Testimony before the

Senate Committee on Homeland Security and Governmental Affairs Subcommittee on Federal Financial Management, Government Information, Federal Services, and International Security

Submitted by

Dr. Russell S. Kitchner, Vice President for Regulatory and Governmental Relations

On behalf of

American Public University System

September 22, 2011

American Public University System

American Public University System (APUS) is a regionally accredited, private, proprietary institution based in West Virginia APUS operates through two online universities: American Military University (AMU) and American Public University (APU). Both entities share a common curriculum, facilities, faculty and staff, and a common mission, which is to expand access to a quality post-secondary education, with emphasis on educating the nation's military and public service communities. We do this by providing respected, relevant, affordable, and student-focused online programs that prepare them for service and leadership in a diverse, global society.

The Development of the University

Retired Marine Corps Major James P. Etter founded the American Military University in 1991, initially to provide a high-quality, accessible, and affordable higher education to military officers, and eventually, to enlisted service members as well. His experience with the difficulty of continuing a specific field of study when relocating as a result of changes in duty stations led to his vision of a university designed to provide an education at a distance, regardless of the student's location throughout the world. His vision was to offer flexible yet rigorous programs that readily accommodated military deployments, addressed internal career advancement, and prepared students for post-discharge careers. In 1995, AMU earned its accreditation from the Accrediting Commission of the Distance Education and Training Council.

Mr. Etter believed that the United States military was one of the world's best employers, committed to training and educating its service members. Many of the first degrees that AMU developed, such as Military Studies (Land Warfare, Naval Warfare, Air Warfare, Amphibious Warfare), Military History, National Security Studies, and Strategic Intelligence were designed to complement the training received from the respective services with theory and history, generally provided from professors who had served in the military. Some of those programs were also tailored to provide the same level of graduate education received at military schoolhouses whose programs were limited to a selected few requiring attendance at times that might prove inconvenient for a service member already engaged in a professional career path, but in locations that did not offer access to traditional, land-based educational options. From the outset, AMU's faculty believed in the value of general education courses and a liberal arts education. In 1995, the university began to offer degree programs in liberal arts subjects such as English, Psychology, History, and Political Science that buttress the valuable lifetime skills of critical thinking.

Recognizing the impact that hidden costs of attending college had on students, in 1999 AMU instituted a commitment to fewer fees, transparency of all institutional costs of attendance, and provided a grant for textbooks to all undergraduate students who maintained a specified Grade Point Average. Early in its history, AMU established the practice of recognizing and accepting American Council on Education (ACE) transfer credit recommendations based on its evaluation of learning associated with military training and experience. This practice has resulted in academic credit being applied toward the completion of career specific programs such as Strategic Intelligence and Emergency and Disaster Management.

Like many working adults, members of the military have periods of work intensity where little time for any other activities is possible and times where flexibility for outside activities is available. Beginning in 2001, AMU established monthly semester starts allowing its students to begin a semester and classes whenever it was convenient. Later on, AMU increased its course offering flexibility for students by providing 8 week accelerated courses with the same content as the standard 16 week courses. Maximum class sizes were capped at 25 students in order to provide an environment where the learning connection between the faculty member and student was not compromised due to classes that were too large for effective online teaching.

By 2001, AMU had created a number of undergraduate and graduate level courses related to national security that enabled it to request accreditor approval for a degree in Homeland Security in July 2001. Since that date and the subsequent events of 9/11/2001, AMU has educated a generation of law enforcement, emergency management, first responders, and others in the field of Homeland Security.

In 2002, after ten years of growth and service to thousands of students, the American Public University System was established, and AMU and a newly formed American Public University (APU) were established as entities operating under the American Public University System (APUS). The APU brand extends the institution's outreach to better meet the needs of civilians interested in programs related to public service, such as criminal justice, public safety, and national security, as well as to respond to the needs of other adult learners interested in advancing their education through a robust, affordable online curriculum.

During the past ten years of troop deployments to Iraq and Afghanistan, AMU has recognized the needs for students to take leaves of absences from their studies. Integrated into the routine for faculty and advisors, AMU allows students deployed in combat to return to their original degree program without having to accommodate any program related changes that may have occurred in the interim. Additionally, a week of faculty training is dedicated toward understanding the culture of compassion at AMU, a culture that provides things like course extensions for soldiers dealing with extensive combat exercises or for time off to grieve and attend a fallen comrade's funeral. AMU established a position of Chaplain for its students. In addition, the AMU faculty initiated a multi-institution discussion group of academics related to recognizing and handling students suffering from PTSD.

