LUMINA ISSUE PAPERS

OBAMA ADMINISTRATION'S RATINGS PROPOSAL

by Julie Peller

SEPTEMBER 1, 2014

In August 2013, President Obama announced his intent to develop a college ratings system that encourages institutional improvement and identifies institutions of higher education "providing the best value." The ratings system was announced along with a number of other efforts intended to curb rising college prices, including a Race to the Top for higher education and experimental sites for competency-based education.

The ratings system will first be released without accountability ties, but the administration ultimately intends to use the system to direct federal student aid to those institutions seen as providing the best value.[i] Therefore, the system built will have two uses: consumer and public information as well as accountability. It is important to note, however, that while the administration has the authority to release a new consumer tool, legislative changes are necessary in order to use any ratings system for accountability purposes.

The president's announcement outlined a plan to make a ratings system available for students and families before the 2015-2016 academic year, with the intention of asking Congress to use the ratings system for accountability purposes by 2018. The administration originally set a goal to release a draft system by spring 2014. However, that goal was not met and the expected date for a draft system is now late fall 2014.

Potential Measures

While the administration has yet to release a draft ratings system, the original announcement indicated that the system would define value and quality of higher education institutions while continuing to support postsecondary access. The categories of measures that have been discussed for inclusion are:

1. Access, such as percentage of students receiving Pell grants.
2. Affordability, such as tuition, and net price.
3. Outcomes, such as completion and transfer rates, earnings and advanced degrees.

Another key conversation has focused on the comparability of institutions. The administration has indicated it understands the need to categorize "like groups" of institutions to avoid unfair comparisons. However, it is unclear how such groups will be defined (e.g., by mission, institutional type or student population). The higher education community is particularly concerned about the system's ability to reflect appropriate comparison groups.

Each set of measures indicated above has a host of complex considerations. For example, many in higher education are concerned that federal measurement of earnings would penalize institutions that educate a large number of public service employees, such as teachers. Further, there is no clear guidance on what constitutes the appropriate amount of time to gauge certain higher education outcomes such as employment and income. Lastly, there is much concern and conversation about the interactive nature of the measures. Specifically, should there be a "risk indicator" that factors in the percentage of Pell or minority students when calculating outcome metrics to ensure that institutions are not penalized for enrolling learners from diverse backgrounds?

Reaction

To solicit feedback regarding the ratings, the Department of Education held a series of listening sessions throughout the country, invited written comment, and held meetings with a variety of stakeholders.[ii] Even before the release of a draft proposal, the concept of a federal ratings system for higher education has been met with great skepticism from the education field, think tanks, and Congress.[iii] The concerns center around four main areas:

1. Is this an appropriate role for the federal government?
2. Is this an effective method of weighing institutional quality, given the roles of accreditors and states?
3. Does the Department of Education have the capacity and data to develop, maintain and populate an accurate and sufficient system?
4. Is the primary purpose for the ratings system consumer disclosure or accountability?

The higher education community has been particularly critical of the administration's plan. A letter from the American Council on Education (ACE) to the Department of Education, which was co-signed by 23 organizations, clearly outlines opposition to the ratings system. ACE contends that it is not appropriate for the federal government to develop such a system and that the system itself will neither accurately measure the diversity of institutions nor assess the range of private and public benefits that higher education provides. The letter further states that a ratings system will create perverse institutional incentives and limit access to higher education for certain student populations. Additionally, a recent ACE report asserts that while rankings have great influence on institutional behavior, primarily causing them to become more selective and admit fewer low-income students, they have little effect on student choice.[iv]

However, the higher education community has not been unified in its response to the proposed ratings system.[v] While it did not endorse the ratings system, the Association of Public and Land-Grant Universities, (APLU) did not co-sign the ACE letter and submitted a separate letter in which it endorsed the intent to provide students with better information about colleges' value and to direct student financial aid to institutions that are serving students well. APLU suggests an alternative approach which includes a reporting mechanism that takes into account a "student readiness index" (see more detail about the Student Achievement Measure below).[vi]

The concerns raised by the higher education community are considerable and need to be addressed in any proposal released by the administration. Chief among those concerns is the intended purpose and audience of the ratings system. The elements measured for federal accountability, including fiduciary responsibility and repayment of student loans, are likely to be very different from elements that students and parents would use to make college-going decisions. Without addressing this fundamental question, it is feared that the system will either include such a wide array of measures that any particular rating would be meaningless, or it will fail to adequately achieve either goal of transparency or accountability.

Further, there are real data concerns related to a federal ratings system. Most data held by the Department of Education only capture first-time, full-time students who represent a small portion of the total student population. Without access to data on the full array of students, the ratings system may incorrectly characterize an institution's "quality."

