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House Subcommittee Explores the Future Focus of Federal Student Aid

See May 2 update at bottom

“Simplify...simplify...simplify federal financial aid” was the message delivered by Trinity University Washington President Patricia McGuire to members of the House Subcommittee on Higher Education and Workforce during a hearing today on the reauthorization of the Higher Education Act.

With the act due to expire at year’s end, the Subcommittee conducted the hearing “Keeping College Within Reach: The Role of Federal Student Aid Programs” to hear from a panel of higher education experts about the role and focus of federal financial aid programs. Rep. Virginia Foxx (R-North Carolina) chaired the hearing.

Historically, financial aid has been used to expand student access to the higher education institution of their choice, but given the nation’s economy and the increasing cost of higher education, many are calling to move toward a system that ties federal aid to the student outcomes, job placement, or graduation rates of institutions.

“Everyone involved in federal financial aid agrees on this one thing: it’s too complicated,” McGuire said. To prove the point, she encouraged the subcommittee members to visit her President's Blog and read the recent comments from Trinity students about the importance of federal loans and Pell Grants and how the programs could be improved. (See McGuire's complete testimony)

“Federal financial aid is one of the most reliable, durable pillars of the framework we create for low income students who have few other sources of support to help them leverage their lives from places of despair to platforms of real success,” McGuire added. “We can all agree that the current system can use some reform to make it better. But the system is hardly ‘broken’ as some critics claim. Rather, it needs updating for the new populations of students who attend school in ways that are quite different from traditional students of the past.”

McGuire urged the committee and Congress to consider five points when contemplating changes to the financial aid programs in the Higher Education Act reauthorization:

- Do no harm to what works best in the current financial aid system.
- Do not impose the wrong measures of success.
- Encourage more effective outcomes measures.
- - recognize new patterns of attendance and new ways of learning
- - incentivize students to focus on completion
- - recognize the totality of degrees attained
- - incentivize institutional programs that support at-risk students
- Simplify the system.
- Engage the students and practitioners, those who know how the system actually must work!
McGuire also cautioned against proposals that could limit federal aid opportunities for low-income students: “No one quarrels with accountability for the considerable federal investment in higher education, but some of the notions about what constitutes accountability are potentially quite destructive.”

In addition to President McGuire, others testifying at the hearing were: Terry W. Hartle, senior vice president, Division of Government and Public Affairs, American Council on Education; Moriah Miles, state chair of the Minnesota State University Student Association, and Student at Minnesota State University, Mankato; and Daniel T. Madzelan, a retired employee of the U.S. Department of Education (Retired)

The Subcommittee on Higher Education and the Workforce is expected to conduct additional hearings in the coming months as it prepares legislation to reauthorize the Higher Education Act. Witness testimony, opening statements, and an archived webcast of the hearing is available at: www.edworkforce.house.gov/hearings.

**Senate Hearing**

Also on April 16, in the U.S Senate, three college students and a University of Wisconsin associate professor discussed college affordability during the hearing: *The Challenge of College Affordability: The Student Lens*, sponsored by the Committee on Health, Education, Labor and Pensions and chaired by Sen. Tom Harkin (D-Iowa).

Sen. Harkin’s introductory remarks focused on the increasing cost of college, while Sen. Lamar Alexander (R-Tenn.) blamed increases in college costs on states’ increasing need to meet Medicaid costs, indifferent use of college facilities, “the absurd barrage of well-intended regulations,” and funding college choice.

In general the students supported greater aid and lower cost loans, though they expressed differences of opinion regarding how difficult it was to obtain information about college cost and aid availability and the ease of applying for federal student aid.

Ethan Senack, a higher education associate at the U.S. Public Interest Research Group (PIRG) and former student at the University of Connecticut, explained PIRG’s efforts to prevent the July 1 doubling of the interest rate for Stafford (subsidized) Loans from 3.4 percent to 6.8. He supported the Education Departments efforts to provide clear and standardized information in the form of the “Shopping Sheet” as well as legislation requiring uniform student aid award letters.

Derrica Donelson, a recent graduate of Lipscomb University in Nashville, acknowledged the importance of the Pell Grant, Tennessee state grant, and federal loans as well as the assistance of guidance personnel. She also discussed her willingness to assume some debt for the chance to complete a combined BA/MA accounting program in five years at a slightly more expensive private college.

