

# FINANCIAL AID AT PROPRIETARY SCHOOLS: HOW IMPORTANT IS IT?

by Donald E. Scheaffer

## *Introduction*

As part of the postsecondary community, proprietary schools participate in federal student aid programs. Although the level of participation at individual schools may be limited by scope and size, proprietary school administrators have become involved in the operation of these programs. The reality of this participation receives a modest amount of serious interest and somewhat less understanding.

In an attempt to increase understanding of the value and uses of financial aid at proprietary schools, a recent study was performed to determine the importance of federal financial aid programs at proprietary schools as they exist today. The following is an extraction from that study.

This study will inquire into the value of federal student aid programs for the operation of proprietary schools. The general goals of this study are: 1) to determine the extent of utilization of federal student aid programs at proprietary schools; 2) to assess the role of federal support for needy students enrolled at proprietary schools; and 3) to evaluate the relationship of financial aid to the recruitment and training of students.

## *The Problem*

The problem of federal funding to students attending proprietary schools has various facets. First, proprietary schools offer a definite contribution to American postsecondary education. Although historically removed from the traditional academic view, proprietary schools have provided a unique and distinctive type of vocational training. Second, needy students attending proprietary schools receive major federal subsidies for attendance. Finally, proprietary schools, organized as private businesses, see student financial aid as a resource for institutional fiscal support.



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### *Questions*

The questions which will be answered by this paper are: 1) How important is federal student financial aid to proprietary schools? 2) Is there a conflict in providing federal funds for needy students attending proprietary schools? 3) Are national educational goals served by funding needy students at proprietary schools? and 4) Who benefits most from the federal student aid funds at proprietary schools: the student or the school?

### *Hypotheses*

This study supports three interrelated hypotheses regarding the relationship between federal aid programs and accredited proprietary schools. These hypotheses are stated as follows: Federal student financial funding significantly affects the operation of accredited proprietary schools. Accredited proprietary schools enrolling needy students depend on federal student aid funds to accomplish their educational objectives. The national educational contribution of accredited proprietary schools is enhanced by utilizing federal student aid funds.

### *The Nature and Operation of Proprietary Schools*

In an effort to provide a comprehensive program for students in postsecondary education, the definition of "institutions of higher education" was expanded by the Higher Education Act of 1965, as amended, to include profit making proprietary institutions. The definition is restated as follows:

Proprietary institutions of higher education means a school which 1) provides not less than a six-month program of training to prepare students for gainful employment in a recognized occupation, (2) admits as regular students only persons having a certificate of graduation from a school providing secondary education or the recognized equivalent of such a certificate, (3) is legally authorized by the State in which it is located to provide a program of education beyond secondary education, (4) is accredited by a nationally recognized accrediting agency or association approved by the Commissioner for this purpose, (5) is not a public or other nonprofit institution, and (6) has been in existence for at least two years.

The practical effect of this definition is to open the federal student assistance programs to virtually every student attending college or training programs beyond high school.

An amplification of "proprietary institutions" will be necessary to understand their relationship to federal programs. Administrators of traditional institutions of higher education involved in lengthy educational programs extending into graduate work may view a six-month training programs as a mockery of higher education. In this context, proprietary schools were considered the bastard children of education. The vocational-education orientation and the profit-motive contributed to this classification. Occupational education was viewed as something a student would take when he or she was not able to qualify for other fields of study. A relatively short course of training to prepare for a life-time of employment does not compare with traditional educational programs involving many years of study and large amounts of public funds. The profit motive espoused by proprietary education "has been viewed often as a hardy weed in the academic

garden. Vestiges of this attitude may still be discerned, but to a growing extent academe and government have come to regard it as a respectable flower."<sup>1</sup> Nevertheless, the generic design of proprietary schools precludes a parallel comparison with traditional academic education exhibited in four-year colleges and universities.

