Capella Education Company

Introduction

Like many for-profit education companies, Capella Education Company experienced steady growth in student enrollment, Federal funds collected, and profit realized in recent years. While the company's performance in graduate degree fields, measured by student withdrawal and loan default rates, is better than many companies examined, students are faring far less well in its undergraduate degree programs.

Company Profile

Capella Education Company ("Capella") is a publicly traded, for-profit education company headquartered in Minneapolis, MN. Capella Education Company owns Capella University, a university that operates exclusively online and offers Doctoral, Master's, Post-baccalaureate Certificates and Bachelor's degree programs in business, information technology, education, psychology, public health, public safety and human services. In 2011, 22 percent of Capella students enrolled in Bachelor's programs, 45 percent in Master's programs and 31 percent in Doctoral programs.

Founded in 1991 by Stephen Shank, former CEO of Tonka Corporation, Capella Education Company established Capella University in 1993 and went public in 2006 (NASDAQ: CPLA). J. Kevin Gilligan is the current CEO and chairman of the board of directors for Capella.[1266]

Like more than half of the regionally accredited brands the committee examined, Capella University is regionally accredited by the Higher Learning Commission of the North Central Association of Colleges and Schools (HLC).[1267] At the time HLC first accredited Capella in 1997, the company enrolled fewer than 1,000 students.[1268] Capella's Master's of Science degree programs in Mental Health Counseling, Marital, Couple, and Family Counseling, and School Counseling are accredited by The Council for Accreditation of Counseling and Related Educational Programs CACREP. Capella's Bachelor of Science in Information Technology programs are accredited by ABET.

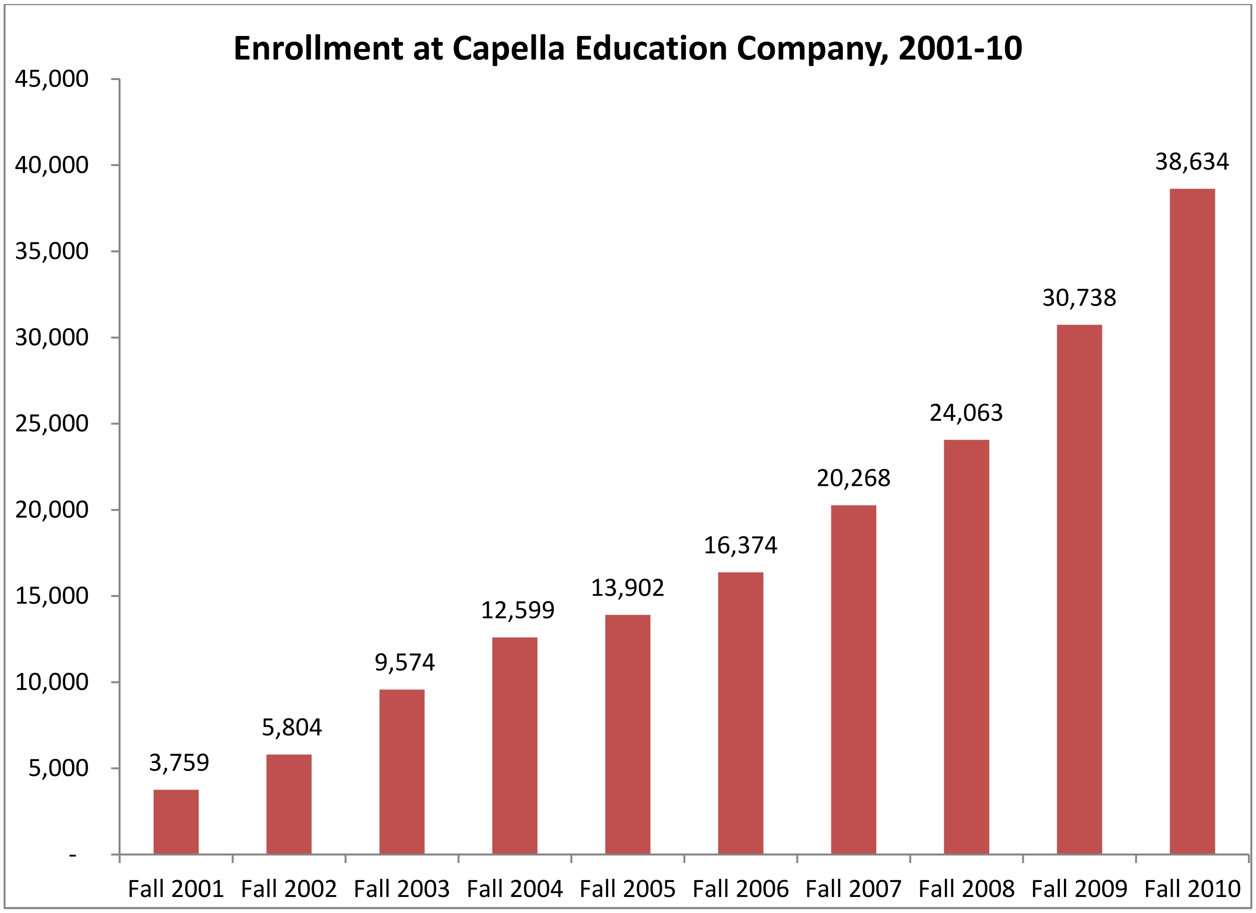
Capella University has grown immensely over the last decade. Today, Capella offers 143 graduate and undergraduate specializations, 17 Certificate programs and over 1,690 online courses. Capella students enroll from all 50 States and 59 other countries. In the fall of 2001, Capella enrolled 3,759 students. By fall 2010, Capella enrolled 38,643 students.[1269]

[1266] The company's board of directors also includes: Mark N. Green (CEO, Fair Isaac Corporation), Michael Linton (Executive VP, FMN Technologies), Michael Lomax (CEO and president, United Negro College Fund), Jody G. Miller (CEO and president, Business Talent Group), Stephen G. Shank (Founder, former chairman and CEO, Capella Education Company), Andrew M. Slavitt (CEO, Ingenix), David. W. Smith (Retired CEO, NCS Pearson Inc.), Jeffery W. Taylor (Senior VP, U.S. Government Policy and Investor Relations, Pearson plc), and Darrell R. Tukua (Retired Partner, KPMG LLP).

[1267] The 30 companies operate 71 different brands not including the Art Institute.

[1268] Capella, *About Capella: History*, 2012, http://www.capella.edu/about_capella/history.aspx (accessed June 12, 2012).

[1269] For companies that began filing with the Securities and Exchange Commission subsequent to an initial public offering between 2001 and 2010, enrollment is calculated using fall enrollment for all unit identifications controlled by the company for each year from the Department of Education's Integrated Postsecondary Data System (hereinafter IPEDS) until Securities



Driven by this increase in enrollment, revenue at Capella has also grown rapidly, from $180 million following the company's initial public offering in 2006 to $430 million in 2011.[1270]

Federal Revenue

Nearly all for-profit education companies derive the majority of revenue from Federal financial aid programs. Between 2001 and 2010, the share of title IV Federal financial aid funds flowing to for-profit colleges increased from 12.2 to 24.8 percent and from $5.4 to $32.2 billion.[1271] Together, the 30

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and Exchange Commission filings become available at which time SEC filings for the August-October period of each year used. See Appendix 7. The most current enrollment data from the Department of Education measures enrollment in fall 2010. In 2011 and 2012, news accounts and SEC filings indicated that many for-profit education companies experienced a drop in new student enrollment. This has also led to a decrease in revenue and profit at some companies. At Capella, enrollment dropped to 35,755 in fall 2011. While the company's revenue increased, profit fell by 3.7 percent to $80.1 million.