Wisconsin Center for the Advancement of Education Senior Scholar Sara Goldrick-Rabb painted a very bleak picture of college affordability, noting the diminishing purchasing power of the Pell Grant and the growing need for student loans. She recommended changes in how aid eligibility is calculated, elimination of college tax credits, new requirements for state maintenance of effort, a curtailing of borrowing, and college cost control measures in order to provide more aid for the neediest students.

The Senate HELP Committee also is expected to conduct additional hearings in the coming months as it prepares legislation to reauthorize the Higher Education Act. Witness testimony, opening statements, and an archived webcast of the Senate hearing is available at: http://www.help.senate.gov/hearings/hearing/?id=58f4674b-5056-a032-5244-d855725503e9.

**Update, May 2:**

In a subsequent subcommittee hearing on April 24, Chair Virginia Foxx (R-N.C.) heard from witnesses about the need for and usefulness of providing information about colleges and financial aid to prospective students. Foxx opened the hearing by noting that, while the information might be improved, Congress and the Department of Education have developed a number of tools to help students gauge the price and graduate success at individual colleges.

She also cautioned that reporting requirements could be costly to institutions, explaining that “during the 2012-13 academic year, institutions spent an estimated 850,320 hours and almost $31 million to fill out required federal surveys. This was in addition to other reporting requirements.”
Several witnesses agreed that students need better and earlier information about colleges, but cautioned that this did not mean there was a need for more data. For one, Donald Heller, dean of the College of Education at Michigan State University, agreed on the need for basic information, while also noting that most first-year students attend a community college or proprietary institution in their local community. The fact that 81 percent of students enroll in an institution within 50 miles of their home, he said, might suggest that proximity might be a stronger determinant of college choice than in-depth data on the full universe of colleges and universities.

For more information, contact Maureen Budetti, Maureen@naicu.edu

**NAICU Weighs in on House Tax Reform Efforts**

The House Ways and Means Committee has been busy implementing a formal process for discussing the current tax code and considering ways to simplify and reform it. Part of the process includes the creation of 11 working groups to examine all of the various tax benefits currently in effect. The Education and Family Benefits working group is tasked with considering the higher education tax benefits, while the Charitable/Exempt Organizations working group is looking at the charitable tax benefits.

NAICU submitted a statement to the Education and Family Benefits working group that outlines our support for maintaining the three-tiered system of benefits that assists families who are saving for college, paying for college, or repaying student loans. The statement also acknowledges the need for consolidation and simplification of the credits and deductions available for tuition assistance, and suggests that having a permanent credit that is available beyond the first four years of college would negate the need for the Hope tax credit, the Lifetime Learning credit, and the tuition deduction.

NAICU has also joined in three community statements. The first was submitted April 12 on behalf of 12 associations, including NAICU, to the Debt, Equity and Capital working group. It urges continuation of tax-exempt bond financing, including qualified 501(c)(3) private-activity bonds, which are important to many charitable organizations, including colleges and universities.

NAICU also signed onto April 15 comments filed with the Education and Family Benefits working group by the American Council on Education (ACE) in support of keeping the current framework of current tax benefits for higher education. That joint statement also advocates for the type of consolidation and simplification of deductions and credits that NAICU endorsed in its earlier, separate filing.

Finally, NAICU joined in a second statement filed by ACE on April 15 to the Charitable/Exempt Organizations working group. That statement advocates in favor of keeping incentives for charitable giving, including the IRA charitable rollover and the charitable deduction.

The Joint Committee on Taxation will review all submissions, which were due by April 15, and will compile a report for the full Ways and Means Committee. It is unclear how the committee or the working groups will proceed from there, but additional roundtable discussions or hearings are certainly possible. (See earlier story in Washington Update.) Ways and Means Chairman Dave Camp (R-Mich.) has indicated he would like to introduce tax legislation by the end of the year, but no similar efforts are currently underway in the Senate Finance Committee or within the Obama administration.

For more information, contact Karin Johns, Karin@naicu.edu

**IRS Publishes Final College and University Audit Report, Hearing Set for May 8**

After nearly five years, the Internal Revenue Service (IRS) has released its final report stemming from a questionnaire sent to more than 400 randomly-selected public and private colleges and universities in 2008. Responses to the questionnaire led the IRS to audit 34 colleges and universities. The April 25 final report found that all 34 institutions underpaid unrelated business income taxes (UBIT) by nearly $90 million, and that 20 percent of the private nonprofit colleges audited had violated IRS rules in determining reasonable compensation for campus executives.
Rep. Charles Boustany, Jr. (R-La.) announced on May 1 that the House Ways and Means Subcommittee on Oversight would hold a May 8 hearing to review the final report. Boustany, who chairs the subcommittee, said in a statement:

*Given the importance of nonprofit colleges and universities, it is critical that the Subcommittee continue its review of this segment of the tax-exempt sector. The IRS’s colleges and universities compliance project suggests widespread noncompliance. The Subcommittee has an obligation to explore the root of these alarming findings on the audit of our nation’s higher education providers. This hearing is an excellent opportunity to discuss the results of the compliance project and examine areas for improvement in oversight, with an eye toward comprehensive tax reform.*

The 2008 IRS questionnaires sought information on demographics, reporting unrelated business income, investments, asset management, use of endowment funds, and executive compensation. The goal was to examine potential reporting discrepancies between colleges and the IRS. The audits resulting from the questionnaire responses looked primarily at the 2008 tax returns of the colleges and universities being audited.

The report said that underreporting of UBIT resulted from 30 different types of unrelated business activities, but primarily from five areas: fitness and recreation centers, advertising, facility rentals, arenas, and golf courses.

Regarding executive compensation discrepancies, the IRS looked at compliance with Section 4958 (Intermediate Sanctions) of the Internal Revenue Code, which provides guidance for determining reasonable compensation for disqualified persons, including officers, directors, and other key employees.

IRS regulations allow organizations to obtain a “rebuttable presumption of reasonableness” by following a three-step process that includes using an independent body, providing detailed documentation of the compensation-setting process, and using appropriate salary comparisons. The audits showed that some salary comparisons were not appropriate because of problems with comparability data. These included relying on data from institutions not similarly situated and/or salary figures that were incomplete or dissimilar.

Lois Lerner, director of the Exempt Organizations Division of the IRS, said that, after disallowing certain losses, the tax liability for the schools impacted by the audit could total $60 million. Since the names of the audited colleges were not made public, only Lerner has been invited to testify at the upcoming hearing.

*For more information, contact Karin Johns, Karin@naicu.edu*

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**Washington Buzzing About Student Loans**

Congress has less than 60 days to address the interest rate hike on subsidized student loans effective July 1. Opinions vary widely across stakeholders and political parties about the best way to move forward. The President surprised both parties when he proposed a market-based rate -- without a cap -- paired with income-based repayment (IBR) in his FY 2014 budget released in early April. (See earlier *Washington Update* story.) Most had expected him to continue supporting the effort by Democratic congressional leaders to enact a two-year extension of the current 3.4 percent interest rate.

Meanwhile, some congressional Republicans think there should be a long-term solution enacted within the next 60 days that reflects a variable market rate, while others support universal IBR without an interest rate cap. Student advocates support keeping the 3.4 percent rate, thereby lowering federal government's profit on student loans. Other independent voices have suggested the 6.8 percent rate be allowed to go into effect.

**Many Questions**

There are many moving parts that make student loans work, and they all raise important policy questions. Those that seem to be on the minds of policymakers in this debate include:

- Where should the subsidy go -- toward front-end student access or back-end borrower repayment?
- How should interest rates be set to provide the greatest and most appropriate benefits to students and their families?
• How should graduate students be treated?
• Should the interest rate be set in law, or by the market?
• Should the government be making money on student loans? (See net subsidy table.) If so, how much?
• Should IBR be mandatory or an option for the borrower?
• Does IBR make an interest rate cap unnecessary?
• How much forgiveness should be included, and for whom? Should it be taxed?

The NAICU Board’s Guidance

At its recent spring meeting, the NAICU board gave staff guidance on how to engage in the upcoming debate on reforming the student loan program. The board’s advice focused on ensuring that policies help students and families by providing a fair program for all borrowers, clear and predictable financing options, and clear and predictable repayment obligations.

Board members feel strongly that student aid is not a tool for shaping the workforce, but for gaining access to, and completing, college. Therefore, it’s worth taking on an appropriate level of college debt if it means earning a college degree. They also particularly expressed concern about the growing cost of graduate student loans.

Down to the Wire

In the meantime, the Congressional Budget Office (CBO) is scoring the President’s FY 2014 budget that was released April 10. Such an assessment is done every year in order to set a new baseline for student loan costs. (For more information on assessing the cost of federal credit, click here.)

The timing of the CBO review is important because no student loan proposals will be scored until after the CBO completes its work on the President’s budget -- and that is not expected to happen until mid-to-late May. Since Congress can’t move forward on student loan changes until the CBO assessment and estimates of the costs of various proposals are complete, most of the congressional action will take place in June.

As many a wise Hill staffer has noted, “You can create good policy, but scoring drives the decisions.”