Some of the difficulty in understanding proprietary schools results from the lack of knowledge about their nature and operations. Even though proprietary schools existed in the United States since the early 19th Century, very little literature is devoted to study and analysis of their operations. One of the most frequently cited studies of recent time is a study for Stanford Research Institute by Kincaid and Podesta in 1966. This exploratory survey of 38 private proprietary schools in Santa Clara County, California, produced a conclusion which may have come as a surprise to the researchers: using enrollment data, proprietary schools appear to be making a more substantial contribution than had been suspected in instructional areas that are also in the public domain. In 1969, Belitsky lamented the lack of knowledge about proprietary schools, especially when he estimated the number of proprietary schools in 1966 to be 7,071 schools enrolling an estimated 1,563,556 students. In a survey of federal involvement in proprietary schools in 1973, Eisenberg discovered that these schools enroll over 3 million students and produce gross revenues of at least 2.5 billion dollars. The number of students enrolled, however, does not tell the whole story. The American Institutes for Research concluded that despite these continuing high enrollments, in recent years (before 1972) the esteem of proprietary education has been questionable. AIR further stated that proprietary education in general has been to vocational education in general what vocational education in general has been to academic education. In 1975, while discussing the ability of community colleges to prepare people for productive jobs, Wilms stated that we don't know much about the effectiveness of privately owned profit making schools either, but they are big business. Although proprietary schools generally have avoided scrutiny as an educational resource and as a participant in federally funded programs, study of these schools is increasing.

Vocational education as a goal is the key to understanding proprietary schools. States approve courses and schools on the ability of a particular course to produce the objective as outlined in the course curricula. This approval process may involve scrutiny of individual course content, textbooks, classroom size and adequacy of facilities. Not all states have separate licensing requirements for proprietary schools: Belitsky found that about 20 states require licensing and the regulations of these states have wide variations. Local control of schools is restricted to licensing as commercial businesses with adherence to the appropriate safety and local codes. In brief, proprietary schools are private businesses selling education.

#### *The Necessity for a Survey*

The need for a survey of the relative importance of financial aid programs to proprietary schools became apparent in the development of the arguments sup-

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<sup>1</sup>R. A. Fulton, "Proprietary Schools," *Encyclopedia of Educational Research*, 4th Edition, ed. Robert L. Ebel (New York: Macmillan, 1969), p. 1022.

porting the hypothesis that federal financial aid is important to proprietary schools. The initial problem developed regarding the particular aspects of proprietary financial aid administration to submit to research. Previous studies indicate an enrollment pattern of a sizeable percent of lower income status students. A survey of annual fiscal reports of federal programs filed at the U.S. Office of Education would supply the number of financial aid recipients for any fiscal year but it would not provide enough information to evaluate the importance of these programs. The reliability of the annual application to participate in federal funds is questionable because the application requires estimates of expected resources and enrollments and is not subject to audit. Rejecting the notion of a survey of information on file only, a survey, designed for the knowledgeable participation of school administration, was selected.

Since the purpose was to determine the importance of aid programs, the survey was designed to measure the attitudes of administrators who participated in these programs. Emphasizing opinion over verifiable enrollment and dollar figures assumes that the school administrators are in the best position to determine the importance of aid programs for their respective school. This assumption is based on the generic operation of a proprietary school and the multiple roles required of the administrator: business executive, federal aid program administrator, accrediting commission contact person, educational program supervisor, recruitment and enrollment supervisor, fiscal officer, budget director and other roles as required. For these reasons, the survey was sent directly to the school president, director or administrator.

The area of financial aid selected for survey was the campus-based programs and Basic Grants. The campus-based programs comprise the NDSL, SEOG and CWS aid programs. Although the studies indicated the reliance on loans including federally insured loans, the Federally Insured Student Loan Program (FISL) was not considered in the survey. The reasons for the elimination of the FISL program are as follows: 1) access to any reliable information would be at best difficult; 2) loan funds are disbursed from lending institutions not under the direct control of schools; and 3) in recent years, a reduced number of proprietary schools have participated in the FISL program.

#### *Assumptions*

Besides assuming the reliability of the experiential knowledge of proprietary school administrators, additional assumptions were made in the design of the survey instrument. The survey assumes that participation in campus-based and Basic Grant programs will provide an adequate base for study of the relative importance of these programs. An assumption was made concerning selection of the universe: the National Association of Trade and Technical Schools (NATTS) and the Association of Independent Colleges and Schools (AICS) accredited schools in California represent nearly one-half of all proprietary schools participating in campus-based programs in U.S.O.E. Region IX. NATTS and AICS schools in California received NDSL and SEOG funding allocations for about 40% of all NDSL and SEOG funds allocated to proprietary schools in Region IX. The survey assumes that selection of NATTS and AICS schools provides an adequate representation of the participation of federal funds by proprietary schools.