Because of its continuing interest in providing a more widely recognized and accepted degree for its students and alumni during an evolutionary period for distance learning, in 2003, APUS applied for affiliation with the Higher Learning Commission (HLC) of the North Central Association. In 2004, its candidacy status was confirmed and in 2006, APUS received the status of initial accreditation with the HLC. In 2011, APUS's accreditation was reaffirmed by HLC and the next comprehensive evaluation was scheduled in 10 years for the 2020-2021 academic year.

Institutional Character

APUS continues to be accredited by the Higher Learning Commission of the North Central Association and the Accrediting Commission of the Distance Education and Training Council. It offers more than 80 associates, bachelors and master's degree programs, including many specifically established to respond to the career learning objectives of military personnel and public servants. All of its courses are offered exclusively online in a format that enables students and faculty to interact asynchronously, regardless of location or time zone. APUS has received several program-specific accreditations as well.

AMU has traditionally distributed "hard copy" books to deployed students whose location or logistics inhibit their ability to access e-books, and it will continue to identify ways in which to ensure that its students have ready access to all instructional materials. It has partnered with both the Army and Air Force in developing their automated centralized Tuition Assistance processes. This centralized control was better for the services branches to disburse and control funds and better for the military student for receiving an automated approval process. In addition, when necessary APUS has provided Tuition Assistance billing/payment arrangements for service members to prevent students from falling victim to disruptions in course attendance if no Department of Defense budget is in place at the end of the federal fiscal year.

Many of the AMU faculty, staff, executives and board of directors and trustees are retired military. They bring with them an understanding of all branches of the service and a loyal relationship with the military. They also understand the practical nature of the assignments of students in fields like intelligence and transportation and logistics. They continue to respond to requests from students for additional degrees related to their career and personal interests such as Reverse Logistics, Space Studies, and Sports Management.

Our Students

Currently, approximately 70 percent of APUS students are active duty military, reservists, or military related personnel. The civilian students include teachers, government employees, government contractors, and law enforcement officials, among others. Over 90 percent of APUS students are working adults who hold full-time positions within their profession, and many of them have had some prior college experience with approximately 85 percent receiving transfer credit. Currently, there is a 67/33 ratio of male to female students, and the average student age is approximately 32. The average class size is 14. APUS is proud of the students that it serves, and it makes a conscientious effort to track their accomplishments after graduation. We are particularly gratified by the fact that over 40% of our graduates enroll at APUS for a second degree. Others who continue their education do so at more traditional schools.

A number of our alumni have achieved the rank of general in the Marines and Air Force. One alumnus served as an astronaut and two alumni have received White House Fellowship appointments.

Financial Information: Tuition, Federal Student Aid, and Default Rates

One of the core principles of APUS is to provide quality education at an affordable cost. Undergraduate tuition for all students, military and civilian, is currently set at $250 per credit hour ($750 per 3 credit course), and it has not been increased at all since 2001. During this same period, according to data from the College Board, the average four year public university tuition has increased approximately 150 percent (see http://trends.collegeboard.org/college_pricing/report_findings/indicator/40) Based on the College Board's 2009-2010 study, APUS's combined undergraduate tuition and course materials costs are roughly 10% less than the average 4-year public university's in-state rates. And, furthermore, APUS's undergraduate tuition is approximately 34% less than the average tuition among the top 10 online universities.

Approximately 90% of APUS students transfer credit from previously attended colleges and universities, or receive credit from military or corporate training evaluated by the American Council on Education or by APUS faculty. Undergraduates are awarded a book grant that covers nearly the full cost of instructional materials. Total tuition costs for a bachelor's degree is slightly more than $30,000 assuming that the student has no transfer credits. Graduate tuition is $325 per credit hour, with total tuition costs for an average MA degree equaling $11,700 this year. Last year, about 24 percent of APUS revenue stemmed from federal student aid programs under Title IV of the Higher Education Act, and 58 percent came from military tuition assistance and veterans' education benefits.

APUS began participating in Title IV federal student aid programs in 2006, so data on its graduates' student loan default rates is just beginning to develop. On this point, the university's record has been very good as measured by two-year cohort default rates. Our most recent official cohort default rate issued by the Department of Education, FY 2009, was 4.0 percent, which represents a decrease from our FY 2008 cohort default rate of 5.2 percent. That same Department of Education report noted that national student loan cohort default rate had risen to 8.8 percent, up from 7.0 percent in FY 2008. The cohort default rates increased for all sectors: from 6.0 percent to 7.2 percent for public institutions, from 4.0 percent to 4.6 percent for private institutions, and from 11.6 percent to 15 percent at for-profit schools. The university is committed insuring that our rates remain as low as possible in the future.