Additionally, there is tension between incenting completion and other student outcomes and ensuring access. Many cite concerns that a federal ratings system will be unable to strike the right balance between the two. If institutions are not held accountable for increasing access for low-income and minority students, it is feared that an outcome-driven ratings system will drive institutions to admit fewer such students.

Another key concern is the system's ability to incorporate appropriate comparison groups. As noted above, the administration has stated its intent to compare institutions to one another. However, in order to avoid a system that restricts access, such comparisons should go beyond institutional type (e.g., four-year public). Appropriate comparison groups will need to adequately address other factors such as mission, selectivity and resources.

Effectiveness of Consumer Information

Federal involvement in providing consumers with a sense of quality is not unique to higher education. Food labels, cigarette warnings and beef grades are just three examples of the federal government's attempts to regulate quality. Studies have shown that while some efforts, such as cigarette warnings, increase consumer understanding and awareness, others, such as beef labeling, have not been so successful.[vii] Perhaps one of the most well-known federal efforts to disclose more information to consumers is the requirement for nutrition labels. Research shows that just about half of consumers use such labels—a 2008 Health and Diet Survey administered through the U.S. Food and Drug Administration found 54 percent of respondents read the labels on the back of their food products.[viii] What these studies do not highlight is who pays attention to disclosures. It may be logical to assume that those who are already inclined to seek information pay attention to the disclosures, while those who lack that inclination simply ignore them.

A recent report released by ACE's Center for Policy Research and Strategy suggests that higher education rankings, such as those offered by U.S. News and World Report, have little influence on student choice or college-going behavior. Particularly, it highlights that a 2013 survey by the Higher Education Research Institute found that among college freshmen, only 15 percent of low-income students said that rankings were "very important" in their college choice, compared to 24 percent of high-income students. Beyond income, the importance of rankings varied by type of institution attended; 24 percent of students at highly selective institutions said rankings were "very important" in their college choice, compared to 10 percent of students at institutions with low selectivity.[ix]

The same report identified proximity to home and receiving financial aid as two factors that are very important to low-income students when choosing which college to attend. For those in the lowest income quartile, 25 percent of students said that being close to home was "very important," and 67 percent cited receipt of financial aid as "very important."[x] While these factors are not mutually exclusive, the data suggest that low-income students examine a variety of factors when selecting a college, and that college rankings are a relatively small aspect of the information considered.

Other Efforts

The administration's ratings proposal is the latest in a series of initiatives by the federal government, as well as states and institutions, that are designed to provide greater accountability and more robust consumer information. All of the ideas below were proposed to tackle the same policy concerns as the administration's ratings system. First, there is growing frustration over the rising price of postsecondary education, and a feeling that the value of a college credential (return on investment) is not being adequately explained to prospective and current students. Second, consensus on how the federal government should define and assess the quality of postsecondary education has not been reached. On the latter point, while there is much conversation about mechanical actions to assess quality, there seems to be a desire for greater clarity related to why the federal government needs to define and assess postsecondary quality and whether that is an appropriate role for government to play.

Federal Efforts

The federal government has attempted many times to provide mechanisms for ensuring accountability within higher education. These measures are put in place to guarantee the safety of both federal dollars and student investments in the institutions. In recent years, the Obama administration has been particularly concerned with the growing costs and loan burden associated with some institutions and has proposed new regulations to curb such trends. Two primary proposals to address these issues, defining gainful employment and state authorization, have met stiff opposition.

In recent years both the administration and Congress have made strides toward providing more transparency for students as consumers of higher education. The 2008 reauthorization of the Higher Education Act included the following requirements:

- Institutions were required to post a *net price calculator* on their websites, allowing students to calculate an estimated amount an individual will pay to attend an institution of higher education after subtracting scholarships and grants.
- The Department of Education (DoE) was required to develop and distribute a model aid offer format to institutions known as the *shopping sheet.* This tool was created to standardize the way students receive notification of aid at schools and also to serve as a better mechanism for comparing net prices. In 2012, Secretary Arne Duncan urged college presidents to voluntarily adopt the shopping sheet.
- DoE was also required to create the *College Cost Watch Lists,* which identify, by sector, those universities with the highest and lowest price increases.

Additionally, in 2013 the administration launched the *college score card* as an interactive tool to help students pick the best college for them. The online portal automatically generates a quick profile on each campus listing the price, graduation rate, loan default rate and median borrowing rate. The Department of Veterans Affairs has a similar tool tailored to veterans and other beneficiaries of the GI Bill.

State Efforts

While states do not have ratings systems akin to the president's proposal, some states are allocating public funding based on institutional performance on a set of measures; this is known generally as "outcomes-based funding." Often, outcomes-based funding formulas include both outcome measures (i.e., completion, transfer, degrees per 100 full-time enrolled students) and progress measures (such as credit accumulation and successful remediation).[xi] While many state outcomes-based funding systems are new and little quantitative data are available, early research by the Community College Research Center shows that such systems can motivate changes in institutional behavior to improve student outcomes.[xii]

Institutional Efforts

Institutional associations have developed transparency tools as well, largely in response to federal concerns and efforts.

