



GRAND CANYON UNIVERSITY™

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August 6, 2012

The Honorable Tom Harkin, Chairman
Senate Committee on Health, Education, Labor and Pensions
United States Senate
731 Hart Senate Office Building
Washington, DC 20510-6300
Cc: Honorable Mike Enzi

Dear Chairman Harkin:

We appreciate the opportunity to respond to certain sections of the staff report and particularly appreciate your willingness to have included my letter in the report which discusses the development of our Phoenix campus, which is now home to over 6,000 students and a strong contributor to Arizona's economy. Enclosed with this letter are clarifications and corrections to statements made about Grand Canyon University in the report that you issued on July 30, 2012.

As noted in our letter to you on June 26, 2012, Grand Canyon is proud to offer a high-quality, low-cost, private education to both traditional and working-adult students at an average of \$8,000 per year in tuition after factoring in the total dollar value of scholarships that we offer to our students, which totaled \$73.6 million in 2011. Further, the average taxpayer burden for a student at Grand Canyon – when considering defaults on student loans, Pell and other grants received, and federal and state taxes paid – was approximately \$969, whereas state universities cost taxpayers in excess of \$10,000 per student, according to Arizona Board of Regents financial-aid data.

We are reinvesting our after-tax profits in improvements to the student experience and are currently undergoing a \$313 million renovation and expansion of our campus in Phoenix, Arizona. We invite you and your staff to visit us here at Grand Canyon so that we can show you first-hand all of the exciting initiatives underway at our campus and introduce you to the thousands of students who are excited to call Grand Canyon their home and continue to learn and achieve every day at our beautiful, evolving campus.

Sincerely,

Brian Mueller
President & Chief Executive Officer
Grand Canyon University

FIND YOUR PURPOSE

Grand Canyon University – Clarifications and Corrections

Title IV Revenue

- Report: You indicate that 87.1% of Grand Canyon's total revenue in 2010 was comprised of Federal education funds when Departments of Defense and Veterans Affairs education programs are included.
- GCU Response: The University acknowledges that 87.2% of the University's total revenue in 2010 was comprised of Federal education funds. However, in 2011, only 82% of Grand Canyon's total revenue was comprised of Federal education funds, including Departments of Defense and Veterans Affairs education programs.¹ It is also important to note that only 2% of Grand Canyon's total revenue in 2011 was derived from Defense and Veterans Affairs education programs. We anticipate that this percentage will continue to decrease as the University's ground traditional campus student body grows through an increase in the number of dependent, traditional-aged students that have proven that their dependence on financial aid is less than independent, working adult students.

Marketing & Recruiting Expenses

- Report: You indicate that Grand Canyon allocated 32.6% of its revenue to marketing and recruiting in 2009.
- GCU Response: The University acknowledges that 32.6% of its revenue was spent on marketing and recruiting in 2009. However, in 2011, marketing and recruiting expenses comprised only 28.1% of Grand Canyon's revenue and, in 2012, is expected to be even lower.² Given Grand Canyon's modest revenue in 2009, primarily as a result of its lower tuition and smaller size than many other universities, its marketing and recruiting expenses, as a percentage of revenue, were obviously much higher. These expenses, as a percentage of revenue, are expected to continue to decline as Grand Canyon continues to grow. Please note, too, that less than 10% of Grand Canyon's revenue is spent on marketing and that the University's enrollment counselors provide many of the student services that are segregated to a separate function at many traditional universities, including preparing students for class by teaching them how to use the online classroom and the University's library.

Executive Compensation

- Report: You indicate that Brian Mueller, Grand Canyon's CEO, received \$2.2 million in compensation in 2009, noting that this was three times higher than the president of the University of Arizona, Robert N. Shelton, who earned \$633,206 in total compensation for 2009-10.
- GCU Response: We do not understand how this amount was determined. Mr. Mueller's total compensation in 2009 was \$1,028,705.³ Further, Mr. Mueller's base salary in 2009 was \$500,000, which was only \$30,000 more than Mr. Shelton's base

¹ Grand Canyon Annual Report on Form 10-K, dated February 21, 2012.

² Grand Canyon Annual Report on Form 10-K, dated February 21, 2012.

