

## **Does College Board deserve public subsidies?**

Richard P. Phelps

### **Introduction**

The century-old College Entrance Examination Board (College Board) sponsors, develops, and administers standardized testing programs, most famously the "SAT suite of tests," which includes the SAT college admission test and the "pre-SAT," or PSAT, and the more than thirty Advanced-Placement (AP) courses and exams that high-school students take for college credit.

In its own words,

We are a mission-driven, not-for-profit membership organization made up of over 6,000 of the world's leading colleges, schools, and other educational organizations. Through our programs and initiatives, we expand opportunities for students and challenge them to own their future

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... Our primary goals are to improve college and career readiness and increase access to opportunity for all students through focused assessments, rigorous instruction, personalized practice, breaking barriers to college entry, and access to better planning tools and skills needed most for tomorrow's jobs.<sup>1</sup>

Legally, College Board is a nonprofit, charitable organization (a 501(c)(3)) and pays no taxes on revenues derived from activities aligned with its public mission. But College Board activities also affect public policy, even while it remains a private organization governed only by its own board of trustees. Moreover, College Board peripatetically pursues public funds, with much success, which either directly or indirectly support its programs.

Which prompts the question: Should taxpayers and foundations subsidize College Board activities (and its revenues)? Answers tend to coalesce from within two general forms or inquiry:

1) Are those subsidies socially beneficial? For example, if the taxpayers cover the cost of a disadvantaged child's Advanced Placement (AP) examination, will the social return (in greater lifetime earnings and taxes paid, for example) equal or exceed the investment? This line of inquiry focuses on the product—in the case of this example, the AP program—and the cost or benefit to society of the individual's use of the product.

2) Should College Board receive subsidies at all? This line of inquiry focuses more on the character of the College Board. Is it a public charity

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<sup>1</sup>College Entrance Examination Board. (2015). Form 990: Return of Organization Exempt From Income Tax, line 1.

like, for example, the Salvation Army or Habitat for Humanity, which dedicate their efforts to optimizing social good? Or is it more like a private, for-profit corporation, dedicated to maximizing profit and increasing market share? Moreover, if College Board is a monopoly, as some believe, does it use its monopoly position to create greater efficiencies in the public service as does, for example, the Red Cross, or does it leverage what some claim is monopoly power to increase profit and market share?

This report focuses on the second question: whether College Board deserves public subsidies. Others have addressed the first question, and Appendix A provides a brief reading list. (Short answer: there may be a social benefit with students who prepare for and take the exam, but probably not with those students who only take an AP course—estimates to be a million or more students annually.)

This report lifts most of its facts from College Board Internal Revenue Service (IRS) filings and US government grant award records.<sup>2</sup> Other sources are referenced as appropriate.

### **Brief Historical Background**

College Board was originally created to perform a social function: increase fairness in the selection of students entering elite colleges. Over the years,

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<sup>2</sup>College Entrance Examination Board (CEEB). (2001–2014). *Form 990: Return of Organization Exempt From Income Tax*; College Entrance Examination Board (CEEB). (2010–2013). *Form 990-T: Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))*. Documents obtained through [Citizen Audit](#), the [National Center for Charitable Statistics](#), and [Guidestar](#) .

College Board Form 990s can be found here: [2001](#) [2002](#) [2003](#) [2004](#) [2005](#) [2006](#) [2007](#) [2008](#) [2009](#) [2010](#) [2010T](#) [2011](#) [2011T](#) [2011b](#) [2012](#) [2012T](#) [2012b](#) [2013](#) [2013T](#) [2013b](#) [2014](#) [2015](#) [2016](#)

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responsibilities were added to its portfolio. They were added because society needed certain tasks accomplished.

Shortly after World War II, during a key phase in the history of educational testing, College Board joined with the Carnegie Foundation and the American Council on Education (ACE) to create the Educational Testing Service (ETS), an independent scientific community dedicated to developing and administering standardized tests. ETS was handed responsibility for several ongoing testing programs, including the national teacher examinations (from ACE), graduate records examinations (from Carnegie), and the SAT (from College Board).<sup>3</sup> Some programs became ETS's to own, others just to manage. All the programs met important public needs, but none were moneymakers at the time.

Most reasonable observers would agree that each of the testing programs was managed responsibly and benevolently in the ensuing decades. Safely incubated for a half-century, these well-cared-for social programs increased in value and now attract rich suitors in the open marketplace.

Thus, the current leadership of these organizations created at most a small portion of the value in the products they now own. The programs were developed and improved largely through the efforts and expenditure of the public, either directly through government agencies, or indirectly through the tax relief offered nonprofit foundations.<sup>4</sup>

<sup>3</sup>Phelps, R.P. (2007). *Standardized Testing Primer*. New York & Bern: Peter Lang, pp. 21–22.

<sup>4</sup>Common Core critics will notice similarities with the Council of Chief State School Officers (CCSSO) and the National Governor's Association (NGA), two organizations that, despite their official-sounding names, are private, independent, and beholden primarily to their own boards. Though the public and some foundations paid to develop the Common Core

ETS's Randy E. Bennett is a major player in some of the more high-profile education program extravaganzas of our age. Several years ago, he penned a guide to the moral restraints that non-profit educational testing firms *should* assume for themselves.<sup>5</sup> In the words of then-ETS President Kurt Landgraf (p. i),

In this paper, Bennett uses ETS as a case study. He begins by reviewing the federal tax code relating to educational nonprofit organizations. He then analyzes the circumstances that led to ETS's founding. Finally, he offers thoughts on how that tax code and organizational history might be used to guide ETS in making decisions about its future.

The first section perfunctorily lays out the IRS guidelines for nonprofit organizations. The second describes at length the angst of mid-20<sup>th</sup>-century educational testing leaders, such as Carl Brigham, Henry Chauncey, and James Conant. They worried about how to balance the need for a sustaining return on investment with the public interest, ongoing research, and objective science. Their tentative solution was to incubate educational test development inside nonprofit organizations resembling university research centers, run by applied scientists.

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standards, the CCSSO and NGA co-own the copyright.

<sup>5</sup>Bennett, R.E. (2011). *What Does It Mean to Be a Nonprofit Educational Measurement Organization in the 21st Century?* Princeton, NJ: ETS.

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Ironically, the latter, third section of Bennett's report, meant to cover organizational behaviors of the past half-century and the future, comprises only several paragraphs. In it (p. 9), he writes,

The challenges that Brigham, Chauncey, and Conant posed well over 50 years ago remain largely unresolved today.

This is an understatement. Even a casual observer would recognize little similarity between the well-defined and limited roles of educational testing nonprofits from the mid-20th century into the 1990s, and their aggressive market behavior today.

Arguably, ETS first signaled the new order at the turn of this century when Kurt Landgraf was hired, at a corporate CEO's salary, to replace Nancy Cole, the last in a stream of psychometrician CEOs who had run ETS from its origins. As the *New York Times* reported,<sup>6</sup>

Buoyed by growing revenue, the Educational Testing Service ... last year gave one-time bonuses of as much as \$366,000 to 15 of its officers."

E.T.S., the world's largest testing organization, has traditionally paid salaries comparable to those at colleges, universities, and groups like the College Board, which administers the tests that the service devises for it.

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<sup>6</sup>Lewin, T. (November 23, 2002). "Corporate Culture and Big Pay Come to Nonprofit Testing Service". *New York Times*. <http://www.nytimes.com/2002/11/23/us/corporate-culture-and-big-pay-come-to-nonprofit-testing-service.html?mcubz=1>

But under the leadership of Kurt Landgraf, a former chief operating officer of the DuPont Company who became president of E.T.S. two years ago, compensation has soared.

Mr. Landgraf himself received nearly \$800,000 for his first 10 months on the job—about twice as much as Gaston Caperton, who heads the College Board—and more than all but two college presidents in the nation. One new vice president earned \$25,700 for her first five weeks on the job and received a one-time payment of \$212,306.”<sup>7</sup>

Mr. Caperton, a former West Virginia senator, would catch up and cash in. By 2009, his total annual remuneration easily cleared \$1 million. In his last year at College Board (2012), he received close to two (\$1,848,009). Current College Board CEO David Coleman cleared \$1 million already by the 2016 tax year (\$1,445,613).<sup>8</sup>

The new order has also torn the boundaries between organizations that gave each a well-defined role, and kept each in its place. ETS, for example, created new corporate entities to compete in the occupational-testing market and the K–12 classroom testing market against national tests

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<sup>7</sup>A popular narrative has it that Landgraf was hired to right a mismanaged, sinking ship, but Lewin of the *New York Times* reported:

“Through much of the 1990's, E.T.S. lost money. In the fiscal year ended July 1998, it had a deficit of \$8.2 million. In 1999, the deficit was reduced to \$206,256, and in 2000 — the year before Mr. Landgraf arrived — the service had an operating surplus of \$29 million, which grew to \$34 million last year.”

<sup>8</sup>Strauss, V. (September 20, 2015). “Answer Sheet: How much do big education nonprofits pay their bosses? Quite a bit, it turns out.” *Washington Post*.  
[https://www.washingtonpost.com/news/answer-sheet/wp/2015/09/?utm\\_term=.6a3fe17342d7](https://www.washingtonpost.com/news/answer-sheet/wp/2015/09/?utm_term=.6a3fe17342d7)

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developed by for-profit K-12 textbook companies (McGraw-Hill, Harcourt, and Houghton-Mifflin). The firm has since entered other new markets, both here and overseas.

