EXECUTIVE SUMMARY

Just How Similar?
Community Colleges and the For-Profit Sector

 Whereas community colleges and for-profit institutions both provide postsecondary educational opportunities, they are different in a host of dimensions. This brief describes some of those differences—not to win a debate or suggest public policy, but to show why comparisons made between the community colleges and for-profit institutions are more limited than some may suggest.

This brief presents data for community colleges and, where possible, at each level (4-year, 2-year, less-than-2-year) of for-profit institutions to discuss distinctions that exist in terms of oversight, service, and financing. Some of the differences, but not all, are the following.

Oversight

Community colleges are public institutions. They receive public funding and operate under the supervision of established public oversight entities to ensure they are responding to educational, workforce, and community needs.

For-profit institutions are owned by people or corporations. In the case of publicly traded companies, institutional managers operate from the guiding principle that they act as agents on behalf of those individuals they represent—that is, the shareholders.

Service

Community colleges educate 44% of all undergraduates: 7.3 million students, roughly, were enrolled for credit in the fall of 2008. For-profit sector educated 1.5 million undergraduates. More than half of all Hispanic students and more than 40% of Black, Native American or Alaskan Native, and multiracial students choose to attend a community college.

About 89% of students at 2-year for-profit, 86% at less-than-2-year for-profit, and 73% at 4-year for-profit institutions enroll full time, compared with about 40% of students at community colleges. This fundamental difference in enrollment intensity, in addition to the many short-term programs offered at for-profit institutions, substantially increases for-profits’ completion rates.

When transfer rates are included in graduation rate analyses, community colleges and 2-year for-profit institutions have completion rates of 40% and 61%, respectively. This differs substantially from the comparative rates often utilized in this context. Congress has recognized that federal graduation rates do not reflect success at 2-year institutions and has directed the U.S. Department of Education to study the issue and amend the current calculations accordingly.

Financing

Community colleges and for-profit institutions operate with the assistance of public funds. Community colleges are publicly funded by a partnership of federal, state, and, in some cases, local governments. They receive roughly 60% of their funding from state and local sources. In 2009–2010, $7.5 billion of federal student aid was used to pay for education at for-profit institutions. Due to differences in accounting standards that treat federal student aid as tuition and fee revenue, this fact has been overlooked in comparative analysis that examines the amount of taxpayer support across sectors of higher education. Additionally, in 2009 77% of the revenues at the largest five for-profit publicly traded corporations came from Title IV programs.

All levels of for-profit institutions have tuition and fees significantly higher than those of community colleges, often requiring students to take out loans: Those of about 90% compared to just over 10%. For-profit institutions continue to have the highest default rates in higher education. The implications, especially on low-income students, of defaulting on loans are substantial, especially since student loans are not dischargeable in bankruptcy.

Some for-profit institutions make considerable profits, while community colleges are nonprofit public entities whose revenues are applied to providing program support. Sixteen companies with for-profit colleges investigated by the U.S. Senate Committee on Health, Education, Labor and Pensions were found to have made $2.7 billion in profits in 2009. These profits could have funded the entire 2008–2009 state contribution to community systems in Florida, Illinois, Michigan, New York, and Ohio combined. Put another way, if those profits had been applied to community colleges, each student enrolled at a community college in fall 2009 could have received $321—enough to pay for a three-credit course with nearly $65 left over for books.

Moving Forward

This brief examines some of the differences between community colleges and for-profit institutions. Although they have some similar educational offerings, these two sectors are far from being close kin.