The public four-year institutions created the Voluntary System of Accountability (VSA) to generate clear and comparable information for consumers via a web report known as the College Portrait.[1] The Portrait provides information on characteristics of students and faculty, admissions requirements, majors, class sizes, campus safety and other facts.

The National Association of Independent College and Universities created an online tool similar to the VSA for private, nonprofit colleges called the University and College Accountability Network. The site generates profiles that provide information on colleges, including admission, enrollment, academics and undergraduate class size for hundreds of colleges.

More recently, the public colleges released the *Student Achievement Measure* (SAM) report. SAM is an online tool that offers students detailed information on persistence and completion at each institution. The report generates information on populations traditionally omitted from the standard graduation rate, including transfers and students enrolled at multiple institutions.

Conclusion

It is likely that the Obama administration will release a ratings system to be used for consumer information; however it will require congressional action to be used for accountability purposes, which is a much more unlikely scenario. Few members of Congress members have expressed support for the system, and past efforts around accountability systems, such as the college cost watch lists, have resulted in further disclosure rather than regulatory accountability. While the policy outcome of the ratings system proposal is yet to be seen, the questions and concerns raised above will continue to spark a conversation that will certainly inform future federal policy deliberations.

Works Cited

[i] White House 2013. "Fact Sheet on the President's Plan to Make College More Affordable: A Better Bargain for the Middle Class." Retrieved from *http://www.whitehouse.gov/the-press-office/2013/08/22/fact-sheet-president-s-plan-make-college-more-affordable-better-bargain-*

[ii] Studley, J. 2014. "College Ratings Listening Tour: College Value and Affordability" U.S. Department of Education. Retrieved from *http://www.ed.gov/edblogs/ous/2014/02/college-ratings-listening-tour-college-value-and-affordability/*

[iii] Lederman, D., Stratford, M. and Jaschik, S. 2014. "Rating (and Berating) the Ratings." Inside Higher Education. Retrieved from: *http://www.insidehighered.com/news/2014/02/07/colleges-and-analysts-respond-obama-ratings-proposal#sthash.A4jx1ziK.dpbs*

[iv] Espinosa, L., Crandall J., and Tukibayeva M. 2014. "Rankings, Institutional Behavior, and College and University Choice." American Council on Education. Retrieved from *http://www.acenet.edu/news-room/Documents/Rankings-Institutional-Behavior-and-College-and-University-Choice.pdf*

[v] Stratford, M. 2014. "Disunited Front." Inside Higher Education. Retrieved from: *http://www.insidehighered.com/news/2014/06/05/beyond-obama-ratings-plan-higher-education-groups-are-divided-over-federal*

[vi] McPherson, P. 2013. Letter from Peter McPherson to Secretary Arne Duncan. Association of Public and Land Grant Universities. Retrieved from: *https://www.aplu.org/document.doc?id=5017*

[vii] Riordan, M. 2013. "Tobacco warning labels: Evidence of effectiveness." Campaign for Tobacco-Free Kids. Retrieved from *http://www.tobaccofreekids.org/research/factsheets/pdf/0325.pdf*; Tatum, D. 2007. *"Beef Grading." National Cattleman's Beef Association. Retrieved from http://www.beefresearch.org/cmdocs/beefresearch/beef%20grading.pdf*

[viii] Choinière, J. and Lando,A. 2008. 2008 Health and Diet Study." US Department of Health and Human Services. Retrieved from *http://www.fda.gov/food/foodscienceresearch/consumerbehaviorresearch/ucm193895.htm#FOODLABELUSEALL*

[ix] Espinosa, L., Crandall J., and Tukibayeva M. 2014. "Rankings, Institutional Behavior, and College and University Choice." American Council on Education. Retrieved from *http://www.acenet.edu/news-room/Documents/Rankings-Institutional-Behavior-and-College-and-University-Choice.pdf*

[x] ibid

[xi] HCM Strategists. "Common Performance Measures Used in Higher Education Funding Models." Retrieved from: *http://strategylabs.luminafoundation.org/wp-content/uploads/2013/10/common_measures_one-pager_final-copy.pdf*

[xii] Doughtry, K. and Reddy, V. 2013. "Performance Funding for Higher Education: What Are the Mechanisms? What are the Impacts?" Community College Research Center. Retrieved from *http://ccrc.tc.columbia.edu/publications/performance-funding-mechanisms-impacts.html*

1 The VSA was initially developed and implemented with two grants from Lumina Foundation.