³ Grand Canyon Proxy Statement dated March 26, 2012.

salary of \$470,000 for 2009-10. Further, we note that for some reason you chose to provide a comparison to the University of Arizona, a school located in a different, smaller market, Tucson, and failed to provide the 2009 – 2010 total compensation for Michael M. Crow, the president of Arizona State University, which, like Grand Canyon, is located in the Phoenix metropolitan area. Not surprisingly, Mr. Crow earned more in 2009-10 than Mr. Shelton, having total compensation of \$728,350, including a base salary of \$548,055 that was \$48,055 more than Mr. Mueller.⁴ While Grand Canyon's CEO also is entitled to earn incentive compensation and stock options, much of this compensation is earned as a result of the risks and responsibilities associated with being the principal executive officer of a publicly traded company. These types of compensation arrangements are typical for publicly traded companies as, for example, in addition to the compensation earned as president of Arizona State University, Mr. Crow also earned \$65,000 in cash and \$30,206 in stock awards for serving as a director of a publicly traded company, Aquila, Inc., in 2007.⁵

We would also like to point out that, while Mr. Mueller is the highest compensated employee at Grand Canyon, the presidents at Arizona State University and the University of Arizona are not, which is typical of traditional universities. For example, according to a USA Today article published November 10, 2009, Dennis Erickson, head football coach at Arizona State University, earned total compensation of \$1,502,643 in 2009, with an additional bonus potential of \$1,800,000, and Mike Stoops, head football coach at the University of Arizona, earned total compensation of \$1,265,000 in 2009, with an additional bonus potential of \$650,000.

Tuition and Other Academic Charges

- **Report:** You note that a Bachelor's of Science in Business Administration at Grand Canyon costs \$55,950, while the same degree at University of Arizona costs approximately \$44,200.
- **GCU Response:** Although the rack rate tuition cost for a Bachelor in Business Administration at Grand Canyon costs approximately \$55,950, your report fails to consider scholarships provided to students, which distorts the true cost of attending Grand Canyon. In 2011, Grand Canyon provided scholarships to students totaling \$73.6 million.⁶ Grand Canyon anticipates that it will award close to \$100 million in scholarships in 2012. After factoring in scholarships, the average costs associated with obtaining a Bachelor's of Science in Business Administration at Grand Canyon is reduced considerably to approximately \$32,000. We understand that University of Arizona also provides scholarships but not nearly to the extent of private universities such as Grand Canyon University. We believe once scholarships are factored in, University of Arizona's average tuition is comparable to Grand Canyon University's.

Retention Rates

- **Report:** You indicate that 58.5% of Grand Canyon students in 2008-09 withdrew by mid-2010, compared to the average withdrawal rate of 54.1% for the other 30 schools that the committee examined.

⁴ 2009-10 Executives' compensation at public institutions, Chronicle of Higher Education, April 1, 2011.

⁵ Aquila, Inc. Proxy Statement dated March 17, 2008.

⁶ Grand Canyon Annual Report on Form 10-K dated February 21, 2012.

- **GCU Response:** The University acknowledges that its average withdrawal rate during the period analyzed was higher than the University would like, however, your report fails to acknowledge the significant change the University made in the summer of 2010 which caused a spike in that rate. In April 2010, we began transitioning our working adult students from a "term-based" financial aid system (where all students, including online students, begin programs and are eligible to receive financial aid at periodic start dates pursuant to a calendar-based term system) to a "borrower-based, non-term" or "BBAY" financial aid system (where each student may begin a program and be eligible to receive financial aid at any time throughout the year). We believe BBAY provides greater ease and flexibility for our students by providing for rolling and flexible start dates. It also assists in ensuring that students do not over borrow in the early years of a program, which could result in aggregate loan limits being exceeded prior to graduation. The move to BBAY has, in most circumstances, significantly reduced the amount of living expenses a student is eligible to receive. Therefore, we believe that the conversion to BBAY, although positive for the student in many respects, caused a greater number of our existing students to leave Grand Canyon during this period. In addition, during the past two years the University has put a greater focus on recruiting students into programs that it believes retain at higher levels such as nursing and teacher education. This has resulted in a significant increase in the percentage of our student body in these high retention programs. We believe these changes are the primary drivers in the significant improvement in retention rates in recent years. For example, of all online students at Grand Canyon who started our program between August and November of 2011, 70% completed their first 12 credits by July, 2012. It has been our experience that students that complete their first 12 credits are much more likely to graduate, thus, we anticipate that this cohort will have withdrawal rates significantly below the withdrawal rates cited in your report.

Career Counseling

- **Report:** You note that Grand Canyon employed only 3 career services employees in 2010.
- **GCU Response:** Unlike many traditional universities, the majority of Grand Canyon's students are non-traditional, working professional students. In 2011, for example, 88.6% of Grand Canyon's students were attending courses online, 42.7% were in graduate degree programs and almost 70% were in either teacher education or nursing/health sciences programs.⁷ As a result, these students are not entering the work force for the first time and do not require a great deal of career counseling. Rather, many of these students are already employed, primarily at hospitals or school districts, and are attending Grand Canyon to further their education as a means of advancing to higher level positions within their existing profession and increasing their compensation. The University does actively provide career services to its traditional-aged students and to its working adult students when requested.

⁷ Grand Canyon Annual Report on Form 10-K dated February 21, 2012.