EDUCATION
REFORM NOW

February 22, 2018

The Honorable Lamar Alexander
Chairman
U.S. Senate Committee on Health,
Education, Labor & Pensions
428 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Patty M. Murray
Ranking Member
U.S. Senate Committee on Health,
Education, Labor & Pensions
720 Hart Senate Office Building
Washington, DC 20510

Dear Senators Alexander & Murray:

Thank you for the opportunity to offer comments and recommendations regarding reauthorization of the Higher Education Act of 1965 for the U.S. Senate Health, Education, Labor & Pensions Committee's consideration. The below comments and recommendations center on two key areas: (1) affordability, and (2) accountability.

Detailed discussion and rationale underlying these recommendations can be found in the following publications authored by our staff: *Doing Away With Debt: Using Existing Resources to Ensure College Affordability for Low and Middle-Income Families*; *Resources & Reform: The Obama Administration's Higher Education Legacy and 45th President's Challenge;* and *New Colleges of Education: A Path for Going from Concept to Reality*. Questions should be addressed to Michael Dannenberg, our Director of Strategic Initiatives for Policy, a co-author of each of the above publications.

AFFORDABILITY

The touchstone of the Higher Education Act (HEA) is its commitment to student aid. But much of our current financial aid system has it backwards. We focus aid on students already enrolled in college and borrowers who already have graduated. In recent years, the federal government has increased backward-looking higher education benefits, such as the American Opportunity Tax Credit and embraced a student loan repayment cap equal to approximately 10 percent of discretionary income. HEA reauthorization 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.

1. **Low and middle-income students that uphold academic preparation responsibilities, such as completion of a college preparatory track in high school, and postsecondary commitment responsibilities, such as part-time work or service and full-time study, should get an <u>up-front, debt-free guarantee</u> for the total cost of college.**

At the very least, students who meet the above criteria should get a cap on their cumulative student loan debt expectation equal to 10 percent of family income prior to enrollment, as opposed to simply a cap on monthly payments as a percentage of income after exit. It can be paid for through existing revenue sources.

Attack *up-front* debt aversion for all students from low-income and hard-pressed, middle-income families attending at least public if not both public and non-profit private 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 up-front, college affordability guarantee with student and institution of higher education responsibility components 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. Among pre-college factors, high school preparation and curricular rigor are more highly correlated with completion than race, family income, or parent education.

Students who attend college full-time are four times more likely to complete than those enrolled exclusively part time. 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. By the same token, institutions of higher education that guarantee availability of required courses, commit to need-based institutional aid, and hold staff accountable for student results generate higher levels of completion, and crucially for college affordability purposes, higher levels of on-time completion. *On-time completion* of Black male students at the University of North Carolina at Chapel Hill *has doubled* since that school instituted a debt-free guarantee (the Carolina Covenant) for its academically prepared students.

Today, the typical bachelor's degree recipient completes his or her studies in five years of full-time equivalent work, not four. The typical associate's degree recipient completes his or her studies in three years of full-time equivalent work, as opposed to two. If we could speed degree completion to simply being on-time, we could increase college affordability by 20 to 33 percent.

2. **<u>A sizable federal-state partnership</u> grant designed to leverage on-time completion is essential to ensuring *sustained* improvement in college affordability and should be viewed as <u>essential to a reauthorization of the Higher Education Act of 1965</u>.**

In largely bypassing states, current federal aid programs deprive state leaders of the leverage and resources they need to drive improvements in college cost and quality. That's a mistake because, more than any other stakeholder, state policymakers have the power and position to cause — or constrain — tuition and fee growth at public colleges and universities.

States are the best leverage point for systemically addressing the challenges of college access and affordability. Declining state aid as a proportion of revenue is the number one cause of escalating public college tuition and fees. Between 2008 and 2018, the federal government nearly doubled Pell Grant funding, tripled higher education tax benefits, and barely affected college affordability because of declines in state funding and concomitant increases in public college tuition and fees.

Currently there is limited incentive for states to not cut their own higher education funding and for public colleges to not in turn raise tuition and fees well beyond inflation and the growth or lack thereof in median family income. A federal-state grant with pass through funds to public institutions of higher education conditioned on meeting an outcome for student affordability, such as a debt-free guarantee for those from low and middle-income backgrounds, would alter the incentive structure. And <u>a state maintenance of effort provision would *not* be required</u>, although we support such a requirement, to right the state and institution incentive structure toward student and family affordability.

States are in the best position to ensure that among public institutions of higher education within their borders, students can complete general education requirements at a low-cost community college and have those credits accepted — in full — by all public four-year institutions statewide. More than half of bachelor's recipients transfer at some point. Community college students transferring to four-year schools lose on average over 20 percent of credits previously earned, thus decreasing their odds and increasing their costs of attaining a bachelor's degree.

