Testimony of
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On the Announced Hearing Topic:

"Report Card on Tax Exemptions and Incentives for Higher Education: Pass, Fail or Need Improvement?"

Trinity (Washington) University is pleased to be a part of Congressional history. Trinity Alumna Nancy Pelosi is about to become the first woman ever to be the Speaker of the House. We proudly congratulate this great Trinity Woman as she assumes the weighty responsibilities of the Speaker's chair.

Trinity in 2006 is a remarkably different institution from the historic Catholic women's college where Speaker-elect Pelosi graduated in 1962, and where I graduated in 1974. We continue our historic women's college, Trinity College, as the core of a larger, diversified university that also has coeducational units serving adult and professional students, teachers and principals. Most significantly, Trinity lives its historic mission of access for women with a clear sense of the social justice commitment we learned from our founders, the Sisters of Notre Dame de Namur.

Trinity today enrolls more District of Columbia residents than any other private university in the nation; nearly half (about 785) of our 1650 degree students are D.C. residents. Virtually all of these residents come from the eastern half of the city, fully a third from east of the Anacostia River in Wards 7 and 8. We are the only university offering a degree program east of the river.

Nearly 90% of Trinity's students today are Black and Hispanic, and more than 95% are low income students who receive substantial unfunded tuition discounts in order to attend Trinity --- 40% is our average full-time tuition discount. "Unfunded" means that we do not have endowment subsidizing these "grants"--- this is lost revenue, amounting to nearly $4 million annually on our $23 million budget.

More than half of our students are eligible for Pell Grants. Trinity's full-time tuition is $17,700 this year, but I don't know of any students who actually pay that amount. After the Trinity discount, the Pell Grants, the D.C. Tuition Assistance Grants and other financial aid including loans, the typical full-time Trinity student pays about $2,000 or less out-of-pocket for remaining tuition balance and related non-housing expenses like books or transportation. That's still a great struggle for many of our students, particularly those from the eastern wards of D.C., most of whom are working 30-40 hours a week, even as full-time 18 year-old freshmen, in order to achieve their dream of a college degree at Trinity. The majority of these students have virtually no "expected family contribution" when financial aid calculations are done, and they are largely independent students even though they are of traditional college age. Many of these students also contribute to the support of their families, including, in some cases, their own children. But their desire for a college education is so strong that they are willing to work hard and make many sacrifices in order to stay in school and graduate.

Trinity's studies show that during the last five years 65% of our D.C. students are either still enrolled or have graduated, a remarkable rate of success in a city where completion rates are otherwise dismal[1]. A recent report by the D.C. State Education Office, funded by the Gates Foundation, hailed Trinity's success with D.C. students: "…the District should more proactively encourage increased D.C. student enrollment in colleges with a track record of success in serving low-income and minority students, including higher graduation rates…such as Trinity…"[2]

Trinity's endowment is about $10 million. That's five times larger than when I started in 1989, but still critically low. In my 18th year in office I am among the 27% of private university presidents with salaries below $200,000 (60% are below $300,000). I have the same fringe benefits as any other employee at Trinity. I own my own house and drive my own car to work. (I do get one extraordinary perk: an orange parking cone reserves my parking space near the front door of Trinity's Main Hall!)

I could work in many other positions and make a lot more money. So could all of my colleagues on the faculty and staff of Trinity. But we choose Trinity because we love what we do, and we are completely devoted to the success of our students.

We are not alone. The story I have just told you is repeated in various ways each day across the United States on the campuses of more than a thousand small private colleges and universities. We are the relatively obscure laborers in the vineyard, doing some of the most effective and creative educational work in this nation for new populations of students once excluded from higher education. You won't read headlines about us and our hedge funds --- we don't have any! We spend our days worrying about how to find more support for our students, how to keep up with the insatiable demands for more technology and infrastructure improvements, how to ensure that our talented faculty and staff choose to remain devoted to the success of our students.

We worry about regulatory behaviors aimed at a very few very elite institutions that will have a much more harmful effect on us --- Harvard will barely feel the pinprick of a policy action that could put us out of business, literally.

