

ACTA
Higher Ed Now
Reimagining the Cost and Value of College

Christine: You are listening to Higher Ed Now, ACTA's podcast on issues and higher education. I'm your host, Christine Ravold.

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Christine: I'm going to wish a Happy New Year to all of you. And in this first podcast of 2017, we're looking to innovation in higher education. To that fact, I am pleased to introduce Daniel Pianko, Co-founder of University Ventures, a higher education investment fund focused exclusively on global higher education. Daniel, welcome to Higher Ed Now.

Daniel: Thank you. A pleasure to be here.

Christine: So from your vantage point, what are you seeing trending in higher ed?

Daniel: So we're seeing a landscape that is really trying to evolve to radical shifts in how people think about college, how people pay for college, and what people expect out of college. One statistic I heard the other day that really transformed that for me was: if you look about 20-years ago, you ask students who go to college, "Why do you go to college?" About 50, 60-percent of them said, "to go get a job." Today, that number's closer to 93-percent. So we've had sort of a radical change in why people go to school and who goes to school, and that has driven a need for innovation in how to rethink the whole model of higher education.

Christine: How does University Ventures fit into all of this?

Daniel: So we look to back institutions and entrepreneurs who are changing the face of higher education. We look to people who have identified really big

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problems or opportunities, like how to finance college. Or how to build medical schools. And we look to back those institutions or people as they transform the landscape.

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Christine: I'm imagining that the different items in your portfolio are not going to maintain the status quo. What are some of your favorite portfolio items?

Daniel: Oh, you can never pick your favorite child. You know that. I'll just talk broadly about some of the things that I'm spending most of my time on. One thing that I spend a lot of time on right now is medical schools. So medical schools—if you think about higher education at one of the least quickly moving is medical schools. We still basically have people in big lecture halls and you're starting to see some medical schools innovate. And we actually are working with one of the top innovators in medical school curriculum, Dr. David Lenihan, to build a fully AMA-(LC?) approved medical school curriculum that is a gold standard for medical schools and rolling that out, which would drop the costs of building a medical school from like a hundred-million-dollars to like a million-dollars. And that would radically transform the cost curb, so instead of charge 50-thousand dollars, maybe you could charge 10-thousand dollars for medical school.

Christine: I imagine it would help affordability in healthcare down the line.

Daniel: Right. At the end of the day, a lot of the cost of college, getting so expensive, is driving the cost of everything else in our society. Right? If I have to pay back 200-thousand dollars of loans if I go to medical school, then I've got to pay my doctors more. And so the whole ecosystem of higher education, the expense structure of higher education, translates into more expensive goods and services throughout the economy.

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Christine: How are we looking at using innovative technology to make that lower for the four-year brick and mortar schools.

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Daniel: I think right now we're not using technology to lower the cost of education in brick and mortar schools. Or, let me rephrase it. There're very, very few. And actually, if you think about it, you may not need as much technology. I think there's a lot of hype around ed-tech. Right? Everyone says, "Oh, let's do ed-tech and let's change our cost structure." That's not really necessarily what you need to do. If you just think of the economics of a simple classroom, you know, twenty students in the class, ten students in a class, each hiring "a teacher." And let's say you have to pay a teacher two to three thousand dollars per class. That means that each student, the actual cost of teach in classroom, could be as low as like two, three hundred dollars for a course. Instead, virtually every college in this country is charging a thousand dollars a credit hour, so almost ten times that. So you may not need educational technology. I'll start with that as a premise.

But there are things that are being done that really do transform how people learn, which I think is more important. So technology solutions that sell out a teacher to not necessarily be lecturing, but instead, helping students achieve.

Christine: How did it start? What made you want to start University Ventures?

Daniel: That's a big question to answer but really one that we're passionate about. We started University Ventures because we saw other people in the investment community and their focus was, "Well, we call for-profit college version (sounds like) *one dot up(?)*. Investors wanted to buy for-profit colleges and make them bigger like the University of Phoenix. We had a very different

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model. We thought that model was broken. We thought that that model did not serve students. We wanted to create an investment firm that actually partnered with traditional institutions to build innovative programs that radically transformed how people went to school, what people studied to do the types of activities that folks around the table will think is the right way to go. And we really wanted to back institutions that were excited to change, that were excited to innovate. So we're really proud of creating a firm that is frequently the first call for presidents, members of the boards of trustees of institutions who want to do something innovative.

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Christine: That's exciting. Which schools have made the phone call to you guys?

Daniel: If you just look at our portfolio companies, we have relationships through those with hundreds, if not thousands, of schools. There are certain people who are considered leaders in higher ed innovation like Michael Crow...

Christine: ...and Mitch Daniels.