Historically, the College Board had hired others—usually ETS—to develop and administer its tests (which explains why so many erroneously assumed that ETS owned the SAT). In more recent years, however, College Board has become more aggressively competitive.<sup>9</sup> The “new” SAT—built to align with the Common Core standards—was developed in-house, with an expanded staff of testing experts mostly hired away from rival firms, including a large contingent who had worked at ACT, College Board’s chief rival in college admission testing.<sup>10</sup>

Hired in late 2012, new CEO David Coleman lacked training or experience in educational testing. Running a couple of small organizations, each with less than 100 employees, comprised his management experience. But, he was the “architect” of the Common Core Standards. College Board would gamble its future, and its flagship test, the SAT, by hitching its wagon to that shooting star.<sup>11</sup>

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<sup>9</sup>Lorin, J. (August 11, 2011). “Not-for-Profit College Board Getting Rich as Fees Hit Students.” *Bloomberg*. <https://www.bloomberg.com/news/articles/2011-08-18/not-for-profit-college-board-getting-rich-as-fees-hit-students>

<sup>10</sup>Gewertz, C. (August 21, 2013). “College Board Enters Common-Test Market; Concerns arise about competition,” *Education Week*, 33(1), p.1.

<sup>11</sup>Gewertz, C. (July 13, 2016) “Incoming College Board Head Wants SAT to Reflect Common Core,” *Education Week*; Torres, A. (March 11, 2014). SAT, Common Core Form Seamless Tissue of Mediocrity, *National Review*. <http://www.nationalreview.com/article/373112/sat-common-core-form-seamless-tissue-mediocrity-alec-torres>



## Cleaning House

Whether by design or default, College Board would rapidly transform in Coleman's image. Some balked at the new CEO's ambitious plans and schedule for achieving them, leading to an exodus of veteran employees. After two years of 11 and 10% growth, College Board's total payroll declined by 6% in the first full fiscal year of David Coleman's management.

Of the 21 members of College Board's top leadership the year before David Coleman's arrival, only five remained the year after, and two of them were demoted. Eight were awarded a total of \$3.4 million in severance. One former senior vice-president, who strongly disagreed with Coleman's direction, received extremely large severance packages in each of two years. By the end of 2015, three quarters of the top leadership had worked at College Board for less than two years.<sup>12</sup>

It would be understatement to assert that the transition—accommodating a new CEO and leadership team, re-engineering the SAT (and PSAT) with radical changes promised, and pulling SAT development in house—did not transpire smoothly.<sup>13</sup> Among the snafus:

- In Coleman's first year, the SAT suffered a shortage of test items and forms. College Board compensated, improperly, by recycling,

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<sup>12</sup>See, for example, College Board. (April 4, 2013). "Cyndie Schmeiser Named as College Board's Chief of Assessment." <https://www.collegeboard.org/releases/2013/cyndie-schmeiser-named-college-boards-chief-assessments>

<sup>13</sup>Lewin, T. (March 5, 2014). "A New SAT Aims to Realign With Schoolwork," *New York Times*; Schneider, M. (December 12, 2015). The College Board Under David Coleman: Bad for SAT Business, *Huffington Post*. [http://www.huffingtonpost.com/mercedes-schneider/the-college-board-under-d\\_b\\_8733796.html](http://www.huffingtonpost.com/mercedes-schneider/the-college-board-under-d_b_8733796.html)

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such that thousands of students taking the test a second time encountered the same questions.<sup>14</sup>

- A no-bid contract was awarded an IT firm with little relevant experience to help develop an online version of the SAT. College Board handed the firm a \$3 million upfront payment, which was never returned, and the work was never completed.<sup>15</sup>
- College Board administered a test form in Asia though aware that it had been compromised, reproduced, and published by a Chinese test prep firm.<sup>16</sup>
- A misprint in some test materials resulted in some students being allowed 20 minutes and others 25 to complete the same section of the SAT.<sup>17</sup>
- Having to release a new PSAT before the redesigned SAT was completed (because the PSAT is used to prepare for the SAT), caused disruptions and presented alignment issues.<sup>18</sup>

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14Dudley, R. (December 12, 2016). "Crash Course: College Board faces rocky path after CEO pushes new vision for SAT" *Reuters Investigates*.  
<http://www.reuters.com/investigates/special-report/college-sat-coleman/>

15Dudley, R. (December 12, 2016). "Crash Course: College Board faces rocky path after CEO pushes new vision for SAT" *Reuters Investigates*.  
<http://www.reuters.com/investigates/special-report/college-sat-coleman/>

16Dudley, R., Stecklow, S., Harney, A., & Liu, I.J. (March 28, 2016). "Multiple Choices: As SAT was hit by security breaches, College Board went ahead with tests that had leaked," *Reuters Investigates*.

17Sawyer, A. (June 17, 2015). "The June SAT Fiasco and What Students and the College Board Can Learn from It," Compass Education Group. <http://www.compassprep.com/june-sat-fiasco/>; College Board. (June 25, 2015). "Information Regarding the Saturday, June 6, SAT Administration," <https://lp.collegeboard.org/information-regarding-the-saturday-june-6-sat-administration>

18Sawyer, A., Reed, B., & Ingersoll, A. (n.d.). *Problems with the New PSAT*. Compass Education Group.

- Though the timeline for the SAT redesign was too rushed to adhere to reasonable quality standards, it was still completed a year behind schedule.<sup>19</sup>
- Complaints arose that the new SAT math questions were so wordy they advantaged highly verbal students and disadvantaged the many students with competent math skills but inferior verbal skills.<sup>20</sup>
- Widespread assertions that the new, internally-drafted SAT test items paled in quality by comparison to the old, ETS-written questions.<sup>21</sup>
- Manuel Alfaro, College Board’s executive director for assessment design & development—responsible for the technical undergirding of the new SAT—revealed irregularities in test construction so egregious that they invalidated the test as a measurement instrument. He turned whistleblower.<sup>22</sup>

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<sup>19</sup>Dudley, R. (December 12, 2016). "Crash Course: College Board faces rocky path after CEO pushes new vision for SAT" *Reuters Investigates*.  
<http://www.reuters.com/investigates/special-report/college-sat-coleman/>; Strauss, V. (December 4, 2013). "New SAT Delayed Until 2016." *Washington Post*.  
[https://www.washingtonpost.com/news/answer-sheet/wp/2013/12/04/new-sat-delayed-to-2016/?utm\\_term=.816f4a881245](https://www.washingtonpost.com/news/answer-sheet/wp/2013/12/04/new-sat-delayed-to-2016/?utm_term=.816f4a881245); Hoover, E. (December 4, 2013). "College Board Delays New SAT Until 2016." *Chronicle of Higher Education*.  
[http://www.chronicle.com/blogs/headcount/college-board-delays-new-sat-until-2016/37353?cid=at&utm\\_source=at&utm\\_medium=en](http://www.chronicle.com/blogs/headcount/college-board-delays-new-sat-until-2016/37353?cid=at&utm_source=at&utm_medium=en)

<sup>20</sup>Murphy, J.S. (January 20, 2015). New SAT, New Problems: The questions, particularly those in the math sections, could put certain students at a disadvantage," *The Atlantic*.  
<https://www.theatlantic.com/education/archive/2015/01/new-sat-new-problems/384596/>

<sup>21</sup>Meltzer, E.L. (August 13, 2016). "Five reasons to continue avoiding the new SAT," *The Critical Reader* [blog]

<sup>22</sup>Presumably under legal pressure from College Board, Alfaro’s articles have been deleted from LinkedIn. They were to be found at: Alfaro, M. (June 9, 2016). "Shining a Spotlight on the Dark Side of the College Board: The Development Process for the Redesigned SAT," *LinkedIn*. <https://www.linkedin.com/pulse/shining-spotlight-dark-corners-college-board-process-sat-alfaro>; Alfaro, M. (August 27, 2016a). Shining a Spotlight on the Dark Side of

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And that's just the SAT. College Board routinely updates its more than 30 Advanced Placement courses and exams, too. The first re-do in the David Coleman era: U.S. History. That transition, too, was rough.

Critics disliked the new content in the course guides,<sup>23</sup> which some saw as ideological. Others saw their increased length and detail as intrusive. Even some critics who personally preferred their more "politically progressive" character perceived the new guides as a "centralization" of curriculum, and a usurpation of teachers' prerogatives.<sup>24</sup>

In the words of several dozen displeased scholars in an open letter,<sup>25</sup>

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the College Board: SAT has a Technical Flaw," *LinkedIn*.

<https://www.linkedin.com/pulse/shining-spotlight-dark-corners-college-board-sat-has-critical-alfaro>; Alfaro, M. (May 31, 2016). "Shining A Spotlight on the Dark Side of the College Board: Shining a Spotlight on the Dark Corners of the College Board: Exposing Patterns of Concealment, Fabrication, and Deception," *LinkedIn*.

