Testimony Prepared by Burck Smith, CEO and Founder, StraighterLine, Inc.

"Keeping College Within Reach: Improving Higher Education Through Innovation"
House Education and the Workforce Committee
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Good morning. My name is Burck Smith, and I am the CEO and founder of StraighterLine. StraighterLine is an answer to a question that has haunted me since the mid-90's when I was getting a Masters degree in public policy:

> "Despite massive investments in technology, higher education prices are rising and quality is declining. In every other industry, technology investments yield cost savings which translate to lower prices and higher quality – productivity increases. Why not in higher education?"

My conclusion was, and is, that the problem is an outdated regulatory structure.

StraighterLine offers ultra-affordable online general education college courses directly to students. The courses we offer are the ones that everyone takes in their freshman and sophomore years like Psychology 101, Accounting 101 or Precalculus. These general education courses represent about 1/3 of all course enrollments in higher education. We charge $99 per month and, after subscribing, students pay about $49 per course started. We also have a freshman year option for $1300 – all without any taxpayer subsidies. By pricing on a subscription basis, students have an incentive to complete the course and, if a student doesn't complete, the financial harm to the student is low. We expect to enroll about 20,000 students in the upcoming academic year and are growing rapidly, but we are not allowed to be accredited. Instead, we have articulation agreements with about 40 public, private and for-profit regionally accredited colleges such that our students are guaranteed credit when they transfer to one of those colleges.

All of our courses have been reviewed and recommended by the American Council on Education's Credit Recommendation Service as well as other third party reviewers like the College Board and the Distance Education and Training Council (DETC), a Department of Education recognized national accreditor. About 65% of courses started are successfully completed. Over 90% of our students are still enrolled at a partner college after the first year. We have a case study with Western Governor's University describing these persistence effects.

Despite being unaccredited and unsubsidized, StraighterLine can offer equivalent online courses at substantially lower prices because we do not subsidize other parts of the enterprise with profits generated from online and general education courses. Our courses are priced much closer to the true cost of online delivery than those of most accredited colleges. To give you a sense of how much cheaper online course delivery is than face to face delivery, consider what it costs to deliver an online Psychology 101 course to 30 students. The course content and management software are free or very cheap. The average per-course wage for an adjunct professor is under $3,000. So, the professor's labor is about $100 per student. Add additional expenses for proctoring and management, and one is hard pressed to get beyond about $200 per student per course. However, to avoid students migrating from high priced face to face courses to low-priced online courses, 93% of colleges price their online courses the *same or higher* than their face to face courses. When tuition, fees and subsidies are added together, colleges receive $1,000 - $3,000 per course. So this means that colleges – no matter their tax status – are profiting from online courses. These profits are used to subsidize other parts of a college's budget.

This substantial profit margin explains a number of recent trends in higher education. First, the for-profit sector was the first to realize the profitability of driving down the cost of delivery while keeping prices the same. More recently, public and non-profit colleges have turned to "outsourcing" companies that will quickly stand-up an online program for a college in exchange for 50% to 80% of the revenue from that program. In effect, colleges, rather than students, are capturing the productivity and cost-saving benefits of online course delivery.

In most markets, such profit margins would decline over time as new competitors entered the market. However, in higher education, accreditation, and the public subsidies to which it is tied, make it difficult for course-level competition to emerge. By my conservative calculations, accredited colleges receive well over $200 billion of taxpayer subsidies per year. These subsidies directly and indirectly support students through Pell grants, subsidized loans, 529 plans, tax credits, and colleges through state grants to public colleges, Department of Labor grant programs and non-profit tax status. To receive any of these subsidies, a college must be accredited. To be accredited, a provider must offer full degrees, not individual courses. Providers are judged on their inputs – like faculty credentials and departments – rather than their outcomes. Colleges have complete control over their credit recognition policies. Finally, accreditors are staffed and financed by colleges themselves. This means that it is difficult to "disaggregate" the college experience because the college must be a degree "bundle," that colleges must have similar cost structures because their inputs must be similar, that they can deny credit from providers that are threatening and that there is little incentive to change the model.

To put it more sharply, if a course provider like StraighterLine develops the world's best online calculus course, a student could not access any taxpayer subsidies to take that course. If the student took the course anyway, he or she must convince the college they attend to award credit for the course. The college has a disincentive to do so because it wants the student to take its courses at its prices. The disincentive to "unbundle" is the same disincentive faced by record companies as per-song downloads replaced the 10 song album or the cable industry when faced with single channel, rather than package, purchases. The disincentive to award credit for other people's courses is the same disincentive that hardware and software providers have when allowing compatibility with their products. If you lose your charger for your iPhone, you need to pay extra for a compatible Apple charger because they own the interface standard.