[1270] Revenue figures for publicly traded companies are from Securities and Exchange Commission annual 10-K filings. Revenue figures for privately held companies are taken from the company financial statements produced to the committee.

[1271] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Program Volume Reports by School*, http://federalstudentaid.ed.gov/datacenter/programmatic.html, 2000-1 and 2009-10. Figures for 2000-1 calculated using data provided to the committee by the U.S. Department of Education. "Federal financial aid funds" as used in this report means funds made available through title IV of the Higher Education Act, including subsidized and unsubsidized Stafford loans, Pell grants, PLUS loans and multiple other small loan and grant programs. See 20 U.S.C. §1070 et seq.

companies the committee examined derived 79 percent of their revenue from title IV Federal financial aid programs in 2010, up from 69 percent in 2006.[1272]

In 2010, Capella reported 78.2 percent of revenue from title IV Federal student aid programs.[1273] However, this amount does not include revenue received from the Departments of Defense and Veterans Affairs education programs or revenue the company was allowed to temporarily discount pursuant to the Ensuring Continued Access to Student Loans Act (ECASLA). Based on information the company provided, the committee estimates that Capella may have discounted up to 1.6 percent of revenue, or $6.5 million, pursuant to ECASLA in 2010.[1274] Department of Defense Tuition Assistance and post-9/11 GI bill funds accounted for approximately 2.6 percent of Capella's revenue, or $11 million.[1275] With funds from the Departments of Defense and Veterans Affairs included, 80.8 percent of Capella's total revenue was comprised of Federal education funds.[1276]

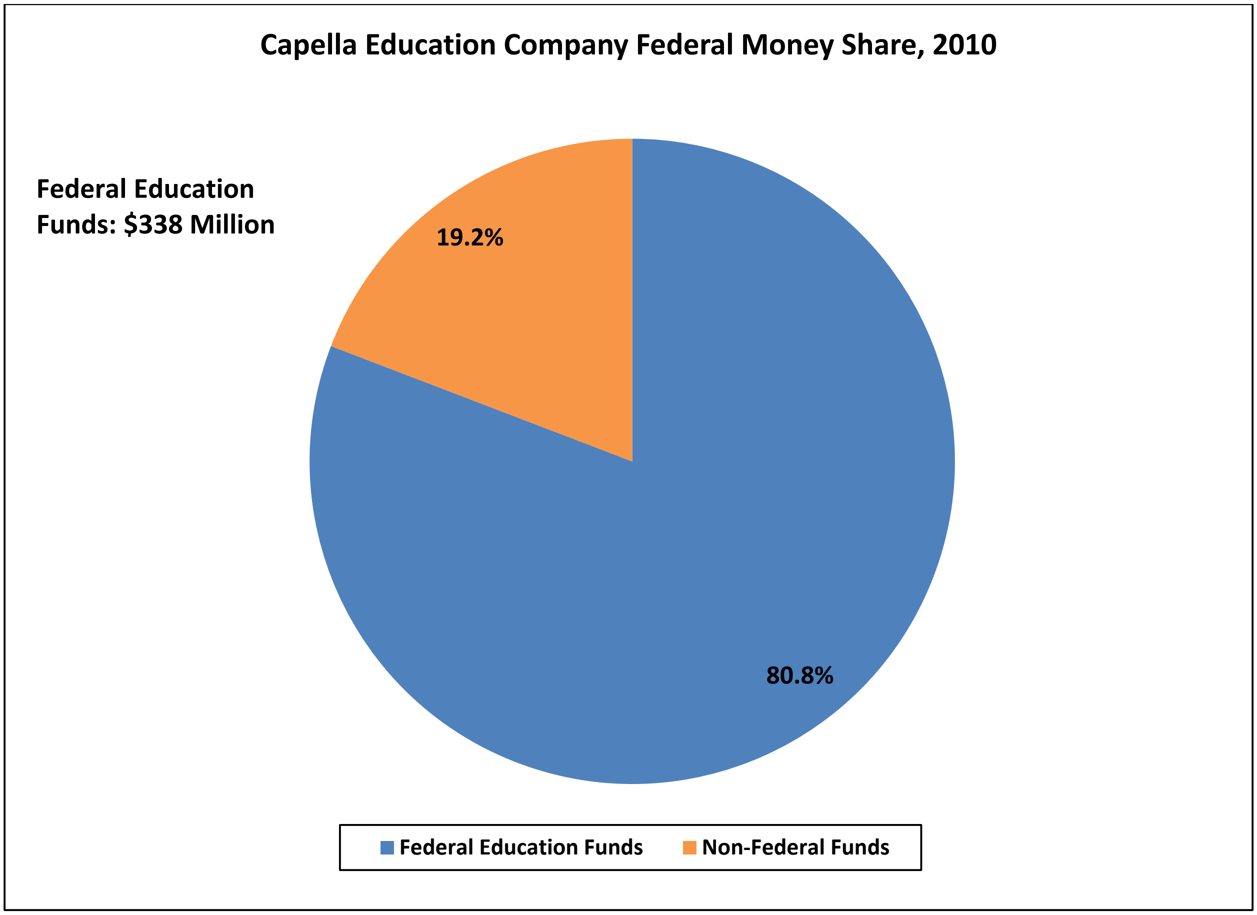
[1272] Senate HELP Committee staff analysis of Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data for fiscal year 2006 provided to the committee by each company; data for fiscal year 2010 provided by the Department of Education on October 14, 2011. See Appendix 9.

[1273] Senate HELP Committee staff analysis of fiscal 2010 Proprietary School 90/10 numerator and denominator figures for each OPEID provided to the U.S. Department of Education pursuant to section 487(d)(4) of the Higher Education Act of 1965. Data provided by the Department of Education on October 14, 2011. See Appendix 9.

[1274] Pursuant to the Ensuring Continued Access to Student Loan Act (ECASLA), for-profit education companies were allowed to exclude $2,000 in increased Stafford loan eligibility for each student during fiscal years 2009 and 2010.

