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TESTIMONY TO THE SECRETARY OF EDUCATION'S COMMISSION ON THE FUTURE OF HIGHER EDUCATION:

Innovative Models for Education Delivery

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CAPELLA UNIVERSITY

Table of Contents

Testimony to The Secretary Of Education’s Commission On The Future Of Higher Education	3
Background on Capella	3
Funding the Operations of Online Education at a For-Profit Institution	4
Accountability and Ensuring Quality in Education Online	5
<i>Capella Faculty</i>	5
<i>Capella Students</i>	5
<i>The Online Learning Experience</i>	6
<i>Strategic Relationships with Employers</i>	6
Affordability and Access to Funding for an Online Learner	6
<i>Access to Title IV When Attending an Online Institution</i>	7
<i>Access to Title IV as an Working Adult Graduate Student</i>	7
<i>Access to Title IV as an Working Adult Undergraduate Student</i>	7
<i>Impact of Access to Private Lending</i>	8
Recommendations	9
1. <i>Repeal of the 50 Percent Rules:</i>	9
2. <i>Measures to ensure accountability:</i>	9
3. <i>Creating a Loan Program for the Independent Undergraduate Working Adult:</i>	10
4. <i>Adjusting the Borrowing Schedule:</i>	10
5. <i>Year-Round Pell Grant:</i>	10

Testimony to The Secretary Of Education's Commission On The Future Of Higher Education

Mr. Chairman and members of the Commission, thank you for this opportunity to testify about Capella University, an institution providing an innovative model of higher education delivery, through online learning, in our system of higher education. My name is Stephen Shank, Chancellor of Capella University.

Today, I would like to first provide some general background on Capella, and then describe Capella's business model as a for-profit institution. I will then focus on operational costs and financing methods, as well as quality and accountability measures. I will conclude by discussing access to funding for adult students, and will then present recommendations to consider.

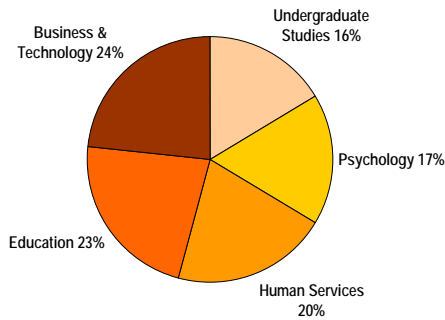
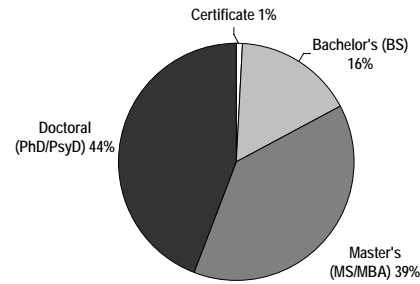
Background on Capella

Capella University was established in 1993 and is based in Minneapolis, Minnesota. Capella is an online, regionally accredited, university. I founded Capella after serving 12 years as Chairman and Chief Executive Officer of Tonka Corporation. I began my career as an attorney and hold a master's degree from Fletcher School, a joint program of Tufts and Harvard Universities, and a Juris Doctor degree from Harvard Law School. As CEO of Tonka, a global corporation, I recognized that a combination of powerful social and economic trends have created an environment in which raising the education levels of our population is critical to our success in the global marketplace.

Capella University's goal is to use new and innovative ways to help students gain access to education. We enable access for working adults who desire to advance their educational horizons but who might not otherwise be able to do so because of job or family commitments. Today, Capella University serves over 14,000 degree-seeking students from all 50 states.

Capella University began offering its exclusively online programs in 1995. We received accreditation from the Higher Learning Commission of the North Central Association in 1997. In 1998, Capella was accepted as one of the initial participants in the Department's Distance Education Demonstration Program, and Capella remains a participant in this successful program. Capella's participation offers our students access to Title IV loans which, as students attending an exclusively online institution, they would not otherwise be eligible to receive. In addition, we hold various state regulatory authorizations where the locally-focused nature of our activities require such authorizations.

