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For-Profit Colleges Face State Crackdowns as U.S. Rules Delayed

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By John Lauerman

April 7 (Bloomberg) -- For-profit colleges, criticized by the U.S. for their recruitment practices, are facing increased state regulations as the government weighs measures to tighten access to federal student aid.

Maryland's legislature passed a bill April 4 that would boost the state's regulation of for-profit colleges. California Governor Jerry Brown signed a measure March 24 limiting their eligibility for some grants. At least 16 states have proposed or enacted laws affecting for-profit colleges this year, according to the National Conference of State Legislatures in Denver.

States impatient for federal rules are taking action, said Kentucky State Representative Reginald Meeks. The Education Department delayed plans to restrict for-profit colleges' access to \$30 billion in U.S. funds last year after the industry doubled spending on lobbying. Lawmakers in the Republican-led U.S. House of Representatives made a proposal to block the regulations by barring funding.

"On the local level, I don't think we should wait at all for Congress or the federal government to act," said Meeks, a Louisville Democrat who sponsored a measure to restrict for-profit colleges.

Restrictions on student aid that single out for-profit colleges are unfair, said Harris Miller, president of the Association of Private Sector Colleges and Universities, a Washington-based trade group. State legislators clamping down on aid to for-profit colleges want to cut education budgets, and they're reacting to increased scrutiny of the sector in Washington, he said.

'Artificial Barriers'

"We'd be concerned about states that put up artificial barriers to student aid," Miller said in a telephone interview. "They're saying 'You can get this grant, but you can't go to this school.'"

Miller said he's concerned that anti-industry regulations may spread from state to state. His trade group, formerly the Career College Association, spent \$1.1 million on Washington lobbying in 2010, five times as much as in 2009.

Industrywide, the combined spending by Miller's group and companies including Corinthian Colleges Inc., based in Santa Ana, California, and Washington Post Co.'s Kaplan Higher Education unit rose to \$6.6 million in 2010 from \$2.6 million a year earlier, according to Senate records and the Center for Responsive Politics, a Washington-based research group.

The Education Department said last year that it will release regulations in early 2011 that will tie for-profit colleges' eligibility for federal funds to graduates' incomes and loan repayment rates. The department delayed the rules after getting a record 91,000 letters, most of them opposed to the proposal.

States Investigate

State attorneys general in Kentucky, Florida, Iowa and Illinois are investigating for-profit colleges after a U.S. government probe released in August found evidence of misleading recruitment practices. While the report was revised in November, its conclusions were unchanged. The report was "erroneous and deeply biased," the Coalition for Educational Success, a Chicago-based industry group, said in February.

Iowa Senator Tom Harkin, the Democrat who chairs the Senate education committee, has held four hearings on for-profit colleges' recruitment, graduation rates and student-loan defaults that are twice as high as those of comparable public institutions. Harkin got \$211,000 in support for his re-election from educators and their families last year, according to the Center for Responsive Politics.

Lawmakers in Arizona, Iowa, Idaho, Massachusetts, Minnesota, Missouri, Mississippi, North Carolina, North Dakota, Nebraska, New York, Texas and Utah have also proposed bills this year relating to for-profit colleges, according to the conference of legislatures. Most of the measures would boost oversight of education companies or restrict sales practices.

Maryland Bill

The Maryland measure responds to the rapid growth of for-profit colleges, said Paul Pinsky, a Democratic state senator from Prince George's county. His bill would require education companies to create a fund to reimburse students whose schools close abruptly, and prohibit payment to recruiters based on the number of students they sign up. The proposal would wean for-profit colleges off state aid within five years.

"You can't turn on the TV without seeing ads for a new for-profit college," Pinsky said in a telephone interview. "The numbers have grown significantly."

Maryland Governor Martin O'Malley, a Democrat, supports the legislation and plans to sign it, said Shaun Adamec, a spokesman for the governor.

California Regulation

The California regulation will tie students' eligibility for state tuition funds, called Cal Grants, to their institutions' loan-default rates. Almost all the schools

whose students would be rendered ineligible for the aid are for-profit colleges, according to an analysis by the California Legislative Analyst's Office.

"The state is spending tens of millions of dollars on for-profit colleges and getting very little back on its investment," said Mark Leno, a Democratic state senator from San Francisco, who sponsored California's measure.

For-profit colleges received \$94 million in Cal Grants in the 2009-2010 award year, according to state records. Some colleges owned by Carmel, Indiana-based ITT Educational Services Inc., Washington Post's Kaplan business, Corinthian, and closely held Alta Colleges Inc., operator of the Westwood Colleges chain, would lose eligibility under the measure, according to the legislative analyst's office.

"It's disappointing that some students will lose the opportunity to pursue the education of their choice," Tom Hoyt, a Kaplan spokesman, said in an e-mail. Gil Rudawsky, a spokesman for Alta, declined to comment.

Apollo's Lobbying

Apollo Group Inc., the nation's biggest for-profit college company, paid Governmental Advocates Inc. more than \$240,000 to lobby California lawmakers on issues including Cal Grants during the 2009-2010 session, according to a state website. In the same period, Corinthian paid Sacramento, California-based Lehman Levi Pappas & Sadler \$194,000 to lobby on Cal Grants and other proposed legislation. Manny Rivera, an Apollo spokesman declined to comment on the company's lobbying. Kent Jenkins, a spokesman for Corinthian, also declined to comment.

Meeks, the Louisville representative, filed a bill that would tighten regulation on education companies after the Kentucky legislature held hearings on for-profit colleges last year. During the session, students said a state oversight panel failed to respond to their concerns that teachers weren't prepared for their classes.

'Dismissive Manner'

"We had a situation where complaints were handled in a dismissive manner or not investigated at all," Meeks said in a telephone interview.

Meeks's bill would shrink the size of the board and the proportion of representatives from for-profit colleges. Oversight of for-profit colleges that offer two-year degrees would be shifted to a separate panel that also supervises public universities.

Apollo spent \$24,000 on lobbying in Kentucky last year, according to the state's Legislative Ethics Commission. In the same period, the Kentucky Association for Career and Technical Education, an industry group, spent \$4,284 on lobbying.

While most of the pending and enacted state legislation would further regulate the education industry, a proposed Arizona tax bill may benefit Phoenix-based Apollo and Grand Canyon Education Inc., also in Phoenix.

The bill, which would give a tax break to all local businesses selling services outside of Arizona, may cost the state as much as \$33.2 million annually, according to an estimate by the state Department of Revenue. Arizona faces a projected \$1.15 billion deficit for the 2011-2012 fiscal year.

The measure would protect Arizona businesses from being taxed twice on sales in other states, said Fred Lockhart, executive director of the Arizona Private School Association. It was supported by both Democrats and Republicans in the state legislature, he said.

The bill would "restore tax fairness" and help stimulate job growth in the state, said Apollo's Rivera. State Senator Rick Murphy of Glendale, who sponsored the bill, didn't return calls seeking comment.

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