



OFFICE OF THE
STATE AUDITOR

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**TESTIMONY OF THOMAS MEAGHER, ADMINISTRATOR OF PRIVATE
OCCUPATIONAL SCHOOL AUDITS FOR THE OFFICE OF THE STATE AUDITOR,
BEFORE THE JOINT COMMITTEE ON HIGHER EDUCATION IN SUPPORT OF
HOUSE BILL NO. 6 – AN ACT RELATIVE TO FINANCIAL REQUIREMENTS OF
BUSINESS, CORRESPONDENCE AND TRADE SCHOOLS**

JUNE 8, 2011

Good morning Chairman Sannicandro, Chairman Moore, and members of the Committee. My name is Thomas Meagher, and I am the Administrator of Private Occupational School Audits for State Auditor Suzanne Bump. Thank you for this opportunity to testify on behalf of House 6, *An Act Relative to Financial Requirements of Business, Correspondence and Trade Schools*.

As former Secretary of Labor and Workforce Development, Suzanne Bump recognized the benefits of quality employment and training programs for students, employers, and the Massachusetts economy. As State Auditor she is committed to ensuring these programs run efficiently and are accountable to their students.

Private, postsecondary, non-degree-granting occupational schools serve a vital role in Massachusetts, offering short-term, market-driven, career-specific training opportunities; helping displaced, unemployed, and underemployed workers prepare for and find new

jobs; meeting the demands of Massachusetts employers for a skilled and competitive workforce; and contributing to the Massachusetts economy.

Postsecondary career schools in Massachusetts are currently licensed by the Department of Elementary and Secondary Education, and are subject to annual financial certification by the Office of the State Auditor. The responsibilities of the Auditor's Office in the licensure process are to annually ensure that each licensed school is financially responsible and qualified for licensure in Massachusetts, and to determine the level of surety protection needed by each school to cover potential refunds to students in the event of bankruptcy, liquidation, or a breach of contract by the school. At the present time, the amount of indemnification/ tuition protection is capped at \$100,000 per school. That cap, which has not changed since 1989, has not kept pace with either skyrocketing tuition rates or the incredible growth of the proprietary school industry over the past decade.

While the expenses associated with a college education are widely known, many people are surprised to learn that tuition at non-degree-granting postsecondary schools can also saddle students with substantial debt. Licensed private occupational schools in Massachusetts currently charge up to \$25,000 per year for Culinary Arts programs, \$30,000 for Aeronautical Maintenance Technology instruction, \$51,000 for specialized Automotive Technology training, and \$57,000 for courses in Professional Photography. Forty-two of the 209 private occupational schools currently certified by the Office of the State Auditor reported more than \$1,000,000 in tuition income last year, and six of these schools reported tuition revenues of between \$10 million and \$24 million. In the event of a precipitous school closure, currently enrolled students might be deprived of a significant financial investment, as well as the prospects of a brighter future.

The U.S. Government Accountability Office (GAO) recently reported that enrollment at for-profit postsecondary schools has increased from approximately 365,000 students to 1.8 million students over the past few years, and that for-profit private career schools received \$24 billion in federally subsidized student financial aid in 2009. The

unprecedented growth of the industry has prompted investigations by the GAO; the U.S. Senate Health, Education, Labor, and Pensions (HELP) Committee; the U.S. Department of Education; Massachusetts Attorney General Martha Coakley; and the national media. This growth has also resulted in reports of deceptive and questionable recruiting practices; predatory lending; fraudulent reporting of program completion, job placement, and graduate salary rates; growing dependence on federal Title IV financial aid funds; and excessive dropout and student loan default rates. The Senate HELP Committee further reported that during the 2008-2009 school year, although for-profit schools enrolled less than 10 percent of all higher education students, they received 23 percent of all higher education dollars, and accounted for 46.6 percent of all student loan defaults. These concerns have prompted calls for greater oversight of the proprietary school industry at both the state and federal level, and it is our opinion that House 6 will strengthen this consumer protection function in Massachusetts.

The Massachusetts General Laws currently require the Office of the State Auditor to annually determine the level of surety protection(or bond) needed by each school that is *“sufficient to make tuition refunds to students as required under Section 13K of Chapter 255 . . . in a sum not less than 5,000 dollars . . . and not more than one hundred thousand dollars.”* House Bill 6 would remove the \$100,000 cap on surety protection, while at the same time continuing to ensure *“that the amount of the indemnification in the case of the school shall not exceed the anticipated maximum unearned tuitions.”* These measures will ensure that sufficient resources are available to provide tuition refunds to Massachusetts students in the event of a sudden closure. As of April 30, 2011, the OSA had assessed the maximum \$100,000 surety protection for forty-seven of the 209 currently-approved private occupational schools (22%). The proposed change in the surety language would therefore not affect 162, or 78% of the currently licensed schools in Massachusetts. The 47 schools that would be affected can be assured that the amount of indemnification will still be limited to indemnifying the claimant only for his or her actual damages, and that the OSA will continue to base each school’s surety assessment on the *“anticipated maximum unearned tuitions”* -- the

tutions received from students for which the school has not yet provided education, goods or services in return.

Thank you for the opportunity to provide testimony on this legislation, which we believe should increase the effectiveness of this important consumer protection function in an equitable and transparent fashion. I would be happy to answer any questions.