Improvements Needed to Gauge Effectiveness and Expend State Funds Available for Postsecondary Financial Aid
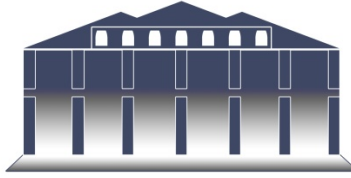
**Final Report to the Joint Legislative
Program Evaluation Oversight Committee**

Report Number 2019-08

October 21, 2019

October 21, 2019

Senator Brent Jackson, Co-Chair, Joint Legislative Program Evaluation Oversight Committee
Representative Craig Horn, Co-Chair, Joint Legislative Program Evaluation Oversight Committee

North Carolina General Assembly
Legislative Building
16 West Jones Street
Raleigh, NC 27601

Honorable Co-Chairs:

The 2018–19 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine the extent to which state-supported scholarships, grants, and educational loan programs have met their goals and to examine the educational and vocational outcomes of students who have received support.

I am pleased to report that the North Carolina State Education Assistance Authority cooperated with us fully and was at all times courteous to our evaluators during the evaluation.

Sincerely,

John W. Turcotte
Director

Mandatory Evaluation Components

Report 2019-08: Improvements Needed to Gauge Effectiveness and Expend State Funds Available for Postsecondary Financial Aid

N.C. Gen. § 120-36.14 requires the Program Evaluation Division to include certain components in each of its evaluation reports, unless exempted by the Joint Legislative Program Evaluation Oversight Committee. The table below fulfills this requirement and, when applicable, provides a reference to the page numbers(s) where the component is discussed in the report.

N.C. Gen. § 120-36.14 Specific Provision	Component	Program Evaluation Division Determination	Report Page
(b)(1)	Findings concerning the merits of the program or activity based on whether the program or activity		
(b)(1)(a)	Is efficient	The Program Evaluation Division found that **SEAA is efficient** in its administration of state-supported educational financial aid. **The cost per award provided from Fiscal Years 2016–2018 ranged from $10.40 per award to $11.67 per award.**	p. 24
(b)(1)(b)	Is effective	SEAA **effectively administers** state-supported educational financial aid programs **because aid programs promote access and reduce cost**; additionally, SEAA **meets internal performance goals to align disbursement of aid with legislative intent and complement federal aid awards.** However, the **effectiveness of aid programs designed to fulfill critical employment shortages cannot be determined because of data system limitations that hinder effective internal recordkeeping practices.** The Program Evaluation Division found that **effectiveness in committing aid** to eligible students **varies by aid program.** On average from Fiscal Years 2014–2018, SEAA **expended state appropriations for educational financial aid programs** by the following proportions: • **UNC Need-Based Grant – 99%** • **Education Lottery Scholarship – 97%** • **Need-Based Scholarship for Private Institutions – 97%** • **Forgivable Education Loans for Service – 93%** • **Community College Grant – 93%**	pp. 9-15
(b)(1)(c)	Aligns with entity mission	The mission of SEAA is to promote access to higher education by administering financial aid and savings programs, informing students and families about paying for college, teaching educators about financial aid administration, and advocating for resources to support students. This mission **aligns with the University of North Carolina System's mission** to extend educational benefits beyond campus borders and to encourage economic and effective use of the State's resources.	p. 8
(b)(1)(d)	Operates in accordance with law	The Program Evaluation Division found that SEAA **operates in accordance with state law**—N.C.G.S. § 116 Article 23. Additionally, annual audit reports found no material misstatements. No other exceptions have been noted.	p. 4
(b)(1)(e)	Does not duplicate another program or activity	The Program Evaluation Division found that **no duplication exists** between SEAA and other state agencies or programs that administer and disburse funds for scholarships, grants, or educational loans.	p. 8

(b)(1a)	Quantitative indicators used to determine whether the program or activity		
(b)(1a)(a)	Is efficient	The Program Evaluation Division determined **the efficiency of SEAA based on the cost per award.**	p. 24
(b)(1a)(b)	Is effective	The Program Evaluation Division determined **the effectiveness of SEAA based on the following statutorily-created performance goals for state-supported educational financial aid:** • promote access, • reduce costs, and • promote employment. The Program Evaluation Division **also determined the effectiveness of SEAA based on certain internal agency performance goals**: • align spending of state funds with goals determined by legislative directive; • design state need-based aid to complement, not replace, federal aid; and • fully commit allocated funds to the intended student population.	pp. 9-15 and 21-24
(b)(1b)	Cost of the program or activity broken out by activities performed	In Fiscal Year 2017–18, the **total cost for SEAA staff to administer state-supported educational financial aid was $1.3 million.** Staff activity costs break down as follows: • **Administrative = $287,617** • **Award calculations = $65,584** • **Budgeting and accounting = $69,245** • **Funds processing = $132,818** • **Information technology = $222,214** • **Legal services = $12,829** • **Loan services = $254,727** • **Oversight and review = $249,512** The Program Evaluation also found that the **cost per award for Fiscal Year 2017–18 was $10.40.**	p. 24-25

(b)(2)	Recommendations for making the program or activity more efficient or effective	To improve the administration of state-supported educational financial aid, Recommendations 1 through 5 state that the General Assembly should do the following:
		• modify state law to remove restrictions that hinder SEAA's ability to fully expend state-supported educational financial aid for the Education Lottery Scholarship, and improve the transparency of SEAA financial statements;
		• direct stakeholders to pursue methods to include private institutions in the Common Follow-Up System; and
		• direct SEAA to
		    ◦ improve data system recordkeeping practices for educational financial aid loan programs to allow for better evaluation of the effectiveness of such programs to meet critical employment shortages;
		    ◦ create a strategic plan; and
		    ◦ increase reporting metrics.
			pp. 29-31