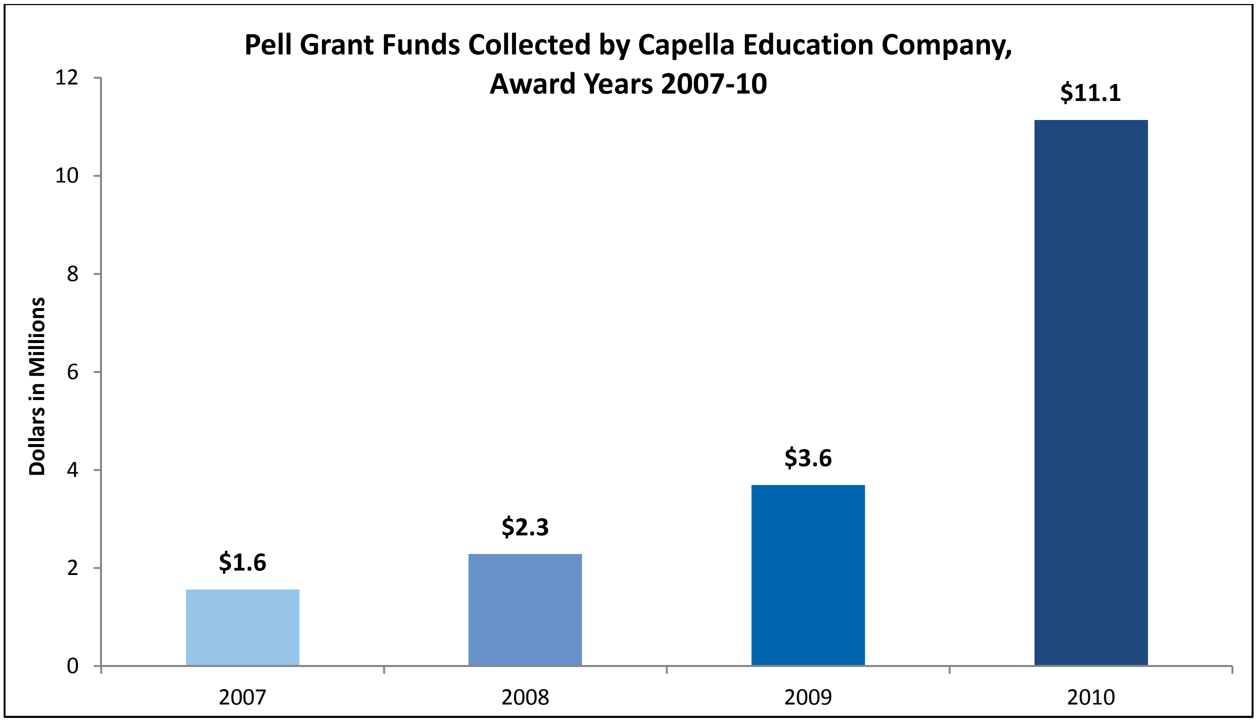
[1275] Post-9/11 GI bill disbursements for August 1, 2009-July 31, 2010 provided to the committee from the Department of Veterans Affairs on November 5, 2010; post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011; Department of Defense Tuition Assistance Disbursements and MyCAA disbursements for fiscal years 2009-2011 provided (by branch) by the Department of Defense on December 19, 2011. Committee staff calculated the average monthly amount of benefits collected from VA and DOD for each company, and estimated the amount of benefits received during the company's 2010 fiscal year. See Appendix 11 and Appendix 12.

[1276] "Federal education funds" as used in this report means Federal financial aid funds combined with estimated Federal funds received from Department of Defense and Department of Veterans Affairs military education benefit programs. See Appendix 10.



The Pell grant program, the most substantial Federal program to assist economically disadvantaged students with college costs, is a significant source of revenue for for-profit colleges. Over the past 10 years, the amount of Pell grant funds collected by for-profit colleges as a whole increased from $1.4 billion to $8.8 billion; the share of total Pell disbursements that for-profit colleges collected increased from 14 to 25 percent.[1277] Part of the reason for this increase is that Congress has repeatedly increased the amount of Pell grant dollars available to a student over the past 4 years, and, for the 2009-10 and 2010-11 academic years, allowed students attending year-round to receive two Pell awards in 1 year. Poor economic conditions have also played a role in increasing the number of Pell eligible students enrolling in for-profit colleges.

[1277] Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2001-2 and 2010-11, http://federalstudentaid.ed.gov/datacenter/programmatic.html.



Capella collected $1.6 million in Pell grant funds in 2007, and just 3 years later, in 2010, the company collected $11.1 million. While still a small amount in dollar terms, this is an increase of nearly 700 percent.[1278]

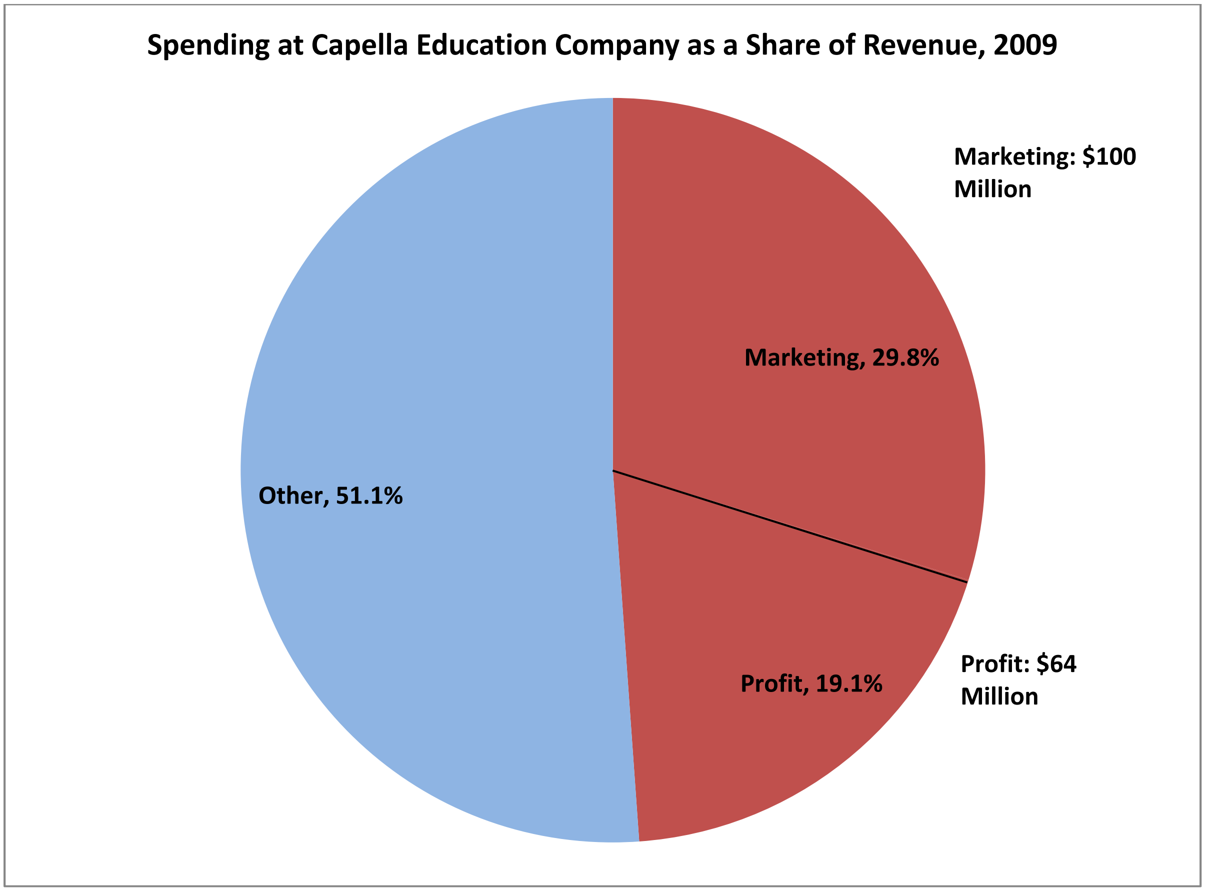
Spending

While Federal student aid programs are intended to support educational opportunities for students, for-profit education companies direct much of the revenue derived from these programs to marketing and recruiting new students and to profit. On average, among the 15 publicly traded education companies, 86 percent of revenue came from Federal taxpayers in fiscal year 2009.[1279] During the same period, the companies spent 23 percent of revenue on marketing and recruiting ($3.7 billion) and 19.7 percent on profit ($3.2 billion).[1280] These 15 companies spent a total of $6.9 billion on marketing, recruiting and profit in fiscal year 2009.[1281]

