum.[2]

2. **Who should be tested and when?** A number of options exist as to who and when to test, depending on whether the assessment aims to provide a snapshot of student learning at a single moment in time or an estimate of student growth over time. Because our proposal suggests, as a preliminary matter, measuring baseline student learning, we recommend testing only a sample of college seniors. This can follow the model of the 2002 National Forum on College-Level Learning, a five-state demonstration project convened by the National Center for Public Policy and Higher Education to measure college graduates' general intellectual skills. Their target population included all students officially enrolled in the most recent fall term who were expected to complete their four-year degree the following spring.[3]

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[1] The Academically Adrift study, the National Forum on College-Level Learning (a five-state demonstration project to measure state-level student learning), a consortium of Council of Independent Colleges, and the international AHELO feasibility study all have used the CLA performance task in their efforts.

[2] A "Higher Ed NAEP" could be applied at two-year college level as well. There are assessments available such as ACT's WorkKeys and Collegiate Assessment of Academic Proficiency that examine what students know and are able to do at the end of two years postsecondary education in areas such as applied mathematics, locating information, and reading for information. But because the missions of two-year colleges are more complex, development of an extension to this group will take additional time and should occur after a valid and reliable assessment is in place for four-year college students.

[3] We do not dismiss the idea of measuring growth in student learning over four years of a single cohort. One of the unique features of the CLA, after all, is to measure an institution's contribution to student learning either by tracking a group of students over time or by controlling for the student's prior academic preparation. Conceivably, again on a national sample basis, one could assess core knowledge and skill levels among rising freshmen and soon to be graduating seniors as well. That would allow a Higher Ed NAEP to serve more truly as a report card on our nation's colleges.

HOW WOULD A "HIGHER ED NAEP" WORK? (CONTINUED)

3. **How much would it cost? Who would pay?** If we were to follow the state-level cost estimates provided by the National Forum on College-Level Learning for our proposed testing model, it would cost each individual state approximately $350,000 in non-personnel costs to conduct a representative sample of learning assessments.[4] Alternatively, if all 50 states plus the District of Columbia and Puerto Rico were to join a "national consortium" under the aegis of the federal government and partner with an established organization that already has a student-learning data system in place for data analysis, such as the National Center for Higher Education Management Systems (NCHEMS), total non-personnel costs would be approximately $325,000 per state.[5] In other words, total non-personnel cost to the federal government – or to be shared by participating partners – would come to approximately $17 million.

   This rough estimate is generally in line with federal costs spent on the K-12 NAEP assessment. Since its inception in 1969, costs have ranged from $7 million to $50 million in 1998 as voluntary state testing became implemented. It wasn't until the advent of No Child Left Behind, which required mandatory national and state testing in certain grades, and subsequent expansions, that NAEP costs escalated to $140 million in recent years.[6]

4. **How to achieve higher education and student buy-in?** Successful implementation of a national assessment will require cooperation and participation from the higher education community, including associations, faculty, and students. The first step is to establish a mutual understanding of the purpose, goals, and feasibility of the assessment. It would be prudent to establish an exploratory committee, much like the one for NAEP, with representatives from higher education associations, including the State Higher Education Executive Officers (SHEEO), college presidents, faculty, and students, and organizations with technical expertise with higher education assessment, such as the Council for Aid to Education, College Board, and ACT.

   One of the first obstacles this group will likely face is skepticism that a standardized test would be able to measure elusive skills like critical thinking or that general skills are more important than discipline-specific knowledge. A consortium of Council of Independent Colleges, however, found that faculty and administrators were much more receptive when it was explained that students' skills and development would be assessed through a performance task, much like an assignment or project they would face in class. Moreover, once explained that such performance tasks align with what academics typically face in their own research when facing ill-structured problems within their respective disciplines, faculty agreed that there were general crosscutting skills that can and should be measured. Over time, faculty began to understand that their responsibilities extended beyond disciplinary knowledge to the essential development of critical thinking and communication.[7]

   Another challenge is how to encourage students to participate meaningfully. Student participation is by far one of the trickiest logistical challenges colleges have faced, in terms of student recruitment, attendance, and/or retention for longitudinal studies, as well as student motivation to take the test seriously. Several initiatives have provided students incentive payments, while others have offered students academic credit, a transcript notation, or a certificate. Institutions may also consider embedding the assessment as an orientation or graduation supplement to facilitate attendance and effort.