With respect to expenditures, over the past four years APUS has historically spent more on instructional costs and related academic support than all other operational expenses combined. Furthermore, a substantial portion of APUS students are referred to the institution by friends, professional colleagues, and fellow patriots in uniform, with the result being that the university spent less than 17 percent of revenues on marketing, recruiting, and advertising in 2010.

Commitment to Measuring and Reporting Academic Metrics

The American Public University System is a recognized leader in assessing learning in an online environment. Some of the indicators of our commitment to student learning and "world class" assessment processes include being awarded the 2009 Ralph E. Gomory Award for Quality Online Education by the Sloan Consortium in recognition of our effective implementation of a data-driven approach to creating a culture of excellence and values in online education. The Sloan Consortium (Sloan-C) is an organization of more than 1,400 universities, colleges, and institutions committed to advancing best practices in online learning and expanding the quality of online higher education. APUS was the first 100% online institution (and the first and only for-profit institution) to achieve this distinction, which is presented annually to one institution that demonstrates a commitment to assessing and improving the quality of its online education programs. That same organization recognized a joint APUS/Purdue University research effort with its 2009 Effective Practice Award for using the Community of Inquiry Framework Survey for Multi-Level Institutional Evaluation and Continuous Quality Improvement. This was followed by a 2010 Effective Practice Award for APUS's use of advanced analytical techniques to ensure course quality.

In addition, APUS is a charter member of Transparency by Design (TbD), which is an institutional accountability initiative developed through The Presidents' Forum at Excelsior College. The initiative's members represent regionally accredited, adult-serving, higher education institutions, and include schools such as Rio Salado Community College, Western Governors University, and Capella University. As a participant in this initiative, APUS routinely publishes information on the College Choices for Adults website (www.collegechoicesforadults.org), including data on student demographics, completion rates, educational costs, survey ratings, and program level outcome data.

In February, 2008 APUS joined with 15 other institutions regionally accredited by the Higher Learning Commission of the North Central Association to participate in the HLC Academy for Assessment of Student Learning (Assessment Academy). Participation in the Assessment Academy was intended to assist selected institutions in promoting a culture of assessment, continuous evaluation, and institutional growth. We are currently in the fourth year of this project, and APUS has committed to a subsequent, four-year sequence of events that will target the acceleration and advancement of its efforts to improve student learning.

Two other indicators of the APUS commitment to quality and excellence in analytics are its involvement in recent grant activity. For example, APUS is one of six participants in the Open Academic Analytics Initiative (OAAI) in an ongoing, $250,000 Next Generation Learning Challenges (NGLC) grant that uses data to promote academic quality and student success. Designed and funded by the Bill & Melinda Gates and William & Flora Hewlett Foundations, NGLC is focused on identifying and scaling technology-enabled approaches to dramatically improve college readiness and completion, especially for low-income young adults in the United States.

In addition, in May, 2011, APUS became a participant and assumed the primary investigator role in the Predictive Analytics Reporting Framework (PAR) project, initiated by the Western Interstate Commission for Higher Education's Cooperative for Educational Technologies (WCET). Funded by a $1.05 million grant from the Bill and Melinda Gates Foundation, PAR is a data aggregation and analysis initiative intended to assess issues related to retention and progression across a spectrum of institutional types, with an emphasis on delivering intelligence that will enhance programmatic quality in the higher education sector. Notably the primary focus of this initiative is to develop an understanding of those factors that affect the ability of high risk students to be successful in the post-secondary environment. We believe that these distinctions and initiatives are both the foundation for and a reason for the high regard in which APUS is held by its students, as evidenced by the most recently administered National Survey of Student Engagement (NSSE) and the university's internal surveys that yielded the following results:

Question: ***If you could start over again, would you go to the same institution you are now attending?*** **96% of APUS seniors said "yes."**

Question: ***How would you evaluate your entire educational experience at this institution?*** **98% of APUS seniors evaluated their experience positively**.

Question: ***Overall, how satisfied are you with the education you have received at AMU?*** **98% of students answered that they are satisfied or very satisfied!**

Question: ***Have you decided to go on to pursue an additional degree?*** **48% of students said that they have gone on to pursue an additional degree.**

The fact is that 96% of our current seniors indicate that, if they were to begin their educational pursuits over, they would choose AMU again, and 97% would recommend AMU to a friend or colleague.

