

Impact of Federal Regulations on Higher Education Costs

Prepared for the American First Policy Institute

By Michael Steiner, Ph.D. at Southeastern University

Executive Summary

Federal regulations significantly impact the cost structure of higher education institutions, driving up tuition and administrative expenses. This report quantifies the cost burden across four key areas—student acquisition, instruction, administrative compliance, and physical properties—and identifies potential cost savings through regulatory reform. The findings suggest that targeted policy changes could reduce tuition by approximately **30-40%**.

Summary of Potential Cost Savings

The cost of compliance with federal regulations accounts for a significant portion of student tuition. Based on an estimated **\$32,088** average tuition sticker price, the breakdown of cost drivers and regulatory impacts is as follows:

1. Student Acquisition Costs

- **Current Cost:** ~35% of tuition (~\$11,230 per student)
- **Regulatory-Driven Share:** 40-50% of student acquisition costs (~\$4,500–\$5,600 per student)
- **Potential Savings:** 14-17% tuition reduction if regulations allowing high sticker prices and discounting practices are reformed.

2. Instruction Costs

- **Current Cost:** ~33% of tuition (~\$10,589 per student)
- **Regulatory-Driven Share:** 30-40% (~\$3,200–\$4,200 per student)
- **Potential Savings:** 10-13% tuition reduction by eliminating seat-time mandates, allowing competency-based education, and streamlining online education rules.

3. Administrative & Compliance Costs

- **Current Cost:** ~12% of tuition (~\$3,850 per student)
- **Regulatory-Driven Share:** 3-5% of tuition (~\$1,000–\$1,600 per student)
- **Potential Savings:** 3-5% tuition reduction through reduced reporting burdens and more flexible oversight frameworks.

4. Physical Property & Debt Costs (CSR-Driven Borrowing)

- **Current Cost:** ~5-6% of tuition (~\$1,600–\$1,880 per student)
- **Regulatory-Driven Share:** 60-70% of debt service costs
- **Potential Savings:** Reduce 5-6% tuition by modifying financial responsibility metrics to discourage unnecessary institutional borrowing.

Total Estimated Savings:

By implementing regulatory reforms, institutions could reduce tuition by approximately **\$10,300–\$13,600 per student**, equating to a **30-40% tuition reduction**.

Recommended Regulatory Changes

To achieve these cost reductions while maintaining educational quality, the Department of Education's role should be refocused on three core functions:

1. Financial Aid Administration:

- Replace current Title IV aid with a **state-distributed block grant system** tied to workforce outcomes.

- Implement a **four-year fixed-value voucher** system to promote efficiency.
- 2. **Accreditor Recognition (Outcomes-Based Standards):**
 - Shift from **process-based accreditation** (e.g., seat-time, credit hours) to **outcomes-based measures** (graduation rates, employment outcomes).
- 3. **Support for Interstate Education Agreements:**
 - Expand **NCSARA** (State Authorization Reciprocity Agreements) to reduce duplicative state licensing requirements for online education.

Key Regulations for Reform or Elimination

- **Repeal or modify the credit hour seat-time requirement** to allow competency-based education.
- **Streamline gainful employment and borrower defense rules** to focus on employment outcomes rather than bureaucratic reporting.
- **Reduce "regular and substantive interaction" mandates** for online education, allowing technology-driven cost efficiencies.
- **Reform the Financial Responsibility Composite Score (CSR)** to eliminate incentives for excessive institutional debt financing.

Conclusion

Federal regulations impose substantial compliance costs on higher education, inflating tuition and administrative burdens. By reforming financial aid distribution, streamlining accreditation, and removing outdated regulatory constraints, tuition could be significantly reduced while improving educational access and efficiency. Implementing these changes would align higher education with modern economic demands, benefiting students, institutions, and taxpayers.

Impact of Federal Regulations on Higher Education Costs

Federal regulations impact nearly every aspect of college operations, including student recruitment, teaching, research, administrative oversight, and campus facilities. Compliance with these regulations imposes significant costs on institutions, ultimately increasing tuition and fees. A comprehensive study found that colleges allocate between 3% and 11% of their operating budgets to federal compliance, with faculty and staff dedicating 4–15% of their work time to regulatory matters (Vanderbilt University, 2015)—consequently, a substantial portion of tuition revenue funds regulatory compliance rather than direct educational services. Below, we

break down the cost burden across four main cost drivers, estimating each component's contribution in tuition and dollars per student percentage.

1. Cost of Student Acquisition

This category includes the costs of recruiting, admitting, and enrolling students – particularly costs tied to federal student aid programs and related regulations. It also consists of the “high-cost, high discount” model that has metastasized in the higher education market. Colleges must comply with numerous **Title IV** financial aid requirements to remain eligible for federal grants and loans, and these compliance tasks add labor and technology costs. Collectively, these **regulatory constraints** ratchet up the share of tuition that must go to institutional scholarships and recruiting efforts rather than directly funding instruction or infrastructure (Lucca, Nadauld & Shen, 2017).