   Finally, similar to the governance structure of the K-12 NAEP, it is advisable that a similar semi-independent bipartisan governing board be created to set testing policy, akin to the National Assessment Governing Board. The board would represent the "Higher Ed NAEP's" clients, such as governors and state legislators from different political parties, representatives from the State Higher Education Executive Office, faculty, business representatives, curriculum specialists, testing/measurement experts, college presidents and provosts, and members from the public.

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[4] Costs include administrative and materials costs, including the CLA assessment for 12 colleges per state (for 200 students per institution = $6,500/institution or $78,000 total per state), the cost for each state to set up an independent data system ($25,000), and student incentive payments ($75 x 2,400 students per state or $180,000 total per state). See: Margaret A. Miller and Peter T. Ewell, "Measuring Up on College-Level Learning" (San Jose: National Center for Public Policy and Higher Education, Oct. 2005), Table 3.

[5] If all states partnered with a data analysis organization such as the National Center for Higher Education Management Systems, the fixed cost would be $50,000 for the first state and a marginal cost of $7,000 for each additional state. Ibid.

[6] All figures have been adjusted from 1998 dollars into 2014 dollars. Maris A. Vinovskis, "Overseeing the Nation's Report Card: The Creation and Evolution of the National Assessment Governing Board" (Michigan: University of Michigan, Nov. 1998), 28.

[7] David C. Paris, "Catalyst for Change: The CIC/CLA Consortium" (Washington, D.C.: The Council of Independent Colleges, 2011).

CONCLUSION

The Obama Administration's higher education legacy extends the federal policy paradigm from supporting "access and affordability" to now also insisting on measurable "quality and accountability" for results. It has been aggressively pursued with communications, legislative, and regulatory tools. It has filtered down to state leaders and specialized accreditation bodies.

But as in K-12 education, there are forces that would prefer to debate "resources *versus* reform" rather than "resources *and* reform." Will the 45th President retreat to playing a politically comfortable role? Or will he or she be up to the challenge of the newly extended higher education policy paradigm? We urge the latter.

NOTES

1. Michael Dannenberg and Mary Nguyen Barry, "Tough Love: Bottom-Line Quality Standards for Colleges" (Washington, D.C.: The Education Trust, 2014).

2. According to the Association of American Universities, the 62-member association of research universities received 58 percent, or $23.4 billion, in total federal research and development funding at universities in 2011. Using those numbers, we estimated the total federal R&D funding at all universities to be approximately $40.3 billion. See: Association for American Universities, "By the Numbers" (Washington, D.C.: Aug. 2014), http://www.aau.edu/WorkArea/DownloadAsset.aspx?id=13460.

3. In fiscal year 2008, Pell program costs were $18.3 billion. In fiscal year 2015, Pell program costs were $33.9 billion. See: U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2015 Budget Request: Justifications," p. Q-21.

4. Education Reform Now analysis of Pell program costs above baseline levels from fiscal year 2008 to fiscal year 2015. See: U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2015 Budget Request: Justifications," p. Q-21.

5. In fiscal year 2008, the maximum Pell award was $4,731. In fiscal year 2015, the maximum Pell award was $5,830. See: U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2015 Budget Request: Justifications," p. Q-21.

6. In the 2008-09 award year, there were 6,155,197 Pell recipients. The number of Pell recipients peaked in the 2011-12 award year with 9,439,578 students before receding to 8,854,000 students in the 2015-16 award year. See: U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2013 Budget Request: Justifications," p. P-19 and U.S. Department of Education, Student Financial Assistance, "Fiscal Year 2015 Budget Request: Justifications," p. Q-21.