The percentage of revenue Capella allocates to marketing exceeds the for-profit sector average by a considerable margin. In 2009, Capella devoted 29.8 percent of its revenue, or $99.6 million, to

[1278] Pell disbursements are reported according to the Department of Education's student aid "award year," which runs from July 1 through June 30 each year. Senate HELP Committee staff analysis of U.S. Department of Education, Federal Student Aid Data Center, *Title IV Pell Grant Program Volume Reports by School*, 2006-2007 through 2009-2010, http://federalstudentaid.ed.gov/datacenter/programmatic.html. See Appendix 13.
[1279] Senate HELP Committee staff analysis of fiscal year 2009 Proprietary School 90/10 numerator and denominator figures plus all additional Federal revenues received in fiscal year 2009 provided to the committee by each company pursuant to the committee document request of August 5, 2010.
[1280] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation. See Appendix 19.
[1281] Id.

marketing and recruiting and 19.1 percent, or $63.9 million, to profit.[1282] On average, the 30 for-profit schools examined spent 22.7 percent of revenue on marketing and 19.4 percent on profit.[1283]



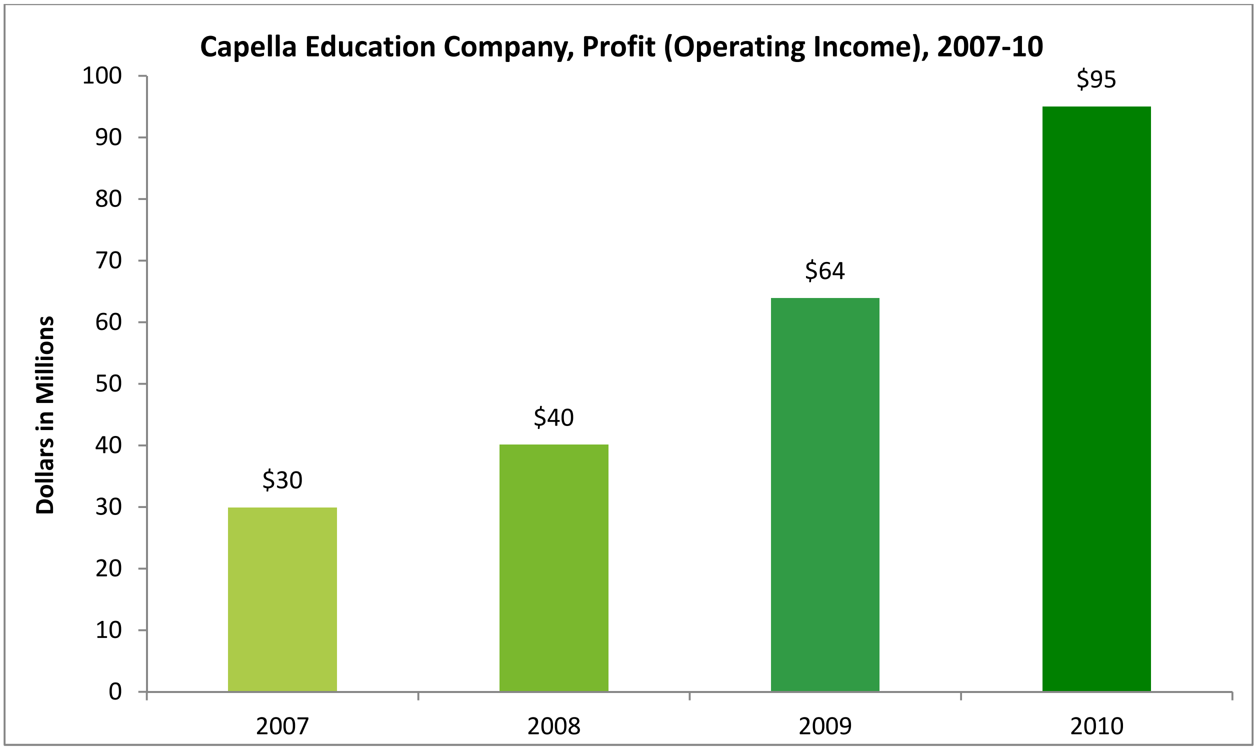
Capella devoted a total of $163.5 million to marketing, recruiting and profit in fiscal year 2009.[1284] The amount of profit Capella generated also increased rapidly, more than tripling from $30 million in 2007 to $95 million in 2010.[1285]

[1282] Id. The higher percentage Capella spent on marketing may reflect the higher cost of obtaining leads in professional graduate markets. Capella executives specifically assert that they believe it is "more expensive than marketing to much larger Associate's, Bachelor's and trade school markets." Capella correctly notes that given that the company has lower revenue than some larger companies, the actual dollars spent on marketing are significantly less than at some of its competitors despite the relatively high percentage spent on marketing. Letter from Capella University senior vice president and general counsel Gregory Thom to committee staff, June 26, 2012.

[1283] Senate HELP Committee staff analysis. See Appendix 19.

[1284] "Other" category includes administration, instruction, executive compensation, faculty salary, student services, facilities, maintenance, lobbying and other expenditures.

[1285] Senate HELP Committee staff analysis. See Appendix 18.



Executive Compensation

Executives at Capella, like most for-profit executives, are more generously compensated than leaders of public and non-profit colleges and universities. Executive compensation across the for-profit sector drastically outpaces both compensation at public and non-profit colleges and universities, despite poor student outcomes at many for-profit institutions.[1286] In 2009, Capella CEO J. Kevin Gilligan received $3.8 million in compensation, almost six times as much as the president of the University of Minnesota who received $646,097 in total compensation that year.[1287]

Executive	Title	2009 Compensation	2010 Compensation
J. Kevin Gilligan	Chief Executive Officer	$3,848,253.00	$2,347,197.00
Lois M. Martin	Former SVP and Chief Financial Officer	$748,499.00	$967,637.00
Stephen G. Shank	Former Chief Executive Officer		$685,879.00
Sally B. Chial	Senior Vice President - Capella Experience	$952,482.00	$644,665.00
Michael J. Offerman	Chancellor	$820,718.00	$605,422.00
Gregory W. Thom	Vice President and Senior Counsel		$564,332.00
Steve L. Polacek	SVP and Chief Financial Officer	$557,862.00	
Kyle M. Carpenter	SVP Strategic Business Development	$895,249.00	

[1286] Senate HELP Committee staff analysis of fiscal year 2009 Securities and Exchange Commission annual 10-K filings. Marketing and recruiting includes all spending on marketing, advertising, admissions and enrollment personnel. Profit figures represent operating income before tax and other non-operating expenses including depreciation.
[1287] *Star Tribune*, "Salary Snapshots," 2012, http://ww3.startribune.com/dynamic/salaries/ (accessed June 12, 2012).