<u>The APUS Value Proposition for America</u>

There continues to be considerable discussion of the increasing amount of taxpayer dollars that students are dedicating to their education at for-profit institutions. While those discussions are appropriate, they do not always include thoughtful consideration of the larger picture. Since our inception 20 years ago, we have looked for ways to provide students with an affordable education. Few institutions in America have held their tuition constant over the past ten years like AMU, and we know of no other institution that has provided textbooks to all undergraduates through a grant program that has saved students $46.7 million during the past 5 years. In addition, since 2006, AMU has saved military students and the DOD millions of dollars by accepting ACE-certified military education and training credits, credits earned at other colleges and universities, and credits awarded through a faculty review of military programs not reviewed by ACE. Some institutions, including non-profit institutions, are less willing to apply such prior learning experiences toward degree completion requirements, thus extending the time to complete a degree and requiring students or their employers to pay twice for equal or comparable education and training. Moreover, during that same period of time, APUS has paid approximately

$65 million in corporate federal and state taxes alone, which does not account for many millions more in payroll and income taxes paid by or on behalf of its employees.

The Issue of 90/10

Background: Since 1992, the Higher Education Act (HEA) has required that private sector for-profit institutions obtain a minimum amount of their revenues (at first 15% and, since 1998, 10%) from sources other than the Title IV federal student aid programs. A rationale for this 90-10 rule was that other funding sources, including a student's willingness to pay some of his or her own funds for tuition would be an indirect indication of institutional quality. This rationale was highly questionable, and lawmakers from both parties have supported repeal of the rule. To our knowledge, no evidence has been presented to support the notion that the 90/10 or 85/15 rules measure anything other than the financial need of a given institution's student population. In the Reauthorization of the HEA of 2008, the rule was retained with modifications to how it was to be applied by the Department of Education.

The Problem: Two conditions are currently in play that exacerbated the underlying problems with the 90-10 rule:

First, in the 2008 credit crisis, the private loan market for lower income students essentially disappeared. In response, Congress increased loan limits for federal unsubsidized Stafford loans, and many private sector for-profit institutions began to make their own loans to these students. Both of these steps put these institutions' continued compliance with the 90-10 rule at risk because they increased the amount of available federal student aid, and because Department of Education rules accounted for institutional loans only as they were repaid, typically after students left school. Congress thus adjusted the 90-10 rule in 2008 by, among other things, allowing the unsubsidized Stafford loan limit increase to count toward the required 10% and allowing institutions' loans to be treated the same way as other third party loans, *i.e.*, at the time the loans are made and earned while students are in school.

However, both of these adjustments were to be temporary. The unsubsidized Stafford provision expired on July 1, 2011, and the institutional loan provision will expire on July 1, 2012. However, the private loan market for lower income students has not recovered; and moreover, the current and protracted recession has resulted in the reduction or elimination of other sources of funding for students, such as state grants and employer tuition reimbursement.

Second, Congress has increased federal student aid by over 40% since the 2006-07 financial aid award year. The maximum Pell Grant alone has increased from $4,050 in 2006-07 to $5,550 in 2010-11. The subsidized Stafford loan limit has increased from $2,625 to $3,500. The unsubsidized Stafford loan limit, noted above, has increased from $4,000 to $6,000. Students are entitled to this aid, and institutions may not deny or limit it if a student qualifies and elects to apply for it. This dramatic increase in federal student aid means that for some institutions it covers all - and in the case of APUS, far more than - the total cost of tuition. This excess is more profound since APUS does not have a long list of fees, it awards a book grant for undergraduate students, and it makes a conscious effort to prevent students from enrolling or re-enrolling if their academic performance does not suggest that they are likely to succeed academically.

By way of a more detailed explanation, for an institution like APUS, the cost of full-time study is $6,000/year, but a high-need student who qualifies for the maximum amount of aid is entitled to receive a total of $15,050. The institution's ability to comply with the 90-10 rule then becomes mathematically impossible unless it chooses to raise its tuition dramatically, thus creating the necessary 10% gap that federal financial aid does not cover. Of course, doing that makes tuition less affordable and increases the debt burden on students and their families, which we believe likely increases the risk of default. .