### *Methodology of the Survey*

The universe selected comprised all the schools in California accredited by NATTS and AICS. The schools are located throughout California, with almost two-thirds of the schools located in Southern California. The mailing list was derived from the NATTS 1977-78 directory and the 1976-77 AICS directory, the most current available at the time of the mailing. Forty-seven schools are accredited by NATTS and seventy-two accredited by AICS. One school, accredited by both NATTS and AICS, was eliminated from the survey because it is where the survey originated. The chief administrators at the remaining total of 117 schools were sent the survey.

Factual information on the accreditation status, total yearly enrollment in eligible courses, percent of students in those courses receiving some financial aid, and number of financial aid recipients in current fiscal year was requested. The original decision to include factual data in the survey was to provide a frame of reference in terms of size of schools. This information proved to be more valuable to the study than originally expected.

Questionnaires were mailed on March 22, 1978 to 117 schools. Participants were asked to return the questionnaire by March 31, 1978. As of April 14, 1978, 46 questionnaires were completed and returned, one was returned by the postal service as undeliverable. The return rate was 39.3 percent. Two surveys returned were partially completed. These were eliminated from the statistical evaluations but included in the percentage evaluations. The remaining 44 responses comprise the data for the statistical analyses.

Seventy-two of the 117 schools, as indicated by O.E. reports, participated in the NDSL program in fiscal year 1976-77 with a total allocation of federal capital of \$4,538,522. Adding the one-ninth institutional matching funds, the total amount of NDSL funds, minus collections, was over \$5 million. The SEOG funds for 72 schools in fiscal year 1976-77 amount to over \$2 million. The amount of money involved for the NDSL and SEOG programs in fiscal year 1976-77 was over \$6.6 million, or an average of nearly \$90,000 for each school participating in the programs. This does not include Basic Grant funds or other loans.

Allocations for the 46 responding schools was \$2.8 million in fiscal year 1976-77 for the NDSL and SEOG programs. The average allocation of \$62,000 for the responding schools is somewhat below the average for all schools. This discrepancy can be explained by the large amount of funds allocated to several schools that did not respond. The 46 responding schools indicated that over 10,000 students received financial aid at their institutions during the current year. The total enrollment for the responding schools, estimated from the responses provided on the survey, is 17,000 students.

The format of the survey was a series of statements to which the schools were asked to respond in terms of agreement, indifference, or disagreement. Not all statements were intended to measure the attitude toward federal programs. Two statements referred to the level of funding by county and local government agencies for educational training programs. The State of California grant programs were the focus of two statements. Participants were asked to select which federal aid program provided the most benefit for students. They were also asked to indi-

cate the main beneficiary of federal aid programs. One statement referred to the packaging of financial aid.

Thirteen statements were designed to elicit agreement if the participants placed a high value on the operation of federal financial aid programs at their respective institutions. Agreement to these statements was designed to produce a measure on a single continuum of attitudes toward federal aid programs. While the simplicity of elicited responses may not provide a clear indication of the magnitude of opinion, it allows for ease in participation.

Participants were asked to respond to statements referring to the level of federal funding, the role of federal programs in recruitment and retention, the ease of program operation, the basis of federal aid programs, and the relationship between proprietary schools and other postsecondary institutions. Agreement to all statements was designed to indicate that the respondent: 1) placed a high value on federal programs; 2) needed federal aid programs to maintain enrollment levels; 3) believed proprietary schools should receive a special treatment in funding process; and 4) believed administration of federal programs was not an unreasonable task to assume.

#### *Scoring of Survey Responses*

The thirteen statements used for measurement were scored to achieve an objective index of measurement. The responses were scored 2 points for agree, 1 point for indifferent and 0 points for disagree. One statement had negative phrasing; the scoring pattern was reversed for responses to this statement. The maximum score possible for the selected statements was 26 points. The mean score for the responses to the selected statements for 44 respondents was 12.9 points.

#### *The Effect of Financial Aid Programs on the Operation of Proprietary Schools*

The impact of financial aid programs can be seen by analyses of the responses to the survey statements. Several statements will be grouped together to explain the attitude of administrators related to various aspects of the operation of financial aid programs.

#### *Federal Level of Funding*

Three survey statements relating to the amount of federal funding provided for proprietary schools are given in Table 1.