(b)(2a)	Recommendations for eliminating any duplication	The Program Evaluation Division **did not find evidence of duplication** between SEAA and other state agencies or programs that administer and disburse funds for state-supported scholarships, grants, or educational loans.	p. 8
(b)(4)	Estimated costs or savings from implementing recommendations	Recommendation 5 states that the General Assembly should consider **appropriating $700,000 annually** for program administration funding to SEAA in order to support the costs of administering the UNC Need-Based Grant.	pp. 24-28 and 30

Improvements Needed to Gauge Effectiveness and Expend State Funds Available for Postsecondary Financial Aid

Summary

The 2018–19 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine the extent to which state-supported scholarships, grants, and educational loan programs have met their goals and examine the educational and vocational outcomes of students who receive support.

The State Education Assistance Authority (SEAA) does not fully expend state-supported educational financial aid. SEAA uses internal forecasting methods to inform overcommitment levels yet North Carolina students continue to have unmet need and some state funds for educational financial aid remain unspent. Statutory and other limitations governing eligibility and funding amounts limit SEAA's ability to fully expend state appropriations.

Although SEAA promotes access and reduces costs to students, issues with recordkeeping, publicly available data on aid programs, and financial reporting make effectiveness unclear. Data system limitations prevent recordkeeping that could determine if critical employment shortages are being filled by the Forgivable Education Loans for Service program. In addition, SEAA lacks an organizational strategic plan that outlines performance goals and annual reports lack data on aid programs. Further, the SEAA's financial statements do not provide a transparent picture of its financial health.

Students receiving aid achieve positive outcomes, but private institutions need improved reporting requirements. Students who receive state-supported educational financial aid demonstrate favorable outcomes relative to their peers. However, because private institutions are not required to report student outcomes and do not voluntarily do so, outcomes for students receiving the Need-Based Scholarship for Private Institutions are unclear.

Based on these findings the General Assembly should
- modify state law to remove restrictions that hinder expending state-supported educational financial aid;
- alter statutory language to ensure all SEAA activities related to the Need-Based Scholarship for Private Institutions are included in its financial statements;
- direct SEAA to improve recordkeeping, create a strategic plan, increase data reporting;
- consider appropriating program administration funding for the UNC Need-Based Grant; and
- direct increased reporting by private institutions.

Purpose and Scope

The 2018–19 Work Plan of the Joint Legislative Program Evaluation Oversight Committee directed the Program Evaluation Division to examine the extent to which state-supported scholarships, grants, and educational loan programs have met their goals and examine the educational and vocational outcomes of students who have received support.

This evaluation solely focuses on state-supported postsecondary aid programs administered by the North Carolina State Education Assistance Authority (SEAA) at in-state institutions and does not evaluate any federal, private, or institutional-specific scholarships, grants, or educational loans. Additionally, no assessment of K-12 educational scholarships, grants, or educational loans is included in this study.

This evaluation was guided by four research questions:
1. Are state-supported scholarships, grants, and educational loans effective?
2. What are the educational outcomes of students who received state-supported scholarships, grants, or educational loans?
3. What are the vocational outcomes of students who received state-supported scholarships, grants, or educational loans?
4. In what ways could state-supported scholarships, grants, and educational loans be modified to better achieve intended outcomes?

The Program Evaluation Division collected and analyzed data from several sources including
- federal and state laws on educational financial aid programs;
- queries and interviews of SEAA staff;
- data and reports on educational financial aid programs;
- data and reports on postsecondary institutions;
- historical data on expenditures and revenues for SEAA;
- workload data of SEAA staff administering aid programs;
- historical academic record data from North Carolina public postsecondary educational systems to assess educational outcomes;
- historical wage record data from North Carolina's Department of Commerce for students attending both public and private postsecondary educational systems to assess vocational outcomes; and
- interviews with educational financial aid administering bodies in other states, national organizations and academic experts in the administration of educational financial aid programs, administrators of the North Carolina Common Follow-Up System, and North Carolina public and private postsecondary educational systems with students who receive state-supported educational financial aid and attend their respective institutions.

Background

As the cost of obtaining a postsecondary education continues to rise, student need for state-supported educational financial aid continues to increase as well. Educational financial aid is money provided to students individually or to colleges and universities to reduce the costs of attendance at a postsecondary institution. Aid can be provided through scholarships, grants, or educational loans. Scholarships and grant awards are educational financial aid that do not carry a commitment to repay monies borrowed and are often based on specific criteria such as merit or need, whereas educational loans are provided with an expectation of monetary repayment or employment in specific industries for a specific length of time.

In general, there are three forms of educational financial aid:

1. **Merit.** This form of aid is based on a student's skill or ability such as grade point average, or standardized test scores.
2. **Need.** This form of aid is based on a student's financial status such as annual earnings or reported income status.
3. **Special interest.** This form of aid is based on fulfilling explicit purposes, often for specific groups of students, such as forgivable loans for students studying to become doctors or nurses.

Nationally, states structure their state-supported educational financial aid systems based on targeted public policy goals, which include reducing costs to students, promoting access, and encouraging employment. Most state-supported educational financial aid systems offer programs that seek to accomplish each of these goals, or a combination of goals. For example, an aid program can seek to both promote access and reduce costs. As Exhibit 1 shows, levels of need-based educational financial aid provided to students vary by state.