So it is with the whole concept of the tax exemption for institutions of higher education. When I read the headlines, I can well understand the Senate Finance Committee's concerns about a few institutions growing richer and richer each year, and a few presidents having extraordinary

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[1] For more on Trinity's success with D.C. students go to http://www.trinitydc.edu/dc/

[2] "Doubling the Numbers: a Call for Action for the District of Columbia," D.C. State Education Office, October 2006. Available at http://newsroom.dc.gov/show.aspx/agency/seo/section/2/release/9956

compensation. There are historical and competitive reasons for this on which I will comment momentarily. But as the old legal axiom says, hard cases make bad law.

In your effort to understand and construct policy for the very few very wealthy institutions in this nation, do no harm to the rest of us whose students need our good work and scarce resources, and who also need the ongoing support of federal financial aid in even more generous measure.

Incentivize good conduct for those with wealth, yes. But don't penalize the vast majority of smaller, less well-endowed private colleges and universities by tinkering with our tax exempt status.

The federal tax exemption for education recognizes the essential public good that schools, colleges and universities contribute to the nation; higher education is one of the drivers of economic productivity and lifelong economic security for citizens. In 2004, private colleges and universities employed nearly a million people nationwide, and had a cumulative impact of more than $340 billion on their local economies[3]. The public good provided by independent institutions is widely felt. Our colleges and universities not only spark economic development, but instill community service in students, and serve as centers of cultural, recreational, and social life in their neighborhoods. Even in a smaller institution like Trinity, our services for our neighbors are extensive; Trinity is one of the largest employers in Ward 5 in D.C., and our community relies on us for many services: employment, education, recreation for children and fitness opportunities for senior citizens, convening spaces, tutoring and other community service activities, and even security. Without our nonprofit status, none of this would be possible.

Moreover, the tax exemption is essential to enable donors to make charitable gifts that support scholarships and other needs of these institutions. Without the tax exemption, universities would lose significant charitable revenues, driving up the cost of tuition and potentially jeopardizing the very existence of the majority of the nation's 1600 private colleges and universities. Without these institutions, millions of students, many of whom are low-income minority students in urban private universities, would lose the support they currently receive to fulfill their dreams of intellectual and economic success.

1. Context and Scope

Harvard's endowment is extraordinary, yes. But it is just that --- extraordinary --- and not the right basis on which to make public policy. Putting Harvard into context: [4]

- For the end of fiscal year 2005, there were 1366 Title IV degree-granting private not-for-profit institutions that reported endowment data to IPEDS (Integrated Postsecondary Education Data System, the U.S. Department of Education's massive database of information about colleages and universities). **See the table below.**

- The median endowment (50% of schools below and 50% of schools above) for these institutions was $16.3 million.

[3] Data provided by the National Association of Independent Colleges and Universities (NAICU).
[4] Data provided by NAICU.

- Only 38 of these institutions reported endowments of more than $1 billion.

- None of the great universities in the District of Columbia has a $1 billion endowment --- George Washington University has an endowment of $823 million, and Georgetown is $741 million, comparatively modest sums in light of the fact that these endowments barely match the size of the operating budgets for these institutions.

- Total U.S. post-secondary enrollment for fall of 2004 was 17.7 million students. Private not-for-profit enrollment was approximately 3.4 million students.

TABLE: 2005 Endowments of Private Colleges and Universities
(Source: IPEDS - U.S. Department of Education)

Number of Institutions	Percent of Reporting Institutions	Endowment Range (minimum)	Endowment Range (maximum)	Percent of Total Private Not for Profit Students Enrolled
683	50%	0	$16.3 million	26%
447	33%	$16.3 million	$100 million	33%
162	12%	$100 million	$500 million	20%
36	3%	$500 million	$1 billion	8%
38	3%	$1 billion	$26 billion (Harvard U.)	13%

Regarding the compensation of presidents: context is also important. Of 670 private colleges and universities listed in the 2006 presidential compensation survey of the *Chronicle of Higher Education*, 60% had salaries less than $300,000, and 27% were at less than $200,000. While a few individuals had extraordinary compensation, usually due to a deferred compensation arrangement, the mainstream compensation of college and university presidents is not out of line with contemporary norms for leaders of a wide variety of nonprofit institutions. Indeed, for many of us, our compensation is significantly less than the compensation of peers who are running nonprofit associations, foundations and other tax exempt organizations.

Also, regarding tuition prices, of 1200 private colleges and universities listed in the *Chronicle of Higher Education's* tuition survey[5], the average tuition is $22,218 and the median tuition is $18,320. But given the prevalence of discounting tuition at private colleges, the actual cost to the student is much less, about $13,200.