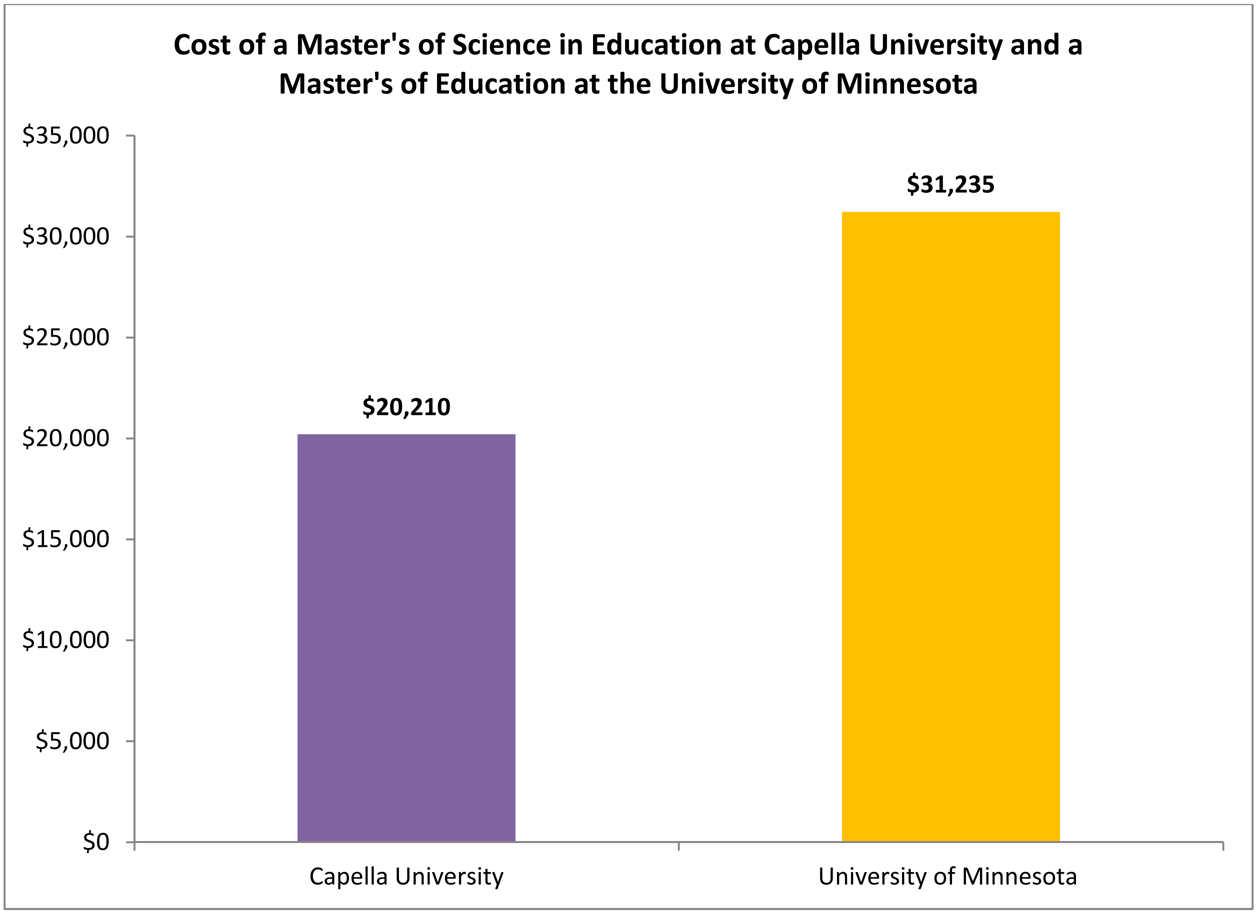
Jason Van De Loo	Vice President - Marketing	$742,362.00	
Total		$8,565,425	$5,815,132 [1288]

The chief executive officers of the large publicly traded, for-profit education companies received, on average, $7.3 million in fiscal year 2009.[1289] Gilligan's $3.8 million compensation package for 2009 is approximately half the average for publicly traded companies.

Tuition and Other Academic Charges

Compared to public and other for-profit colleges offering the same programs, the price of tuition is competitive but in some instances is slightly more expensive at Capella University. A Bachelor of Science in Business at Capella University costs $57,290.[1290] The same online degree at for-profit Walden University costs $56,800[1291] and $56,240 at the University of Minnesota.[1292] However, a Master's of Education costs $20,210 at Capella University, while the online Master's of Education at the University of Minnesota costs $31,235.[1293]

[1288] Senate HELP Committee staff analysis of fiscal year 2009 and 2010 Securities Exchange Commission annual proxy filings. Information analyzed includes figures for named executive officers. See Appendix 17b.
[1289] Includes compensation information for 13 of 15 publicly traded for-profit education companies. Kaplan, owned by the Washington Post Company, does not disclose executive compensation for its executives. And National American University was not listed on a major stock exchange in 2009.
[1290] See Appendix 14; see also, Capella University, *Business Administration*, http://www.capella.edu/schools_programs/undergraduate_studies/business/business_administration.aspx (accessed June 12, 2012).
[1291] See Appendix 14; and see, Walden University, *Program Data*, 2012, http://www.waldenu.edu/Degree-Programs/Bachelors/41556.htm (accessed June 12, 2012).
[1292] See Appendix 14; and see, University of Minnesota, *University of Minnesota*, http://www1.umn.edu/twincities/index.html (accessed June 12, 2012).
[1293] See Appendix 14; and see, Capella, *Cost & Financial Aid*, 2012, http://www.capella.edu/tuition_financial_aid/tuition_financial_aid_index.aspx (accessed June 12, 2012); University of Minnesota, *University of Minnesota*, http://www1.umn.edu/twincities/index.html (accessed June 12, 2012).



For the last 4 years, Capella University has implemented an annual tuition increase ranging from 2.4 percent to 5 percent.[1294]

The tuition Capella charges is reflected in the amount of money that the company collects for each veteran that it enrolls. From 2009 to 2011, Capella spent an average of $9,162 to train 2,021 veterans eligible for post-9/11 GI bill benefits, compared to an average of $4,642 per veteran spent by public colleges.[1295] While Capella collects more than average for each veteran it enrolls, the public college average includes students attending less expensive 2-year degree programs which are not offered by Capella.

Recruiting

Enrollment growth is critical to the business success of for-profit education companies, particularly for publicly traded companies that are closely watched by Wall Street analysts. In order to meet revenue and profit expectations for-profit colleges recruit as many students as possible to sign up for their programs.

