11-11-2021

How Does the Elimination of State Aid to For-Profit Colleges Affect Enrollment? Evidence from California's Reforms

Oded Gurantz
University of Missouri, gurantzo@missouri.edu

Ryan Sakoda
University of Iowa

Shayak Sarkar
University of California-Davis

Citation
Gurantz, Oded, Ryan Sakoda, and Shayak Sarkar. 2021. "How Does the Elimination of State Aid to For-Profit Colleges Affect Enrollment? Evidence from California's Reforms." Policy and Research Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research. https://doi.org/10.17848/pb2021-38

W.E. UPJOHN INSTITUTE
FOR EMPLOYMENT RESEARCH

NOVEMBER 2021

POLICY BRIEF

How Does the Elimination of State Aid to For-Profit Colleges Affect Enrollment?

Evidence from California's Reforms

Oded Gurantz, Ryan Sakoda, and Shayak Sarkar

BRIEF HIGHLIGHTS

- *The for-profit higher education sector expanded significantly in the twenty-first century, but its role remains a topic of significant controversy due to poor student outcomes.*
- *When California eliminated the use of state aid at most for-profit colleges in the early 2010s, many students chose to remain enrolled in for-profit colleges and shoulder a larger burden of the costs.*
- *As significant financial penalties do little to shift enrollment, improving the disclosure of college quality is also unlikely to affect where students enroll.*
- *Shifting students away from enrolling in poor-performing for-profit colleges may require stronger policies, such as eliminating access to federal funds.*
- *Government could help public colleges become more responsive to student demand by expanding popular programs, as limited access may drive students out of public colleges and into the for-profit sector.*

For additional details, see the working paper at https://research.upjohn.org/up_workingpapers/21-356/.

The for-profit higher education sector expanded significantly in the twenty-first century and has become a topic of considerable controversy. Advocates for the sector argue that the for-profit motive increases innovation and responsiveness to the market, leading to better opportunities for students excluded from traditional higher education. Despite these theoretical advantages, most research finds that for-profit students have worse labor market outcomes and higher levels of student debt, even after accounting for differences in the background characteristics of who attends. This research has generated concerns about the sector and catalyzed two common regulatory responses—efforts to improve information about school "quality" and restrictions on the use of Pell Grants and federal loans—in order to dissuade enrollment in low-quality institutions.

We examine how a policy change in California that eliminated the use of state aid to subsidize for-profit enrollment affected student enrollment and degree attainment. We find that eliminating this state aid did little to change students' educational outcomes, with most students choosing to remain in for-profit colleges while shouldering a larger burden of the costs.

Our findings suggest the following policy implications:

- Reductions in eligibility for state financial aid by themselves are unlikely to dissuade students from attending for-profit colleges.
- As significant financial penalties do little to shift enrollment, improving the disclosure of college quality—a lighter-touch approach—is also unlikely to affect where students enroll.
- If the goal is to shift students away from enrolling in poor-performing for-profit colleges, stronger policies, such as eliminating access to federal funds, may be necessary.
- Additionally, government could help public colleges become more responsive to student demand by expanding popular programs. For instance, the most common for-profit degree in our study is for health careers, whereas California's community college health programs are frequently oversubscribed and can require students to wait years before enrollment, likely pushing some students into the for-profit sector.

Our study focuses on educational outcomes but does not yet examine the implications of for-profit enrollment on students' financial health. In future work, we hope to examine how the same financial aid policy affected former students' debt and default rates for various forms of credit, including student loans.

Background

California's Cal Grant is the largest state aid program in the nation, with eligibility determined by both financial need (income) and merit (GPA). The Cal Grant targets

The Cal Grant provided four years of full tuition and fees at any in-state public four-year institution, an annual $1,500 subsidy for community college enrollment, or an annual $9,700 subsidy to attend private colleges.

low- and middle-income students through two programs: the Entitlement grant for "traditional" high school graduates, and the Competitive grant awarded more selectively toward older, nontraditional students. At the time of our study, the Cal Grant provided four years of full tuition and fees at any in-state public four-year institution, an annual $1,500 subsidy for community college enrollment, or an annual $9,700 subsidy to attend private colleges.

Budgetary pressures from the Great Recession and reports of for-profit colleges' ineffectiveness led California to eliminate Cal Grant eligibility at a small set of for-profits in the 2011–2012 school year and then at nearly all for-profits in 2012–2013. This policy falls into one of two broad approaches typically taken by the government to influence college choice. The less intensive approach is to advocate for better consumer information, such as the U.S. Department of Education's College Scorecard, in the hopes that more-accessible measures of a college's quality might induce students to avoid low-performing schools. Alternately, the government can target low-performing institutions, typically measured via cohort default rates, student earnings-to-debt ratios, or other loan-repayment metrics, and restrict such institutions from accessing federal funds, which typically leads to school closure. Prior studies have found that such sanctions in the 1990s decreased student enrollment at targeted for-profits, and pushed Pell-eligible students into neighboring community colleges (Cellini, Darolia, and Turner 2020). California's approach is something of a middle ground, as losing state aid is more intensive than information disclosure, but not so severe that it would lead to the college's closure.