Exhibit 1

States Vary in the
Level of Need-Based
Educational Financial
Aid Awarded
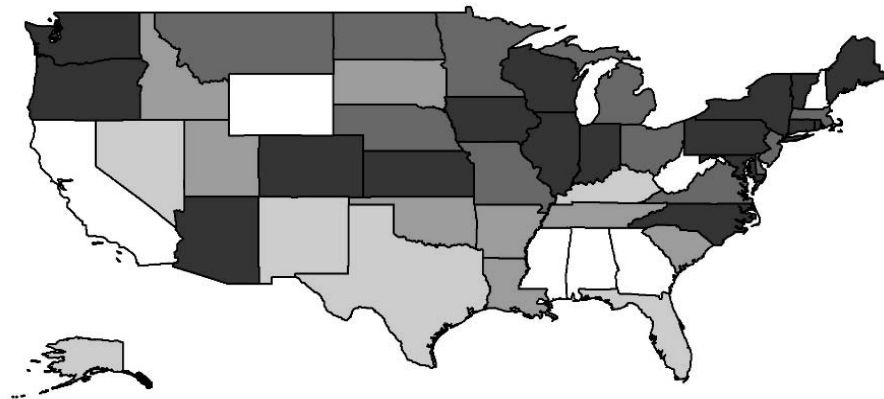
Percentage of Aid Based Solely on Need

☐	No Data Reported
☐	0% - 24.9%
☐	25% - 49.9%
☐	50% - 74.9%
■	75% - 100%
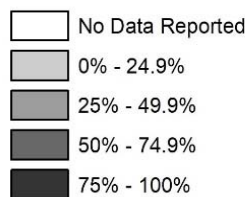
Note: Percentages based on academic year 2016–17.

Source: Program Evaluation Division based on information from the National Association of State Student Grant and Aid Programs.

North Carolina has a predominantly need-based aid system that includes some special interest educational loan programs. Focusing on reducing cost for students aligns with the State's objective to make "… higher education, as far as practicable, [to] be extended to the people of the State free of expense;" but as shown in Exhibit 2, specific state-supported educational financial aid programs in North Carolina have other purposes such as promoting access and encouraging employment.[1]

- **Reducing cost.** Programs that reduce costs aim to lessen the financial burden on students who seek to attend postsecondary institutions. In some instances, these programs strive to meet the full need of a student pursuing a degree or else focus on providing awards to students based on specific financial indicators such as expected family contribution. Programs that reduce costs can be evaluated using effectiveness measures such as level of unmet need.

- **Promoting access.** Programs that promote access seek to increase the number of individuals pursuing a postsecondary degree and emphasize removing financial and social barriers to promote matriculation. Because the focus of these programs is increasing attendance, awards are prioritized to serve the most students as opposed to providing the most financial support per student. Programs that promote access can be evaluated using outcome measures such as attendance or graduation.

---

[1] NC Const. art. IX, sect. 9.

- **Encouraging employment.** Programs that encourage employment offer financial support to students contingent upon employment in a specific industry. In North Carolina, these programs focus on areas such as health sciences and education. Students who accept these awards and do not fulfill employment obligations can enter into cash repayment options. Award amounts are predetermined based upon student enrollment, often limiting the number of students served. Programs that encourage employment can be evaluated using student outcome measures such as graduation, employment, and earnings.

Exhibit 2: Description of North Carolina Educational Financial Aid Programs

Aid Program	Program Description	Number of Awards 2017–18	Value of Awards 2017–18
Child Welfare Postsecondary Support Program (NC Reach)	Increase postsecondary education opportunities for foster youth by assisting with the cost of attendance	289	$ 1,949,968
Community College Grant	Make funds available to students when other financial aid programs do not fully cover required educational expenses	23,863	17,311,062
Education Lottery Scholarship	Provide financial assistance to students with need	25,919	27,971,676
Need-Based Scholarship for Private Institutions	Provide financial assistance to students with need who seek to attend a private college or university	22,368	88,138,300
UNC Need-Based Grant	Meet the needs of students who would find it difficult or impossible to gain access to higher education at a UNC system school even with other forms of aid	50,154	123,672,458
Forgivable Education Loans for Service	Provide financial assistance in the form of forgivable loans for service to qualified students who are committed to working in the state in order to respond to critical employment shortages	1,851	18,374,834
Principal Fellows Program	Provide financial aid to individuals who wish to pursue employment in education administration in North Carolina public schools	84	2,470,790
Total:		**124,528**	**$279,889,088**

Note: This table is limited to exclusively state-supported programs for students seeking attendance at a public or private postsecondary institution and is not representative of all educational financial aid programs offered in North Carolina.

Source: Program Evaluation Division based on state law and information from SEAA.

In academic year 2017–18, the State provided about $280 million in educational financial aid through 124,528 awards to students attending postsecondary institutions in North Carolina. More specifically, this aid consisted of almost $260 million in scholarships and grants averaging

$2,113 per award and educational loans totaling $20.8 million. More information on the State's educational financial aid programs can be found in Appendix A.