7. Education Reform Now analysis of the National Postsecondary Student Aid Study: 2012 Undergraduates.

8. The 2009 American Recovery and Reinvestment Act dedicated $98.2 billion of $787 billion to the Department of Education and an additional $17.1 billion for Pell Grants in FY 2009 and 2010. See: The Federal Education Budget Project, "Background & Analysis: American Recovery and Reinvestment Act" (Washington, D.C.: New America, Feb. 2014), http://febp.newamerica.net/background-analysis/american-recovery-and-reinvestment-act; and

   U.S. Department of Education, "Education Secretary Duncan Highlights Budget Proposals to Increase College Access and Affordability" (Washington, D.C., Press Releases, Feb. 26, 2009), http://www.ed.gov/news/press-releases/education-secretary-duncan-highlights-budget-proposals-increase-college-access-and-affordability.

9. $36 billion was devoted exclusively to the Pell Grant program, with approximately $7 billion to other higher education programs. See: Doug Lederman, "Revamped Aid Bill on Track" (Washington, D.C.: Inside Higher Ed, March 2010), https://www.insidehighered.com/news/2010/03/19/safra.

10. Molly Corbett Broad, Office of the President, "Budget Reconciliation Letter" (Washington, D.C.: American Council on Education, March 2010), http://www.nacacnet.org/issues-action/LegislativeNews/Documents/BudgetReconciliationLetter.pdf.

11. The Republican Party's budget proposal for 2012, for example, called for "return[ing] Pell Grants to their pre-stimulus levels to curb rising tuition inflation." Budget proposals from 2013 to 2015 simply call for "put[ting] Pell on a sustainable funding path" and "maintaining the maximum award level for Pell." See: "The Path to Prosperity: Restoring America's Promise-Fiscal Year 2012 Budget Resolution" (Washington, D.C.: House Committee on the Budget, Chairman Paul Ryan of Wisconsin, April 2011) and budget proposals for fiscal year 2013 and beyond at http://budget.house.gov.

12. Adam Looney, "Helping Students and Families Access College Tax Benefits" (Washington, D.C.: U.S. Department of Treasury, June 2014), http://www.treasury.gov.edgekey.net/connect/blog/Pages/Helping-students-and-families-access-college-tax-benefits.aspx.

13. Arloc Sherman and Chye-Ching Huang, "Economic Recovery Package Would Give 3.8 Million Low- and Moderate-Income Students – Thousands in Every State – Access to Higher Education Tax Credit" (Washington, D.C.: Center on Budget and Policy Priorities, Feb. 2009), http://www.cbpp.org/research/economic-recovery-package-would-give-38-million-low-and-moderate-income-students-thousands.

14. Doug Lederman, "Revamped Aid Bill on Track" (Washington, D.C.: Inside Higher Ed, March 2010), https://www.insidehighered.com/news/2010/03/19/safra.

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office/2011/10/25/we-cant-wait-obama-administration-lower-student-loan-payments-millions-b.

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21. Education Reform Now analysis of U.S. Department of Education, “Federal Student Loan Portfolio: Direct Loan and Federal Family Education Loan Portfolio by Loan Status and Direct Loan Portfolio by Delinquency Status”(Washington, D.C.: Office of Federal Student Aid, March 2015), https://studentaid.ed.gov/about/data-center/student/portfolio.

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24. U.S. Department of Education, “Comparison of FY 2011 Official National Cohort Default Rates to Prior Two Official Cohort Default Rates” (Washington, D.C.: July 2014), http://www2.ed.gov/offices/OSFAP/defaultmanagement/schooltyperates.pdf.

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27. Education Secretary Margaret Spellings also pursued a quality and accountability higher education agenda under President Bush. She convened a Commission on the Future of Higher Education, which called for a federal consumer-friendly database with information on institution price and associated student success, including student learning outcomes, that would allow users to search, weigh, and rank institutional performance. Spellings herself also pushed for an accreditation system focused more on student outcomes, a restructured financial aid program to incentivize lower pricing, and a federal student unit record database. None of these policies were adopted during her tenure.
For more information, see: U.S. Department of Education, “A Test of Leadership: Charting the Future of U.S. Higher Education, A Report of the Commission Appointed by Secretary of Education Margaret Spellings” (Washington, D.C.: Sept. 2006).

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    U.S. Senate Committee on Health, Education, Labor, and Pensions, “For-Profit Higher Education: The Failure to Safeguard the Federal Investment and Ensure Student Success-Executive Summary” (Washington, D.C.: July 2012).

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