Further, states control elementary and secondary education, and consequently the preparation students need for success at the postsecondary level. A key to improving on-time completion and thus college affordability is improving secondary student preparation for college. One in four rising college freshmen is required to enroll in remedial or developmental education at the postsecondary level. Nearly half of them are going to four-year colleges. Nearly half come from upper and middle-income backgrounds.

Although a number of state leaders — in Indiana through its 21st Century Scholars Program, and in Tennessee through its Tennessee Promise initiative, for example — have stepped up in using an affordability promise to boost student motivation at the secondary level, federal policies need to work to engage many more state leaders in the effort. Absent a federal incentive and federal quality benchmarks, we fear all too many state and local college promise programs that are embraced in the coming years will under deliver and potentially cause many students who assume debt but do not graduate more harm than good.

But a new compact — between the federal government and states, and between one generation and the next — will help expand economic mobility, enhance academic rigor, and repair our fraying social contract. Financial aid is supposed to help students help themselves, so that they in turn may one day help others. In recent decades, it has drifted a long way from those roots, used as often to burnish institutional reputations as to help the students who can't go to college without it. An updated system should return our aid programs to their original purpose — the purpose that voters and taxpayers continue to support by wide margins: helping students help themselves so they in turn can contribute to our collective prosperity and well-being.

We have suggested offsets for such an initiative in the past, including drawing under targeted tax expenditures that are as large in size as the entire Pell Grant program. We would submit the best big offset within the Committee's jurisdiction is to provide incentives for existing federal guaranteed loan borrowers (the Federal Family Education Loans program) to switch into the Direct Loan program. As detailed by the New America Foundation, 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.

ACCOUNTABILITY

3. **The next HEA reauthorization should establish <u>bare minimum institution performance standards</u> for low-income student access and overall student success at least among four-year degree granting institutions of higher education. It should couple minimum institution performance standards with <u>additional resources for the turn-around efforts of schools struggling to boost student completion and reward high completion colleges</u>, particularly minority serving institutions, looking to improve further on completion and other student success metrics.**

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 into the bottom five percent on any of these three benchmarks should be put on notice and given between three and six years to improve. Colleges that are non-profit and struggling with graduation rates or student loan repayment rates should receive additional federal technical and financial assistance to meet these benchmarks. In 2011, some 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, and 10 percent were Historically Black Colleges and Universities. Approximately 600,000 students 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). Nearly $88 billion in federal aid annually goes to colleges that currently rank in the bottom five percent on student success metrics.

We submit that upon notice, unjustifiably low access four-year colleges that rank in the bottom five percent of all schools in terms of Pell Grant student enrollment, should have to pay a fee to participate in the federal student loan program—a fee that is in turn used to assist under resourced institutions providing high rates of low-income student access, but struggling with completion. Those schools should be given time as well as financial support to improve, but if they fail to do so, they should eventually have to return improvement funds voluntarily accepted. Students are more important than institutions of higher education.

We urge the ASPIRE Act, introduced by Senators Coons (D-DE) & Isakson (R-GA), be incorporated into the next HEA reauthorization as it is consistent with our overall recommended frame. We think it is very important that these recommended minimum institution performance standards supplement existing program integrity provisions with regard to non-federal investment and student loan repayment success.

4. **Do not "risk adjust" institution outcomes based on student demographics.**

We cannot stress enough our philosophical opposition to consideration of proposals to adjust institutional outcomes based on personal student characteristics or institutional mission. The Association of Public and Land - Grant Universities (AAPLU), for example, has called for a "risk adjustment" in institution outcome reporting based on student characteristics. We believe such adjustment would consecrate a different set of expectations for different groups of students based on immutable characteristics, such as race and gender, and could allow colleges to escape responsibility for providing quality service to every student they voluntarily enroll. It is what former President George W. Bush referred to as "the soft bigotry of low expectations."

Never before has there been any outcome adjustment in federal higher education policy based on income or immutable student characteristics. In fact, the Obama administration firmly rejected this approach in the past during the gainful employment debates. The Department of Education insisted back then that it was appropriate to hold all institutions to certain minimum standards irrespective of student demographics. The Committee should apply that same principle in the context of any accountability system applicable to all degree-granting institutions of higher education.

5. **Institutions of higher education should be held accountable for demonstrating a meaningful commitment to equity in serving their students. Colleges should report on and be held accountable for gross disparities in degree completion, job placement, and other outcome metrics of major student racial and economic subgroups.**

There are scores of similar colleges with similar admissions standards (e.g. similar SAT/ACT scores, similar incoming student high school grade point averages, and even similar student demographics) that generate inequitable completion results among major racial and economic subgroups and wildly different student completion results as compared to peer institutions.