As originally founded, Capella served a student population of working adults seeking graduate level degrees. We have over time broadened our purpose and now offer bachelor's degrees as well. Currently, we offer 13 degree programs with 85 different specializations. Capella students can achieve graduate degrees in business, education, human services, psychology, and technology, and bachelor's degrees in business and technology. Below are two graphs that provide a break-out of our enrollments by both discipline and type of degree.

University Enrollment by School

University Enrollment by Degree Level


Funding the Operations of Online Education at a For-Profit Institution

Instructional costs at an online proprietary institution like Capella do not vary materially from what one might find at a comparable campus-based non-profit institution.¹ However, the operating model is different than the model for public or non-profit universities. Whereas, for-profit institutions rely on tuition and fees for over 87 percent of their funding,² the operating and capital expenses of public or non-profit universities are financed through a combination of tuition revenues and fees, public and private contributions, grants, endowments and tax exemptions.

As an example, Capella University was funded on private investments. Those investments provided the capital and resources necessary to establish, maintain and improve our academic infrastructure.

In 2003, Capella University became cash flow positive, and our operations are now funded entirely by tuition revenues. We do not use debt to finance the development of the school and its programs, and we maintain appropriate cash reserves. Our policy to maintain strong reserves is influenced by our responsibility to Capella students, as well as by the financial responsibility regulations of the Department and various states.

The use of private capital reduces reliance on public sources of capital, which are increasingly in short supply. In a society where we must create substantial new higher education capacity to satisfy currently underserved educational needs, we believe that the private sector can and must continue to play an important financing role.

With respect to the for-profit industry generally, there have recently been allegations of non-compliance in the regulatory area by several for-profit institutions. We believe that the regulatory safeguards currently in place will force those institutions to self-correct, and we further believe that the for-profit industry as a whole will learn from the mistakes of a few. Moreover, we firmly believe that the positives associated with the innovative use of capital to pursue the cause of new and better

¹ Of course, there are savings to the institution in not needing to provide room and board for students, but those savings are offset at least in part by the cost of providing and maintaining the technology associated with teaching thousands of students online.

² Knapp, L.G., Kelly, J.E., Whitmore, R.W., Wu, S., Levine, B., and Huh, S. (2003). *Enrollment in Postsecondary Institutions, Fall 2001 and Financial Statistics, Fiscal Year 2001* (NCES 2004-155), Table F.

ways to deliver higher educational experiences far outweigh the negatives associated with non-compliance by some institutions.

Accountability and Ensuring Quality in Education Online

I would also like to comment on how Capella reconciles a profit-making objective with ensuring quality and accountability. For us, quality and accountability rest at the core of our business strategy. At Capella, we focus on two objectives: extending access and achieving quality educational outcomes. We define “quality” as student learning of specified educational outcomes in a motivated learning environment featuring robust service and support by Capella faculty and staff. In implementing our educational philosophy, we focus on the people we employ at Capella – both faculty and staff, the students we enroll, the online learning experience, and the employability of our students.

Capella Faculty

Our faculty are critical to the success of our students. We select our faculty based on their academic achievement, and teaching and practitioner experience. They tend to be scholars as well as practitioners, bringing relevant, practical experience from their professional careers into the courses they teach. Approximately 77 percent of our 847 faculty members hold doctoral degrees in their respective fields. We invest in the professional development of our faculty members through training in online teaching techniques as well as events and discussions designed to foster sharing of best practices.

Capella Students

An important measure of accountability and quality is student commitment and success. “Non-traditional” students (ages 24 and above) now represent about 39 percent of students in higher education.³ Capella’s student demographics are representative of an institution serving a “non-traditional” student body:⁴

- 97 percent of our learners are age 25 or older;
- 35 percent are ethnic minority, primarily of African American and Hispanic heritage;
- 63 percent are women;
- 15 percent are in the military or are a member of a military family;
- The average age of Capella learners is 40 years old.

Capella exclusively serves busy working adults, at both the graduate and undergraduate level. While we find that most of our students are deeply committed to advancing both their education and their careers, many have not been in school for several years and may need encouragement to make the serious commitment required to continue their education.

