



MAPCS

**Massachusetts Association
of Private Career Schools**

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LEGISLATIVE FACT SHEET

HB 6, An Act Relative to Financial Requirements of Business, Correspondence and Trade Schools

This legislation repeals the one hundred thousand dollar cap on surety bonds and other forms of indemnification for business, correspondence and trade schools.

The legislation was introduced on behalf of the Massachusetts Department of the State Auditor. This bill was reported favorably from the Joint Committee on Education with amendments.

The Problem

Repealing the one hundred thousand dollar cap on a career school surety bond and allowing for an open-ended bond could result in an exorbitant increase in costs. Currently a surety bond costs approximately \$25.00 per one thousand in coverage. For a \$100,000 bond that cost totals \$2,500. However, if a school were required to obtain a \$500,000 bond that cost increases to \$12,500. For a \$1,000,000 surety bond the cost would be \$25,000.

Asking schools to purchase excessive and expensive surety bonds is unnecessary because the costs associated with the bond far exceeds the risk when consideration is given to the unearned tuition factor. Unearned tuition represents the actual tuition dollars collected minus the actual tuition earned from all tuition at a given point in time. Usually it is calculated at the end of each fiscal year.

Most often the unearned tuition figure is not as large as one might think because many schools don't collect the tuition up front. Most schools allow students to make periodic payments. In addition the majority of schools also accept financial aid, state aid, or employer reimbursement. Schools quite often have to wait for these funds and frequently receive the money only after the student has graduated.

Admittedly there are some very rare cases wherein a school collects funds up front and then closes before the student can benefit from training. However, even in these very extraordinary instances, the funds collected in advance would not necessitate the need for an excessively high surety bond. At any given point in time schools would have only collected a portion of total tuition.

The cost of obtaining the bond is not the only problem into today's economic market. For most schools it would be difficult, if not impossible, to obtain a bond because banks and insurance companies would be unwilling to issue bonds in large amounts even if a school had a triple AAA credit status.

Schools with less financial strength could be required to pay an even larger amount for more risk, assuming the insurance company would consider issuing the bond in the first place. An insurance company may also require schools to put up an equal amount of money in a secured instrument to back the bond, which would be equally unaffordable.

Many of the state's career schools are small businesses that might be forced to close their doors because they either could not obtain or could not afford a surety bond. Moreover, schools with expansion plans would scrap development because operating in Massachusetts would become cost prohibitive, thus hurting the potential for job growth and an enhanced tax revenue stream for the Commonwealth.

The Proposal

MAPCS member schools want to ensure that students are protected against school closings. Further, MAPCS believes that an unlimited bond is not necessary because federal student loan programs in large part already protect students against school closings.

MAPCS proposes that consideration be given to a compromise wherein the cap is raised moderately, perhaps to \$250,000. MAPCS would also ask that consideration be given to established schools or those with a proven track record.

What Is MAPCS?

The Massachusetts Association of Private Career Schools (MAPCS) is a non-profit membership association whose members are comprised of private career schools and colleges that offer career specific training.

What Is a Private Career School?

There are nearly 300 private career schools in Massachusetts that train approximately 80,000 students each year. The training is generally completed in a short period of time, is affordable and leads to rewarding careers.

The schools produce employees with the skills that employers are looking for in a variety of fields including business administration, allied health care, broadcasting, computer technology, cosmetology, culinary and hospitality, dental, electronics, legal administration, massage therapy, medical billing & coding, pharmacy, photography and many more.

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