<https://www.linkedin.com/pulse/shining-spotlight-dark-corners-college-board-exposing-manuel-alfaro>

Other, similar, exposes could have been found at Mr. Alfaro's LinkedIn web page <https://www.linkedin.com/in/manuel-alfaro-97618a2b/>

<sup>23</sup>Kurtz, S. (September 11, 2015). "The Next Great Education Debate," *Washington Post*; Mattimore, P. (June 6, 2007) "The story behind the rise in AP testing," *San Francisco Examiner*; Strauss, V. (June 11, 2015). "Historians blast Advanced Placement US History framework" *Washington Post*.

[https://www.washingtonpost.com/news/answer-sheet/wp/2015/06/11/historians-blast-advanced-placement-u-s-history-framework/?utm\\_term=.b006650e1d03](https://www.washingtonpost.com/news/answer-sheet/wp/2015/06/11/historians-blast-advanced-placement-u-s-history-framework/?utm_term=.b006650e1d03); Smith, W.C.

(September 5, 2015). "Testing the limits: The College Board's standardized—and heavily politicized—exams have uncommon influence on curriculum in even Christian schools, but alternatives may be coming," *World Magazine*.

<sup>24</sup>Tampio, N. (October 7, 2014). "The College Board shouldn't monopolize how US history is taught: In Colorado's AP history battle, the democratic control of schools is at stake," *Al Jazeera America*.

<sup>25</sup>National Association of Scholars. (June 2, 2015). "Open Letter: Historians on the College Board's New AP U.S. History Standards"

[https://www.nas.org/articles/open\\_letter\\_american\\_historians](https://www.nas.org/articles/open_letter_american_historians)

Educators and the public have been willing to trust the College Board to strike a sensible balance among different approaches to the American past. Rather than issuing detailed guidelines, the College Board has in the past furnished a brief topical outline for teachers, leaving them free to choose what to emphasize. In addition, the previous AP U.S. History course featured a strong insistence on content, i.e., on the students' acquisition of extensive factual knowledge of American history.

But with the new 2014 framework, the College Board has put forward a lengthy 134-page document which repudiates that earlier approach, centralizes control, deemphasizes content, and promotes a particular interpretation of American history. This interpretation downplays American citizenship and American world leadership in favor of a more global and transnational perspective. The College Board has long enjoyed an effective monopoly on advanced placement testing. The changes made in the new framework expose the danger in such a monopoly. The result smacks of an "official" account of the American past. Local, state, and federal policymakers may need to explore competitive alternatives to the College Board's current domination of advanced-placement testing.<sup>26</sup>

Frustrated others would echo the monopoly-busting rhetoric.<sup>27</sup>

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<sup>26</sup>"Scholars Concerned about Advanced Placement History." (June 25, 2015). "Open Letter: Historians on the College Board's New AP U.S. History Standards," [https://www.nas.org/images/documents/Historians\\_Statement.pdf](https://www.nas.org/images/documents/Historians_Statement.pdf)

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College Board has long borne an outspoken coterie of critics, including those opposed to any standardized testing for any number of reasons. In the wake of the past decade's salary grabs among testing-firm leaders, however, others have argued that the public service, "charitable" mission that justifies their tax-free status has been compromised. Some suggest College Board should be taxed; others that it be regulated like a utility. Moreover, if College Board is a profit-making firm that handsomely enriches its leadership, why should governments and foundations subsidize the purchase of its products? Isn't that favoring one competitor over others?

### **Hedge Hogging**

At first glance, College Board's IRS filings indicate revenues and expenditures itemized across all regions of the world. The SAT alone is administered to students worldwide, so it seems reasonable that College Board would have representatives scattered throughout.

Look closer, however, and one may notice assets in the Caribbean many magnitudes larger than those in other regions, including Europe and Asia. Ordinary College Board programs?

Apparently not. In recent years, these assets, mostly in the Cayman Island, but also in the British Virgin Islands and Mauritius (in the Indian Ocean),

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<sup>27</sup>Kurtz, S. (October 2, 2014), "Time to Break the College Board's AP Testing Monopoly." *National Review*. <http://www.nationalreview.com/corner/389365/time-break-college-boards-ap-testing-monopoly-stanley-kurtz>; Kurtz, S. (February 27, 2015). Let's embrace competition in advanced-placement testing. *Washington Post*; McGroarty, E., & Robbins, J. (August 20, 2015). "Competition for the College Board, Now More than Ever," *Daily Caller*; Downey, M. (January 30, 2015). "Get Schooled: Georgia picks fight with College Board over AP history," *Atlanta Journal-Constitution*; Jain, A. (October 9, 2016). "A Monopoly in Disguise: Non-Profit or Business?" *Medium*.

have been listed as “partnerships” and “investments”. One partnership produced a tax write-off for “intangible drilling costs” in 2013. The “business activity code” indicated by College Board? 525990: “Other financial vehicles”.<sup>28</sup>

An earlier College Board tax filing let slip their real identity in a footnote: they are hedge funds. The corporate partnerships resemble a game of musical chairs. There were 12 in 2010, identified only as A, C, D, E, F, G, H, I, J, K, L, and M (note: no B), and 16 in 2013, identified as B, C, D, E, F, G, H, I, J, K, L, N, P, Q, S, and T (note: no A, M, O, or R).

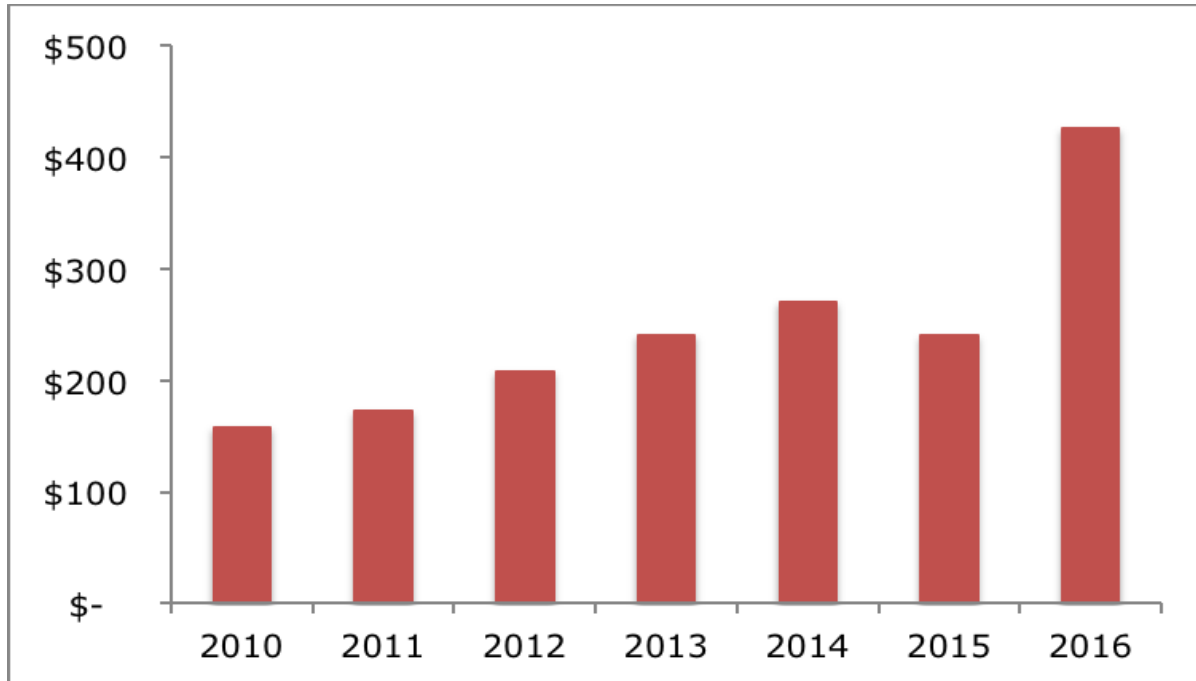
A for-profit arm of College Board, with a quarter billion dollars nestled in offshore tax havens, has not paid any tax in the several years it has filed separate returns. Deductions, credits, and paper losses seem available aplenty. Nonetheless, despite seemingly limping along without taxable gains, the fund has grown mightily, or did until the 2015 tax year when it was, apparently, tapped to plug the hole in revenues left by the various aforementioned fiascos (see Figure 1).

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<sup>28</sup>College Entrance Examination Board (CEEB). (2010–2013). *Form 990-T: Exempt Organization Business Income Tax Return (and proxy tax under section 6033(e))*. All US nonprofits must file an annual Form 990 with the Internal Revenue Service. Since 2010, College Board has also filed a Form 990-T, because some of its revenues and expenditures, including those from offshore hedge funds, lie outside its nonprofit, “charitable” mission. They pay tax or, rather, they are legally obligated to pay tax on these activities. College Board has held money in offshore hedge funds at least since 2007 but, prior to 2010, included it in the non-taxable portion of their activities, on their *Form 990*.

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Figure 1. College Board assets in offshore partnerships and non-publicly traded securities in \$millions, 2010–2016



All seems to be legal. As a 501(c)(3) nonprofit, College Board is an

Organization that normally receives no more than one-third of its support from gross investment income and unrelated business income and at the same time more than one-third of its support from contributions, fees, and gross receipts related to exempt purposes.”

The existence of a quarter-billion dollars stashed in offshore tax havens prompts some questions, however. For example,

- Why is a “public-serving” nonprofit investing overseas instead of in the U.S.?