It is our firm belief that Congress and the constituencies that it represents should not, and would not long abide a policy that had the effect of forcing institutions to raise prices during a time of great economic challenges. This would be especially troubling given that such a policy would likely have the effect of diminishing access to those most in need of the benefits of higher education options, thus being in direct conflict with President Obama's ambitious goal of significantly increasing the number of college graduates during the next decade.

By way of a graphic illustration of the perverse effect of the 90/10 rule, consider the following example of two institutions that provide the same academic program but charge different amounts for tuition, fees and books. Institution "A" has an accredited, high-quality program and charges $10,000 for full-time study. The student is able to pay the full cost with Pell Grant and Federal Direct Loans.

Institution "B" also has an accredited, high quality program, but it charges $20,000 for full-time study. The student is not able to pay the full cost with Pell Grants and Federal Direct Loans, so (s)he must secure additional funds using private institutional loans, grants or other sources of funds.

Institution "A"

Tuition and Fees	$10,000
Federal Aid	$10,000
Other Payment Sources	$0

If all of Institution A's students were like this, the institution would be 90/10 non-compliant.

Institution "B"

Tuition and Fee	$20,000
Federal Aid	$10,000
Other Payment Sources	$10,000

If all of Institution B's students were like this, the institution would be 90/10 compliant.

Ironically, institution "A" must raise tuition to meet 90/10 compliance.

We believe that the 90/10 rule should be eliminated as it has the perverse effect of driving tuition up, rather than focusing on making education more affordable for students and reducing the burden on the American taxpayer.

Possible Solutions: The stated objectives that have been articulated by several members of Congress, particularly in the context of Senate hearings such as this, are 1) to eliminate the bad actors that are not serving students, including military students, well, and 2) to do so without limiting the educational opportunities for all Americans, including its service members and veterans. In the context of these objectives, we have been asked our perspective on two potential modifications to the 90/10 rule. The first option would be to count revenues received from the Post-9/11 GI Bill program and the DOD Tuition Assistance Program toward the 90 percent limit on federal funding a proprietary school can receive. The second option would be to exclude DOD and VA revenues altogether from the calculation used to determine 90/10 compliance. In our opinion, neither of the two proposals on the table at this time will accomplish the desired objectives.

Each of these two proposals would reduce the focus by some other institutions on military student recruiting, and while that would undoubtedly reduce competition for APUS in serving the students that are at the core of our mission, in the long term it would not serve to deal with the underlying perverse incentives created by the 90/10 rule, nor would it be better for military students and the American taxpayer. With a reduced incentive to recruit military students, other institutions would no longer have a reason to discount their tuition for military members and would likely have to increase their tuition even more due to the perverse incentive of the 90/10 rule discussed above. And, service members would also likely no longer have the benefit of tuition discounts and would have to come up with additional funds, whether from their own pocket or by turning to the "top-up" option under the GI Bill benefits. This would not be good for students, military or otherwise, and it would not be good for the American taxpayer. The first proposal would also have the unintended consequence of punishing an institution like APUS, whose core mission is to provide an affordable education to our service members.

We understand the concern with the 90/10 rule, its impact on military student recruiting and the motivation behind the two proposed modifications. And, we welcome the opportunity to be part of the discussion to come up with a better system. However, we believe that our attention should be more globally focused on the positive effects of eliminating the 90/10 rule and turning to other measures.

One approach that has received little public discussion to date would be to hold all institutions (for-profit and not for profit) financially accountable for cohort default rates. This could be accomplished by requiring them to cover the costs to the American taxpayer of defaults above a specified percentage or the median default rate for all institutions. The current focus is on what have been cited as disproportionately higher default rates at for-profit institutions. However, this issue is certainly not limited to that sector, and in the interest of ensuring that taxpayer and student interests are both addressed effectively, this approach should apply to all institutions, regardless of funding sources. Doing so should have the added benefit of motivating institutions to place proportionately greater emphasis on academic outcomes.

Coupled with holding institutions financially responsible, we also believe that institutions should be given more latitude with respect to federal student aid programs, including to determine the appropriate amount of borrowing in excess of the actual cost of attendance in order to reduce student loan debt, and providing institutions with the ability to refuse aid to those individuals who may use federal student aid solely as a means of accessing federal student aid program with no intention of dedicating those funds to educational pursuits.

Inherent in this approach is the notion that institutions of all types should maximize and safeguard their use of federal dollars by keeping their costs low and delivering an education that will leave students with the ability to pursue their desired vocations and careers, and thus able to repay what we hope to will be more manageable amounts of education-related debt, free of the artificially induced effects of 90/10.