By reviewing the costs outlined in 990 reports, it can be estimated that about **35%** of a student's tuition goes to the **Cost of Student Acquisition**—primarily recruitment, admissions, and **institutional discounts/scholarships**. Taking a benchmark sticker price of **\$32,088**, that means:

Cost of Student Acquisition $\approx 0.35 \times \$32,088 = \$11,230$ per student

This figure covers:

1. **Recruitment & Marketing:** Advertising, traveling admissions staff, and digital outreach.
2. **Admissions Operations:** Staff time to evaluate applicants, process financial aid, etc.
3. **Scholarships / Tuition Discounts:** Institutional gift aid (often unfunded) used to “buy down” the net price for targeted students.

Estimating the Regulatory-Driven Portion of Student Acquisition

While **35%** of tuition is allocated to Student Acquisition on average, **a significant fraction is explicitly driven by the federal-aid-induced “arms race”**—namely, the proliferation of **unfunded institutional discounts** and the recruitment overhead to manage them. Based on our discussions:

- At least **40–50%** of those Acquisition costs can be linked **directly** to the regulations that create the high-tuition/high-discount dynamic (rather than simple organic market competition). **Why 40–50%?**
- Multiple analyses have shown that **federal aid expansions and the inability to offer direct net-price tuition** have substantially inflated list prices, accounting for roughly **60 cents of each \$1 of new aid** captured by higher prices (Lucca, Nadauld & Shen, 2017).
- Yet the increase in gross tuition, due to the aid increase, decreases net tuition revenue, **sometimes by as much as 15% over 10 years**, for any school that attempts to keep up with the market in unfunded discounting.
- **At CCCU institutions, for example, 48.9% to 50%** of the sticker price is effectively “given back” as *unfunded* discounts, much of which is offered primarily because federal rules prohibit flexible net-price billing.

Combining these observations, it is reasonable to conclude that around **half** of the Student Acquisition budget is derived from a **regulatory-driven need** to discount tuition and engage in more labor-intensive recruiting.

If the high-tuition/high-discount structure were replaced by a regulatory environment that **allowed more direct and transparent net-price billing** (i.e., removing the incentive to inflate sticker prices to maximize aid), **institutions could cut a substantial chunk of that Student Acquisition overhead**. While no reform would reduce it to zero—colleges would still recruit, advertise, and offer some scholarships—the **arms race aspect** could be vastly reduced.

In practice, schools would also have to maintain some discounting (merit, need, etc.) and still run admissions offices. Still, this analysis suggests that **tuition could plausibly drop by a few thousand dollars** per student if the regulatory framework allowed more direct or transparent pricing and negated the need for inflated sticker prices plus significant, unfunded “scholarships.”

Potential Cost-Savings Summary

- **Current Student Acquisition Cost:** ~35% of tuition, or about \$11,230 per student, on a \$32,088 sticker price.
- **Regulatory-Driven Share:** ~40–50% of that \$11,230, i.e., about **\$4,500–\$5,600** per student.

Thus, **federal aid regulations inflate the sticker price and force colleges to invest heavily** in discounting and recruiting. Reforming those rules would **reduce the acquisition cost**, allow a **significant tuition cut**, and preserve fair access for students.

2. Cost of Instruction

Federal regulations in higher education often lock institutions into traditional, high-cost instructional models, inhibiting innovation that might otherwise reduce the cost of instruction. Below, we analyze key regulatory barriers and their cost implications. Then, we apply disruptive innovation theory (an analogy to Moore’s Law) to show how technology could lower costs without these barriers. Finally, we compare traditional versus alternative education costs and estimate potential tuition savings from regulatory reform.

Federal Regulatory Barriers Inhibiting Innovation and Cost Reduction

Several federal requirements effectively raise the cost of instruction by preventing lower-cost models from scaling. Key barriers include:

- **Credit Hour Equivalency Requirements:** Federal financial aid is tied to the credit hour, defined by a minimum seat time with faculty. Even non-traditional or competency-based programs must translate learning into credit hours or seek special approval, which forces programs back into time-based molds. This seat-time model means costs remain tied to time in class with qualified faculty, limiting the adoption of self-paced or competency-based approaches that could be more efficient. As one report noted, the very definition of the credit hour and related rules “lock in” traditional elements of higher education (faculty, physical classrooms, fixed program lengths) that drive up costs (Brewer & Shirley, 2017).