When I was starting StraighterLine, a frequent question was "why will colleges start to recognize credit from lower cost providers?" The answer is that the economics of higher education are gradually forcing them to do so. First, tuition continues to rise, and is rising fastest among the public colleges due to structural inflation combined with state disinvestment. Second, for the first time since accreditation was tied to financial aid, sources of student support are not keeping up with tuition growth. Pell grant eligibility has been tightened. States have cut their scholarship programs. Median family assets are 40% less than what they were in 2007. With higher prices and fewer sources of support, students are willing to look outside of accreditation – essentially foregoing their subsidies – to find a lower priced pathway to college. Lastly, with courses moving online, students can choose from hundreds of online colleges rather than a couple of regionally defined providers, and this doesn't include the new unaccredited providers! While many colleges can and do resist creating low-cost degree pathways, those colleges that compete for adult students – particularly online students – must create low-cost pathways to degrees. If they do not, students will choose the colleges that do. Accordingly it is these schools that are the early adopters of low-cost pathways to colleges, not the "elite" colleges who have more demand than they are willing to accommodate.

StraighterLine started in 2008 as a division of my previous company – a provider of online tutoring for colleges called SMARTHINKING – and became its own company in 2010. Well before the MOOC-mania, StraighterLine identified the two themes that underlie today's higher education debates. First, online courses from all providers – for-profit, non-profit, public -- should be much cheaper than face to face courses. Second, you don't need to be a college to offer a college course online. If a provider can meet the standards for a college course, shouldn't that provider be able to offer it under the same conditions as a college? In 2008, this was heresy. Today, it seems inevitable. Though MOOCs have captured the imagination of the media, I prefer the equally inelegant term MCPM – Marginal Cost Pricing Model – because that is the defining feature of disruption. The irony is that it is forced to happen outside of the state sanctioned accreditation and subsidization structure.

What can be done? There are a wide range of both small and large policy changes that could enable greater competition and lower prices. Here are some possibilities:

- Allow accreditation at the course, rather than the degree level – This could include access to all, some or none of the subsidy streams currently enjoyed by accredited colleges. At a minimum, it would confer the same acknowledgement of quality as enjoyed by colleges. At a maximum, it would level the economic playing field for all providers.

- Create common course transfer standards – All providers, accredited and unaccredited, would be able to include their courses in such a structure. Another way to promote this would be to require any provider who wants their courses to transfer to others to accept transfer from others. This is similar to a "GED," but for commonly taken college courses.

- Consolidate All Subsidies into a Lifelong Learning Account Controlled by the Student – While more radical than other proposals, this is the most logical given the changes in the higher education market. The structure of the account could be adjusted to meet socially desirable goals like greater amounts for students from low socio-economic backgrounds, diminished availability over time, transferability to family, and more.

Over 2/3 of colleges already offer online courses for credit and over 1/3 of students have taken one. Yet, higher education has been largely insulated from the disruptions felt in other industries. Further, the productivity benefits that technology is supposed to bring to consumers and taxpayers are largely absent. Though we have had significant investment and use of new technologies, the basic business model of higher education is propped up by taxpayer subsidies and protected by accreditation. Without changes in the way subsidies are delivered and to whom – clearly politically sensitive -- we will continue to lament the rise of college costs and debate the role of technology.

About Burck Smith

Burck is the CEO and founder of StraighterLine. Prior to launching StraighterLine in 2009, he co-founded SMARTHINKING, the largest online tutoring provider for schools and colleges in 1999. Burck has written chapters for three books on education policy for the American Enterprise Institute (AEI).He is a member of the American Enterprise Institute's Higher Education Working Group. As a writer about education and technology issues, Burck has been published by Wired Magazine, Wired News, Converge Magazine, University Business and the National School Boards Association. In the early 1990's, he wrote articles on a variety of subjects including creating community telecommunication networks, electronic access to political information, telecommunications deregulation and the ability of utilities to serve as telecommunications service providers. Burck holds a Master's Degree in Public Policy from Harvard University's John F. Kennedy School of Government and a B.A. from Williams College. Recent publications include:

Post-secondary, Post "Access" -- Prepared for the American Enterprise Institute Conference, "Stretching the Higher Education Dollar," August 2, 2012. Forthcoming from Harvard Educational Press, Summer 2013.

Higher Ed Reform, from the Chapter "Rethinking Accreditation," College 2.0, an Entrepreneurial Approach to Reforming Higher Ed, Kauffman Foundation, June 2012

Public Policy Barriers to Post-Secondary Cost Control - Prepared for the American Enterprise Institute (AEI) conference, "Increasing Accountability in American Higher Education," November 17, 2009. Published in **Accountability in American Higher Education, Palgrave Macmillan, 2010.**

Price Competition and Course-Level Choice in K-12 Education: Lessons from Higher Ed - Prepared for the American Enterprise Institute Conference, "More Than Just Schools: Rethinking the Demand for Educational Entrepreneurship," December 7, 2009. Published by Harvard Education Press in **"Customized Schooling; Beyond Whole School Reform,"** 2011.