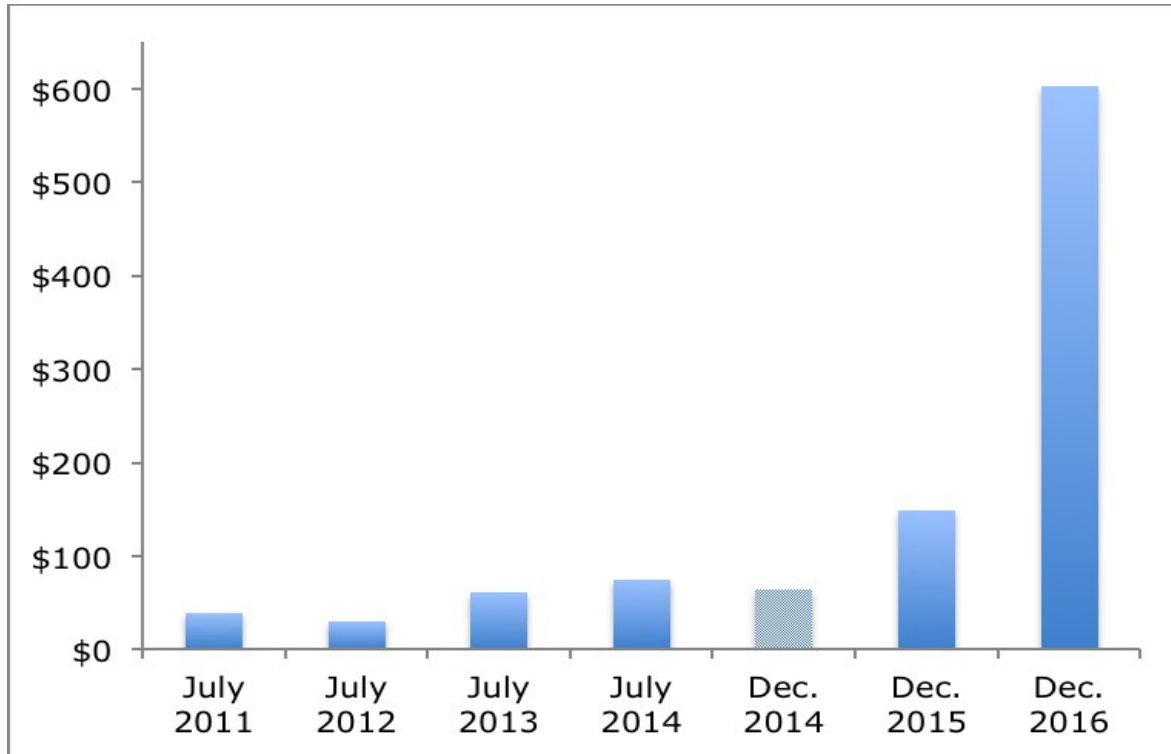
- How does a public-interested nonprofit come by such a surplus in the first place, unless it has been charging its clients fees much higher than needed to cover operating costs?
- With so many resources already available, why is College Board soliciting government subsidies, foundation grants, and the volunteer labor of several hundred good Samaritans each year?
- Are those who volunteer resources to the College Board as a charitable organization aware of the nature and scale of the assets College Board management controls?
- Does it leverage the offshore money to fund operations, subsidizing its activities in competitive markets?

The answer to the last question appears to be, yes. In some recent years the offshore accounts made from one-to-four-million-dollar “charitable contributions” to an unidentified recipient. Was that recipient, perhaps, the nonprofit, “charitable” College Board? Charitable contributions, of course, are tax deductible.

Far larger amounts, however, accrued from asset sales—of securities or partnerships from the offshore accounts, as well as securities held in the US (see Figure 2).

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Figure 2. College Board Asset Sales (other than inventory) in \$millions, 2011–2016



Recall the aforementioned list of snafus. The string began in fiscal year 2013, the year of David Coleman's arrival at College Board and a substantial increase in asset sales. One could argue that the increase is even more dramatic than appears at first glance in Figure 2 above. College Board switched from a July–June to a January–December fiscal year in 2014. The shaded bar represents only half a year: the latter six months of calendar year 2014.

The accumulation of snafus cost College Board in lowered reputation and compensation payments in money or in-kind services, as in free re-tests (in those cases where the company responded with more than denials or shrugs). Apparently, the financial hole created by corporate blunders was at

least partially filled by sales of equities tropically domiciled in the Cayman Islands.

Luckily for College Board, it had the assets to sell. Other companies do not, and some of those firms must compete with College Board.

### **Midwestern Not-so-Nice**

College Board's rival in college admission testing, Iowa's ACT, has long enjoyed the loyalty of customers in the American Heartland. With only one exception (Indiana), all Midwestern public university systems have historically favored the ACT over the SAT.

Michigan and Illinois are two of the three most populous Midwestern states, so many were surprised by College Board's recent acquisition of statewide testing contracts in both. In Michigan, College Board bid \$17.1 million over three years. The incumbent, ACT, bid \$32.5. Either ACT was trying to pad its profit, or College Board submitted a below-cost bid, or some of each. A foreign firm bidding below cost for a US contract below cost would risk exposure to an unfair trade practice lawsuit.<sup>29</sup>

The bid amounts a year later for the Illinois statewide contract were closer, but College Board won again.<sup>30</sup> Lamentations could be heard in both states over the disruption to existing programs and plans. "I've invested a lot of

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<sup>29</sup>Higgins, L. (January 8, 2015). "Michigan to dump ACT for SAT as high school requirement," *Detroit Free Press*.

<sup>30</sup>Lafond, N. (January 10, 2016). "Put to the test: ACT vs. SAT," *Champaign News-Gazette*; Rado, D. (February 11, 2016). "Illinois moves ahead with new testing plan, replacing ACT with SAT," *Chicago Tribune*. <http://www.chicagotribune.com/news/ct-illinois-chooses-sat-met-20160211-story.html>

## 20 Phelps, College Board Subsidies

money and training into getting students ready to take the ACT," said Michigan's Stephen Bigelow, principal at Cousino High School in Warren Consolidated Schools. "That isn't going to do us much good anymore."<sup>31</sup>

In each state, longitudinal data series would stop, and new ones start from scratch.<sup>32</sup>

Bid proposal review committees were convinced, however, that the SAT would better align with their (Common Core) high school curricula. That sentiment would seem to justify the College Board trustees' Common Core alignment strategy. The proposal review committees also seemed convinced that the new SAT would better align with other programs their students already used, such as AP and PSAT/NMSQT.

But, if College Board's marketing is accurate and the new SAT is better aligned with high school curricula than both the old SAT and the current ACT, the new SAT is likely to be less useful as a predictor of college performance.<sup>33</sup>

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<sup>31</sup>Higgins, L. (January 8, 2015). "Michigan to dump ACT for SAT as high school requirement," *Detroit Free Press*; Michigan Department of Education. (January 7, 2015). "State Awards Future College Assessment to College Board's SAT for Michigan Students"; <http://www.michigan.gov/mde/0,4615,7-140--344785--,00.html>

<sup>32</sup>Lewis, S. (April 6, 2016). "SAT unknowns heighten jitters in Michigan," *The Detroit News*. <http://www.detroitnews.com/story/news/education/2016/04/05/new-sat-test-michigan-jitters/82682854/>

<sup>33</sup>Phelps, R.P., & Milgram, J.P. (2014). *The Revenge of K-12: How Common Core and the New SAT Lower College Standards in the U.S.* Boston: Pioneer Institute. <http://pioneerinstitute.org/featured/common-core-math-will-reduce-enrollment-in-high-level-high-school-courses/>

## Monopoly Money

Is College Board a monopoly? Though some critics claim that College Board's SAT college admissions test is a monopoly, it is not, at least not in North America.<sup>34</sup> Most any U.S. or Canadian postsecondary institution that accepts SAT scores with student applications also accepts scores from rival ACT.<sup>35</sup> Indeed, after resting far back in second place for decades, the ACT had several years ago surpassed the SAT in popularity in the North American market.<sup>36</sup> The "pre SAT," or PSAT, taken by 10<sup>th</sup> graders, also faces a rival product from ACT, as do other College Board products targeted at lower grades.

Nonetheless, College Board retains a few market monopolies and yes, it would appear that those monopolies are leveraged to promote its products in competitive markets. Meanwhile, some other testing companies enjoy no monopoly safe havens. Every one of ACT's products, for example, faces at least one rival in the marketplace.<sup>37</sup>

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<sup>34</sup>College Board also maintains a strong advantage overseas, where the SAT is very well known and the ACT is not.

<sup>35</sup>There was a time when state university systems accepted only one or the other, which gave rise to the phrases "SAT state" and "ACT state," with SAT dominant on the east and west coasts and ACT dominant in between the Appalachians and the Rockies. Some of this legacy endures, but more as inertial habit than policy.

<sup>36</sup>See, for example, Anderson, N. (March 16, 2014). "SAT usage declined in 29 states over seven years." *Washington Post*; Sawyer, A. (August 26, 2016). "How the ACT is Beating the SAT Among Top Scorers." Compass Education Group. <http://www.compassprep.com/how-act-is-beating-the-sat-among-top-scorers/>

<sup>37</sup>Though, to be complete, there are other monopoly products in the educational testing industry—ETS's graduate record examinations (GREs), for example.