- **Gainful Employment Tracking Requirements:** “Gainful employment” (GE) regulations require vocational and certificate programs, especially at for-profit and non-degree institutions, to track and report detailed debt, earnings, and job placement outcomes to remain eligible for federal aid. While intended to protect students from poor outcomes, these reporting mandates carry high administrative costs. Community colleges offering low-cost certificate programs must “exhaust resources” collecting data on graduates and meet complex reporting definitions. These burdens can discourage schools from launching or expanding affordable short-term programs. To avoid triggering GE reporting, some colleges keep program enrollment small or refrain from offering specific certificates—ironically limiting low-cost training options for students. Thus, as currently implemented, GE rules can deter low-cost certificate or skills programs that don’t neatly fit the metrics due to compliance costs and fear of sanctions (NASFAA, n.d.).
- **Restrictions on Direct Assessment Programs:** Direct assessment, a form of competency-based education that decouples learning from credit hours, requires case-by-case approval from the U.S. Department of Education for Title IV aid eligibility. An institution cannot simply offer a direct assessment degree; it must get a “green light” from its accreditor and the Department for each program. This lengthy approval process and uncertainty create a high barrier to innovation. Few colleges attempt it, slowing the spread of models where students progress at their own pace and potentially finish faster and cheaper. In short, competency-based models that dispense with credit hours are stymied by the extra regulatory hoops required to qualify for aid, keeping traditional (and more expensive) instruction as the default (Fain, 2014).
- **“Regular and Substantive Interaction” Requirements:** To distinguish distance education from old-fashioned correspondence courses, federal rules mandate that online programs ensure “regular and substantive interaction” between students and instructors. An online or hybrid course must include frequent faculty-initiated engagement (e.g., lectures, discussions, feedback) to be aid-eligible. While this guardrail aims to ensure quality, it also raises the cost of online education. Colleges cannot fully automate or scale up online instruction without instructor involvement, so they must maintain faculty staffing levels similar to face-to-face classes. One analysis noted that educating students online with regular substantive interaction requires as much instructor effort (and cost) as in-person instruction. In effect, the rule prevents low-cost models like self-paced MOOCs or AI-tutored courses from replacing faculty time, keeping instructional costs (and tuition) higher than they might be if technology were utilized to its full cost-saving potential. As a policy analyst put it, these input-based regulations “constrain the ability of online programs to innovate” in the delivery model yet “do nothing to ensure strong outcomes for students.” The result is an innovation ceiling: online programs must emulate the high-touch (and high-cost) traditional classroom to access federal aid rather than passing technology’s efficiencies on to students (Field, 2025).

Technology, Disruptive Innovation, and Moore’s Law vs. Higher Ed Costs

In most industries, technological progress leads to higher productivity and lower unit costs—a pattern that Moore’s Law in computing encapsulates. Moore’s Law observes that the number of transistors on a computer chip doubles approximately every two years, increasing exponentially computing power and decreasing costs (Jason, 2012). This trend has benefited consumers through more affordable and powerful devices and services.

However, higher education has not thoroughly followed this cost-lowering trajectory. Instead of adhering to Moore’s Law, analysts have noted a “Law of More” in higher education, where

institutions continually add expenses—such as new programs, facilities, and administrative positions—without corresponding improvements in productivity (Jason, 2012). Over recent decades, college tuition has risen significantly faster than inflation and household incomes, indicating negative productivity growth relative to cost. Technological advancements, like online learning, have the potential to enable institutions to educate more students at lower costs, but regulatory and structural factors have hindered these savings from materializing. While technology has made information transmission and content delivery drastically cheaper, these efficiencies have not translated into lower tuition under the current regulatory framework.

Disruptive innovation in education is evident at the margins: online courses, massive open online courses (MOOCs), open educational resources, and competency-based programs all offer the promise of significantly lower costs per student. For instance, in 2011, then-Governor Rick Perry challenged Texas public colleges to develop bachelor's degree paths costing \$10,000 or less by utilizing competency-based methods and credit for prior learning. Several institutions accepted this challenge, demonstrating the potential for technology-enabled cost reductions (Goldman, 2019). Similarly, Western Governors University employs an online faculty-mentor model to deliver accredited degrees at roughly half the cost of peer institutions. This illustrates the potential for technology to reduce educational costs. According to the Brookings Institution, information industries—from music to retail—have undergone disruptive innovations that lowered prices and improved services. As disruptive innovation takes hold in higher education, low-income students stand to gain the most in quality and cost (Butler, 2015).

However, federal regulations often impede or slow these innovations. The reliance on credit hours, the insistence on substantial faculty interaction, and other regulatory requirements mean that many cost-saving educational models either do not qualify for federal student aid or face additional hurdles. Colleges hesitate to invest in new low-cost delivery models if students cannot utilize Pell Grants or loans. In theory, technology could enable one professor to teach tens of thousands of students globally (as in a MOOC) at almost zero marginal cost or allow students to learn at their own pace and test out of material they already know.

