Maryland Consumer Rights Coalition

**Testimony to the Education, Health & Environmental Affairs Committee**
**SB294: Higher Education - Annual Revenues of For-Profit Institutions - Limitation on Enrollment (Veterans' Education Protection Act)**
**Position: Favorable**

February 04, 2020

The Honorable Senator Paul Pinsky, Chair
Education, Health, & Environmental Affairs Committee
2 West, Miller Senate Office Building
Annapolis, MD 21401
cc: Members, EHE Committee

Honorable Chair Pinsky and Members of the Committee:

MCRC is a statewide coalition of individuals and organizations that advances financial justice and economic inclusion for Maryland consumers through research, education, direct service, and advocacy. Our 8,500 supporters include consumer advocates, practitioners, and low-income and working families throughout Maryland.

We are writing today in support of bill SB294-The Veteran's Education Protection Act. This bipartisan legislation will protect veterans and former foster youth by closing the 90/10 loophole.

**Background**
In recent years, for-profit colleges and career schools have come under scrutiny for poor student outcomes and high debt for graduates relative to earnings.

In 2016, the Maryland Consumer Rights Coalition released a research report called *Making the Grade: an Analysis of For-Profit Colleges and Career Schools in Maryland*. Our report found:

- For-profit schools cost three to five times more, on average, than their public counterparts. For example, the report found that, on average, Maryland students pay $3,786.35 for a public school's Pharmacy Technician program and $15,813 at a similar for-profit school program.
- Only 33% of students pursuing bachelor's degrees at for-profits reached graduation.
- Only 58% of students in for-profit schools in Maryland who managed to graduate found employment.
- In Maryland, of the total number of African-Americans enrolled in post-secondary education, 62% were enrolled at for-profit and private career schools, even though African-Americans only comprise 30% of the population in Maryland. In communities where wealth building is most critical, predatory for-profit schools are building a legacy of debt.

Over the past few years, the Maryland General Assembly has led other states in for-profit school regulation. Last year, this committee passed legislation to make Maryland the first state in the nation to regulate for-profit colleges that are re-classifying as nonprofits to circumvent state regulations.

**The 90-10 Rule**

Currently, federal law prohibits for-profit colleges from receiving more than 90% of their revenue from federal financial aid. The other 10% must come from other sources, but still includes other government monies (such as G.I. Bill Benefits and foster youth waivers). This "90-10 rule" was put in place to prevent the abuse of government-backed grants and loans for students. If a school's offerings are truly valuable, someone other than the government (i.e. employers, students with money to put towards higher ed, and private lenders) should be willing to put in *some* amount of funding towards the school.

However, the effectiveness of this federal rule is undermined by a major loophole that exists to allow government monies other than federal loans make up the last 10% of the school's funding. This loophole makes it possible for schools offering little value to students to grow rapidly using 100% government grants and loans from taxpayers. It also incentivizes failing schools to target groups like veterans (for their G.I. Bill benefits) and foster youth (for their waivers) to make up that 10% of funding.

**The Importance of a Strong Rule**

A strong rule is crucial to educational integrity because for-profit colleges should not be funded solely by federal taxpayers, and federal taxpayers should not be responsible for keeping failing for-profit schools open. If a college offers a quality education at a competitive price, someone other than the federal government, such as employers, scholarship providers or students, should be willing to pay for attendance at the school. One publicly traded for-profit affirmed the significance of employer investment, calling it an "indicator of our educational quality."[1] SB294 has been crafted in such a way to ensure the rule only captures bad actors – good actors offering value to employers and students should have no issue complying with the 90-10 rule.

In fact, according to our calculations, no brick-and-mortar or online schools operating in Maryland today would fail this test. However, it is important to put this rule in place to establish a clean, bright line and eliminate any incentive to target Maryland veterans and former foster youth since these funds will now be counted in the 90 percent.

Requiring for-profit schools to find sources other than taxpayer money to fund their operations is a strong quality accountability mechanism: in the 1990s, as the University of Phoenix grew to more than 100,000 students, it did so largely because they demonstrated their value to employers, who paid for many of their employee's tuition.

A good actor should be able to clearly demonstrate value, and therefore should have no issue finding income from some source other than the federal government. This other funding could come from any employer that is

[1] Career Education Corp's second quarter 2014 earnings call. August 7, 2014. http://bit.ly/1zeWKBb.

willing to pay for training for their employees, from scholarship/foundation organizations, or from students with some – even a little – bit of savings to spend on school.

This rule **does not increase costs for schools**. It does not regulate how schools spend money or how they recruit students. It simply requires institutions to demonstrate or improve quality to students with funding options other than taxpayer dollars.

Public schools, on average, cost far less than for-profit colleges, put students in less debt, lead to fewer defaults on loans, and allow students to earn greater salaries upon graduation. Moreover, there is already oversight in place for public colleges and universities through budget hearings, studies, and more.

SB294 protects veterans and former foster youth from being targeted by predatory for-profit colleges. Current for-profit colleges operating in Maryland should be able to easily comply with this law; it provides a quality check on these institutions; and ensures that taxpayer money is not supporting low-quality institutions.

For all these reasons, we support SB294 and urge a favorable report.

Best,

Marceline White
Executive Director