In North Carolina, students are considered for state-supported educational financial aid after federal eligibility has been determined. As shown in Exhibit 3, students receive educational financial aid by first completing a Free Application for Federal Student Aid (FAFSA). From the FAFSA, eligibility for both federal and state educational financial aid is determined based upon factors such as income and household size.[2] This method of providing educational financial aid is a primary attribute of a need-based system, which focuses on a student's ability to pay rather than a student's ability to succeed.
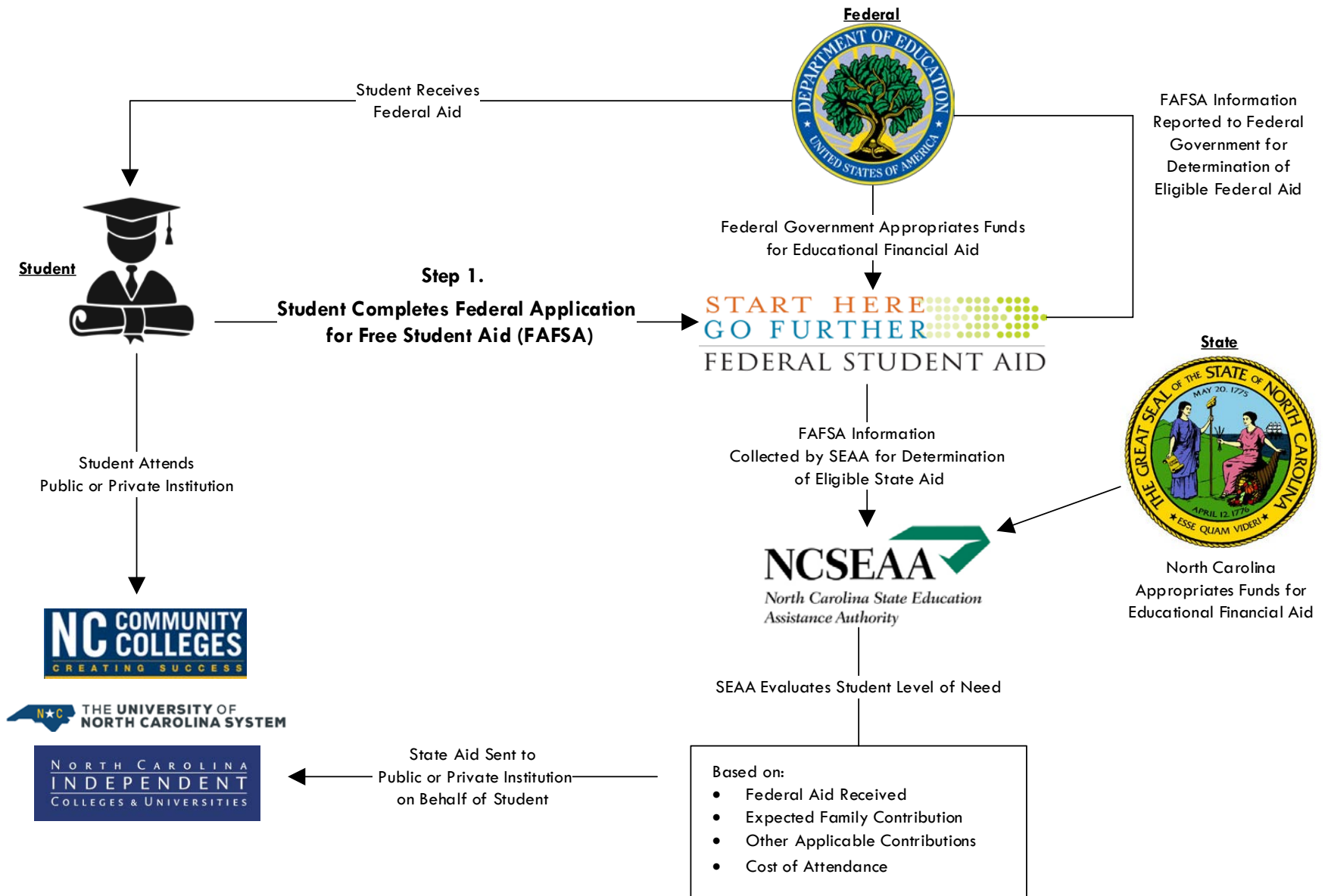
As also shown in Exhibit 3, a North Carolina student's ability to pay is determined by a variety of factors:

- **Pending other aid award amounts.** North Carolina's educational financial aid system seeks to complement federal financial aid awards by applying a "federal dollar first" principle wherein the amount of state aid a student receives depends on the amount of federal aid awarded. Additionally, funding from some state-supported educational financial aid programs can increase or decrease the amount of funding students receive from other aid programs.
- **Expected family contribution.** Expected family contribution aims to measure the financial strength of a student's family based on income and assets. Expected family contribution is calculated both at the federal and state level. In North Carolina, the latter is referred to as a family contribution.
- **Self-help contribution.** Some programs in North Carolina also use a self-help contribution as a way to encourage students to contribute and save for college expenses. This contribution is considered in addition to a student's federal aid award amount and expected family contribution.

After factors such as these have been considered, funding is awarded to students based on appropriations provided by the North Carolina General Assembly.

---

[2] The Free Application for Federal Student Aid (FAFSA) is used in lieu of an application for all state-supported scholarships and grants for postsecondary education.

Exhibit 3: State Educational Financial Aid Award Amounts to North Carolina Students Depend on Numerous Factors

Federal

Student Receives
Federal Aid

FAFSA Information
Reported to Federal
Government for
Determination of
Eligible Federal Aid

Federal Government Appropriates Funds
for Educational Financial Aid

Student

Step 1.

**Student Completes Federal Application
for Free Student Aid (FAFSA)**

START HERE
GO FURTHER
FEDERAL STUDENT AID

State

FAFSA Information
Collected by SEAA for Determination
of Eligible State Aid

Student Attends
Public or Private Institution

NCSEAA
North Carolina State Education
Assistance Authority

North Carolina
Appropriates Funds for
Educational Financial Aid

NC COMMUNITY COLLEGES
CREATING SUCCESS

THE UNIVERSITY OF NORTH CAROLINA SYSTEM

SEAA Evaluates Student Level of Need

NORTH CAROLINA INDEPENDENT COLLEGES & UNIVERSITIES

State Aid Sent to
Public or Private Institution
on Behalf of Student

Based on:
- Federal Aid Received
- Expected Family Contribution
- Other Applicable Contributions
- Cost of Attendance

Notes: Postsecondary institutions are responsible for certifying the student's enrollment status and eligibility status. Postsecondary institutions apply aid received on behalf of students to student accounts and inform SEAA of any student withdrawals.