For more information, contact Stephanie Giesecke, Stephanie@naicu.edu (budget and scoring issues)
Maureen Budetti, Maureen@naicu.edu (student loan design)

New Department Neg-reg Hearings to Include Regs Rejected by Courts

The Department of Education announced it will convene negotiated rulemaking sessions on a variety of topics in its continuing, multiple-year review and rewrite of program integrity regulations. The Department’s April 16, 2013, Federal Register announcement adds new topics to the list of those that had been proposed in May 2012 for negotiated rulemaking, including provisions relating to gainful employment and state authorization of institutions of higher education that were recently overturned by the courts. (See earlier Washington Update stories on gainful employment and state authorization.)

Topics for Review

In May 2012, the Department held hearings to consider student use of debit cards for disbursing Title IV funds and the streamlining of the campus-based student aid programs as areas for regulation. (Transcripts of those hearings are here and here.) Although the Department said it anticipated post-hearing negotiated rulemaking sessions would begin in September 2012, none were held, and no official explanation for the delay was ever given. Now, those issues considered in the May 2012 hearings will become part of an expanded 2013 negotiated rulemaking that will include the following new topics:

• Cash management of Title IV funds
• State authorization for distance education programs
• State authorization for foreign locations of institutions located in a state
• Clock to credit hour conversion
• Gainful employment
• New campus safety and security reporting requirements under the Violence Against Women Reauthorization Act of 2013
• Definition of “adverse credit” for PLUS borrowers

Public Hearing Dates Set

Three public hearings have been scheduled this month to consider the proposed topics and others that may be offered by the public:

• May 21, at the U.S. Department of Education, 1990 K Street, NW, Eighth Floor Conference Center, Washington, D.C. 20006
• May 23, at the University of Minnesota, Twin Cities, Hubert H. Humphrey School of Public Affairs, Cowles Auditorium, 301 19th Avenue S, Minneapolis, Minnesota 55455
• May 30, at the University of California, San Francisco, UC Hall, Toland Hall Auditorium (Room U142), 533 Parnassus Avenue, San Francisco, California 94143

All are scheduled for 9:00 a.m. to 4:00 p.m., local time. Interested parties wishing to present comments must register through an e-mail to negreghearing@ed.gov that includes the name of the presenter and a general timeframe for when the presenter would like to speak. Written comments will be accepted through May 30, 2013. Further information, including directions to the sites, is available here and in the April 16 Federal Register notice linked above.

The Department has not yet announced dates for the negotiated rulemaking or issued a call for neg-reg committee participants. However, in the April 16 Federal Register notice, the Department said it intends to select participants that represent the interests significantly affected by the proposed regulations, and reflect the diversity among program participants. It also announced that it intends to conduct further rulemakings over the next several years “to address more directly access to, and the affordability of, higher education and possible steps to improve the quality of higher education in the United States and to better encourage students to complete their education.”

NAICU plans to submit comments at the hearings.

House Members Oppose Gainful Employment, State Authorization Regs

Shortly after the Department announcement, several House members -- including Reps. John Kline (R-Minn.), chair of the House Committee on Education and the Workforce, and Virginia Foxx (R-N.C.), Chair of the Subcommittee on Higher Education and Workforce Training -- wrote to the Department urging it to abandon the widely-panned gainful employment and state authorization regulations. The April 18 letter, also signed by Reps. Robert Andrews (D-N.J.), Carolyn McCarthy (D-N.Y.), and Alcee Hastings (D-Fla.), urged Secretary of Education Arne Duncan to instead work with Congress to address program integrity issues as part of the Higher Education Act reauthorization.

For more information, contact Maureen Budetti, Maureen@naicu.edu

Six NAICU Members Among Finalists for Climate Leadership Awards

Six NAICU members - Carleton College, Chatham University, Goddard College, Hobart and William Smith Colleges, Middlebury College, and Oberlin College – are among 20 colleges and universities chosen as finalists for the 2013 Climate Leadership Awards presented by Second Nature. The finalists were cited as exemplifying the mission of the American College and University Presidents’ Climate Commitment (ACUPCC) to re-stabilize the earth’s climate through education, research, and community engagement.

The award winners were chosen from among ACUPCC’s 665 signatories. Each of the finalists was asked to submit a 1-3 minute video highlighting a climate innovation on its campus.
NAICU is a member of the Higher Education Associations Sustainability Consortium (HEASC), a network of higher education associations dedicated to advancing sustainability within their communities. NAICU will periodically highlight its members’ commitment to furthering that goal.

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