Table 1  
Attitudes Toward Amount of Federal Funding

Survey Statement	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
"The Federal Government student aid programs provide the right amount of student assistance."	17	38.6	13	29.5	14	31.8
"The Federal Government should increase the amount of student aid to proprietary schools."	32	69.5	7	15.2	7	15.2
"The level of Federal aid is sufficient for all our students."	7	15.9	2	4.5	35	79.5

These statements were designed to measure the attitudes toward the federal level of funding. Proprietary school administrators feel that aid should be increased (69.5%). Present aid is neither sufficient (79.5%), nor the right amount (55.8%). The conclusion from this data is that proprietary school administrators would welcome an increase of the amount of student aid for their students.

*Federal Level of Funding and Institutional Capabilities*

Table 2 presents four statements which reflect the attitude of the administrators toward the production of graduates, recruitment and retention of students, and general well-being of the school.

Table 2

Survey Statement	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
"Our school would not be able to produce quality graduates without federal aid programs."	18	39.1	3	6.5	25	54.3
"We would have difficulty recruiting students without offering federal aid programs."	25	56.8	6	13.6	13	29.5
"Without federal aid, our school would not be able to operate at the present level of enrollment."	27	65.8	5	12.1	9	21.9
"We would be better off without the federal aid programs."	13	28.2	4	8.6	29	63.0

While administrators feel they can produce well-trained graduates without federal programs (54.3%), these same federal programs aid their recruitment efforts (56.8%) and maintain their enrollment levels (65.8%).

Almost two-thirds of the respondents do not think they would be "better off" without federal aid programs. In the areas of recruitment and enrollment well over half of the administrators value federal programs.

Some administrators (28.2%) feel that they would be "better off" without federal aid programs. While it is difficult to ascertain what each administrator believed "better off" meant, one can assume that nearly one-third of the proprietary school administrators surveyed feel that participation in federal aid programs has been accompanied by woes and tribulations which diminish the impact of the aid programs.

*Basis of Financial Aid and Institutional Participation*

The four statements in Table 3 were designed to measure the attitudes toward the basis of financial aid and the relationship of financially needy students to enrollment practices at the school. The attitudes toward participation in the program were also measured from the view-point of relations with other proprietary schools and other postsecondary institutions.

**Table 3**  
**Attitudes Toward Basis for Participation in Federal Funds**

Survey Statement	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
"Federal aid is best when based on financial need."	32	72.7	3	6.8	9	20.4
"If funds were awarded to schools on the basis of head-count only (non-need based) our school would enroll students from socio-economic backgrounds different from those we have now."	18	40.9	10	22.7	16	36.3
"Our school participates in federal programs because other proprietary schools do."	13	28.8	3	6.6	29	64.4
"Federal programs should treat proprietary schools differently from 2-year and 4-year colleges."	21	47.7	6	13.6	17	38.6

Financial need as the basis for awarding student aid was accepted by almost three-fourths of all the respondents (72.7%). The opinions about the effects of removing financial need as the basis of awarding aid varied. The purpose of statement number 18 was to suggest the possibility that recruiting and enrolling students may be based on the financial need of the students. In other words, do schools recruit students from low-income backgrounds because these students qualify for aid? There is no conclusive answer to any change in the present structure. Less than half (40.9%), however, indicated a change in the socio-economic backgrounds of their students would occur if the financial need requirement for aid was removed. Only one-third believe no change would occur. This seems to indicate that administrators may not have as much choice in the selection of their students as they would prefer; economic considerations may require recruitment and enrollment of students eligible for financial aid.

The competition among proprietary schools does not force institutional participation according to administrators' belief (64.4%). This majority opinion is consistent with the courses offered insofar as proprietary schools tend to specialize in a particular course or type of training.

About half (47.4%) of the administrators believe proprietary schools should receive treatment different from other postsecondary institutions. While it is not clear how the treatment should differ, the assumption can be made that it deals with the allocation of funds for financial aid programs.

#### *Program Administration*

The responses to one statement designed to measure the degree of difficulty experienced in the administration of the federal programs are presented in Table 4.