However, an aid-eligible program cannot simply consist of a package of MOOCs or self-study; it must conform to the defined credit-hour and instructor-interaction framework. Thus, regulatory rigidity protects the status quo, with its higher costs, from being undercut by more affordable competitors. As noted by the RAND Corporation, alternative models that could make college much cheaper often "may not be compatible with federal financial aid regulations," meaning that if students cannot receive aid for them, colleges are unlikely to pursue those models (Goldman, 2019). In short, while technology could drive down instructional costs—as it has in other industries—the regulatory environment in higher education essentially prevents these efficiency gains from translating into tuition reductions.

Regarding disruptive innovation, the "innovator's dilemma" in higher education is compounded by policy. Entrenched institutions face few incentives—and some penalties—for adopting lower-cost models since funding and prestige are tied to existing metrics (credit hours, degrees granted, research activity) rather than cost efficiency or student return on investment. Meanwhile, emerging education providers outside the federal aid system, such as coding boot camps and MOOC platforms, can offer lower prices but remain on the fringe because most students need recognized credentials and financial aid. The result is a market where normal competitive pressure on price is muted. If regulations were refocused on outcomes rather than rigid input measures, technology-enabled cost disruption would likely accelerate, analogous to how open competition drives down prices in the tech industry. One education analyst argued that Congress should allow institutions to "develop instructional models that take advantage of

the potential of technology" while holding them accountable for outcomes rather than micromanaging the instructional process (Goldman, 2019).

Traditional Tuition vs. Low-Cost Alternatives: A Cost Comparison

Even under the current system, there are significant cost differences between traditional college programs and emerging alternatives that avoid federal compliance burdens:

- **Traditional College Tuition:** Students attending conventional four-year institutions pay a high price for the bundled campus experience. Public universities charge approximately \$11,610 per year in tuition and fees for in-state undergraduates, while out-of-state students face higher costs, averaging \$30,780 annually. Private non-profit universities have even steeper tuition rates, averaging around \$41,540 annually. Consequently, a four-year bachelor's degree often carries a sticker price exceeding \$40,000 in tuition alone, with the total cost of attendance surpassing \$100,000 at many private colleges. This rising cost has led about two-thirds of students to incur debt, graduating with an average of approximately \$30,000 in loans.
- **MOOCs and Online Courses:** Massive Open Online Courses (MOOCs) and similar online learning offerings deliver university-level content at a fraction of the cost—often free to audit, with optional certificates typically costing under \$100 per course. Top universities and companies have made courses available on Coursera, edX, and Udacity, reaching learners worldwide at near-zero marginal cost. For example, Google's IT Support Professional Certificate on Coursera costs about \$39 per month and can be completed in approximately six months, totaling under \$240. This program, now accepted for college credit at some institutions, covers skills equivalent to 12-semester credits of coursework. In comparison, 12 credits at a public university cost an average of \$3,744—over 15 times more expensive than the \$240 alternative. This illustrates the price disparity: e-learning providers, unencumbered by many regulations and campus overhead, can offer courses for a fraction of the cost of the traditional model.
- **Online Degree and Certificate Programs:** Many alternative credential programs and boot camps have emerged, targeting specific skills or industries at lower prices than traditional degrees. Coding boot camps, for instance, typically charge \$10,000–\$15,000 for intensive 3-6 month training programs in software development—a cost many students find worthwhile given the high salaries in tech. These programs are not accredited college degrees, and most do not utilize Title IV federal aid, allowing for more curricular freedom, though students must pay upfront or use private financing. Similarly, micro-credential programs from companies like Google or IBM, or partnerships like edX's "MicroMasters," often cost a few hundred to a couple thousand dollars and can confer marketable skills. Some accredited universities have demonstrated the feasibility of delivering degrees online at much lower costs. For example, Southern New Hampshire University offers a competency-based online degree pathway in partnership with employers for about \$2,500 per year—a stark contrast to standard tuition pricing. Another example is Georgia Tech's online Master's in Computer Science, an accredited degree priced at roughly \$7,000 total, compared to \$20,000–\$40,000 for typical on-campus master's programs. Non-traditional providers that operate outside federal student aid can thus price education more aggressively, leveraging online scale or lean operations to keep costs low.