## 22 Phelps, College Board Subsidies

College Board's most important monopoly product and, not surprisingly, its largest revenue producer, is the Advanced Placement (AP) program. AP test volume approaches five million annually. There exists some competition, but only at the margins, from dual-credit courses offered at some local colleges and online college courses.

Two components of the "SAT Suite of Tests" enjoy monopoly status as well. The twenty or so SAT Subject Tests (SAT IIs)—high school level tests that can be used for college admission—face little competition, at least in North America. Half a million SAT IIs are taken each year, virtually all of them by students who also take the regular SAT, or SAT I, typically on the same day at the same testing center.

Finally, though the 10<sup>th</sup> grade PSAT competes with rival products, it is the only test valid for National Merit Scholarship Qualification. About 3.5 million students sit for the PSAT/NMSQT annually.

College Board promotes other products from each of these three platforms.<sup>38</sup> For example, they advertise several other products—ones that face market competition—as useful predictors of AP or PSAT performance. These predictions are nothing more than probabilities of future performance on a test based on past performance on a different test; correlations easily run within College Board's databases. The predictions offer no direct help, and may even discourage students given low odds and encourage complacency among students given high odds. But, College Board offers them as products

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<sup>38</sup>See, for example, College Board. (October 7, 2014). College Board Program Results Reveal Missed Opportunities and Areas of Promise for Students."

<https://www.collegeboard.org/releases/2014/program-results-reveal-missed-opportunities-areas-promise-students>

in their own right, and strongly suggests that one should use College Board products to receive a valid prediction of performance on one of their monopoly products.<sup>39</sup>

### **Public Purse**

College Board's formula for soliciting funds is simple: evoke sympathy for the poor and cite equity concerns. For example, shouldn't all students have the opportunity to benefit from Advanced Placement courses and tests, even those who cannot themselves afford the more than \$90 exam fee? Over the past couple of decades, federal, state, and local governments and foundations have generously sponsored AP fee subsidy programs.<sup>40</sup> Those subsidies, in turn, boosted steep growth in the number of schools offering AP courses (see Figure 3), even in the poorest of neighborhoods and even,

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<sup>39</sup>Ewing, M. Wyatt, J.N., & Smith, K. (January 2016). "AP Potential™ Expectancy Tables Based on PSAT/NMSQT® and SAT® Scores on the 2015-16 Redesigned Scales." *Statistical Report 2016-2*. New York: CollegeBoard. For example, in College Board's words, "Using PSAT/NMSQT data, researchers have found that PSAT/NMSQT scores are predictive of AP Exam performance. As a result, the College Board developed [AP Potential](#), a free, web-based tool that allows schools to generate rosters of students who are likely to score a 3 or better on a given AP Exam. AP Potential is designed to help schools increase access to AP and to ensure that no student who has the chance of succeeding in AP is overlooked." AP Potential is trademarked.

[http://apcentral.collegeboard.com/apc/public/start\\_grow\\_ap/grow\\_ap/232586.html](http://apcentral.collegeboard.com/apc/public/start_grow_ap/grow_ap/232586.html)

<sup>40</sup>Fee subsidies are not the only destination for AP program contributions. There are many others. For example, money from an Italian-American Professional group has sustained the AP Italian program, after the College Board threatened to discontinue it. A grant from the National Science Foundation financed the development of the new AP Computer Science Principles. See College Board. (June 13, 2013). "The National Science Foundation Provides \$5.2 Million Grant to Create New Advanced Placement Computer Science Course and Exam." <https://www.collegeboard.org/releases/2013/national-science-foundation-provides-52-million-grant-create-new-advanced-placement-compute>

## 24 Phelps, College Board Subsidies

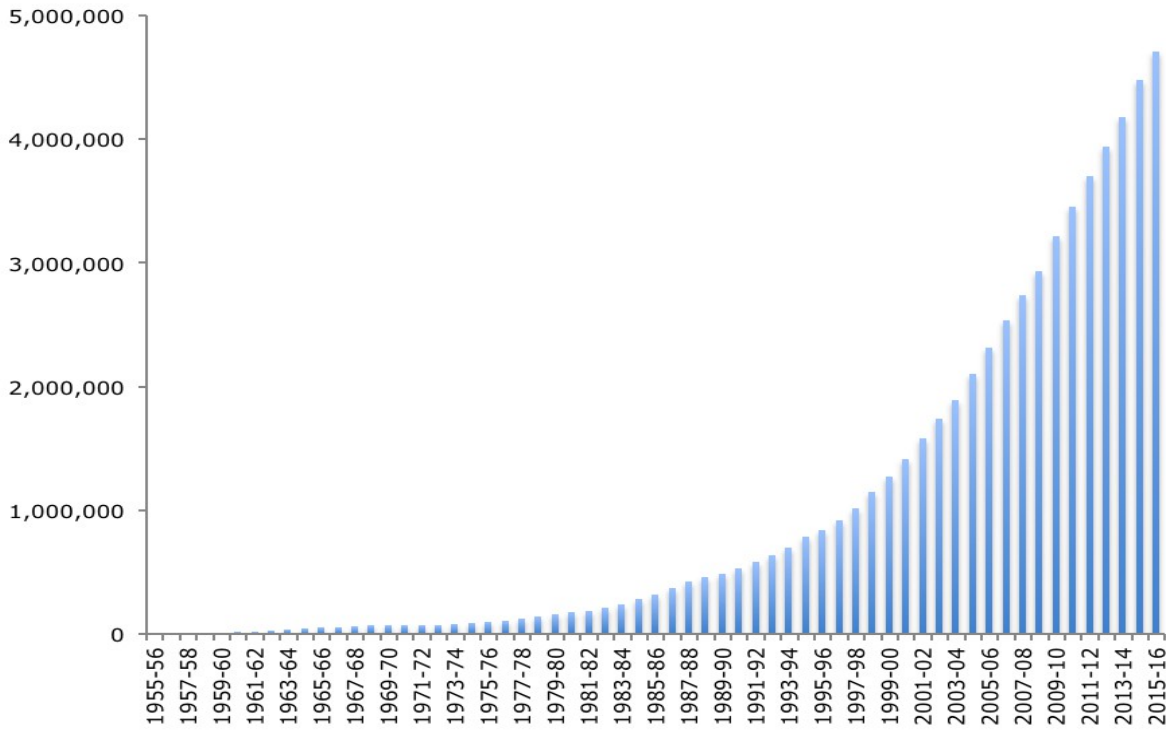
some charge, by enrolling thousands of unprepared students lacking relevant prerequisites.<sup>41</sup>

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<sup>41</sup>Lurie, M.N. (August, 2000). AP U.S. History: Beneficial or Problematic? *The History Teacher*, 33(4), 521–525; Metea Media. (April 29, 2016) “Despite Dropping AP scores, College Board rakes in the profits,” Author; Rado, D. (January 5, 2016). “Thousands of Illinois Students can’t pass AP exams, won’t get college credit.” *Chicago Tribune*.



Figure 3. Advanced Placement (AP) exams taken annually, 1955 to 2016



According to McGroarty and Robbins of the American Principles Project,

The federal government pays enormous sums of money ... to the College Board for various purposes. In addition, the U.S. Department of Education’s AP Test Fee program makes grants to the states, which in turn transfer money to the College Board to pay the test fees for children from needy families. And USED’s AP Incentive Program gives money to states to increase the participation of low-income students.<sup>42</sup>

<sup>42</sup>McGroarty, E., & Robbins, J. (September 5, 2014). “The College Board Cronyism Behind The New Progressive AP U.S. History Curriculum,” *The Daily Caller*. <http://dailycaller.com/2014/09/05/the-college-board-cronyism-behind-the-new-progressive-ap-u-s-history-curriculum/>

## 26 Phelps, College Board Subsidies

The Advanced Placement Test Fee Program<sup>43</sup> awarded over \$273 million between 2008 and 2014 for "... grants to eligible State educational agencies (SEAs) to enable them to pay all or a portion of advanced placement test fees on behalf of eligible low-income student."

The Advanced Placement Incentive Program Grants<sup>44</sup> totaled about \$145 million between 2001 and 2012 to "... eligible entities to enable them to increase the participation of low-income students in both pre-AP and AP courses and tests."

College Board adds its own discount of about \$31 for every fee waiver student, and boasts that its subsidy exceeds the federal government's.<sup>45</sup> A generous gesture? Offering that much of a discount off the \$93 AP exam price also suggests that they can reduce the price by that amount and still cover their costs.