During the period examined and prior to the current ban on paying recruiters based on the number of students enrolled that took effect in July 2011, internal company documents make clear that

[1294] Capella Education Co. 10-K, 2011; Capella Education Co. 10-K, 2010; Capella Education Co. 10-K, 2009; Capella Education Co. 10-K, 2008.
[1295] See Appendix 11. Post-9/11 GI bill disbursements for August 1, 2009-June 15, 2011 provided to the Committee from the Senate Committee on Veterans' Affairs via the Department of Veterans Affairs on July 18, 2011.

Capella closely monitored its enrollment. In an investor report Capella lists the sources of its enrollments: "Approx. 1/3 from Military and Corporate Channels (all military affiliated learners + learners that work at a Capella partner); Approx. 1/3 from other market advertising (including referrals); Approx. 1/3 from aggregators (lowest quality lead source)." [1296]

Student complaints illustrate the sometimes aggressive recruiting tactics employed by the third party lead aggregators paid by Capella. One such complaint reads:

> My husband was looking into online universities and one of the ones he signed up for (for more information) was Capella University. The next day … personnel from their sales department began calling my cell phone. I told them to remove my number from their database. They continued to call, getting the same response from me, every hour for about four hours … The calls did not stop. At one point, I even had one lady try to argue with me after I told her not to call again! [1297]

While student complaints may not be representative of the experience of the majority of Capella students, these complaints provide an important perspective on Capella's recruiting practices.[1298]

A Capella recruiter training presentation entitled "Sales Framework Overview" provides insight into the sales culture that informs Capella's recruiting practices.[1299] The presentation explains that "selling education is unique" and as such Capella sells, "Opportunity" and "Possibly a Better Life."[1300] The presentation goes on to outline what this sale requires: "Dig deep into the prospect's needs, goals, motivations, dreams, aspirations, etc. (uncover the "why"). Use this information to position Capella as a solution." [1301] According to this training presentation, a Capella recruiter's job involves "balancing two roles," that of a counselor, who is "good at asking probing questions, getting people to talk, and uncovering needs and motivations," and that of a salesperson, who is "good at presenting information in a persuasive way and motivating others to take action." [1302]

Outcomes

While aggressive recruiting and high cost programs might be less problematic if students were receiving promised educational outcomes, committee staff analysis showed that tremendous numbers of students are leaving for-profit colleges without a degree. Because 98 percent of students who enroll in a 2-year degree program at a for-profit college, and 96 percent who enroll in a 4-year degree program,

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[1296] Capella, *Background & Annual Investor Q&A Confidential & Private,* October 26, 2009 (CAPELLA-0106278, at CAPELLA-0106292).
[1297] Capella, *Complaint Activity Report Case # 57102948,* September 7, 2007 (CAPELLA-0049370).
[1298] See also Capella, *Complaint Activity Report, Case # 57110114,* December 17, 2007 (CAPELLA-0049450) ("Capella University failed to mention that courses taken at there university are not transferable to any other school [sic]. I am now having to take an entire degree program over again at a State College in my area…so that I may obtain my Bachelors Degree [sic].").
Capella notes that over the 5 year time-frame for which they produced documents, just 151 complaints were produced from a population of 36,000 students. Letter from Capella University senior vice president and general counsel Gregory Thom to committee staff, June 26, 2012.
[1299] Capella University, *Sales Framework Overview,* 2005 (CAPELLA-0015960).
[1300] Id.
[1301] Id.
[1302] Id.

take out loans, hundreds of thousands of students are leaving for-profit colleges with debt but no diploma or degree each year.[1303]

Two metrics are key to assessing student outcomes: (1) retention rates based on information provided to the committee, and (2) student loan "cohort default rates." An analysis of these metrics indicates that while the majority of students attending graduate degree programs at Capella are achieving their goals, during the period examined the majority of students seeking undergraduate degrees are not achieving their educational and career goals.

Retention Rates

Information Capella provided to the committee indicates that out of the 5,602 Bachelor's students who enrolled at Capella in 2008-9, 60.3 percent, or 3,378 students, withdrew by mid-2010.[1304] Capella's Bachelor's withdrawal rate of 60.3 percent exceeds the sector-wide rate of 54.3 percent and is the 6th highest withdrawal rate for Bachelor's degree programs of any company examined by the committee.[1305] Although Capella's graduate degree withdrawal rates average a much lower 43.6 percent, still 7,369 students who enrolled in these graduate programs between 2008 and 2009 withdrew by mid-2010.

Degree Level	Enrollment	Percent Completed	Percent Still Enrolled	Percent Withdrawn	Number Withdrawn
Bachelor's Degree	5,602	1.4%	38.3%	60.3%	3,378
Masters	11,867	3.5%	52.1%	44.3%	5,262
Doctorate	5,018	0%	58.0%	42.0%	2,107
All Students	22,487	2.2%	50%	47.8%	10,747

The dataset does not capture some students who withdraw and subsequently return, which is one of the advantages of the for-profit education model. The analysis also does not account for students who withdrew after mid-2010 when the data was produced.

Student Loan Defaults

The Department of Education tracks and reports the number of students who default on student loans (meaning that the student does not make payments for at least 360 days) within 3 years of entering repayment, which usually begins 6 months after leaving college.[1306]

[1303] Patricia Steele and Sandy Baum, "How Much Are College Students Borrowing?," *College Board Policy Brief*, August 2009 http://advocacy.collegeboard.org/sites/default/files/09b_552_PolicyBrief_WEB_090730.pdf (accessed June 12, 2012).

