



OPENING STATEMENT

House Committee on Education and Labor

Chairman Robert C. "Bobby" Scott

Opening Statement of Chairman Robert C. "Bobby" Scott (VA-03)

House Committee on Education and Labor Full Committee Hearing

For-Profit College Conversions: Examining Ways to Improve Accountability and Prevent Fraud
Zoom

Tuesday, April 20, 2021 | 10:15 a.m.

Today, we are gathered to discuss the need for stronger oversight to protect students and taxpayers from those for-profit colleges that transition to non-profit institutions to trick students and regulators.

Over the last four years, this Committee has had extensive discussions over the role of for-profit colleges in our higher education system. This work continues to be guided by the clear evidence that some unscrupulous for-profit colleges frequently charge their students too much in tuition while delivering too little in education and opportunity.

After a series of high-profile cases in which for-profit colleges cheated students and taxpayers out of billions of dollars, regulators and potential students have become more aware of the deceptive practices employed by bad actors in the for-profit sector.

But rather than changing their behavior to comply with accountability standards and repair the industry's reputation, some schools are opting to simply evade for-profit accountability standards by rebranding themselves as non-profits.

Three months ago, the Government Accountability Office, or GAO, released a report identifying 59 for-profit colleges that converted to non-profit status over the past decade.

The report found several examples of for-profit schools that sought to become non-profit in name only. In roughly a third of conversions identified by GAO, the for-profit colleges' owners or officials held leadership roles in the non-profit buyer.

As a result of poor oversight by both the Department of Education and the Internal Revenue Service, these conversions sometimes took place without the necessary oversight to prevent self-dealing.

In two instances, the IRS approved a sale among for-profit insiders without essential information, such as the planned purchase price or appraisal of the college's value. This left IRS staff with no way of knowing whether the price was improperly inflated.

The emergence of "covert for-profits" has real consequences for students and taxpayers.

For example, an independent analysis found that, in 2011, Florida-based Keiser University attained non-profit status after the owner sold it to his own non-profit entity, Everglades College, at what appeared to be a significantly inflated price. To finance this sale, the owner lent more than \$300 million dollars to Everglades

College in addition to claiming a massive tax-deductible donation. The resulting conversion allowed the owner to profit from the sale of his business and keep millions of dollars in tax breaks.

During this same period, the university settled multiple investigations with law enforcement agencies for violating state and federal consumer protection laws.

We cannot allow these kinds of things to continue. As GAO found, both the Department of Education and IRS must do far more to prevent fraud by properly vetting for-profit to non-profit conversions. And they must ensure that, after the conversion, for-profit institutions uphold their obligations to put students first—not profits.

The *College Affordability Act*, which the Committee considered last year, offers a clear foundation for legislative solutions to achieve these goals. The comprehensive bill included several provisions that established requirements an institution must meet to convert to nonprofit status. These requirements include demonstrating that the assets it acquires from former owners are not acquired at a value greater than its actual worth; and demonstrating that no member of its governing board receives any substantial economic benefit.

Today, we are grateful to be joined by expert witnesses who will help us discuss these solutions and other proposals that will ensure that for-profit college executives cannot take advantage of converting to non-profit institutions.

This is a critical moment to take action as students recover from the pandemic and start or continue their pursuit of post-secondary education. We must ensure students and taxpayers are protected from deceptive schemes that undermine the integrity of our higher education system.

At this point, I am pleased to recognize the distinguished Ranking Member for the purpose of making her opening statement.