How Students React to Loss of Aid at For-Profits

To study the impacts of this policy change we use individual-level data on all Cal Grant applicants from 2007–2008 through 2012–2013, provided to us by the California Student Aid Commission, which administers the program. We compare students who were affected by the policy (those who listed for-profit colleges on their FAFSA financial aid application before the policy took effect) to students who should not have been affected, and how these differences changed over time. For traditional students from high school, we compare individuals who look observationally similar except for their FAFSA plans, whereas for nontraditional older students, we compare individuals expressing interest in for-profits on their FAFSA but who either did or did not qualify for the Cal Grant based on eligibility criteria.

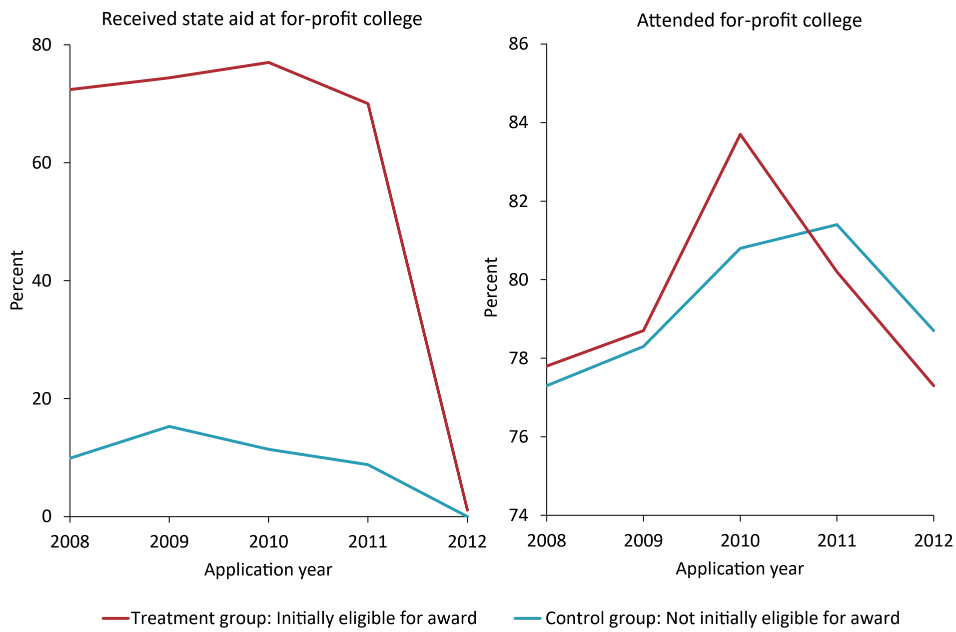
For nontraditional students interested in for-profits, we find that restricting the use of the Cal Grant at for-profit institutions led to no change in student behaviors or outcomes. The left panel of Figure 1 shows that 70 percent of students who initially met the award criteria received and used the Cal Grant at a for-profit college before the restrictions were enacted in 2012–2013. In contrast, about 10 percent of students who did not initially meet the award criteria ended up receiving a Cal Grant (usually through an appeals process) and used it at a for-profit college. When the restrictions took effect in 2012, Cal Grant usage at for-profit colleges declined sharply, especially for the initially eligible students. As shown in the right panel, however, actual attendance rates at for-profit colleges were similar regardless of initial Cal Grant eligibility, and the two groups of students have near-identical declines in for-profit attendance between 2011 and 2012, when the policy went into effect.

Thus, nontraditional students' decisions to enroll in a for-profit were almost completely indifferent to the policy change, even though we demonstrate a dramatic loss in state aid of roughly $10,000 per eligible student. In our paper, we also show that the policy change had no impact on the likelihood these students earned a degree at a for-profit college or anywhere else, such as at a community college.

For "traditional" recent high school graduates, we again find that students who lost state aid mostly chose to enroll in for-profit colleges, though results are a bit more mixed. We find suggestive evidence that the loss of aid slightly decreased the chance these

Older students' decisions to enroll in a for-profit were almost completely indifferent to the policy change, even with a loss in state aid of roughly $10,000.

Figure 1 Older "Non-Traditional" Students



SOURCE: Authors' calculations from California Student Aid Commission data.

students earned a degree at a for-profit college, partly because some students shifted into community colleges and partly because some students chose not to attend college at all. These results are sensitive to reasonable changes to our model, but a conservative interpretation is that preferences for enrollment in the for-profit sector remained strong for both groups of students.