We design mileposts early in our programs to help both Capella and our students assess a student’s potential for academic success. For example, we have designed a First Course experience, the

³ U.S. Department of Education, National Center for Education Statistics, Higher Education General Information Survey (HEGIS), “Fall Enrollment in Colleges and Universities” surveys, 1970 and 1980; 1990 through 2002 Integrated Postsecondary Education Data System, “Fall Enrollment Survey,” (IPEDS-EF:90-99), and Spring 2001 through Spring 2003; and Projections of Education Statistics to 2014. (This table was prepared April 2005.)

⁴ All demographic information taken from the Capella University Fact Sheet as of January 1, 2006, prepared by the Office of Assessment and Institutional Research at Capella University.

primary purpose of which is to introduce the new student to the academic rigors of Capella's online learning environment. If as a result of First Course we assess that there is not a good fit between the student and the institution, the student is counseled out at this point.

The Online Learning Experience

Capella University offers its courses on a quarterly schedule through an asynchronous teaching environment, with no set scheduled class times.⁵ Students, however, are required to attend their online courses each week on their own schedules. The e-courseroom is the central point for interaction among students and the faculty instructor. The instructor serves as a content expert, assessor and guide to the development of expected academic and professional capabilities. Students in Capella's programs benefit from a comparatively low faculty to student ratio of 1:16 on average.⁶

Online distance education requires a high level of interaction between students and their peers and the faculty. The online student cannot hide in the back row of the classroom or skip class. Capella courseroom discussions are based on weekly assignments that include offline reading, online media, case studies and problem-based team assignments. Capella uses a competency-based educational model. Unit learning outcomes must be related to specified professional competencies, and are built into the curriculum at the course and program levels.

Just as we are interested in assessing student competencies, Capella is very interested in quality measures, outcome measures and accountability of higher learning institutions. We believe that the public should be able to assess and compare, from one institution to the next, educational outcomes such as graduation rates, persistence, career outcomes and student satisfaction. This would enhance accountability and be in the interest of high quality educational providers such as Capella.

Strategic Relationships with Employers

U.S. corporations and their employees increasingly understand the importance of education and continuous learning to stay competitive in the global marketplace. Higher education institutions play a critical role in meeting those needs. Capella has focused on this role in part by forging strategic relationships with major corporate employers like Boeing, DuPont, Motorola, Morgan Stanley, and Wal-Mart. Capella's program offerings can be tailored in part to the needs of those organizations and their employees.

Affordability and Access to Funding for an Online Learner

Having discussed both the business model for a for-profit, online institution, as well as the importance of ensuring quality and accountability, I think it is appropriate to end with a discussion of affordability for the working adult and how all of this affects a working adult's access to higher education. We believe that access to funds needs to be improved for all working adults, regardless of whether those adults attend for-profit or non-profit institutions, and regardless of whether they participate in online or land-based programs. However, because of the 50 percent rules discussed below, in combination with the possible for-profit status of their institutions and their independent

⁵ There are exceptions for some doctoral programs, which require participation in three on-ground multi-day colloquia, primarily to prepare the learner for the dissertation process.

⁶ Source: Capella University LearnersPerSection query in Course Evaluation Database, as of October 3, 2005.

status, working adults attending online institutions are more disadvantaged than others when attempting to access Title IV funds.⁷

Access to Title IV When Attending an Online Institution

The current “50 percent rules” prohibit access to Title IV funds if an institution offers more than 50 percent of its courses through correspondence or telecommunications courses, or if 50 percent or more of its regular students are enrolled in correspondence courses.⁸ Written before the unforeseen growth of the Internet, these provisions had the unintended effect of disqualifying exclusively online higher education institutions from participating in federal financial aid programs.

Capella University students are able to access federal financial aid only because of the waivers granted as part of Capella’s participation in the Department’s Distance Education Demonstration Program, which was created by the 1998 reauthorization of the Higher Education Act. Currently, 12 of the 24 participants in the Demonstration Program require waivers of the 50 percent rules to retain institutional or student eligibility to participate in Title IV.⁹ As the Department recently indicated in its Third Report to Congress on the Distance Education Demonstration Program, by permitting waivers to these rules, much has been learned about both the benefits of an online education and the barriers to access that exist for working adults.

At the time this testimony was written, a provision to repeal the 50 percent rules as they apply to telecommunications/distance education is included in the budget reconciliation bill that is pending a final vote on February 1 in the U.S. House of Representatives.