Regulatory Reform

Reforming federal regulations to encourage innovation and cost-efficiency—while maintaining quality through outcomes-based oversight—could significantly impact instructional costs and tuition. Below is an analysis of potential cost implications and estimated tuition reductions resulting from key reforms:

- **Credit for Competency, Not Seat Time:** Allowing institutions to award financial aid based on demonstrated competencies rather than traditional credit-hour requirements enables students to progress at their own pace. This approach can reduce the time and cost needed to complete a degree. For instance, competency-based education (CBE) programs offer the opportunity to accelerate learning, potentially leading to substantial student savings.
- **Flexible Distance Education (Reduced "Regular Interaction" Costs):** Modifying the "regular and substantive interaction" requirement to incorporate more automated and asynchronous engagement could allow institutions to scale online programs more efficiently. By leveraging technology such as AI tutors and automated grading, instructors could manage larger student cohorts, thereby reducing the cost per student.
- **Encouraging Low-Cost Programs (Reforming Gainful Employment Rules):** Adjusting gainful employment regulations to streamline reporting requirements and focus on outcomes per dollar spent could incentivize institutions to develop more affordable, short-term programs. This reform could lead to an increase in micro-credentials and certificates, providing cost-effective educational pathways for students. By reducing bureaucratic hurdles, colleges might offer a wider array of low-cost training options, benefiting students seeking vocational education.
- **Overall Estimated Tuition Reduction:** These regulatory reforms could substantially reduce undergraduate tuition. This reduction would result from decreased compliance costs, accelerated degree completion through competency-based credits, and efficiencies from scaled online delivery. For example, if an average bachelor's program costing \$40,000 could be delivered for \$25,000–\$30,000 through these innovations, it would represent a 30–40% reduction in tuition. Some models have demonstrated even more significant savings, though these are often niche or experimental programs.

Potential Cost-Savings Summary

Current Instruction Cost: A review of higher education 990s shows an estimated ~33% of tuition, or about **\$10,589 per student**, on a **\$32,088 sticker price** related to instruction cost.

Regulatory-Driven Share: ~30–40% of that \$10,589, i.e., about **\$3,200–\$4,200 per student**. These costs stem from credit hour equivalency mandates, gainful employment tracking, direct instruction application barriers, and "substantial interaction" requirements, all of which restrict lower-cost instructional models.

Thus, federal regulations artificially inflate instructional costs by limiting the adoption of disruptive, technology-driven education models. Reforming these rules would unlock competency-based learning, allow scalable online delivery, and reduce compliance overheads—leading to significantly lower tuition costs while preserving academic quality and student outcomes.

3. Cost of Administration and Compliance Infrastructure

The administrative and compliance overhead required to monitor, document, and report on federal requirements in higher education is substantial. Institutions must adhere to regulations from approximately 18 federal agencies, encompassing around 30 distinct areas of law and over 200 federal statutes (Vanderbilt University, 2015). This extensive regulatory framework necessitates significant administrative infrastructure, including compliance offices, data systems, legal counsel, and external consultants, all aimed at preventing violations and avoiding substantial penalties.

Reporting Burdens and Audits

Colleges are obligated to submit extensive data to the federal government regularly. For instance, the Department of Education's Integrated Postsecondary Education Data System (IPEDS) requires annual information on enrollment, graduation rates, finances, and faculty. Financial aid offices must report student loan and grant data, while business offices undergo annual Title IV compliance audits to ensure proper handling of federal funds. A 2014 analysis found that the Department of Education had 465 separate information collections (120 specific to higher education), imposing 85 million hours of paperwork on institutions and students annually (Batkins et al., 2014). Institutions have invested in robust IT systems and dedicated staff, including institutional research personnel and compliance officers, to manage these tasks. Federal audits and program reviews for financial aid and research grants further consume administrative resources. "paperwork" and reporting compliance cost colleges approximately \$3.07 billion annually in labor and systems (Batkins et al., 2014).

General Regulatory Compliance Management

Beyond formal reporting, colleges incur expenses in interpreting regulations, training employees on compliance, and updating policies. Federal rules encompass financial management (e.g., OMB Uniform Guidance for grant expenditures, IRS regulations for nonprofits), human resources (EEO and labor laws, nondiscrimination rules, overtime regulations), student privacy (FERPA), and campus crime and safety (Clery Act). Many campuses maintain compliance matrices or hire consultants to ensure adherence to these regulations. Compliance efforts span academic programs, campus safety, disabilities, environmental regulations, and human resources, each requiring tracking and alignment with federal statutes (University Business, 2018). For example, compliance with the Clery Act mandates maintaining daily crime logs, establishing timely warning notification systems, and compiling annual security reports, tasks often managed by compliance coordinators and campus security staff. Failure to comply can result in fines exceeding \$150,000 per infraction, creating a strong incentive for institutions to invest in compliance personnel and software (University Business, 2018).

Title IX and Campus Safety Requirements

Federal civil rights and campus safety mandates increase instructional and student services costs. Title IX regulations require institutions to prevent and respond to gender discrimination and sexual misconduct, necessitating hiring Title IX coordinators, investigators, and trainers. Colleges have invested in extensive training programs for faculty and staff and developed processes to adjudicate complaints in compliance with evolving federal guidance. Similarly, the Clery Act and related campus safety laws mandate tracking and publishing campus crime statistics, issuing timely warnings, and offering prevention programs involving campus police, student affairs staff, and legal counsel. These compliance areas have seen costs "skyrocketing

in recent years," contributing to the overall financial burden on institutions (The Bonadio Group, 2015).