Students attending private colleges and universities today receive *five times*[6] more grant aid from their own institutions than from the federal government. Nationwide, private colleges enroll proportionately at least as many low-income and minority students as public four-year universities, but they graduate from our institutions at a higher rate. Some of us actually enroll significantly more low-income students than our neighboring flagship state universities. A 1999

[5] Chronicle of Higher Education, November 3, 2006
[6] NAICU data source

Washington Post report[7] indicated, for example, that Trinity's median family income as $35,000 while the median family income at the University of Virginia was $94,000. The gap has only widened in recent years.

2. Wealth Creation Among Universities: Historical Notes

Some of the recent rhetoric around the wealth of Harvard and other elite universities, and their admission policies, makes it sound like all of this just happened. On the contrary, the historical roots of elitism and wealth among certain private universities are centuries-old.[8] Before the middle of the 20th Century, private higher education was largely the province of the Protestant aristocracy. Catholics, women, Blacks and other discrete social groups founded their own colleges because they were denied admission to the bastions of WASP privilege. Public higher education evolved differently, of course, but still, few working class students had the time or preparatory education to devote to higher learning.

Several landmark events in the mid-20th Century changed American higher education forever. Starting with the G.I. Bill in 1944, and later with the Higher Education Act of 1965 (and its many reauthorizations), deliberate public policy changed the whole idea of earning a college degree from a leisure time occupation for children of privilege to a necessity for preparing citizens of many ages and backgrounds for work. The G.I. Bill made adult education mainstream; the Higher Education Act emphasized egalitarian access rather than elitist exclusivity.

The Cold War, Sputnik and the Space Race all led to heightened awareness of the importance of higher education for the nation. The National Science Foundation grew out of this concern and poured millions of defense dollars into university laboratories and science faculties. The Civil Rights movement emphasized the creation of economic opportunity for all, and the Supreme Court and subsequent Civil Rights Acts enshrined this value in law. The Women's Rights movement emphasized the importance of including women in the mainstream of academic achievement, leading to massive coeducation, and Title IX enshrined this philosophy in law.

Meanwhile, the NCAA and television networks conspired to bring the names and athletic accomplishments of many universities into the living rooms of America, and over time Division I men's football and basketball became significant drivers of wealth and popularity for some institutions. The Bowl Championship Series and the Final Four became national sporting events of statures close to the Super Bowl and World Series.

All of this took place as the largest generations in the history of the world --- the Baby Boomers, Generations X and Y, and the Baby Boom Echo --- moved through school systems and on into college. The consumer movement that the Boomers shaped around almost every commodity had

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[7] Kenneth J. Cooper, "The Well-to-Do at the Public U; Increasingly Affluent Students are Choosing State, Not Private, Colleges," *The Washington Post*, November 25, 1999, p. A03.

[8] Consider the famous ruminations of Virginia Woolf in her 1929 essay *A Room of One's Own* as she compared the splendor of the mythical Oxbridge men's college with its "foundation of gold and silver" with the impecunious Fernham, the women's college, where "The amenities…will have to wait." (Virginia Woolf, *A Room of One's Own, 1929 Harcourt Brace, 1981 Harvest Paperback, pp. 10 and 20.)*

a tremendous impact on higher education, along with the sheer volume and great diversity of new higher education consumers that swept across the industry starting in the late 1960's.

Middle-class and upper-class consumers have played a significant role in shaping today's stratification of institutions of higher education according to wealth, prestige, amenities, access and affordability. Many studies document these phenomena[9]. Elite consumers seek out colleges and universities that enroll other elites, and they demand living and learning environments that satisfy their lifestyles and standards of living --- hence, the proliferation of expensive new construction for residence halls and recreation centers on many elite university campuses. Robert Zemsky refers to the institutions that such consumers seek as "Medallion" institutions.[10]

Middle class families want to emulate the elites, but with more emphasis on value for the tuition dollars invested. Low income students and part-time adult learners want access, first, and affordability, also first; glitzy lifetstyle amenities, while important, can be traded for more affordable options that emphasize quality instruction and convenient schedules. All want the prestige of association with a good institutional name, but some are willing to pay much more for a famous name.

I have witnessed the sociological truths of American educational consumers intensely during my nearly two decades as Trinity's president. As low income Black and Hispanic women from D.C. and the close-in suburbs sought the benefits of a Trinity education in greater numbers, middle-class white students declined in number.