Access to Title IV as a Working Adult Graduate Student

In our experience, the maximum funds provided at the graduate level under the FFEL program, \$18,500 per year (\$4,625 per quarter), provide adequate funding for our full-time graduate students. The bulk of that amount covers their tuition, with a small amount remaining to cover non-tuition costs, like technology expenses for high-speed internet access, books and a small living allowance to cover expenses that are associated with pursuing a degree.

Access to Title IV as a Working Adult Undergraduate Student

In contrast to graduate students, working adult undergraduate students attending online institutions are most disadvantaged under the current Title IV programs. First, students who enroll less than half-time are not eligible for federal loans. Thus, many working adults who may not be able to commit to a full-time class schedule are unable to finance their educations through the federal loan programs.

Second, students at online institutions have limited access to federal supplemental loan and alternative financing arrangements available to students who attend campus-based institutions, and

⁷ It is important to recognize that although working adults receive income from their employment, most of that income is already committed and not available to finance an education.

⁸ For this purpose, a regular student enrolled in one or more telecommunications course is considered a correspondence student if the institution exceeds the aforementioned course limit, or the institution is not a degree-granting institution or offers more certificate programs than degree programs. Statutory cite: 20 U.S.C. § 102(a)(3)(A)-(B); 20 U.S.C. § 484(l). Regulatory cites: 34 C.F.R. § 600.7(a)(i)-(ii), 668.38.; *see also* Third Report to Congress on the Distance Education Demonstration Program, April 2005 at 3, n. 5 “Third Report to Congress.”

⁹ Third Report to Congress at ii, 3. As of 2002 data, seven of the ten institutions with waivers of the 50 percent rules at the time, including Capella, had cohort default rates below the national average. *Ibid.* At 12.

therefore tend to rely heavily on the FFEL and Federal Pell Grants programs under Title IV. Under FFEL loans, first year students are limited to \$6,625 per year (only \$1,656 per quarter) to cover the costs of tuition, books and technology.¹⁰ At Capella, this creates a gap of up to \$7,000 per year, depending on the number of classes taken.

Working adults generally have little or no access to any of the federal “gap-filling” funding sources. For example, working adult undergraduate online students, who are most often considered independent students for lending purposes, have no access to federal supplemental loans, like the PLUS loan program provided as part of the budget reconciliation act to graduate students and parents of dependent students. Also, because they attend school online, these students do not have access to paid residencies or teaching assistant positions as their non-working colleagues might at land-based institutions.

Third, as the Third Report to Congress indicates, Title IV funding continues to operate on the assumption that the academic calendar consists of only nine months, and this assumption is many times a substantial barrier to access for working adult students, many of whom attend school year-round. The requirement that loan disbursements be made in “substantially equal” installments creates difficulties for students who might have more expenses or tuition in one quarter than another, or for those who choose to accelerate their education over a less than four year time period.¹¹

Impact of Access to Private Lending

With the limitations in access to federal financing for education, there has been a significant growth in private lending for the entire education sector. According to a recent NASFAA presentation, alternative loan volume in higher education has grown 855% from the 1995-1996 school year to the 2003-2004 school year.¹² For the reasons outlined above, the Capella working adult student is many times forced to look at alternative private lending sources.

Unfortunately, the number and variety of private lending sources make it increasingly difficult for financial aid administrators to counsel the student-borrower about his/her choices. Poor choices can create credit problems that sometimes result in access problems or worse, withdrawal or default. Poor choices in the private loan area can also lead to a default on the student’s federal loan.

Thus, while access to private lending is critical, it is also essential that there be appropriate oversight over these lenders and programs, and that the institutions work as best they can to assist their working adult students. At Capella, we believe there should be a holistic approach that involves cooperation between the borrower, his/her employer, the university and the lender. To help manage the debt burdens of their employee-students, corporations are entering into relationships not only with educational institutions, but also with preferred lenders with particular expertise in understanding the intricate dynamics of working adult educational loan programs. Thus, a triumvirate of employer, lender and institution is formed to best assist the employee-student. At Capella, we have started to work with private lenders like Educap, a company owned by one of the

¹⁰ This amount will increase to \$7,500 if Congress approves the budget reconciliation bill with its provision to increase the subsidized loan limits for first and second years.