Daniel: ...and Mitch Daniels. And those folks, we give a lot of credit to because they really are blazing the trail that folks can identify what's unique for them. But I would say there are a number of.... University of New Haven. You wouldn't think of them as an innovative school but they partnered with us to build a master's degree in data science with a coding school. It's not just one or two schools. I think what's really important for your listenership to understand is it's not that hard to start doing innovative things. It's easy to start dipping your toe in the water. It's easy to say, "Hey, I want to experiment with Income Share Agreement. I want to experiment with bringing in students who have dropped out and bring them back into the fold." There are things that we can work with, institutions on

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our portfolio companies can, that are easy lifts that sort of get someone going down the path of innovation.

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Christine: ACTA's done lots of research into innovative ways to cut costs without compromising quality. For example, last year we released a report called Cost Chaos on the Curriculum and we found, by reducing elective classes and tightening a curriculum, you can reduce instructional spending by ten percent without losing faculty and actually improving the educational quality for students. We have also done research into administrative spending at different institutions and found that, in many cases, administrative costs can outpace instructional costs and that's something that people need to take a look at. Another obvious solution, we've discussed in some of our State reports, is looking at university consortia. But it seems to me that there's a fair amount of people who dig in their heels and don't want the way we administer higher education to change.

Daniel: Well, I really think – Well, I think the work that ACTA's doing is really phenomenal, but I think that these are tough decisions at the end of the day. I mean, joining consortium is a very... If you're a traditional college, and I understand anyone—I won't say anyone—but most folks from the private sector would say, "That makes a lot of sense." I mean, the example to me is virtually every college I visit, every single professor can buy their own computer. That just doesn't make any sense to me. There's no academic freedom issue. No one should have a different email server. Like, every department has different.... There're just some really, really basic things you could do as a college/university to cut your costs and they don't do that. So it's really a mind-set shift. I think it's, in addition to what you're calling "relatively easy" things, I think when you start to say, "Okay, we're going to not just take out one or two percent of our operating budget, but we have to adjust thirty, forty, fifty-percent of our operating budget." It causes you to rethink the classroom. It causes you to rethink your whole

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administrative structure, and that's where I think people are going to start going pretty quickly.

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Christine: That covers teachers and administrators, but you guys have also been innovating how to pay for college. We've seen an interesting development in income share agreements that started at Purdue with Mitch Daniels and the Back-a-Boiler Program and I believe Vemo is one of your portfolios.

Daniel: Yes. We're really proud of Vemo and the traction they're getting.

Christine: Can you explain a little bit more about income share agreements to people that haven't heard about them before?

Daniel: Sure. An Income Share Agreement transforms a way you pay for college. So you pay a percentage of your income after you graduate for a period of years, and there's a cap in terms of the amount of money you could possibly pay and the numbers of years you would pay it for. And then the college receives an up-front payment that roughly mirrors what—either takes the risk fully on student repayment or receives some form of an upfront payment in order to alleviate the cost of offering the program. But it's really an exciting way for students to not take on debt and, instead, take on something that's a lot more flexible.

Christine: This also aligns incentives for both the institution and the lender?

Daniel: Yes. The critical thing for, I think, the next.... If you think about college financing, up until about 1968, students took 100-percent of the risk. They went to school. They paid their tuition. And that was that. After 1968, the federal government effectively took on the risk of going to college because they

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underwrote federal student loans for the most part. I think that period of time is ending. And, for the first time, you're going to see colleges having to take some amount of financial risk around students going to their schools. It's not just going to be, "Hey, I got a student to show up on Monday. That's a butt in a seat. I'm going to draw down my federal financial aid." Instead, and this ties back to how we started, was saying that students and governments are looking to connect colleges to employment more and says, "Come and look, hey. I want to make sure that the programs that we're running are actually delivering gainful employment to our students." And I think for the folks that are on – listen to podcasts and listen to the other ACTA stuff – ACTA's point on, which is, you have to deliver a product—and, by product, I mean on education—that actually improves students' lives. Otherwise, there's going to be a problem.

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Christine: That's what we've seen with employers being very disappointed in what colleges are turning out in a graduate.

Daniel: Yes. It is remarkable. You ask a Provost at almost any major university and they will say, "We are preparing our kids for the workforce." And you ask an employer and something like 80-percent, 90-percent of employers do not believe that colleges turn out graduates that are ready for the workforce. There is a fundamental disconnect there.

Christine: That's a very expensive disconnect. That gap between graduating and finding the first job is when a lot of debt racks up for students because they can't make their payments and they either go on forbearance or start moving into default or delinquency. And we're looking at a nation that has 1.3 trillion dollars in debt and also we're now seeing retirees and people over the age of 60 still in debt, in default. What does that tell you as someone investing in higher education?