The US Education Department (USED) is not the only federal agency sending money to College Board, however. Others include the Departments of Defense, Justice, State, and Homeland Security, and the National Science Foundation. Grant funding from federal agencies direct to College Board (i.e., not through intermediaries, as in the AP grant programs) totaled almost \$107 million during fiscal years 2008 to 2017 (Figure 4).<sup>46</sup>

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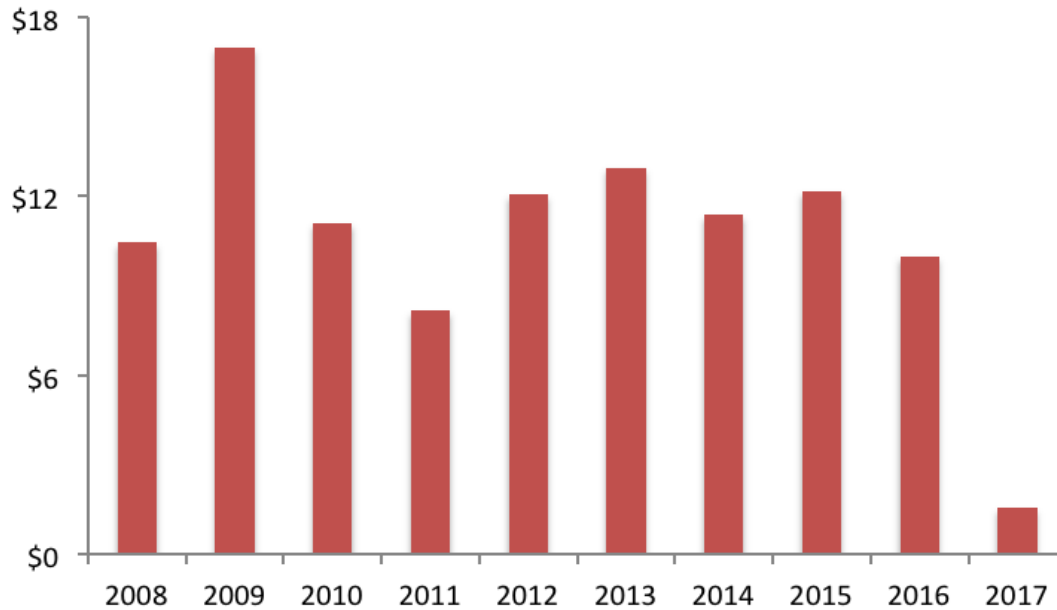
43<https://www2.ed.gov/programs/apfee/index.html>

44<https://www2.ed.gov/programs/apincent/index.html>

45Mathews, J. (February 12, 2017). "How both Democrats and Republicans blindsided our best low-income students," *Washington Post*.

46USASpending.gov. (June 17, 2017). "Recipient Profile: COLLEGE ENTRANCE EXAMINATION BOARD."

Figure 4. Total Funds Awarded from US Federal Government agencies direct to College Board, 2008–2017



Moreover, the federal government is not the only government sending money to College Board; many state and local agencies do, too.<sup>47</sup>

Finally, governments—federal, state, and local—are not the only institutions sending money to College Board.<sup>48</sup> Just one among many foundations that

<https://www.usaspending.gov/transparency/Pages/RecipientProfile.aspx?DUNSNumber=072805831&FiscalYear=2008>

<sup>47</sup>See, for example: College Board. (September 30, 2013). “The NYC Department of Education, College Board and National Math and Science Initiative Collaborate to Launch the NYC Advanced Placement Expansion Initiative.”

<https://www.collegeboard.org/releases/2013/nyc-department-education-college-board-and-national-math-and-science-initiative-collaborate-0>; College Board. (June 16, 2017). “Educational Professionals: States are Acting.” <https://prof-stg.collegeboard.org/states-are-acting-content>

<sup>48</sup>See, for example: College Board. (May 16, 2017). “College Board and Chan Zuckerberg Initiative Partner to Provide Personalized Pathways to College Success for Millions of

## 28 Phelps, College Board Subsidies

have honored College Board's requests for funds, the Bill and Melinda Gates Foundation, gave them \$32.2 million prior to 2013.<sup>49</sup> One may choose to think that what the Gates' do with their money should not concern the rest of us. Nevertheless, there are opportunity costs. For example, each dollar sent to College Board is a dollar not invested in the Gates' program to eliminate tropical diseases.

Currently, the flow of *federal* funds only trickles. The Every Student Succeeds Act (ESSA) of late 2015 bundled most of the steady funding streams into block grants to the states. States can choose (or not) to continue AP fee waiver programs on their own, as some have.<sup>50</sup> Not surprisingly, College Board encourages them to continue.<sup>51</sup>

College Board products are not the only beneficiaries of advanced high school course fee waiver programs, though. Advanced "capstone," or senior research-project based courses by the International Baccalaureate (IB) organization and the Cambridge University testing consortium are also sometimes eligible for subsidies. In 2014, US Education Department fee waiver subsidies supported 850 thousand students taking AP exams, and 44

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Students."

<https://www.collegeboard.org/releases/2017/provide-personalized-pathways-to-college-success>

<sup>49</sup><http://www.gatesfoundation.org/How-We-Work/Quick-Links/Grants-Database#q/k=College%20Entrance%20Examination%20Board>

<sup>50</sup>College Board. (June 16, 2017). "Educational Professionals: States are Acting."  
<https://prof-stg.collegeboard.org/states-are-acting-content>

<sup>51</sup>College Board. (June 16, 2017). "Changes to AP Federal Funding Under ESSA."  
<https://prof-stg.collegeboard.org/testing/states-local-governments/new-education-policies/essa-federal-funding-ap>

thousand students taking IB exams. Thus, College Board received 95% of the windfall.<sup>52</sup>

Likely, a true public charity would have left well enough alone, and focused on its 95%. Not this leadership group. Despite overstretching its test development capacity so tightly that it risked ruining the SAT, College Board found the time and resources to develop from scratch a product to compete directly with the IB, its only real, albeit marginal, competitor for the fee waiver money pot.

A new "AP Capstone" research-project focused course and exam was introduced in 2013.<sup>53</sup> At \$141, AP Capstone was priced well below the stand-alone IB Certificate (\$274) and far below the price for the six exams required for the complete IB Diploma (\$864).<sup>54</sup>

AP participation has grown for several reasons, though, and not just because of subsidies. For example, it seems to be widely (though perhaps falsely) believed that taking AP courses boosts a student's college admission prospects. According to the *New York Times*, "...some students use the A.P. program tactically, knowing that their senior-year A.P. course listings will appear on their transcripts, and be counted in admissions decisions, long before they take the A.P. exam in May -- if they ever do."<sup>55</sup>

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<sup>52</sup>ED.gov. (June 17, 2017). "Performance: Advanced Placement Test Fee Program." <https://www2.ed.gov/print/programs/apfee/performance.html>

<sup>53</sup>See <https://advancesinap.collegeboard.org/ap-capstone>

<sup>54</sup>Bountiful High. (June 16, 2017). What does IB cost? <https://www.davis.k12.ut.us/Page/38250>

### 30 Phelps, College Board Subsidies

But, if senior-year AP participation is something like a hide-and-seek game, AP courses completed earlier in high school can bestow clear benefits. Many high schools award additional grade-average points for AP courses, such that an A in an AP course might accrue five points for a student when an A in a regular course accrues only four.

The National Association of College Admission Counselors, NACAC, annually surveys its members on the relative influence of the many factors considered in student applications. Admission test score and high school grades rest high in the list, of course, with around 60 percent of colleges ascribing them “considerable importance”. That places them well above venerable old stalwarts, such as interviews (4 percent), extracurriculars (6 percent), and recommendations (15 percent).<sup>56</sup>

The top vote getter (at 80 percent) among college admission counselors is the ill-defined “college-prep courses”. By that NACAC apparently means core courses, such as, for example, in math, four years worth of math that includes, at least, algebra 1 and 2, geometry, and trigonometry.<sup>57</sup>

Meanwhile, “AP courses” was cited as a factor of considerable importance by only 7% of NACAC survey respondents. For its part, College Board exploits the confusion to claim AP courses as “college-prep courses”.<sup>58</sup>

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<sup>55</sup>Lewin, T. (January 8, 2006). “The Two Faces of A.P.,” *New York Times*. <http://www.nytimes.com/2006/01/08/education/edlife/the-two-faces-of-ap.html?mcubz=1>

<sup>56</sup>NACAC. (2015). “Factors in Admission Decisions,” Chapter 3 in *Admission Trends Survey, 2014*. Alexandria, VA: National Association for College Admission Counseling, p. 20.

<sup>57</sup>NACAC National College Fairs. (June 15, 2017). “High School Classes Required for College,” NACAC. <https://www.nacacfairs.org/learn/prep/high-school-classes-required-for-college-admission/>

More conducive to AP growth, perhaps, has been high schools' enthusiasm. High schools offering AP courses can be perceived as more rigorous, of higher quality, with better teachers. Moreover, high school ratings, such as those conducted by the *Washington Post*<sup>59</sup> and *U.S. News & World Report*,<sup>60</sup> incorporate AP offerings in their calculations. As the *New York Times* suggested, "in recent decades, [the AP program] has morphed into something quite different—a mass program that reaches more than a million students each year and is used almost as much to impress college admissions officers and raise a school's reputation as to get college credit."<sup>61</sup>

"Strategic Partnerships" are another part of the strategy to boost profits. Even while College Board solicits grants from foundations and governments at all levels, it awards grants of its own. Some appear genuinely benevolent; others look like efforts to purchase influence or buy friends.