¹¹ See Third Report to Congress at 17.

¹² “Alternative Loans: The Good, The Bad, The Ugly”, presented by Vicky Powers, Tonya Drain, Stephanie Forest, Grand Valley State University, NASFAA Conference, April 2005.

Commissioners, Catherine Reynolds. Educap creates partnerships with corporations to serve as lender to the corporation's employees. Capella in turn works with both the lender and the corporation as one of the corporation's preferred education providers for its employees. We have found that these types of alliances help tailor the financing in a manner that best serves the employee-student's needs.

Recommendations

I hope the Commission will consider the points made today concerning the positive impacts of online education for a significant segment of our population. I also hope that the Commission will focus particular attention on ways to ensure accountability as well as correcting the current disparities in Title IV lending that unfairly disadvantage the working adults who choose to attend online institutions, in many cases because the online option is the best *or only* option available. I ask the Commission to consider the following five recommendations:

1. Repeal of the 50 Percent Rules:

Capella University supports the repeal of the 50 percent rule provisions included in the budget reconciliation bill, which at the time of this writing is pending a final vote in the House. I look forward to the Department's implementation of the amendments to the Act. It is our expectation that, with repeal, institutions will exercise appropriate care and grow their distance education programs responsibly as so many of the schools in the Department's Demonstration Program have done. In addition, I understand that a number of provisions measuring quality and ensuring accountability in distance education were not included as part of the budget measure; instead, those provisions are included in the omnibus HEA reauthorization bills introduced by Chairmen Enzi and Boehner. I hope the Commission will emphasize to Congress the importance of these provisions and urge completion of HEA reauthorization.

2. Measures to ensure accountability:

We believe that institutions, accreditors and the federal government all play an essential role in ensuring educational quality. As I mentioned earlier in my statement, Capella already uses a competency-based educational model through which we require demonstration of the achievement of learning outcomes and related competencies. We are prepared to do more to measure institutional accountability and quality. We also believe that both accreditors and the federal government should play significant roles by creating a consistent baseline for measuring accountability, which students as consumers in turn can use to make informed decisions.

We understand that the omnibus reauthorization legislation includes provisions which would add more specificity to the metrics accreditors must review when assessing an institution's success with regard to student achievement. I urge the Commission to encourage Congress to complete reauthorization of the Higher Education Act with these types of measures to strengthen the role of accreditation.

In addition, we believe that the creation of an infrastructure that facilitates benchmarkable outcomes data for comparable student populations is an area where the Department and public policy makers could make a major contribution to improving academic outcomes and enabling better informed consumer decision making. Again, I believe that these concepts are ones that should be considered by the Department and included, where statutorily necessary, as part of reauthorization of the Higher Education Act.

3. Creating a Loan Program for the Independent Undergraduate Working Adult:

I urge the Commission to recommend that the Congress create a PLUS-type program for the independent working adult undergraduate. It is unfair and unjustifiable that these programs are available to both working graduate students and to the parents of dependent undergraduate students, but not to independent working adult undergraduates, many of whom form the backbone of our U.S. workforce.

4. Adjusting the Borrowing Schedule:

In its Third Report to Congress, the Demonstration Program staff recognized the problems associated with disbursing loans based on a traditional academic calendar with fixed quarterly installments.¹³ The Demonstration Program staff proposed a solution in which student aid would be administered on a student-by-student basis, providing students with funds when they actually require them, rather than according to an inflexible schedule.¹⁴ Similarly, I recommend the Commission consider a proposal to allow for the disbursement of aid in unequal amounts, abolishing the current requirement that each disbursement in a year be “substantially equal.” This proposal would not affect the overall cost of the federal student loan programs, as the overall per-student cap would remain the same.

5. Year-Round Pell Grant:

I urge the Commission to support and promote legislation to create a year-round Pell Grant, as proposed by both the Administration and many in Congress. This is an important step toward providing access to a higher education to working adults who seek to enroll year-round.

I appreciate the opportunity to appear before you and look forward to answering any questions you might have.

¹³ Third Report to Congress at 18.

¹⁴ *Ibid.*