Race and social class are still large wedges dividing America's citizens and institutions, ensuring continuing segregation of low income minority students in relatively less wealthy urban schools while wealthy elites, predominantly white but more racially diverse than in previous generations, seek out, build and sustain the "Medallion" institutions. Notably, certain public universities --- the "flagship" institutions --- now join the Ivy League and a few other private colleges and universities as gathering places for the elites of American society[11]. Children from lower socio-economic strata, who are disproportionately Black and Hispanic, suffer in under-performing elementary and secondary schools where they do not receive the academic preparation necessary to gain entrance to elite colleges. The intersection of poverty, race and family cultures on the success or failure of children in K-12 education has been studied at length[12]. But, research aside, what's most obvious is that as children progress through levels of schooling, students with similar economic, academic and cultural backgrounds increasingly group together in the same institutions, with "diversity" for many elite schools becoming an elusive goal, or a curious experiment at the margins.

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[9] See Robert Zemsky, Gregory R. Wegner, William F. Massey, *Remaking the American University: Market-Smart and Mission-Centered*, 2005: Rutgers University Press.
[10] Ibid.
[11] See "Public Colleges as Engines of Inequality," *New York Times* Editorial, November 23, 2006. See also Danette Gerald and Kati Haycock, "Engines of Inequality: Diminishing Equity in the Nation's Premier Public Universities," The Education Trust at http://www2.edtrust.org/EdTrust/Press+Room/Engines+of+Inequality.htm
[12] See the most recent excellent analysis of poverty, race and family conditions affecting educational attainment in the article "What It Takes to Make a Student" by Paul Tough in the *New York Times Magazine*, November 26, 2006, p. 44.

As these consumer trends evolved, several critical factors came together to create a “perfect storm” of opportunity for a few universities to become extraordinarily wealthy and remarkably selective: credit ratings, fund raising and commercial rankings.

3. Impact of Credit Ratings on Institutional Wealth and Prestige

Most college and university campuses are small cities with complicated physical and technological infrastructures. Many have buildings dating to the 19th century or earlier. Many also have buildings constructed in the bad architecture days of the mid-20th century, often with federal monies that are no longer available for projects like dormitories. 40 years later, most of these 1960’s buildings are in desperate need of replacement.

Higher education has largely done a very poor job of explaining why our costs rise at a much greater rate than inflation, and, therefore, why tuitions often rise faster than inflation as well. The biggest drivers of costs at private colleges and universities are rising faster than *both* inflation and tuition. They include institutional grant aid, utilities, health care, property and liability insurance, library materials.

Facilities and technology are also significant drivers of the rapidly rising costs of managing our educational cities and towns. Here again, consumers --- not just students, but also faculty and staff, and even neighbors who use our buildings and services --- have certain standards that they expect to find when coming to work or sitting in class.

I have students, for example, who are stunned the first time they hear pipes clanking when we turn on our heat in Main Hall each fall, since they’ve never been in a place with a single-pipe steam heat system, a true relic of the 1800’s. Faculty sometimes have a hard time being heard above the whine of window air conditioners in the summer. Staff in the dining hall serve three meals a day in the deep summer in stifling kitchen spaces built long before air conditioning was even imagined. I could easily spend $100 million in hidden infrastructure improvements.

Trinity is not alone; thousands of outmoded buildings remain operational on university campuses today. Many lack modern HVAC[13] systems, sprinklers, elevators and other functionalities that are today’s necessities, not amenities, as new consumers bring ADA[14] and OSHA[15] issues, security, environmental and life safety expectations that modern risk management practices require us to anticipate. Insurance companies, knowing the risks of consumer expectations today, are also significant players in the ratcheting of costs-and-expectations for the new definitions of “basic” infrastructures. Even FASB[16] gets into it, adopting the FIN 47 rule that in 2006 now requires calculation of what can be a sizeable reserve on the balance sheet for the future liability of asbestos removal, even if the asbestos is currently encapsulated.

All of these issues drive infrastructure costs and lead universities to decisions about capital improvements through renovating, demolishing and adding buildings. Like other businesses,

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[13] HVAC = Heating, Ventilation and Air Conditioning Systems
[14] ADA = Americans with Disabilities Act, guaranteeing access and equal treatment for persons with disabilities
[15] OSHA = Occupational Safety and Health Act, protecting the safety of workers
[16] FASB = Financial Accounting Standards Board that sets rules for accounting

universities borrow money in order to support their capital needs. The credit rating business determines how much, and at what price, we will be able to borrow money.