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Daniel: Let me first start off by saying that there are certain things that, if you think about the C change that's going on in Washington right now, things like plus loans are probably going to go away. So why are there so many seniors with this debt that they're defaulting on? Because mom and dad co-signed a loan for their kid and they're on the hook for that. And, to me, that's unacceptable from a moral perspective in most cases because why are we garnishing wages for grandma and grandpa for their kid's education? That just seems wrong to me. Garnishing Social Security. And I think the current administration and everybody else has said PLUS Loans are probably really threatened right now. And so, again, if you're a college or university, ten, twenty percent of your income is probably from PLUS Loans. If that goes away, what replaces it? So we believe the only viable option out there is an Income Share Agreement because, if you think about it, what else are we going to do? We're not going to loan more money that's federally guaranteed. The private sector may or may not pick that up. So you're going to be looking at these innovative financing mechanisms like Income Share Agreements and potentially more reliance on the private sector. But what that does is it drives the impetus for change to the college or university because suddenly that incremental ten thousand dollars, that's right now covered by a PLUS Loan, suddenly becomes a lot more difficult to get. And that college or university now says, "Well, do I really need to charge that ten-thousand dollars? What if I didn't charge it?"

Christine: Or could they find a way to cut the cost?

Daniel: Exactly. Every college is going to say, "Maybe I should cut my costs by ten-thousand dollars."

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Christine: These changes are really important for future students, but there's lots of students who already have taken out a fair amount of debt and need to get employment and they need it quickly. So do any of your portfolio companies work to close the gap here?

Daniel: Take a company called Revature. Revature will partner with a traditional university and allow rising juniors and seniors to take free online classes to see if they are ready for coding school. If that pass the test, they get access to a free, in-person coding boot camp after they graduate with—effectively—a guarantee of employment after you graduate. It's those types of programs, I think, for a college or university—working with ASU, working with CUNY, we're working with a large number of schools—that's a great program. I mean, hey. Let's connect our graduating liberal art students with a job in tech where they're actually going to get paid fifty, sixty thousand dollars a year.

Christine: Daniel, you mentioned earlier the path from college to career. What else could colleges do to make that easier on their students?

Daniel: I think the path that colleges need to look at, leaders in the space like Wake Forest, a guy named Andy Chan who happened to be my career officer when I was at Stanford, say, "How do we repurpose the four years of college?" pointing students to a career. A lot of decisions students make starting in freshman year really impact what they're going to do senior year. What colleges need to do is take the Career Services Office from the back of the house to the front of the house. From day one, a student should be meeting with a Career Service person, understanding what decisions they're making may close off or open up different areas. So someone may come and say, "Hey, I really love history." And that is phenomenal. I was a history major but the only reason I was able to get a job in business was because some very smart people said to me,

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“Look, if you want to be in business, you should take some economics. You may not love economics but it’s really important when you go on an interview.” I think ACTA’s doing a lot of great work here by saying, “There are seven core things a liberal arts student should know.”

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Christine: Absolutely.

Daniel: Some of those are business related. I personally think that it is wrong for colleges to be graduating students without some basic skills. And if you actually look at loan repayment data, which a lot of times comes back to economics – if you look at loan repayment data, taking statistics is very predictive of whether or not you repay your loan. Why? It’s because statistics is so core to so many different disciplines that are required. And so I would just encourage folks who are thinking, “I want to make sure our graduates get a return on their investment.” It’s Career Service isn’t the last thing on the list. Career Service is the first thing on the list right next to Student Advising. And that is going to sit with the student. It can be a program for students on interview skills, in soft skills, and some hard skills like statistics that come up at different points along the career track, around the college trajectory, that don’t necessarily replace the liberal arts because you don’t want to replace it. Liberal arts are wonderful. I’m a proud graduate of a liberal arts institution. But you want to give students the tools that they need to be successful so you’re not charging them a hundred, two-hundred thousand dollars for something that doesn’t translate into gainful employment later on.

Christine: I totally agree. I had a wonderful relationship with my Career Services Officer at Rosemont College, Audrey Robinson—a shout out to you—but I interned with her and I did that halfway through my college career. So I had a much better idea of what was going on, how to get my resume together, how to get internships that weren’t just on-campus. I wanted to get off campus. It served

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me really well but, by the time we were at that last semester, senior year, my friends never stepped foot in her office.

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Daniel: Yes. I'll give you a great example. Most people haven't heard of Paul Quinn College. It's an historically black college in Dallas, Texas, and it's a work college. What is a work college? Think about Northeastern with the Coop Program. Well, Paul Quinn College is a HBCU, which takes low income students and, from day one, work is included in the curriculum. Every student has to work. And that work is tied to the curriculum. They're still getting a liberal arts degree. They're still taking their history classes. They're still taking the classes that you would want to take to become a future leader. But from day one, they're partnering with local employers and they're getting their students work experience. That work experience not just helps them pay for school, but it also creates the opportunity to students to know what it's like to operate in a professional environment.