Michigan State University, for example, graduates only 3 in 20 Black males on-time. Its underrepresented minority versus non-underrepresented minority graduation gap for first-time, full-time students measured six years from initial enrollment is over 20 percentage points. Its on-time graduation gap is over 30 percentage points – all according to data the university reports to the U.S. Department of Education. Meanwhile, Florida State University which has comparable median SAT scores, comparable cost to Michigan State and a substantially greater proportion of racial minorities and low-income students graduates Black males on-time at three times the rate of Michigan State. Florida State has virtually no graduation gap between underrepresented minorities and their peers. It graduates students overall at a much higher level and has a fourth of the endowment resources, again according to data reported by the institution to the U.S. Department of Education.

Just as importantly, there are a number of colleges that have demonstrated marked improvement in equity gap closing in terms of completion and overall institutional improvement as compared to peer institutions again in terms of completion. In 2007, Georgia State University graduated underrepresented minorities at a rate three-quarters that of students overall. By 2012, that gap was zero. In fact, underrepresented minorities graduated at a slightly higher rate than students overall. Over the last 10 years, Georgia State's graduation rate has improved by 22 percentage points. Similar stories can be told for schools ranging from California State at Fullerton to City University of New York to Fort Worth Community College.

6. **As a required intervention, four-year institutions of higher education with gross outcome-measured inequities among subgroups of students should be required to markedly and progressively increase their institutional aid commitment to recruitment, retention, and completion of students in those subgroups substantially underperforming relative to their peers.**

We and our colleagues at *Education Trust* have time and again identified comparison colleges, low performers, and high performers and will continue to do so. But there are limits to the impact of transparency on institution improvement. Institutions of higher education that have improved student outcomes share three key characteristics. They have strong leaders committed to the goal of improved overall student and student subgroup performance who hold others accountable for improvement. They make smart use of institution-specific data analytics. And they invest resources in student success be it through increased financial aid or redesigned courses.

Unfortunately, all too many institutions of higher education have failed to adopt these proven practices directed at increased rates of student success. All too many institution of higher education personnel view "weeding" out students with low pass rates as a symbol of rigor when more often it should be viewed as a badge of shame, particularly with respect to underrepresented minority students and those from low-income families. HEA should insist institutions of higher education work to remedy inequities that their neglect makes worse.

7. **As a matter of consumer protection as well as higher education accountability, we urge HEA: (a) <u>re-establish gainful employment standards as per the Obama administration's final regulatory effort</u>, and (b) extend regular consumer bankruptcy protection to federal and non-federal student loan debt.**

For some time, HEA has required that vocational postsecondary programs prepare students for gainful employment in a recognized occupation to be eligible for receipt of public HEA funds. To meet this goal, in 2014, a Gainful Employment (GE) rule was finalized requiring all non-degree programs to publicly report debt-to-earnings rates and annual earnings. The rule held programs that left unreasonably high percentages of students with more debt than they are able to repay accountable for failing to meet GE standards. Further, it protected students who were already enrolled in failing programs from further financial harm by discharging their federal student loan debt. Unfortunately, implementation of these regulatory protections was recently rescinded by the U.S. Department of Education.

Consider that at Florida Technical College, a for-profit college in Orlando, students can seek an associate's degree in medical assisting for $31,555 per year. Yet, graduates from this program average an income of $14,500 per year (lower than minimum wage) and owe an average of $17,000 in student debt. This type of program is not alone. Some 803 programs failed the GE rule, of which 98 percent were for-profit institutions.

With fully and fairly implemented GE standards, students are provided with better outcome data with which to make better enrollment decisions. In the case of persistently weak programs, unavailability of federal aid dissuades students from pursuing courses that set them on unsustainable financial pathways. Finally, taxpayers stop subsidizing programs that are failing to produce outcomes.

A final accountability comment with respect to risk sharing. When students do not to complete their certificate or degree programs, typically only the student (and the taxpayers funding any loans or grants he/she received) faces an economic loss. Institutions are left largely un-penalized for their completion rates. As a result, leaders on both sides of the aisle have considered risk-sharing agreements, where institutions of higher education are expected to cover a portion of the costs associated with students who do not succeed.

In principle, we believe it is logical for institutions to have some "skin in the game" to encourage greater institutional innovation and investment in helping students complete their degrees and secure gainful employment. However, we urge caution in that risk sharing programs may encourage institutions to seek to only enroll students with a high likelihood of success. This would, in turn, disproportionately favor students from high-income backgrounds, undermining the mobility goal of higher education. Therefore, <u>we recommend that any risk sharing proposal reward institutions of higher education that serve large percentages of high risk or high need students, and ensure that any savings be driven back into student aid for low-income or otherwise disadvantaged students.</u>

Thank you for your consideration of these recommendations.

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