Attaining and sustaining the best possible credit rating is one of the most important fiscal responsibilities of the leadership of any university. But the standards that Moody's and other credit rating agencies apply to determine the credit rating often work in conflict with other values that institutions might espouse, and that public policymakers might also consider very important. Perhaps the greatest irony in this entire conversation about the financial obligations of higher education is the fact that the most scrupulous discharge of the fiduciary duty of the president and trustees of the university might also offend public policy notions of affordability, access and fiscal restraint.

Consider this summary from Moody's 2006 Private College and Universities Medians:[17]

"Moody's 2006 private college and university medians support our ongoing stable rating outlook for the higher education sector. Key credit strengths include:

> *• Continued strong student demand for private higher education, as evidenced by growth of median enrollment and strengthening student selectivity;*
>
> *• Strong growth of net tuition per student supporting positive operating performance and healthy debt service coverage; and*
>
> *• Positive investment returns and successful fundraising bolstering financial reserves.*

These credit strengths are offset by the following challenges:

> *• Intense competition for students and research grants resulting in institutions increasing their spending on programs and borrowing heavily to invest in physical facilities;*
>
> *• Moderately weaker balance sheets as strong investment returns barely keep pace with rapid debt increases; and*
>
> *• Heightened external scrutiny of higher education tuition affordability raising concerns about future continued growth of net tuition per student."*

Note the last point. Moody's and other rating agencies place a great deal of emphasis on growth in net tuition, which is achieved through establishing the best possible tuition price and discounting as little as possible, which means that only those consumers who can afford to pay the high tuition will have access.

Moody's and other credit rating agencies take a very dim view of institutional practices that (a) repress tuition growth and (b) provide greater access to more needy students (who require larger tuition discounts). At Trinity, when we were in the process of securing our first-ever credit

[17] All italicized quotations in this section taken from Moody's Investors Services, "Private College and University Medians 2006."

rating in 2002 (Bbb- from Standard & Poor's), we learned that our restrained tuition price and large volume of minority students (who are assumed to be very needy) would have a substantial negative impact on our ability to get a good rating.

Consider this statement from the 2006 Moody's Private College and University Medians:

"Aaa-rated colleges and universities (15 institutions) continue to demonstrate very strong student demand resulting in pricing power. Excellent freshmen selectivity (19% in fall 2005) and matriculation (60% in fall 2005) highlight that these institutions would likely be able to increase tuition levels, while maintaining strong student demand and stable enrollment." (page 6)

Moody's goes on to note:

"Despite their typically high sticker prices and pricing elasticity, all of these institutions have large financial aid and scholarship programs. Many of these institutions maintain a need blind admissions process, and some are committed to meeting demonstrated need of all admitted students. Some institutions have recently enhanced their financial aid programs in order to attract a more socio-economically diverse student body, by significantly reducing the level of parental contribution from families below set income levels. As a result of this tuition discounting, net tuition per student has grown at a slower pace than that of the other rating categories.

"Median net tuition per student of the Aaa-rated colleges and universities is a high $17,206 in FY2005, up 10% from FY 2001. However, Aaa-rated institutions depend on student charges, including tuition, fees, and auxiliary revenue, for a relatively small portion of their operating bases. Student charges represent a median 15% of operating revenue in FY 2005, compared to investment income (35%), grants and contracts (20%), and gifts (10%) which are more significant contributors of operating revenue." (page 6)

Note that Moody's does not look particularly favorably on the recent practice of some elite institutions of providing tuition-free education to students from families under a certain income level.

Moody's acknowledges the concentration of wealth in a very few institutions:

Wealth continues to be heavily concentrated in the higher rated colleges and universities, with the combined 63 Aaa and Aa-rated private universities (approximately 23% of the total portfolio) holding more than 80% of total financial resources. Strength of student market position and operating reliance on student charges also distinguish the higher and lower rated institutions. For example, Aaa-rated universities are highly selective (19% median freshmen selectivity in fall 2005) and depend on student charges for only 15% of operating revenue, compared to Baa-rated institutions, which accept a median 72% of freshmen applicants and rely on tuition and auxiliary revenue streams for 84% of their operating bases.