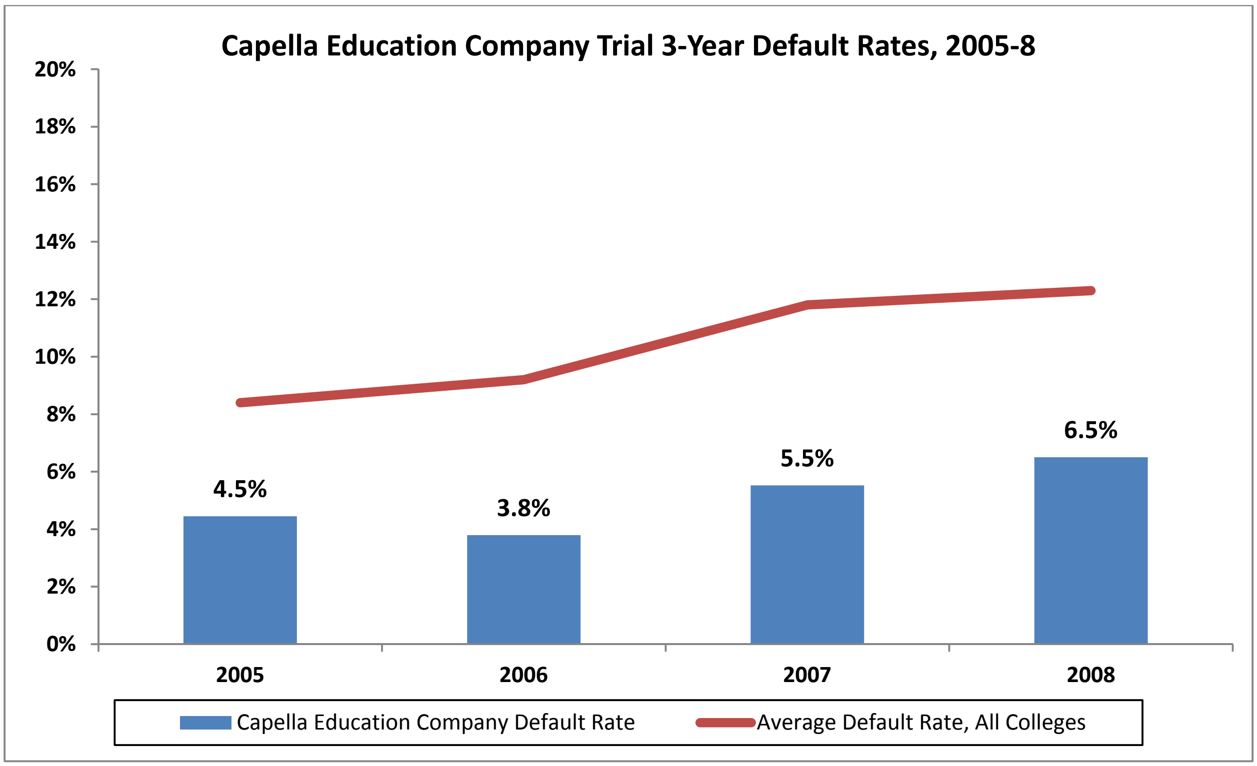
[1304] Senate HELP Committee staff analysis. See Appendix 15. Rates track students who enrolled between July 1, 2008 and June 30, 2009. For-profit education companies use different internal definitions of whether students are "active" or "withdrawn." The date a student is considered "withdrawn" varies from 10 to 90 days from date of last attendance. Two companies provided amended data to properly account for students that had transferred within programs. Committee staff note that the data request instructed companies to provide a unique student identifier for each student, thus allowing accurate accounting of students who re-entered or transferred programs within the school. The dataset is current as of mid-2010, students who withdrew within the cohort period and re-entered afterward are not counted. Some students counted as withdrawals may have transferred to other institutions.

[1305] Capella company representatives indicated that the company has since instituted a rigorous first class to try and ensure that undergraduate students who enroll will succeed but students remain responsible for the cost of that course. It is not possible to compare student retention or withdrawal rates at public or non-profit institutions because this data was provided to the committee directly by the companies. While the Department of Education tracks student retention and outcomes for all colleges, because students who have previously attended college are excluded from the data set, it fails to provide an accurate picture of student outcomes or an accurate means of comparing for-profit and non-profit and public colleges.

[1306] Direct Loan default rates, 34 CFR 668.183(c).

Slightly more than 1 in 5 students who attended a for-profit college (22 percent) defaulted on a student loan, according to the most recent data.[1307] In contrast, 1 student in 11 at public and non-profit schools defaulted within the same period.[1308] On the whole, students who attended for-profit schools default at nearly three times the rate of students who attended other types of institutions. The consequence of this higher rate is that almost half of all student loan defaults nationwide are held by students who attended for-profit colleges.[1309]

The default rate across all 30 companies examined increased each fiscal year between 2005 and 2008, from 17.1 percent to 22.6 percent.[1310] This change represents a 32.6 percent increase over 4 years.[1311] Although Capella's 3-year default rate has gradually increased, growing from 4.5 percent for students entering repayment in 2005 to 6.5 percent for students entering repayment in 2008, overall, Capella's default rate is well below the average not just among for-profit colleges but for all colleges.



It is likely that the reported default rates significantly undercount the number of students who ultimately face default, because of companies' efforts to place students in deferments and forbearances. According to an internal email communication from 2010, Capella students in forbearance and deferment account for 9.4 percent of students considered in "active repayment."[1312] For many students, forbearance and deferment serve only to delay default beyond the 3-year measurement period the Department of Education uses to track defaults.

[1307] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default by sector. See Appendix 16.

[1308] Id.

[1309] Id.

[1310] Senate HELP Committee staff analysis of U.S. Department of Education Trial Cohort Default Rates fiscal year 2005-8, http://federalstudentaid.ed.gov/datacenter/cohort.html. Default rates calculated by cumulating number of students entered into repayment and default for all OPEID numbers controlled by the company in each fiscal year. See Appendix 16.

[1311] Id.

[1312] Capella Internal Email, *FW: Active Repayment*, February 21, 2010 (CAPELLA-1291450).

Instruction and Academics

The quality of any college's academics is difficult to quantify. However, the amount that a school spends on instruction per student compared to other spending and what students say about their experience are two useful measures.

Capella spent $1,650 per student on instruction in 2009, compared to $4,538 per student on marketing and $2,912 on profit.[1313] The amount that publicly traded, for-profit companies spend on instruction ranges from $892 to $3,969 per student per year.[1314] In contrast, public and non-profit 4-year colleges and universities generally spend a higher amount per student on instruction. By comparison, on a per student basis, the University of Minnesota spent $13,247 per student on instruction, and University of Saint Thomas spent $11,361 per student.[1315]

A large portion of the faculty at many for-profit colleges is composed of part-time and adjunct faculty. While a large number of part-time and adjunct faculty is an important factor in a low-cost education delivery model, it also raises questions regarding the academic independence they are able to exercise to balance the colleges' business interests. Among the 30 schools the committee investigated, 80 percent of the faculty is part-time, higher in some companies.[1316] Capella is one such company with 86 percent of its faculty employed part-time. In 2010, Capella employed 165 full-time and 1,073 part-time faculty.[1317]

Student complaints indicate dissatisfaction with the instructional quality at Capella. In a letter to the President of Capella from HLC, the company's accreditor expresses concern regarding academic quality:

> [This student's] letter is troubling in light of two other recent complaints … These complaints, taken as a group, suggest dissatisfaction on the part of at least some graduate students with the quality of the interaction they have had in the institution's core academic programs and an unwillingness on the part of the institution to review and respond to the potential customer service issues these complaints suggest.[1318]

While student complaints may not be representative of the experience of the majority of students, these complaints do provide an important perspective on Capella's academic quality.[1319]

[1313] Senate HELP Committee staff analysis. See Appendix 20, Appendix 21, and Appendix 22. Marketing and profit figures provided by company or Securities and Exchange filings, instruction figure from IPEDS. IPEDs data for instruction spending based on instructional cost provided by the company to the Department of Education. According to IPEDS, instruction cost is composed of "general academic instruction, occupational and vocational instruction, special session instruction, community education, preparatory and adult basic education, and remedial and tutorial instruction conducted by the teaching faculty for the institution's students." Denominator is IPEDS "full-time equivalent" enrollment.

[1314] Id.

[1315] Senate HELP Committee staff analysis. See Appendix 23. Many for-profit colleges enroll a significant number of students in online programs. In some cases, the lower delivery costs of online classes – which do not include construction, leasing and maintenance of physical buildings – are not passed on to students, who pay the same or higher tuition for online courses.

[1316] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 24.