Potential Cost-Savings Summary

Current Administration Cost: ~12% of tuition, or about **\$3,850 per student**, on a **\$32,088** sticker price.

Regulatory-Driven Share: ~3–5% of tuition, i.e., about **\$1,000–\$1,600 per student**, though it can vary widely.

Thus, **federal compliance adds a noticeable layer of costs** for administration and paperwork. By reducing duplicative reporting requirements and allowing more flexible regulatory frameworks, institutions could lower tuition **while maintaining accountability** in critical areas such as student aid, accreditation, and governance.

4) The Cost of Physical Properties

The U.S. Department of Education (ED) employs the Financial Responsibility Composite Score (CSR) to assess the financial health of higher education institutions. Introduced in 1997, the CSR combines three financial ratios—Primary Reserve, Equity, and Net Income—into a metric ranging from –1.0 to 3.0 (McClintock & Associates, 2024). Institutions scoring 1.5 or above are deemed financially responsible. In contrast, those scoring between 1.0 and 1.4 fall into a "zone" of additional oversight, and scores below 1.0 indicate financial irresponsibility, potentially leading to increased monitoring and requirements such as posting a letter of credit (McClintock & Associates, 2024).

A notable aspect of the CSR calculation is its treatment of property, plant, and equipment (PPE) and associated debt. The formula subtracts net PPE from expendable net assets but adds back any long-term debt incurred to finance these assets. This mechanism incentivizes institutions to finance facilities through debt rather than using cash reserves, as debt-financed assets do not negatively impact the CSR (McClintock & Associates, 2024).

We estimate that **60–70% of an institution's debt service costs are directly attributable to the CSR-driven borrowing framework**, i.e., costs that likely *would not exist* (or would be much lower) if schools didn't feel compelled to carry so much facility debt to satisfy the Department of Education's scoring criteria.

Practically, this means millions of dollars per year at a typical university. For example, one analysis found that **10% of a public university's budget – roughly \$2,690 per student annually – went toward repaying construction loans** for campus buildings (Flannery, 2024). If we estimate that 60–70% of that debt was brought on solely due to CSR, then an estimated **\$1,600–\$1,880 per student cost** is *due to CSR-related debt practices* rather than truly unavoidable capital needs. In other words, well over half of those loan payments might have been avoided if not for the pressure to finance infrastructure with debt.

Across an institution with 5,000 students, that amounts to \$8–9.4 million in yearly expenses primarily driven by the composite score policy. These compliance-driven debt costs divert funds that could have been used for educational programs, financial aid, or facility maintenance – and instead require continuous revenue streams to cover interest and bond payments. In essence,

students are footing the bill (often via their loans) for the interest on fancy new facilities that their colleges felt compelled to build – a cycle where *student debt and institutional debt grow*.

Potential Cost Savings Summary

CSR-Driven Debt Cost: ~5–6% of tuition, or approximately \$1,600–\$1,880 per student annually, based on a \$32,088 tuition figure.

Debt Servicing Impact: About 60–70% of debt service costs for campus facilities come from debt financing driven by CSR pressures, incentivizing long-term debt over cash-funded projects.

Potential Tuition Savings: Adjusting CSR guidelines to remove the incentive for debt financing could reduce tuition by 5–6%, or around \$1,500–\$1,800 per student annually.

The Department of Education's composite score system was designed to ensure institutions remain financially sound, but it has unintentionally shaped institutional behavior. Colleges and universities, striving to avoid failing the CSR, load on long-term debt tied to campus assets to game the formula in their favor. This strategy may keep the **ratios** looking good on paper, but it comes at an honest price: significant debt service expenditures that **increase the cost of education**. It raises the question of whether the composite score's methodology should be revisited to **avoid perverse incentives** or whether alternative measures could ensure fiscal responsibility *without* driving up student costs. As it stands, CSR has become a double-edged sword: promoting financial oversight on one hand while indirectly fueling tuition hikes and economic strain on the very students it seeks to protect.

Proposed Solutions

To address the increased cost of education created by the federal regulatory environment, it is recommended that the Department of education be scaled back into three core higher education-related functions:

1. **Financial Aid Administration**
2. **Accreditor Recognition (Outcomes-Based)**
3. **Support for Intra-State Cooperative Agreements (e.g., NCSARA)**

Below is an examination of the newly revised functions of the DOE or a sub-department in the Department of Labor.

