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guest commentary

The investment taxpayers make in students attending for-profit schools

By Matthew Schnittman

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In Senator Harkin's remarks during recent hearings, he stated, "We have a responsibility to ensure that taxpayer dollars are being spent wisely, and that for-profit colleges are serving students, not just shareholders."

As CEO of TopSchool and former president of eCollege, I understand the need to serve shareholders. However, I strongly agree that our goal in education is to serve students.

For-profit colleges have a huge opportunity to move education forward at a value to taxpayers. They've made great strides in driving access, innovation and a trained workforce.

Access

The Department of Education's Student Aid Objective is "to ensure that low and middle income students have the same access as high income students."

Roughly 76 percent of for-profit college students are financially independent compared to 50% at public schools, and 45 percent of for-profit college dependent students come from families in the lowest income quartile compared to 24 percent at public and 22 percent at private, non-profits (1).

According to the U.S. Department of Education, the average Estimated Family Contribution for a student attending a four-year, non-profit school is $17,000, 123 percent greater than the $7,500 average for a student attending a four-year, for-profit school. This is almost exactly the same ratio of federal aid required for a for-profit college student compared to a non-profit student.

Innovation

For-profit colleges sit on the forefront of innovation with flexible delivery and schedules, giving more students the chance to succeed.

Consider 60 percent of for-profit college enrollments occur on a rolling basis (2). For-profit colleges invest significantly in supporting non-traditional students through online education, night/weekend offerings, and suburban/satellite campuses.

Skilled workforce

According to the Imagine America Foundation, for-profit colleges currently enroll more students (44 percent) in high demand fields than do public (18 percent) and private, not-According to the Imagine America Foundation, for-profit colleges currently enroll more students (44 percent) in high demand fields than do public (18 percent) and private, not-for-profit (13 percent) institutions (2). For-profit schools focus on 17 of the 20 fastest-growing occupations, including the healthcare and computer/data processing industries, where an estimated 1.8 million jobs are being created through 2016 (2).

What does this mean for taxpayers?

It's important to note that both for-profit and non-profit models work. Graduates of both models enter a demanding job market after earning Associate's, Bachelor's and Master's degrees in Accounting, Finance, Computer Engineering Technology, Business Administration, Education, and so on.

What do taxpayers invest in students at for-profit schools compared to students at non-profit schools?

For-profits

I analyzed four large, publicly traded for-profit institutions - DeVry, ITT, Strayer and Corinthian Colleges. Using data from their annual reports, I wanted to determine the taxpayer investment required to educate one student for one year. I calculated a "net taxpayer investment" by taking the annual Title IV revenue received for all four schools, in this case $3.5 billion, and subtracting the annual taxes provisioned by the institutions, in this case $377 million. This number, divided by the student population, which was around 313,000, resulted in the net taxpayer cost of roughly $10,000 to educate a student for one year at one of these for-profit schools.

Non-profits

Now, let's take a look at the non-profits. In addition to federal financial aid, students enrolled in public, non-profit institutions receive state funding. Federal taxes are not provisioned for in this discussion as non-profits don't pay them.

As a Colorado resident, I focused on the Colorado Department of Higher Education, which in the Fall 2009 Term, enrolled just over 240,000 students in its 28 two- and four-year institutions. That year, the Department was allocated almost $2.8 billion in state funds and over $1.2 billion in federal student financial aid. The net taxpayer cost to educate a student in the Colorado Department of Higher Education was almost $17,000, which is 66% greater than at the for-profit institutions.

Federal loans

Looking at a net investment to taxpayers, we need to remember that much of the federal subsidies for higher education are loans. For numerous reasons, students default on loans. The Chronicle of Higher Education states that the 15 year loan default rate for for-profit students

enrolled in four-year programs is 30 percent, compared to 15.1 percent for non-profit students, which I take into account below.

Using the Colorado Department of Higher Education example, accounting for the percentage of education subsidies that are loans (compared to grants or state appropriations) and t he difference in default rates, the adjusted taxpayer investment per student at a for-profit school is $4,100, compared to $13,200 at a non-profit school, driving the cost of the State of Colorado non-profit education to a 224 percent premium over for-profits.

The value to students and taxpayers alike

Both for-profit and non-profit institutions are valuable in educating our country's students. We need both to effectively serve our diverse population.

The high growth, for-profit college industry should be accountable for its recent issues, including the misguided information students received from admissions representatives, higher default rates, and so on. However, I can't ignore the tremendous value these schools provide. I believe the overall value to taxpayers is worth the growing pains.

Matthew Schnittman is CEO of Denver-based TopSchool and former president of Denver's eCollege. EDITOR'S NOTE: This is an online-only column and has not been edited.