**Table 4**  
**Attitudes Toward Difficulties of Administration**

Survey Statement	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
"Federal programs are easy to administer."	4	8.8	4	8.8	37	82.2



Over three-fourth (82.2%) of the school administrators believe the aid programs are not easy to administer. Although there were no comparative statements on the survey, it is clear that any level of participation in federal aid programs requires knowledgeable attention to program regulations.

Since student aid funds may account for the only public funds at a proprietary institution, administrative expertise related to public funds is not the easiest chore for these schools. The administrative difficulty encountered by proprietary schools should prompt the Office of Education program officers to continue training and instruction in proper program administration.

*Federal Student Aid Program Related to Total Student Financing*

Only one statement was designed to elicit a specific response concerning the importance of federal aid programs. This statement clearly isolates federal aid programs. Table 5 gives the responses to this statement.

Table 5  
Attitudes Toward Importance of Federal Aid

Survey Statement	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
"Federal student aid is the most important part of our student financing."	19	42.2	7	15.5	19	42.2

Only 42.2 percent of the respondents indicated federal student aid is the most important part of their students' financing. Related statements, however, clarify this attitude. Nearly two-thirds (63.0%) indicated federal aid programs helped their school.

Over half felt federal aid helped the recruitment and enrollment of students.

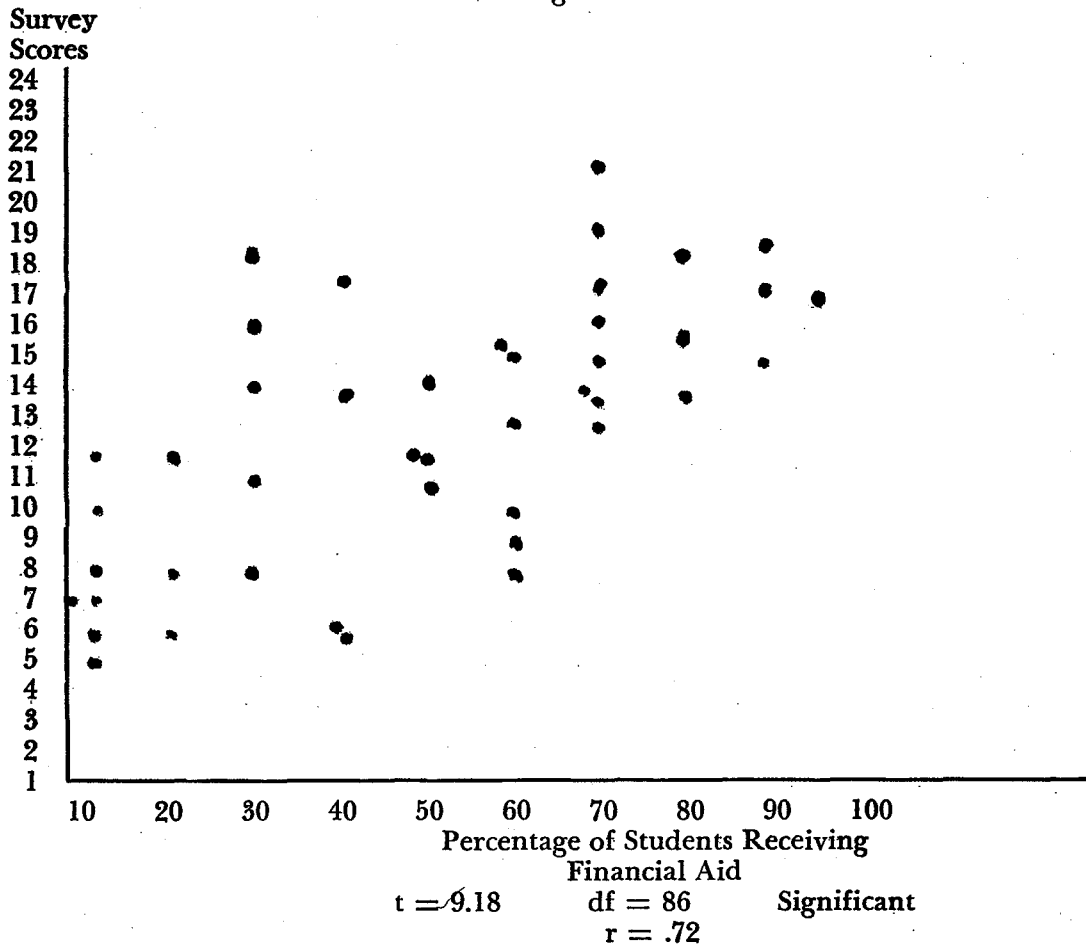
The related statements indicate that the importance of financial aid programs may be even greater than the administrators recognize. A valid conclusion can be made: over half of all administrators at the proprietary schools surveyed believe financial aid programs are important to the operation of their schools.