Financial Aid Administration

- **Block-Grant Distribution**
 - Consolidate existing federal aid (Pell Grants, Direct Loans, etc.) into **block grants** given to states based on the number of enrolled college students in that state. States that attract or retain more students receive proportionally higher block grants. Tie the total aid volume to **GDP growth**, incentivizing institutions to produce workforce-ready graduates to contribute to the economy.
- **Four-Year Voucher**
 - Each student receives a **fixed-value voucher** (from the state's block grant), accessible only within four years of high school graduation. Reduces time-to-

degree and encourages efficient use of resources by requiring students to use aid within a set time.

- **Maintaining Accreditors and Federal Recognition**
 - **Financial aid eligibility** is still tied to accredited institutions. The reduced DOE or new body would maintain a list of recognized accrediting bodies but with a shift toward **outcomes-based** rather than **processed-based** accreditation.
- **Estimated Administrative Budget**
 - Approximately **\$3 billion** (or less) dedicated to a leaner, technology-driven financial aid administration office within the DOL, focusing primarily on:
 - Disbursing block grants to states,
 - Tracking outcomes, maintaining minimal compliance checks, and
 - Ensuring program integrity to prevent fraud and abuse.

Accreditor Recognition (Outcomes-Focused)

- **Shift to Outcomes-Based Accreditation**
 - Current ED regulations (e.g., **34 CFR Part 602**) revolve around specific input measures (credit hours, instructional hours, etc.). This proposal replaces those with standards emphasizing **completion rates**. Schools could more freely adopt **competency-based education** or purely online programs, provided they meet outcomes thresholds set by recognized accreditors.
- **Streamlined Reporting and Oversight**
 - **Accrediting agencies** become the primary mechanism for oversight. This effectively **reduces duplicative reporting** to multiple federal bodies, consolidating key data collection under the accreditor's umbrella. The DOE would **recognize** accrediting agencies that adhere to outcome-based principles and demonstrate credible quality assurance.
- **Cost and Funding**
 - Estimated **\$500 million** annually for federal accreditor recognition and compliance oversight administration. Potential partial funding via "**participation agreements**" or fees paid by institutions seeking accreditation recognition and federal aid eligibility.

Support for Intra-State Cooperative Agreements

- **NCSARA (National Council for State Authorization Reciprocity Agreements)**
 - NCSARA sets standards that allow institutions to offer online programs across state lines without duplicative licensing. Under the new system, the **DOE** will continue recognizing NCSARA as a voluntary interstate compact. A **modest per-student fee** could sustain the initiative, ensuring no additional federal oversight is required.
- **Expansion to Other Intra-State Agreements**
 - States could form new cooperative frameworks for cross-border education offerings. The federal role would be limited to **initial recognition** and providing a platform for multi-state collaboration—much less centralized than ED's current oversight.

Specific Regulations Affected

Below is a **non-exhaustive** outline of the major federal education regulations that would be **kept (in some form)** or **repealed**:

1. **34 CFR Part 600 (Institutional Eligibility), Part 668 (Student Assistance General Provisions), and Related Title IV Regulations**
 - **Kept (but streamlined)**
 - Provisions ensuring institutional eligibility for federal aid would remain, but outcome-based standards would replace references to credit-hour definitions and other prescriptive input metrics.
 - **Consumer disclosures** (e.g., sure graduation and placement rates) might remain simplified to inform students and families.
2. **34 CFR Part 602 (Accreditation)**
 - **Kept (in modified form)**
 - The DOE would maintain a list of recognized accreditors.
 - Criteria for recognition would focus heavily on **completion rates, employment outcomes, and the financial viability** of member institutions.
 - Redundant or overly specific ED requirements—such as seat time or faculty contact hours—would be **eliminated** in favor of flexible standards that still protect educational quality.
3. **Civil Rights Regulations (Title VI, Title IX, Section 504, ADA)**
 - These are grounded not only in ED regulations but also in **other federal statutes**.
 - **Title IX**: Currently enforced by ED's Office for Civil Rights (OCR). Under this plan, OCR's responsibilities could be transferred to another agency (e.g., the Department of Justice or a dedicated civil rights office within the DOL), ensuring continued enforcement **without** an entire cabinet-level department focused solely on education.
 - **Section 504 and ADA**: Enforcement could similarly shift to the Department of Justice or remain partially under the DOL for educational contexts.
4. **FERPA (Family Educational Rights and Privacy Act) – 34 CFR Part 99**
 - **Repealed or Transferred**
 - ED currently enforces FERPA. Its protections could be reassigned to a new or existing privacy office (perhaps the Federal Trade Commission [FTC] or a new privacy agency) if Congress chooses to preserve similar protections at the federal level.
5. **IDEA (Individuals with Disabilities Education Act)**
 - **Repealed or Transferred**
 - IDEA addresses K–12 students with disabilities. Because K–12 oversight essentially reverts to states, the federal role might be reduced or placed under a smaller office for special education oversight within the DOL (or potentially the Department of Health and Human Services). The exact mechanism would require separate congressional action.
6. **ESSA (Every Student Succeeds Act) Regulations**
 - **Repealed or Transferred**
 - Federal accountability mandates for K–12 would no longer exist under a dissolved ED. However, states could maintain or adapt ESSA-like frameworks independently if they wish to preserve some form of accountability and funding distribution.
7. **Gainful Employment, Borrower Defense, and 90/10 Rule**
 - **Eliminated or Heavily Revised**