The problem is, of course, that in the world according to Moody's, the rich can only get richer --- securing more debt to build more glamorous amenities to satisfy their ever-larger applicant pools

--- while the rest of us put on a few more sweaters since our more limited borrowing capacity means we won't be replacing that old steam heat system any time soon.

4. Fund Raising

Fund raising, of course, also plays directly into the issue of credit ratings and wealth accumulation. Daniel Golden's book, *The Price of Admission*, provided me with several ruefully entertaining hours. His book amply illustrates the well known fact in higher education that elite families want to associate with other elites, and are much less likely to want to rub elbows with large numbers of students from other backgrounds. This tendency does drive big-time university fund raising, leading to the other well known fact that a very few institutions consume a significant amount of the charitable giving to higher education.

Moody's and other credit rating agencies also reinforce this behavior, since fund raising capacity is another one of their significant criteria. Simply put, the more likely it is that a university can raise significant amounts of charitable gifts, the better its credit rating and the more money it can borrow at lower cost, in order to provide even better amenities to an increasingly selective student body.

However, most institutions of higher education, including private colleges and universities, do not raise money in the manner described by Mr. Golden, or at the levels that a very few elite universities have sustained. In a study by the Council for Aid to Education, 20% of all universities received 75% of the charitable dollars --- those were the research universities. Meanwhile, the much larger group of private master's universities and liberal arts colleges (427 institutions, or 42% of the group studied) received only 17% of the charitable dollars.

The tax exemption is essential to enable private colleges and universities to raise charitable gifts that support a sizeable amount of our service to our students and communities. Many students and families do not realize that the tuition they pay covers only part of the actual cost of the student's education, as little as 30% in some schools. Charitable gifts provide an important percentage of the operating costs at most institutions, through both direct gifts to parts of operations as well as endowment income.

At Trinity, for example, of the $23 million in revenues we expect this year in our operating budget, we plan on about $1 million (4%) in charitable gifts in our Annual Fund. We are more heavily tuition-dependent than many other institutions, about 80%, and this is considered a real liability by Moody's and other credit rating agencies. Nearly $4 million in gross tuition revenues is actually the unfunded discount we provide to the very needy students in our full-time College of Arts and Sciences. While we gross $9 million from that tuition line, we net only $5 million because of the discount. Because of this, charitable gifts are even more important to help ensure that Trinity can balance our budget each year. Balancing the budget is an important objective because we do have a $19 million bond, our full debt capacity, and we have to meet the covenants which include balancing the budget. The bank is not moved by our service to low income students; the bank wants to be sure we are able to pay off the loan.

Hundreds of institutions like Trinity serve critically needy student populations on campuses that have large infrastructure development needs. We must raise money to close the gap in our budgets for the unfunded discounts, while also raising capital support for building improvements, faculty development, technological upgrades and similar projects that directly improve the quality of the student learning experience.

By tampering with the tax exemption for colleges and universities, Congress would undermine its own stated objectives of increasing access and affordability for citizens to obtain a college education. The Harvards of the world would be more than able to figure out creative ways to cope with such a loss, but institutions like Trinity would not be able to sustain their already-fragile business models in such an environment. The loss to hundreds of communities around the nation would be dramatic, as the jobs, goods and services provided by these smaller private institutions would evaporate.

5. College Rankings

Commercial rankings such as the *U.S. News and World Report* "Best Colleges" annual report are the other factor driving the accumulation of wealth and prestige among certain institutions today. Rankings are a dubious way for any student to choose a college, since these lists do not reflect much about the actual quality of teaching and learning on any given campus. But as a means to feed the American infatuation with prestige and fame, rankings have no equal.

Institutional wealth is the most important factor determining the *U.S. News* rankings. Faculty salaries, alumni giving, endowment-per-student and other indicia are all wealth factors. Moreover, much like credit ratings, *U.S. News* rewards institutions that do not enroll large numbers of low income minority students, since those students tend to have lower SAT scores and lower rates of retention and completion.

In spite of the obvious deficiencies of rankings, institutions of higher education and their various constituencies play the games with passion --- at least those very few institutions on the top lists. Lost in the annual media frenzy over the lists is the fact that several thousand institutions on the lower tiers actually do a great job educating their chosen markets of students, often at much less cost and with many fewer resources than the large, prestigious universities.