*Analysis of Results*

Participants were asked to indicate the "percent of students in eligible courses receiving some financial aid." The mean percentage for 46 schools responding was 49.1 percent. This means nearly half of all students enrolled in eligible courses receive some financial aid. Analysis of these percentages became more meaningful to this study than had been originally suspected. The percent of students receiving financial aid is derived from the administrator's estimate of current enrollment. This estimate of participation is valuable to the study, since it is the administrator who oversees the entire school operation on a daily basis.

A difference of means test was calculated to determine the relationship of the survey scores to the percent of students receiving financial aid at the school. The result was a value of 9.18 which is significant at the .001 level. Pearson's correlation coefficient, *r*, was calculated at .72. This indicates that a significant correlation exists between the attitudes of administrators toward the importance of financial aid programs and the percentage of students receiving financial aid. Conversely, an opinion of lesser importance of financial aid programs prevails when a lower percentage of students receive aid from these programs. (see Figure 1).

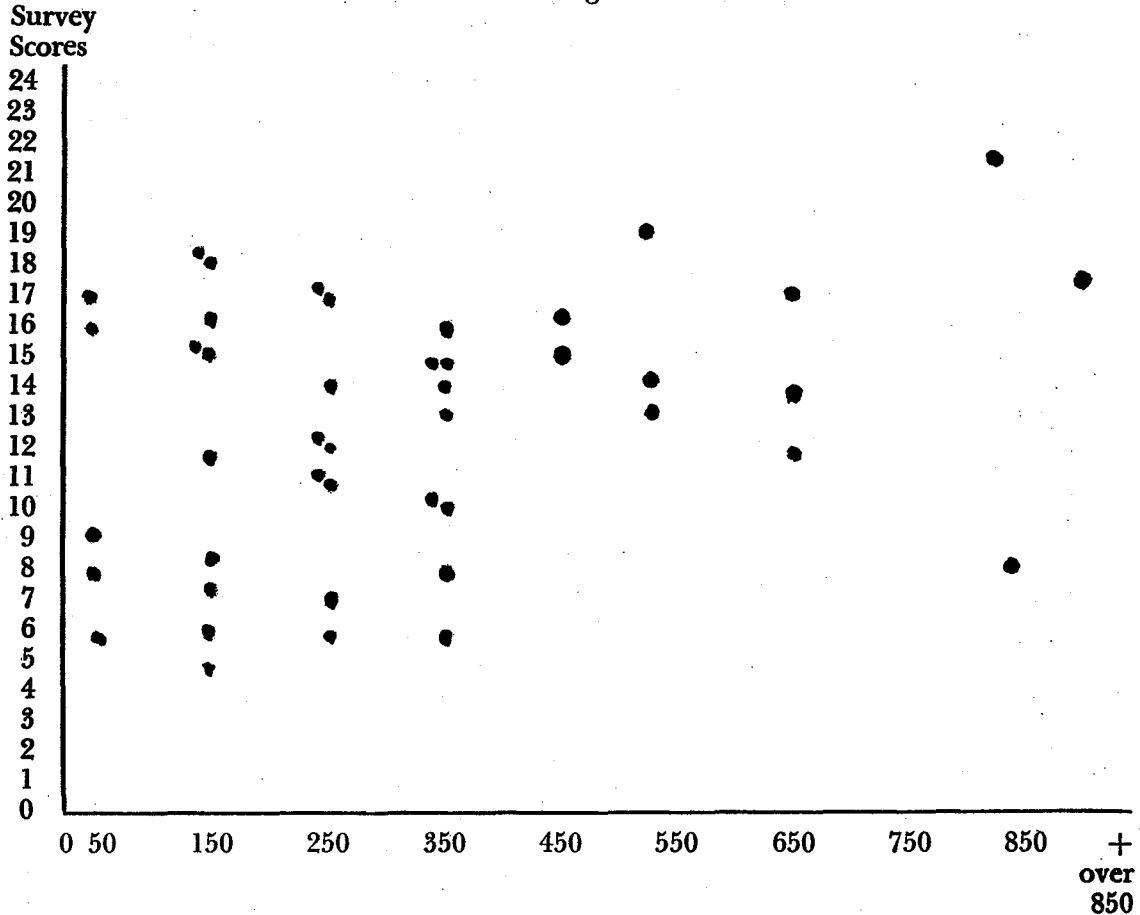
Figure 1  
 Chart of Survey Scores and Percentage  
 of Students Receiving Financial Aid