Source: Program Evaluation Division based on information from SEAA.

The North Carolina State Education Assistance Authority administers and disburses funds for state-supported scholarships, grants, and educational loans. Created in 1965, the State Education Assistance Authority (SEAA) promotes access to higher education by administering educational financial aid and financial savings programs.[3] To accomplish this mission, SEAA works alongside numerous partners to package and disburse educational financial aid for eligible students.

As shown in Exhibit 4, SEAA partners with entities such as the Department of Health and Human Services for the determination of applicant eligibility and disbursement of funds to students for the Child Welfare Postsecondary Support Program (NC Reach) as well as with the Principal Fellows Commission for the determination of applicant eligibility and disbursement of funds for the Principal Fellows Program. Other partners that assist in the provision of state-supported educational financial aid for eligible students include the University of North Carolina System, North Carolina Community Colleges System, North Carolina Independent Colleges and Universities System, and College Foundation Incorporated.

Exhibit 4

SEAA Partners With Several Entities to Administer Educational Financial Aid

Source: Program Evaluation Division based on information from SEAA.

State-supported educational financial aid programs that increase access and reduce cost to students seeking a postsecondary degree allow North Carolina to reap tangible and intangible benefits. Extensive research has shown that individuals with a postsecondary degree experience greater personal mobility as well as positive social, health, and economic outcomes.[4] In turn, states benefit from increased tax revenues, less government dependence, and general economic growth. Continual evaluation of the outcomes of students receiving state-supported educational financial aid can ensure the effectiveness of these programs for students as well as for the State.

---

[3] SEAA can be found in the State's Comprehensive Annual Financial Reports as a nonmajor component unit, discretely presented. See Appendix C for SEAA Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position for the fiscal year ending on June 30, 2018.

[4] Wolfe, Barbara L. & Robert H. Haveman. (2002). Social and nonmarket benefits from education in an advanced economy. Conference Series; [Proceedings], Federal Reserve Bank of Boston, vol. 47(Jun), 97-142.

Findings

Finding 1. The State Education Assistance Authority seeks to promote access and reduce costs for students but challenges exist that prevent fully expending state appropriations for educational financial aid.

The State Education Assistance Authority (SEAA) serves as the agent for disbursing and administering educational financial aid to promote access and reduce cost for a postsecondary education. SEAA takes steps to provide awards to the greatest number of students at the largest level of funding possible for each individual student. Educational financial aid awards are made on behalf of individual students as opposed to being made directly to postsecondary institutions, and SEAA relies on postsecondary institutions to monitor and report on the continued eligibility and success of students.[5]

SEAA performs several activities aimed at funding all eligible students as well as providing funding amounts to students that are consistent year after year. Among these activities is the annual revision of payment schedules to group students into various funding levels. Additionally, for some programs, SEAA recalculates expected family contribution to more accurately fit economic conditions in North Carolina.[6]

Despite SEAA taking these steps, state-supported educational financial aid meets a small portion of student need for attending a public or private institution in the state. The Program Evaluation Division determined the levels of student need being met by state aid by calculating the total cost of attendance for public and private institutions in North Carolina and then comparing those costs to the size of state-supported educational financial aid packages for students for each postsecondary educational system. The Program Evaluation Division found that the average percentage of need being met varied by type of postsecondary educational system.[7]

- University of North Carolina System – 18%
- North Carolina Community Colleges System – 7%
- North Carolina Independent Colleges and Universities – 13%

Further examination of how educational financial aid is disbursed to students provides a way to assess how effectively state funds are used to promote access and reduce costs.

Award commitment does not ensure state funds are fully expended. In an effort to make certain that SEAA provides the maximum possible amount of educational financial aid, the organization overcommits awards to students. SEAA projects the number of eligible students expected to apply for funding and how much each student can receive by examining data from previous years. Exhibit 5 outlines this procedure. Offering funding to students in a timely manner represents an important step in

---

[5] Although actual dollars for educational financial aid awards are provided to postsecondary institutions, award amounts are tied to specific students.

[6] Expected family contribution (EFC) is a measure of overall financial strength.

[7] Percentage of need being met does not include federal, institutional-specific, or private aid a student may have received. In North Carolina, postsecondary institutions are responsible for the final steps in packaging aid to students. As a result, many postsecondary institutions offer additional aid to students during these final steps that is based on the remaining level of need.

ensuring students can accurately assess their financial position when selecting and enrolling in a postsecondary institution.