Given our fundamental values of Freedom of Speech and Press, there's nothing that Congress can do about rankings --- but understanding what they're really about, and how they influence institutional behavior for better or worse is important when considering policy alternatives. In fact, the great paradox of rankings is just like the paradox of credit ratings: presidents and trustees often consider it to be among their most important duties to improve institutional reputation, of which the rankings are a big part. Yet, in focusing on moving up in the rankings game, they often must take actions that seem contrary to public policy, e.g., limiting access for low income students so as to ensure good retention and completion rates.

6. What Can Congress Do?

Tinkering with the tax exemption for colleges and universities is the *last* thing Congress should consider in thinking about how to get the few relatively wealthy institutions to share their resources more equitably. For the vast majority of private tax-exempt American colleges and universities, money is only an issue in its scarcity compared to the very large needs we are trying to serve.

Harvard can stand on its own sturdy legs to talk to Congress about its wealth and how to share it more equitably. But let's face it: even if Harvard were to raise the level of its "free tuition" largesse for families from the $50,000 family income to $100,000 or more, not that many more students would benefit, since so relatively few low-income students can perform academically at the elite levels expected at Harvard, Princeton and elsewhere.

In reality, these large social issues play out at much earlier places in the lives of students, in the failing urban public school systems and impoverished families where reading and academic success are not necessarily prevalent virtues. There are many institutions of higher education like Trinity who consider it a profoundly important mission to educate such students, and we are privileged to welcome them to our campuses. The real challenge is how Trinity and institutions like us will be able to continue to provide the affordable access and substantial support services like tutoring and academic support that we currently provide to low income students even as our critical institutional needs for infrastructure improvement loom large.

For starters, thousands and thousands more low-income students nationally will benefit if Congress in its wisdom will increase the maximum Pell Grant, which has not grown for five years from its current level of $4050, as well as continue to strengthen other vital federal financial aid programs.

In the same way, middle-income families will continue to need the support of tax incentives to help offset their college expenses. Student loan interest deductions, HOPE and Lifetime Learning tax credits, 529 plans, and tuition deductions help middle class families pay for college at every stage of the financing pipeline. The 529 plans allow families to save for their children's education when they are young. Tax credits and deductions help ease tuition payments while students are in college. And the student loan interest deduction gives graduates getting started on their careers a break in paying back their college loans.

When the federal government helps students pay for college, it invests in our nation's future. A college education benefits not only the individual, but society as a whole. A highly educated work force has become an essential component of economic growth and competitiveness. It is estimated that increases in national educational attainment have accounted for almost 30 percent of the growth in national income this century. Because they earn more, save more, and are unemployed less frequently, college graduates make fewer demands on the public purse and pay more taxes.

Some critics have said that increases in federal student aid encourage colleges to increase tuition. The congressional education committees have asked the Department of Education to study this very question several times over the past few years. Consider these findings of the studies:

- ✓ **Study of Costs and Prices** (2001): *Regarding the relationship between financial aid and tuition, the models found* ***no association*** *between most of the aid variables (federal grants, state grants, and student loans) and changes in tuition either in the public or private not-for-profit sectors.*

- ✓ **The Impact of Federal Student Financial Assistance on College Tuition Levels** (1997): *Federal assistance **is unrelated** to private college tuition. Among private 4-year colleges, federal student aid changes **have stimulated** the provision of **additional institutional assistance** and have not replaced existing forms of aid.*

- ✓ **Issues of Cost and Price in Higher Education** (2001): *There is little evidence—and little theoretical evidence to suppose—that federal student aid increases have contributed to tuition inflation."*

The research shows that there is no association between federal student aid and increased tuition. In fact, recent state budget actions show that cuts to student aid lead to tuition increases. For example, when states cut funding for higher education, tuition at state colleges and universities increased rapidly. Private colleges and universities have increased their financial aid budgets significantly to make up for the loss in the value of federal student aid over the last 5 years.

Yes, low-income and middle-class students deserve as much access to excellent higher education as their elite peers at very prestigious, wealthy institutions. For that very reason, Congress needs to stay focused on the needs of these students, and not get distracted by the very few institutions whose wealth or compensation policies snag headlines. In expressing concern about the few, Congress should not miss the bigger story about what's right in higher education among the thousands of modestly-resourced colleges and universities that do their work well each day without much notice or glamour or exceptional charitable gifts.

I urge the Senate Finance Committee to continue to exercise its customary extraordinary care in distinguishing the unusual stories of the elites from the mainstream needs of the majority of the 17 million students currently enrolled in colleges and universities all over this great nation.

Thank you for considering this testimony.