Christine: That sounds like a really affective program.

Daniel: Paul Quinn College. Michael Sorrell's the President and I'm sure he'd be happy to talk to folks who want to replicate it.

Christine: Do you speak a lot with trustees? At the end of the day, they're the ones who make the decisions about what does get implemented, what the college will and won't pay for, and how excited are they to look at some of the new options available to them?

Daniel: The trustees I meet fall into a couple different categories. Some are really, really engaged with their institutions and really want to support presidents in making change. It's really important for boards of trustees to figure out what

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they want to college to become and I think that's where trustees can play a role. Right now, every college looks like every other college. We call it a (sophomorphism). You pick up the college guide book for any school and it's all smiling kids on nice quads with pictures of studying abroad their junior year and there's nothing special about that. The thing I challenge every board of trustee member who's listening to this is, "What makes my college special? Am I a work college? Am I an ASU redefining the public university? Am I a coding school? Am I a traditional liberal arts – that's very traditional – where I'm going to run a great books curriculum?" I think a strong great books curriculum would actually do very well in our modern society in a weird sort of way. But just doing the same thing that everybody else is doing really is the wrong answer.

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Christine: We also see, an interesting facet, is that all the colleges have peers and they report to the federal government what their peer institutions are. Some of them are aspirational but they all aspire to be ivies....

Daniel: Everybody wants to be Harvard. Everybody wants to be Harvard and, you know what? That is absolutely the wrong idea unless you're Harvard because to get to be Harvard, it's not going to happen. And so to even say, "I want to be on the U.S. News and World Report is kind of like saying, "I want to play in the major leagues" for a lot of schools. That's not going to happen. And you know what? It's good that it's not going to happen because not everyone should play on the major leagues. There's also a National Basketball Association. There's also a National Football Association. And there're a lot of different ways for colleges and universities to deliver real value to students and employers and their communities, and create really good research. We have one university partner that's really into Bigpoint.

Christine: Do they accept tuition payments and bitcoin?

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Daniel: It was the first university to ever accept bitcoin. We had a lot of students coming from Africa. They wanted to pay in bitcoin to save ten percent on their tuition.

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Christine: That's great.

Daniel: Now they've got a Bitcoin Institute. They're partnering with major universities on bitcoin research. Their research isn't world class in other areas but, in bitcoin, they're great. So you think about what your strengths are. You exercise your strengths and you do something that's really transforming.

Christine: Have you seen any institutions or any trustees try to innovate and come against obstacles?

Daniel: I think most people who try to innovate come up against obstacles. I think if you don't come up against obstacles, you're not be radical enough. Look. I think it comes back to what your mission and vision for an institution is and I think a lot of the mission and vision "thing" becomes really what traditional academia is, or the traditional vision of academia, which is Harvard and Yale. And again, it comes back to, "If that's not really a viable option for most players, what are we going to do? What is going to make us distinct and unique? And then how do we get the entire institution behind that vision? How do we get the entire institution to say, 'We're going to be excellent at this.'" Take Elon University down in North Carolina that has basically said, "We're going to become the study of abroad university. We're going to become a global university." I mean, they're in Elon North Carolina. Who'd have thunk it? But, you know what? They've made that transition and now when you think, "Hey, I want to be a global citizen," or whatever the nomenclature they use. You think about

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Elon, Thunderbird, international business just outside Phoenix. So can make these transformative changes. Southern New Hampshire University became one of the top online colleges.

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Christine: And it's a favorite with military students now.

Daniel: Yes. There are 20-million people that go to higher education in this country each year spending about 500 billion dollars a year. There are a lot of really big niches and I think everyone gets stuck in this, "We're a small liberal arts school. We've got to be that." Well, yes, that's your heritage but what's your future?

Christine: That's a great question. For intrepid trustees who are listening to the podcast today and they want to look into innovating their school and they're interested in what you have to offer and guide them through, how should they reach out?

Daniel: We are very open. We talk to boards of trustees as a group probably at least once a week or once every two weeks around the country. We're frequently invited by boards to come in and present on a (holistic) basis about the future of education. We're happy to do that. The easiest way to get in touch with us is our website: www.universityventures.com. Feel free to go on there. There's a "Contact Us." We'd be happy to meet with or talk to anybody when asked in your neighborhood.

Christine: Daniel, thank you so much.

Daniel: My pleasure, Christine.

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Christine: To learn more about how trustees can innovate their institutions, please see our reports at www.goacta.org. If you have any questions or comments about this podcast, please send them to info@goacta.org. Until next time, I'm Christine Ravold and this is Higher Ed Now.

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