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<sup>58</sup>College Board. (June 14, 2017). Honors and AP Courses: Understanding the Advantages. <https://professionals.collegeboard.org/guidance/prepare/honors-ap>

<sup>59</sup>Mathews, J. (May 5, 2017). America's Most Challenging High Schools. *Washington Post*. <https://www.washingtonpost.com/graphics/local/high-school-challenge-2017/>

<sup>60</sup>Morse, R. "How U.S. News Calculated the 2015 Best High Schools Rankings".

<sup>61</sup>Lewin, T. (January 8, 2006). The Two Faces of A.P.," *New York Times*. <http://www.nytimes.com/2006/01/08/education/edlife/the-two-faces-of-ap.html?mcubz=1>

## 32 Phelps, College Board Subsidies

The indefatigable muckraker, Mercedes Schneider, saw Common Core complicity:<sup>62</sup>

- The year that the Common Core was officially completed (2010), the College Board awarded Common Core [co-owner](#), the Council of Chief State School Officers (CCSSO) its first grant, for \$7,500.
- The year that College Board hired David Coleman to replace Gaston Caperton as president, the College Board awarded CCSSO the largest grant by far that it has awarded to date: \$4 million.
- The College Board also awarded several grants to the other Common Core co-owner, the National Governors Association (NGA), totaling \$180,000.
- The year that David Coleman was hired (and the same year of the \$4 million CCSSO grant), the College Board awarded \$70,000 to Common Core [mouthpiece](#), the Thomas B. Fordham Institute.

In short, the College Board is the most lucrative nonprofit for its officers than any other whose tax forms I have read to date, and the timing of some of its grants bespeaks back-scratching among Common Core associated nonprofits.

The “back-scratching” would continue in the next few years to include a variety of major players in education policy maneuvers: American Council on Education; Education Trust; National Governors Association (again); Michelle Rhee’s Saint Hope Academy in Sacramento; the Salzburg Global Seminar;

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<sup>62</sup>Schneider, M. (April 7, 2016). “The College Board Nonprofit: Paying Bonuses to Its Officers– And More,” Deutsch29.wordpress.com [blog]  
<https://deutsch29.wordpress.com/2016/04/07/the-college-board-nonprofit-paying-bonuses-to-its-officers-and-more/>



the Fund for Public Schools (twice); Harvard University (twice); National Research Council; etc.

### **What is College Board's Purpose, Again?**

Currently, College Board posts at its website this mission statement,

The College Board is a mission-driven not-for-profit organization that connects students to college success and opportunity.<sup>63</sup>

Historically, the primary justification for use of the SAT or ACT distilled down to predictive validity. For about 50 dollars, students and colleges received about eight percentage points of "incremental predictive validity," from the old SAT, which was designed to help predict students' future academic success. "Incremental" means the predictive power uniquely attributable to the particular measure. After accounting for the predictive power of all other factors—high school grades and course selection, recommendations, extracurricular activities, admission essay, etc.—the SAT alone uniquely accounted for another eight percentage points of the correlation between students' high school record and college academic performance.<sup>64</sup>

The SAT's incremental predictive validity was so high, in part, because it was not aligned to the high school curriculum. College admission counselors already possessed measures of students' mastery of the high school curriculum: grades, grade-point-average, class rank, class rank adjusted by

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63<https://www.collegeboard.org/about>

64Phelps, R.P. (2003). *Kill the Messenger: The War on Standardized Testing*. New Brunswick: Transaction, pp. 92–95.

## 34 Phelps, College Board Subsidies

school rank, etc. Why re-invent the wheel with another measure highly correlated with measures already available?

The old SAT's high incremental validity stemmed from several factors:

- High school grades (and grade-point averages) are not reliable. An "A" at one school can represent quite a different level of achievement than an "A" at another school. Moreover, high school grades have "inflated" over time such that they often reveal little variation within the same school.
- The high school environment deadened the motivation of some types of students who then thrived in the very different and more demanding (but, more open) environment of college.
- The college curriculum is not just a continuation of the high school curriculum; it is very different. Indeed, some subject fields offered in college do not even exist in high school, and vice versa.
- Some very bright students attend academically poor high schools, through no fault of their own, and can thrive in more academically vibrant colleges.
- Some students who do well in the relatively regimented structure of high schools—spending all day in the same building on the same daily schedule, with assigned daily homework and classroom worksheets, for example—feel out of place in college, where far more is left to the individual student to manage.

Recall that the impetus for the original, post-World War II, modern version of the SAT was to find "diamonds in the rough," bright students who may have not done well in a perhaps inferior high school, but who could do well

in college. The intention was to broaden the admission pool at elite colleges beyond legacy students and children of the rich and famous who could afford to attend elite private high schools.<sup>65</sup>

The sales pitch for the current SAT shifts the focus to its retrospectively strong alignment with the past high school curriculum and gleefully repudiates the College Board's most noble tradition and most valid purpose. If the new SAT is very strongly correlated with the high school curriculum, how can it be any better an indicator of college potential than high school rank or grade point average adjusted for high school rigor? Generally, the more strongly aligned retrospectively an admission test is to a past curriculum, the less predictive it is of future work in college.<sup>66</sup>

College Board conducted its own pilot predictive validity study at 15 college campuses in Fall 2014, allegedly with questions from the new SAT, which would not be operationally administered until March 2016. They recruited students who had taken the old SAT in high school. In the end, it compared scores on the old SAT, the "new SAT," and grades at the end of the first year in college.<sup>67</sup>

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<sup>65</sup>Phelps, R.P. (December 16, 2015). "Fortalezas y debilidades de las pruebas estandarizadas como mecanismos inclusivos de admisión a la educación superior," Paper presented at the Pontificia Universidad Católica de Chile, Santiago, Programa Talento y Inclusión.

<sup>66</sup>Phelps, R.P. (December 28, 2016). PSU: El Desafío del Cambio, Paper presented at the Centro de Investigación Avanzada en Educación, Universidad de Chile, Santiago.  
[https://www.academia.edu/31039192/PSU\\_El\\_Desaf%C3%ADo\\_del\\_Cambio](https://www.academia.edu/31039192/PSU_El_Desaf%C3%ADo_del_Cambio)

<sup>67</sup>Shaw, E.J., Marini, J.P., Beard, J., Shmueli, D., Young, L., & Ng, H. (2016). *The Redesigned SAT Pilot Predictive Validity Study: A First Look*. New York: College Board  
<https://collegereadiness.collegeboard.org/pdf/redesigned-sat-pilot-predictive-validity-study-first-look.pdf>

Though titled a predictive validity study, it was not. Rather, it was a “concurrent validity” study. Students in the fall of their first year in college had already begun their college courses. Moreover, they were one to two years more advanced in their studies than they had been when they sat for the old SAT.

According to the College Board, the results of their study show that the predictive validity of the new SAT is even better than before.

We shall see. The new SAT has been administered for over a year now. Over the course of the next year, colleges will conduct their own studies comparing the SAT scores of the 2017 incoming freshmen with 2017–2018 freshman year academic performance, and calculate the new SAT’s incremental predictive validity for their own institutions. College Board promises the results of its own study sometime in 2019.<sup>68</sup> If the SAT fails the test and the new incremental predictive validity settles, say, around 4 percent in contrast to the former 8 percent, college admission counselors may start to ignore SAT scores.

For its part, SAT’s rival ACT has declared that it will not sacrifice predictive validity for Common Core alignment.<sup>69</sup>

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<sup>68</sup>College Board. (August 25, 2018). “Sign up for the National SAT Validity Study.” <https://collegereadiness.collegeboard.org/educators/higher-ed/test-validity-design/validity-studies>

<sup>69</sup>Strauss, V. (June 9, 2016). “Answer Sheet: Common Core isn’t preparing students very well for college or career, new report says,” *Washington Post*. [https://www.washingtonpost.com/news/answer-sheet/wp/2016/06/09/common-core-isnt-preparing-students-very-well-for-college-or-career-new-report-says/?utm\\_term=.10b30588f028](https://www.washingtonpost.com/news/answer-sheet/wp/2016/06/09/common-core-isnt-preparing-students-very-well-for-college-or-career-new-report-says/?utm_term=.10b30588f028); ACT. (February 11, 2016). “ACT Responds To Findings of Fordham Institute Study on Next Generation Assessments,”

## **Insider Trading**

The College Board is not accountable to the public, or even to its own members. Yes, board members are elected, but most of them off nomination lists compiled by College Board's upper management.<sup>70</sup>

The College Board hosts a scattered, amorphous membership of over six thousand secondary and postsecondary schools, government education agencies, and nonprofit education organizations. In private, for-profit public companies, board accountability is enforced when owners of large numbers of shares organize the owners of enough other shares to change the composition of the board. By contrast, each College Board member holds just a single vote among the six thousand. No rebellion of sufficient size can be organized with a membership that diffuse.

Moreover, elections for most board members are a multi-level, multi-step process, conducted first through regional assemblies, making any potential rebellion a convoluted, geographically-dispersed, multi-step, multi-level process against a centralized, established board that sets all the rules and controls all the agendas.<sup>71</sup> As College Board describes it in IRS filings:

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<http://www.act.org/content/act/en/newsroom/act-responds-to-findings-of-fordham-institute-study-on-next-gene.html>

<sup>70</sup>College Board. (November 7, 2008). "The College Entrance Examination Board Bylaws." <https://www.collegeboard.org/about/governance/bylaws>

<sup>71</sup>College Board. (June 17, 2017). "How We're Governed." <https://www.collegeboard.org/about/governance>

### 38 Phelps, College Board Subsidies

Members elect 30 of the 31 members of the governing body, the Board of Trustees, by appointing delegates who represent them at meetings of the College Board, Regional Assemblies, and National Assemblies as follows: 9 Trustees are elected by 6 Regional Assemblies, 6 Trustees are elected by 3 National Assemblies, and 15 Trustees are elected at-large nationally. The President is appointed by the Trustees.