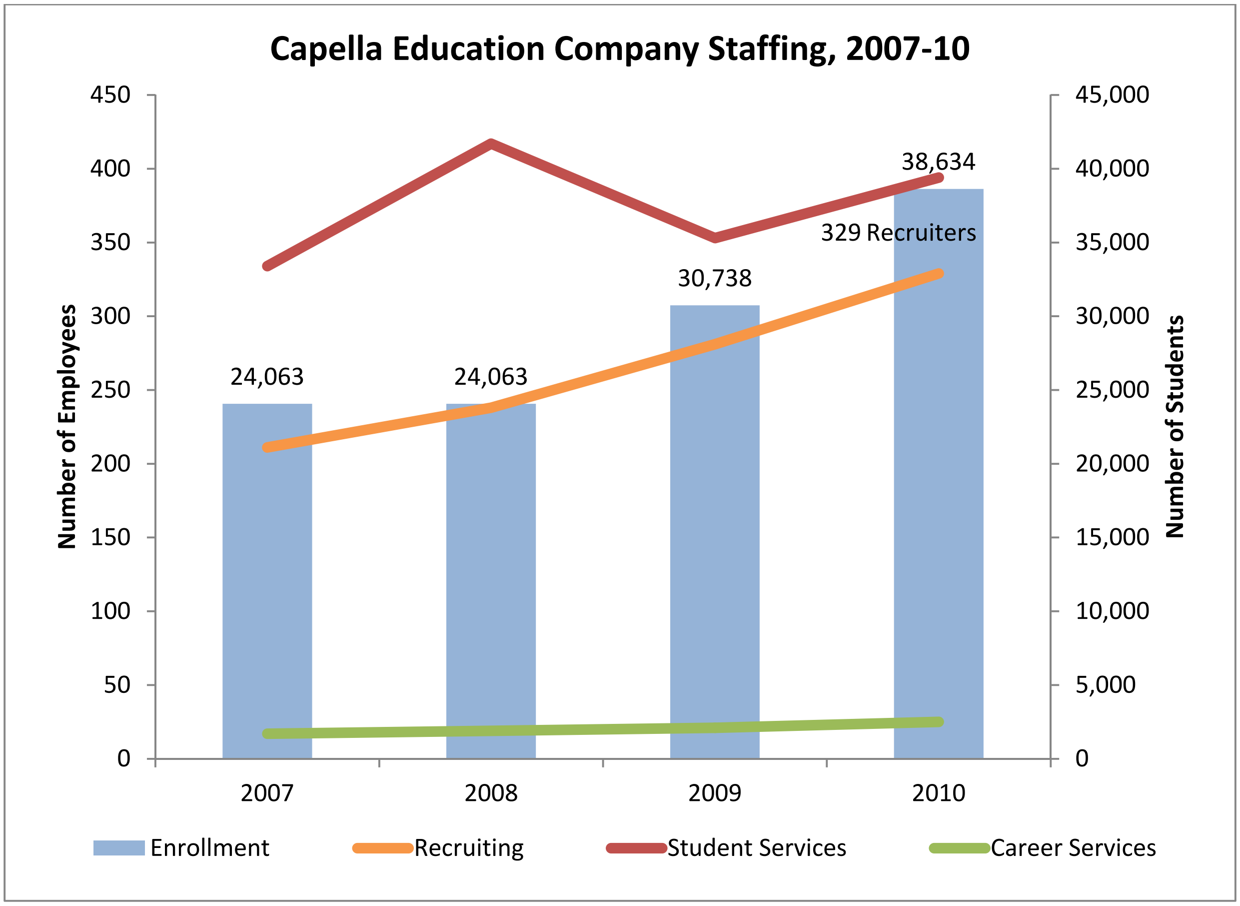
[1317] Id.

[1318] Letter from The Higher Learning Commission to Capella University President, December 20, 2006 (CAPELLA-0049248).

[1319] See also, Letter from The Higher Learning Commission to Cappella University, August 9, 2007 (CAPELLA-0049346)("I was a 4.0 student, I as you can see was nowhere near the limit of 7 years total enrolled in the school and yet from the way I

Staffing

While many for-profit companies employ large numbers of recruiters to enroll new students, these same companies frequently employ far less staff to provide tutoring, remedial services or career counseling and placement. Capella, however, employs a relatively large student services staff. In 2010, with 38,634 students, Capella employed 329 recruiters, 25 career services employees and 394 student services employees.[1320] That means each career counselor was responsible for 1,430 students and each student services staffer was responsible for 91 students. Meanwhile, the company employed one recruiter for every 77 students.



have been treated, ignored, and threatened I don't feel this school deserves to be reaccredited. I am sure there are a number of students that have had similar experiences and I don't see Capella trying to make amends or change, or keep control over their employees or faculty. If they want to be an online school they need to have more accountability as far as student contact. When a student can't get their mentor to answer an email they should be able to call the school and ask why."); Capella University, *Complaint Activity Report, Case # 57105933*, February 4, 2008 (CAPELLA-0049430)("I have completed all my course work and was allowed to enrolled in mt dissertation course and my committee fail me by allowing some other professor to give comments about my dissertation which lead me to sit out a whole quarter[sic]."); Capella University, *Complaint Activity Report, Case # 57087656*, February 13, 2007 (CAPELLA-0049396)("I was registered within course 9985C—for four days. I was charged the full amount of tuition for the quarter. The course did NOT require any course work, have any course expectations and was basically a "limbo" course to take my financial aid." (emphasis in original)).

[1320] Senate HELP Committee staff analysis of information provided to the committee by the company pursuant to the committee document request of August 5, 2010. See Appendix 7 and Appendix 24.

Department of Education Compliance Audit

In 2006, the U.S. Department of Education's Office of the Inspector General (OIG) conducted a compliance audit of Capella focusing on its policies and procedures concerning the return of title IV funds to students who withdrew from the school. The OIG found that Capella made accounting errors in how it calculated student eligibility for government-subsidized loans, including failing to return all funds disbursed on behalf of students who dropped out before their first day of class. In response to the audit, Capella recognized these errors in its accounting practices and attested to have made changes to ensure that such errors were not repeated.[1321]

Conclusion

Graduate students attending Capella's exclusively online programs appear to be faring much better than students at many companies the committee examined. However, the company's high withdrawal rate among its growing Bachelor's student population is a serious concern. While the backward looking default rate is very low and reflects Capella's solid track record to-date, it may fail to capture the emerging challenges the company faces with 4-year degree students.

Capella also spends an unusually high portion of revenue on marketing and a relatively small amount on instruction for its exclusively online program. Moreover, with most of the faculty serving in part-time positions, the academic independence of the faculty may also be an issue that should be addressed by accreditors.

Although Capella appears to maintain aggressive enrollment goals for the more than 300 recruiters it employs, the company also appears to have better controls on recruiting practices and invests more in student services than many companies reviewed. Capella's demonstrated record of student success in graduate degree programs will hopefully guide the company in improving the student completion rates of its growing undergraduate student population.

[1321] Paul Basken, "Capella University Overcharged Student Lenders $588,000, Audit Finds," *The Chronicle of Higher Education*, March 12, 2008 http://chronicle.com/article/Capella-University-Overcharged/40631 (accessed June 12, 2012).