Participants were asked to estimate the number of students in eligible courses who received financial aid. The estimates were made within a range of one hundred students. For the purposes of analysis, the mid-point of the estimate was selected. A difference of means test was calculated to determine the relationship of the survey scores to the number of students receiving financial aid. The result was a value of 5.08 which is significant at the .001 level. Pearson's correlation coefficient,  $r$ , was calculated at .70. This indicates that a significant correlation exists between the attitudes of administrators toward the importance of financial aid programs and the number of students receiving financial aid. The financial aid programs become more important to school administrators as the number of financial aid recipients increases. Conversely, administrators place less value on federal programs as a smaller number of students receive federal aid.

The number of students receiving financial aid and their consequent percentage of the total student body significantly affects the approach of proprietary school administrators toward financial aid programs. As the number and percentage of financial aid recipients increases, the administrator places more value and importance on financial aid programs. (see Figure 2)

Figure 2  
 Chart of Survey Scores and Number  
 of Students in Eligible Courses



Number of Students Enrolled in Eligible  
 Courses

$t = 5.08$  significant  
 $r = .70$

*Summary*

The survey statements selected for this study provided an index to measure the attitudes of proprietary school administrators toward federal aid programs. A significant relationship exists between the attitude of proprietary school administrators and the number and percentage of financial aid recipients. Administrators show a greater appreciation for federal aid programs as a large number and percentage of students receive financial aid at their institutions. As the number and percentage of financial aid recipients increases in a particular proprietary school, the administrator of that school becomes more aware of the impact of these aid programs in the area of recruitment and enrollments. Administrators tend to depend on federal financial aid programs as they experience greater utilization of the programs.

*Recommendation: Performance Contract*

The discussion of the results of this survey would not be complete without a recommendation designed to improve the operation of financial aid programs at proprietary schools. A modification of the existing application and reporting

procedure is recommended by the author. This modification would involve a performance contract between the U.S. Office of Education and individual proprietary schools. A panel representing industry, employment analysts and proprietary schools would first determine local vocational needs. Proprietary schools would submit bids for specific training of a specified number of students. Recruitment and enrollment would remain under the control of the school. Submitted bids would be reviewed by a panel similar to the process used at present for application of funds. The recommended review process would measure the established performance of a proprietary school in the areas of demographic area served, enrollment practices, retention rates, and placement of graduates. Federal funds would then be allocated for training according to a performance rating. Funds would be provided for total educational costs.

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#### SUMMARY SURVEY RESPONSES

	Agree		Indifferent		Disagree	
	No.	%	No.	%	No.	%
5. County and local government (CETA, MDTA) aid programs provide adequate student financing	10	22.7	9	20.4	25	56.8
6. County and local government aid programs should increase student funding.	20	46.5	13	30.2	10	23.2
7. The California Grant Programs provide just about enough student aid.	11	24.4	4	8.8	30	66.6
8. We are satisfied with our relationship with the California Student Aid Comm.	17	38.6	13	29.5	14	31.8
9. The Federal Government student aid programs provide the right amount of student assistance.	14	32.5	5	11.6	24	55.8
10. The Federal Government should increase the amount of student aid to proprietary schools.	32	69.5	7	15.2	7	15.2
11. Our school would not be able to produce quality graduates without federal aid programs.	18	39.1	3	6.5	25	54.3
12. Our school would be "better off" without the federal aid programs.	13	28.2	4	8.6	29	63.0
13. Federal programs are easy to administer.	4	8.8	4	8.8	37	82.2
14. Our school participates in federal programs because other proprietary schools do.	13	28.8	3	6.6	29	64.4
15. Federal student aid is the most important part of our student financing.	19	42.2	7	15.5	19	42.2
16. We would have difficulty recruiting students without offering federal aid programs.	25	56.8	6	13.6	13	29.5