- These rules regulate for-profit institutions and set debt-to-income ratios and tuition funding thresholds. Under an outcomes-based system, such rules become unnecessary if the focus shifts to broader completion and employment metrics.
 - States or accreditors could choose to maintain similar policies.
8. **Clery Act (Campus Safety Reporting)**
- **Repealed or Transferred**
 - Federal campus safety reporting mandates, currently enforced by ED, could be devolved to state-level control or integrated into Department of Justice programs if federal oversight is deemed necessary.

Conclusion

The proposal aims to preserve essential federal responsibilities while drastically reducing red tape by retaining only those regulations relevant to **financial aid administration**, **accreditor recognition**, and **intra-state cooperative agreements**. Under this plan, the **higher education landscape** would pivot to a **state-driven, outcomes-focused** model. Student aid and institutional incentives would be aligned more closely with **economic growth** and **workforce demands**, all while paring back the complex regulatory framework that has grown under the Department of Education.

Citations:

Batkins, S., Miller, C., & Gitis, B. (2014). *Rising tide of education rules increase costs*. American Action Forum. Retrieved from <https://www.americanactionforum.org/research/rising-tide-of-education-rules-increase-costs/>

Brewer, D. J., & Shirley, M. (2017). *Federal policy to promote innovation in US higher education*. Urban Institute. Retrieved from <https://www.urban.org/sites/default/files/publication/93371/federal-policy.pdf>

Butler, S. M. (2015). *Rethinking college: Disruptive innovation, not reform, is needed*. Brookings Institution. Retrieved from <https://www.brookings.edu/articles/rethinking-college-disruptive-innovation-not-reform-is-needed/>

Fain, P. (2014, February 21). *Direct assessment and the feds take on competency-based education*. Inside Higher Ed. Retrieved from <https://www.insidehighered.com/news/2014/02/21/direct-assessment-and-feds-take-competency-based-education>

Field, K. (2025, January 23). *Revisiting the cost and price of distance education*. WCET Frontiers. Retrieved from <https://wcet.wiche.edu/frontiers/2025/01/23/revisiting-the-cost-and-price-of-distance-education/>

Flannery, M. E. (2024). *Revealing campus debt: How colleges are borrowing away the future*. National Education Association. Retrieved from <https://www.nea.org/nea-today/all-news-articles/revealing-campus-debt-how-colleges-are-borrowing-away-future>

Goldman, C. A. (2019, June 5). *Federal policy might encourage innovation to cut the cost of college*. RAND Corporation. Retrieved from <https://www.rand.org/pubs/commentary/2019/06/federal-policy-might-encourage-innovation-to-cut-the.html>

Houser, K. (2021). *Traditional colleges are recognizing Google career certificates*. Freethink. Retrieved from <https://www.freethink.com/culture/google-career-certificates>

Jason, G. (2012, August 31). *Moore's law versus the law of more*. The James G. Martin Center for Academic Renewal. Retrieved from <https://www.jamesgmartin.center/2012/08/moores-law-versus-the-law-of-more/>

Lucca, D. O., Nadauld, T., & Shen, K. (2017). *Credit supply and the rise in college tuition: Evidence from the expansion in federal student aid programs*. Federal Reserve Bank of New York Staff Reports, (733). Retrieved from https://www.newyorkfed.org/research/staff_reports/sr733.html

McClintock & Associates. (2024, April 26). *Understanding the Department of Education composite score for proprietary institutions*. Retrieved from <https://www.mcclintockcpa.com/understanding-the-department-of-education-composite-score-for-proprietary-institutions/>

Scheckel, M. (2024). *Average cost of college tuition*. Business Insider. Retrieved from <https://www.businessinsider.com/personal-finance/student-loans/average-college-tuition>

Spear, J. (2025). *Passing ratio or closing college?* LinkedIn. Retrieved from <https://www.linkedin.com/pulse/passing-ratio-closing-college-jeff-spear-ytwve/>

The Bonadio Group. (2015). *In defense of the price of college tuition*. Retrieved from <https://www.bonadio.com/article/in-defense-of-the-price-of-college-tuition/>

University Business. (2018). *Colleges are closing in on compliance*. Retrieved from <https://universitybusiness.com/colleges-are-closing-in-on-compliance/>

Vanderbilt University. (2015). *Study estimates cost of regulatory compliance at 13 colleges and universities*. Retrieved from <https://news.vanderbilt.edu/2015/10/19/regulatory-compliance/>