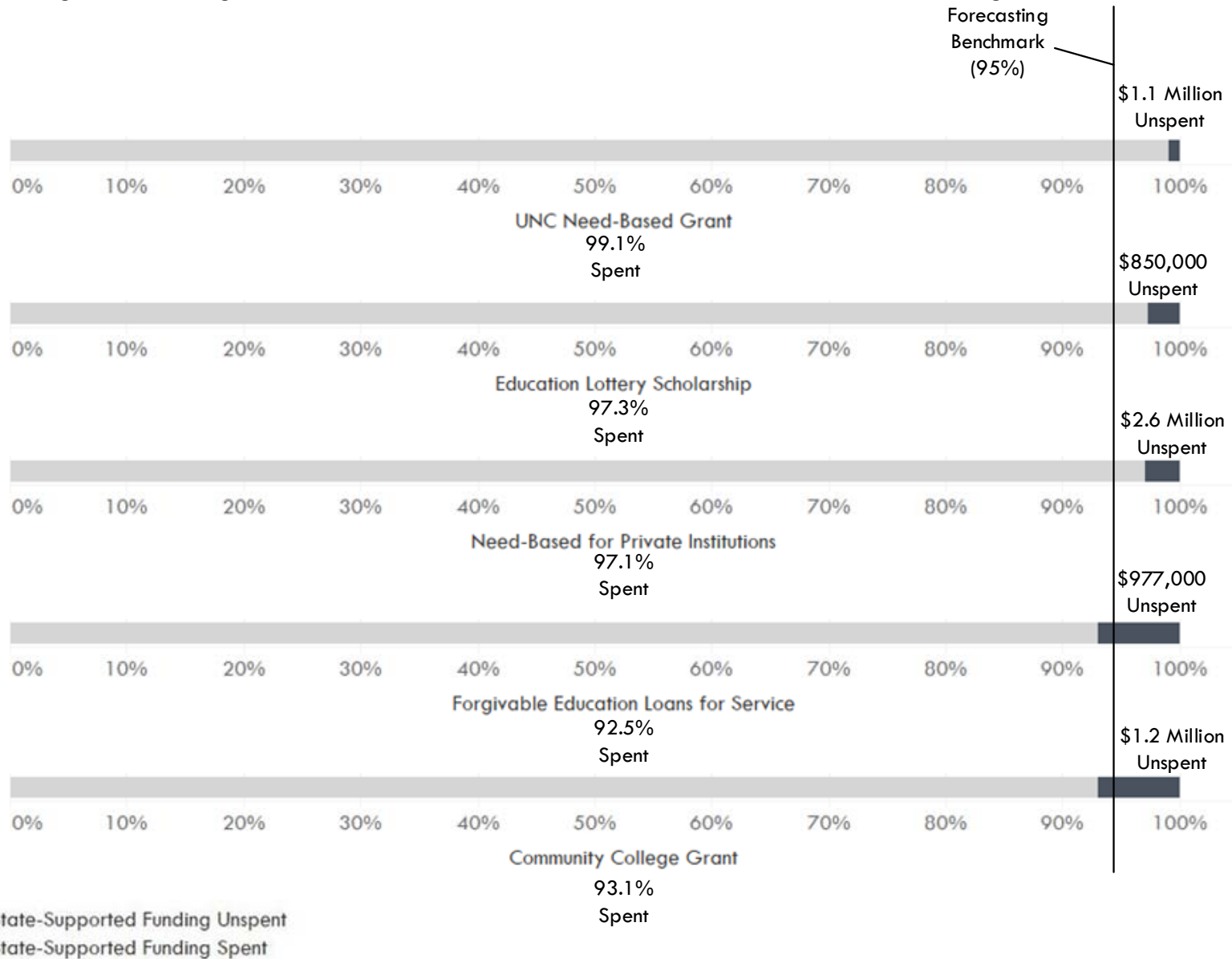## Exhibit 5: SEAA Projects Award Amounts to Eligible Students
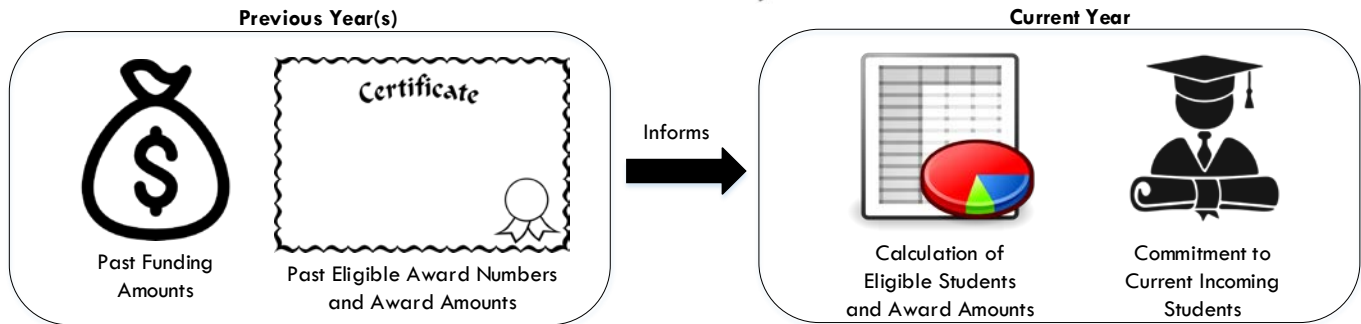
Source: Program Evaluation Division based on information from SEAA.

Forecasting is designed to inform SEAA regarding how to structure a payment schedule to provide funding to all eligible students while ensuring state appropriations are expended to the fullest extent (i.e., the amount of funding paid out should be as close as possible to the amount of funding available). The effectiveness of this process is important because if more or less funding is expended, fewer students receive more educational financial aid overall. Based on internal performance targets, SEAA aims to maintain no more than a 5% reserve of state funds after all awards have been accepted and paid out.[8]

From Fiscal Year 2013–14 to 2017–18, three educational financial aid programs met this internal performance target year after year. However, as Exhibit 6 shows, the Forgivable Education Loans for Service (92.5%) and Community College Grant (93.1%) programs did not meet this target. Nonetheless, all five forecasted educational financial aid programs disbursed, on average, at least 90% of funds during this five-fiscal-year period with average remaining unspent state funds ranging from $850,000 to $2.6 million.

---

[8] Funds not paid out are carried forward into the next fiscal year as reserves.