The process retains one feature similar to the electoral process of most private corporations: current leadership nominates a slate of candidates, strongly suggesting that they are the well-vetted team players best fit for organizational success. Anyone choosing to run independently faces long odds, as many College Board members, like many corporate shareholders, will reflexively vote for slated candidates.

As long as revenues flow, the trustees remain empowered to do what they please with College Board resources—such as their “unrestricted net assets” of over \$700 million—with little effective constraint. Judging from the remuneration levels, it seems clear that College Board leaders deem themselves worthy of ample reward from the treasure chest they inherited from others.<sup>72</sup>

Yet, College Board’s enviable strategic position in the market when David Coleman took over was not the result of anything he or any of his new hires had done. It was the result of efforts and expenditures made over the course of several decades by many government agencies, colleges, and charitable foundations, which likely thought at the time that they were

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<sup>72</sup>See, for example, Haynes, C.H. (August 2016). “The Big Business Profitability of the College Board.” *Backgrounder No. 184*. National Center for Policy Analysis.

making investments that would benefit the public. These public-spirited entities likely did not think then that they were creating, and likely would not have wished to create, an aggressive, strategic education market carnivore, motivated to engulf and devour as much market share and profit as possible.

The circumstances bear some similarity to the private oligopolies created during the collapse of the Soviet Union. Corporate managers received a windfall — they had done little or nothing to create the assets they now controlled.

As anyone who has completed an introductory economics course knows, unregulated monopolies can charge substantially higher prices than can entities facing market competition. Or, if prices are somehow constrained by politics or culture, they can lower quality. Because standardized testing is so difficult for the public — and most test-takers and test-users — to understand, test developers can easily and profitably cut corners.

David Coleman received favorable press coverage in the early months of his tenure due to his apparent willingness to consider the more popular

complaints about the SAT and make changes to suit.<sup>73</sup> Not considered as

73A case in point is College Board's current advertising of its test preparation service. It is widely, and falsely, believed that test preparation services can substantially increase a student's performance on standardized tests. But, research conducted by testing firms (including College Board) and a grand gaggle of independent researchers has found only modest gains.

Now College Board is claiming that just 20 hours use of its test prep service will increase one's SAT score by 115 points—a huge boost. But, wait. Isn't the new SAT supposed to be test prep-proof? That was one of the original sales pitches used to justify the SAT redesign in the first place (and remains one of the current sales pitches).

Moreover, if it is that easy—just 20 hours will do it—won't all students partake of the windfall, gain 115 points, and move the entire scale distribution 115 points higher? The SAT is graded on a curve, after all: one's score is relative to everyone else's.

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much, perhaps, were the reasons many uncomplaining clients were happy with the SAT the way it was. Many of the “improvements” to College Board’s products that Coleman promised early on were simply not feasible without degrading some of their better qualities.

Self-inflicted wounds characterized the first few years of David Coleman’s College Board years, blunders in number and of a magnitude that could have bankrupted any normal firm in a competitive market. But, College Board is not a normal firm, and it may not be competitive, either. Its huge pile of investments and unassailable governance structure grant the current leadership the power to endure, and wider latitude to make mistakes than most leaders get.

Despite all the snafus, the number of College Board employees with annual salary and benefits packages exceeding \$100,000, continued its steady climb through the rocky transition of David Coleman’s first few years (see Figure 5).

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See, College Board. (May 8, 2017). “New Data Links 20 Hours of Personalized Official SAT Practice on Khan Academy to 115-Point Average Score Gains on Redesigned SAT.” <https://www.collegeboard.org/releases/2017/average-score-gains-on-redesigned-sat>

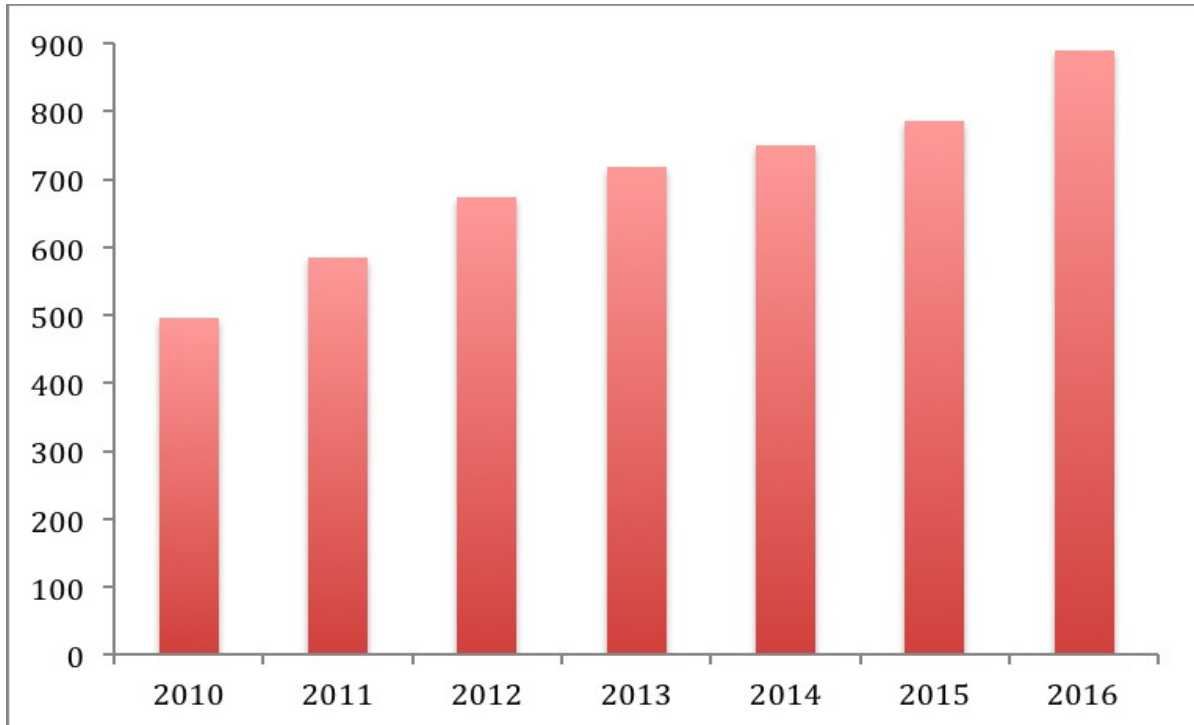
See also, Resmovits, J. (March 5, 2014). “New SAT To Bring Back 1600-Point Scale — With Optional Essay,” *Huffington Post*:

“Coleman condemned the old SAT and its competitor, the ACT, calling them out of touch, and sometimes inadvertent culprits in creating educational inequity.

“It is time to admit that the SAT and ACT have become disconnected from the work of our high schools,” he said. “Too many feel that the prevalence of test prep and expensive coaching reinforces privilege rather than merit.”



Figure 5. Number of College Board employees receiving over \$100,000 annually, 2010–2016



### **Conclusion**

At least four aspects of College Board’s current circumstances seem problematic:

- College Board enjoys monopolies in key markets and leverages those monopolies to support its competition in non-monopoly markets against competitors who enjoy no monopoly safe havens.
- It retains a huge nest egg of investments that the current leadership of College Board did nothing to attain, much of it harbored in offshore tax havens, that it uses to support its

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competition in non-monopoly markets against competitors who enjoy no similar advantage.

- Its governance structure appears impregnable. The current leadership, and the current CEO, can do what they please with legacy monopolies and assets, with little possibility that the organization will hold them to account for their behavior.
- College Board leadership pays itself large salaries that seem exorbitant considering both the organization's charity status and the profound mismanagement of the past several years.

The public policy solution to these problems would seem obvious in the abstract. Either regulate the monopoly parts, as is done with public utilities, or break up the College Board, as was done most famously with Standard Oil a century ago, and continues to be done currently during corporate takeovers.<sup>74</sup>

Another option might be to investigate and eliminate any barriers to entry by potential competitors. The participation of so many educational institutions as both members of the College Board and users of its services could perhaps be considered collusion — a restraint on competition for the AP and other programs — and therefore subject to antitrust remediation.

Regardless of the economic and legal realities, however, College Board presents itself as a charitable nonprofit whose sole mission is to serve the public good. Yet College Board behaves much like a private, aggressive,

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<sup>74</sup>For example, when Interbrew of Belgium purchased Anheuser-Busch, it was forced to divest the US distribution rights of the Corona Mexican beer brands. When Bayer of Germany purchased Monsanto, it was forced to divest itself of Bayer, USA genetically-produced seeds and traits.

profit-maximizing firm. Its leaders seem to desire the benefits of both worlds, but not the full risk and responsibility of either.

## APPENDIX A

### Sources on the question: Are AP fee waiver subsidies beneficial?

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