THE PROSPER ACT

Community Colleges and Risk Sharing

The PROSPER Act implements institutional risk sharing by modifying the requirements under Return of Title IV Funds (R2T4) to increase financial liabilities for institutions. R2T4 is used by the Department of Education to recoup unearned federal financial aid funds from students. The PROSPER Act creates new tiers of liabilities under R2T4, requiring institutions to return a larger percentage of aid when a student withdraws. If this policy change were enacted the community college sector would owe millions of dollars to the federal government annually.

WHY COMMUNITY COLLEGES OPPOSE RISK SHARING UNDER THE PROSPER ACT

- Initial data collected by the Association of Community College Trustees and the American Association of Community Colleges show that under this proposal many community colleges would owe the federal government two to three times more than is currently paid back under R2T4. For example, the Ivy Tech Community College System in Indiana estimates that under changes proposed in the PROSPER Act their institution would have owed the federal government an additional $4.2 million last fall. The larger impact is unknown as there has been no formal analysis or debate of this proposal.

- Risk sharing will have a disproportionate impact on the community college sector. Institutions serving the highest risk students would pay the most under this proposal. Community colleges are open-access institutions and admitting students based on perceived risk is antithetical to our mission.

- Community colleges care about student success and have made fundamental reforms and dedicated substantial resources to this end. However, these changes would likely create tremendous budgetary difficulty for our thinly resourced institutions and may ultimately hamper these efforts.

- Community colleges serve a diverse student population. Many community college students are older, working, and responsible for dependents and families. According to the Delta Cost Project community college students are far more likely to drop out due to financial reasons, personal reasons, or because of family responsibilities than due to academic issues. Community colleges utilize various strategies and supports to assist students when life gets in the way. However, these barriers can be difficult to overcome. The PROSPER Act does little to assist students and institutions in this capacity.

- Proponents of risk sharing argue that students and the federal government take on financial risk in paying for colleges, and that institutions should also have 'skin in the game.' However, this reasoning fails to acknowledge the state, local, and institutional role in funding higher education. The average cost of educating a community college student far exceeds revenue received from tuition, fees, and federal financial aid. On average, community colleges subsidize over half of all educational expenditures for in-state students.

- Under the PROSPER Act R2T4 funds would be applied back to Pell Grants first and then loans. This is opposite of current policy and would leave many students with additional debt.

- The PROSPER Act's risk sharing provisions will inevitably result in either increased tuitions or reduced educational services for students, and very likely both. There simply is no other option for these thinly resourced institutions. Community colleges operate on the margins, and small declines in revenues, whether due to budget cuts or decreased enrollments, often lead to immediate reductions in personnel and other core services.