Exhibit 6: Average Forecasting Effectiveness Varies Across State Educational Financial Aid Programs

Forecasting Benchmark (95%)

$1.1 Million Unspent

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

UNC Need-Based Grant
99.1%
Spent

$850,000 Unspent

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Education Lottery Scholarship
97.3%
Spent

$2.6 Million Unspent

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Need-Based for Private Institutions
97.1%
Spent

$977,000 Unspent

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Forgivable Education Loans for Service
92.5%
Spent

$1.2 Million Unspent

0% 10% 20% 30% 40% 50% 60% 70% 80% 90% 100%

Community College Grant
93.1%
Spent

■ Average State-Supported Funding Unspent
■ Average State-Supported Funding Spent

Note: NC Reach and the Principal Fellows Program are excluded because no forecasting takes place in awarding these funds. Figures represent averages from the period of Fiscal Year 2013–14 to Fiscal Year 2017–18. Community College Grant calculations exclude cash reserves held for funding awards.

Source: Program Evaluation Division based on information from SEAA and NCCCS.

Challenges exist in expending funding for educational financial aid.
Several factors explain why funding for educational financial aid may be
over-expended or under-expended including more or fewer students
matriculating than expected, students failing to reenroll semester after
semester, or less funding being available overall. Certain other challenges
affect specific North Carolina educational financial aid programs.

- **Community College Grant.** Decisions involving the use of
appropriations for this aid program, including the amount of
appropriations held in reserve, are not made at the discretion of
SEAA. As a result, SEAA forecasting for this program excludes these
available funds, thereby limiting the number of awards projected
to be provided to students. In assessing forecasting effectiveness,
the Program Evaluation Division found that including existing
reserves decreased the amount of appropriations disbursed by
10% and increased average unspent funds from $1.2 million to
$3.3 million.

- **Education Lottery Scholarship.** Statutory restraints on the amount
of total funding a student can receive limits award values for this
program if aid is combined with federal educational financial aid
awards. Currently, a student planning to attend a community
college in North Carolina cannot receive more than $4,000
combined in state-supported educational financial aid from the
Education Lottery Scholarship and from the Federal Pell Grant.
Additionally, income-based eligibility requirements as measured by
expected family contribution have decreased the number of
candidates eligible for these funds, meaning fewer students can be
served and those who are eligible receive less funding than their
counterparts may have received in previous years.

- **Forgivable Education Loans for Service.** Application procedures
outside of the Free Application for Federal Student Aid reduce the
number of students considered for funding.[9] Additionally, funding
amounts are tied directly to the amount of credit hours enrolled
rather than to level of need, further limiting the amount of funding
students receive.

In summary, the main goals of state-supported educational financial aid
programs are to reduce costs and promote access for students who seek a
postsecondary degree. Overall, the Program Evaluation Division found that
educational financial aid programs meet these overarching goals through
specific steps SEAA takes to provide consistent award amounts to all
eligible students. However, unmet need continues to exist and state funds
for educational financial aid remain unspent despite internal forecasting
designed to inform overcommitment levels to students. Methods to better
meet need for North Carolina students would require decision making
regarding the public policy goals the State wishes to target for its
educational financial aid system.

---

[9] The Free Application for Federal Student Aid is used in lieu of an application for all state-supported scholarships and grants for
postsecondary education.

Finding 2. The State Education Assistance Authority cannot verify that educational loan programs encourage employment in fields with critical shortages.

In addition to providing scholarships and grants, North Carolina also offers educational financial aid in the form of educational loans, including the Forgivable Education Loans for Service program and the Principal Fellows Program. The goal of these programs is to encourage employment in the state for select professions with critical shortages such as doctors, nurses, allied health professionals, teachers, and principal administrators.[10] Upon accepting an educational loan from these programs, a student agrees to repay the amount borrowed through one of two means:

1. **Service repayment** is based on a student's agreement to complete a postsecondary degree and maintain employment in a preapproved field for a specific length of time. Students who opt for service repayment must obtain employment in an approved field within three months of obtaining their degree and must maintain employment for the full length of time required to receive full loan forgiveness.

2. **Cash repayment** is based on a student's agreement to remit payments to the State until the total amount borrowed has been repaid in full plus an additional interest rate charge.[11] Students who opt for cash repayment are not employed in a preapproved field or do not meet the requirement of being employed in the preapproved field for the full length of time required to qualify for service repayment. Cash repayment must be completed within 10 years of a student obtaining his or her degree.[12]

The State Education Assistance Authority (SEAA) is responsible for disbursing educational loan funds to students and tracking both forms of repayment. Service repayment requires SEAA to verify the employment of award recipients to ensure they fulfill service time requirements. Cash repayment requires SEAA to maintain records of payments remitted on a loan balance including, if necessary, pursuing defaults and litigation on the State's behalf.

Educational loan programs may not effectively fulfill critical employment shortages. The current data system used by SEAA was developed in-house and is approximately two decades old. SEAA has made modifications to this system over time in order to perform the services tasked to the organization and maintain its mission as the State's agent for disbursing educational financial aid. However, although SEAA is responsible for verifying employment for service repayment, it cannot demonstrate how many educational loans forgiven by the State were

---

[10] Professions deemed to have a critical shortage or level of demand are based upon North Carolina Occupational Projections performed by the Department of Commerce as part of the North Carolina Star Jobs program.

[11] Interest rate charges for students engaged in cash repayment for the Forgivable Education Loans for Service program is 8%, and the interest rate charges for students pursuing cash repayment for the Principal Fellows Program is 10%. Interest rate charges are designed to deter recipients from opting for cash repayment over service repayment.