Some Possible Explanations

Our results show that student preferences for for-profit colleges are relatively insensitive to a large loss in aid, especially among older, nontraditional students. Why might this be the case? Although for-profits might offer greater flexibility, such as a larger selection of online courses, students who live physically closer to a community college campus are no more likely to shift sector of enrollment. Additionally, nontraditional students who had previously attended a community college were equally likely to shift enrollment as those who had not, suggesting that preferences for for-profits are not likely driven by poor prior experiences in the public sector.

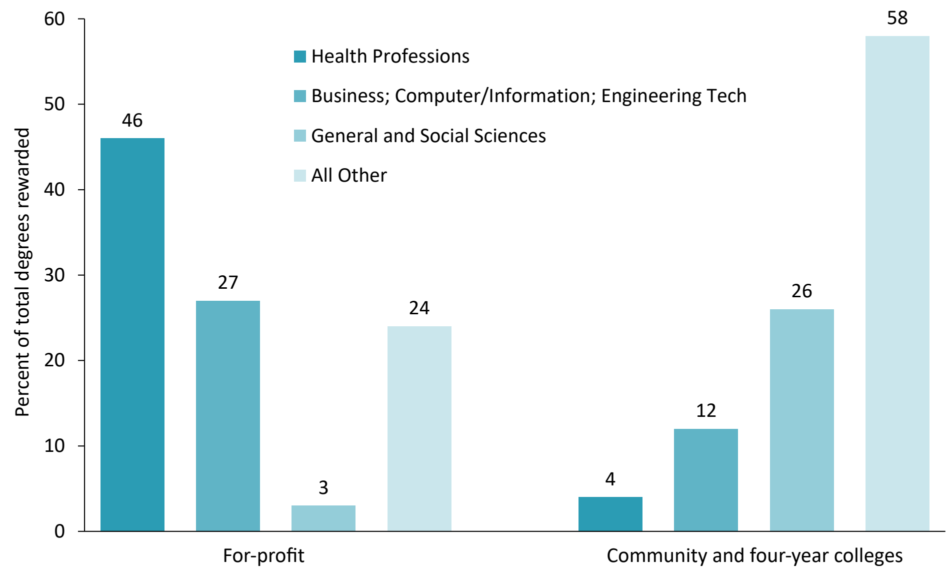
Rather, the strongest potential explanation for students' for-profit preferences are the different types of degree programs offered by for-profit and public colleges. For instance, as shown in Figure 2, 46 percent of degrees earned at for-profit colleges by recent high school graduates in our sample are in health professions, compared to only 4 percent of degrees earned at public colleges. Prior studies have found that California's public community colleges are unable to meet total demand in certain programs, such as health care, and often resort to using random lotteries to allocate the limited number of available seats (Grosz 2020).

Conclusion

We believe our results suggest several legal and policy implications. First, policymakers should be aware of the limited effectiveness of using such state aid restrictions to "nudge" students into alternate colleges. Students in our study lose

The strongest potential explanation for students' for-profit preferences are the different types of degree programs offered by for-profit and public colleges.

Figure 2 Degree Types by Postsecondary Sector—Traditional Sample



SOURCE: Authors' calculations from California Student Aid Commission data.

significant funding but are still eligible for Pell Grants, federal loans, and other resources that facilitate attendance. Therefore, a policy goal to shift students away from enrolling in poor-performing for-profit colleges may require stronger policies, including eliminating access to federal funds. Although traditional-aged students may respond to aid restrictions by partly shifting enrollment to community colleges, our results show impacts far smaller than those found in studies examining for-profit closures. Alternative efforts that aim to shift student choice through increased disclosure of a college's "quality" are also unlikely to be effective, both because of their less intensive nature and possible efforts on the part of colleges to game these statistics.

The demand for for-profit education likely stems in part from the availability of degree programs that are in high demand. However, greater degree availability at for-profits must be tempered by serious concerns about the quality of these for-profit degrees, and how these colleges use aggressive and often fraudulent advertising practices to convince students to attend (U.S. Department of Education 2021). Policymakers interested in influencing student choice can help public colleges adopt the program attributes that have given rise to such strong demand, particularly by increasing funding or removing other barriers that prevent community colleges from expanding popular programs.

References

Cellini, Stephanie, Rajeev Darolia, and Lesley J. Turner. 2020. "Where Do Students Go When For-Profit Colleges Lose Federal Aid?" *American Economic Journal: Economic Policy* 12(2): 46–83.

Grosz, Michel. 2020. "The Returns to a Large Community College Program: Evidence from Admissions Lotteries." *American Economic Journal: Economic Policy* 12(1): 226–253.

U.S. Department of Education. 2021. "Department of Education Approves Borrower Defense Claims Related to Three Additional Institutions" Press Release. July 9. https://www.ed.gov/news/press-releases/department-education-approves-borrower-defense-claims-related-three-additional-institutions.