[12] Students may undertake both methods of repayment throughout a period of loan forgiveness.

discharged for students who fulfilled service obligations as opposed to how many were discharged by students who completed cash repayment.

Specifically, in requesting information on individual students, the Program Evaluation Division found issues with tracking closed accounts wherein forgiven state-supported educational loans could not be differentiated by a student's method of completion (i.e., service or cash repayment). SEAA currently estimates service repayment of educational loans at around 80%, but the Program Evaluation Division could not verify the accuracy of this estimate. As shown in Exhibit 7, because only active records are tracked, it is possible for a student to accept an educational loan and then entirely undertake cash repayment; in this scenario, the account would be closed without the State having the ability to determine that the loan did not meet its intended purpose of fulfilling a critical employment shortage.

Exhibit 7: Data System for Tracking Educational Loans Fails to Identify Method of Repayment
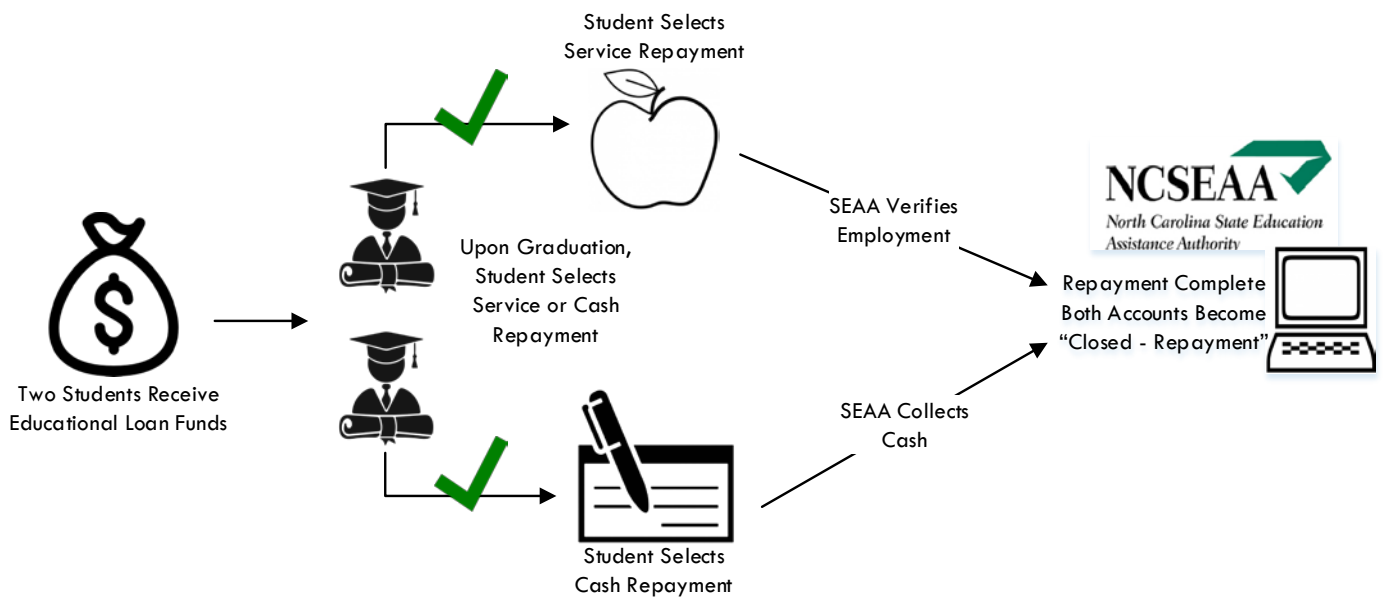
Source: Program Evaluation Division based on information from SEAA.

Without the ability to verify service repayment, the State cannot be certain that forgivable education loans for service is an effective means of reducing employment shortages or determine if other public policy initiatives should be pursued to also encourage employment in fields with critical levels of demand.[13] Since Fiscal Year 2012, SEAA has awarded over 12,000 forgivable educational loans totaling approximately $121 million.

In summary, educational loans in North Carolina are intended to encourage employment in select fields. Although SEAA is tasked with ensuring service repayment occurs, the Program Evaluation Division found that current data system limitations prevent recordkeeping practices that could determine if critical employment shortages are being filled. Because it remains uncertain

---

[13] SEAA has contracted to implement information technology improvements to verify service repayment for both active and closed accounts. However, SEAA presently lacks this capability in its current data system.

if students receiving this form of educational financial aid are opting for service repayment and fulfilling these shortages, the extent to which educational loan programs are meeting their goals is unclear.

Finding 3. Private institutions do not centrally report student outcomes to the State's central data repository, limiting the State's ability to determine the effectiveness of state appropriations.

Like many states, North Carolina has a longitudinal data repository of workforce and educational records. This repository, known as the Common Follow-Up System (CFS), maintains educational and vocational outcome data and allows for the ability to track an individual from entrance into public school to enrollment at a postsecondary institution and employment after graduation.[14] CFS is a collaboration among many stakeholders. The Department of Information Technology's Government Data Analytics Center and the Labor and Economic Analysis Division of the Department of Commerce work together to administer the system, and other entities provide information to enhance the comprehensiveness of the database.[15] However, aside from publicly released information, CFS is not available for outside use unless an organization is a regularly reporting entity, and even in those circumstances data access remains limited.[16]

Without data furnished by private institutions, the State cannot assess the outcomes of students attending these institutions. From Fiscal Year 2012–13 to 2017–18, almost 145,000 state-supported educational financial aid awards were made to students attending private institutions in North Carolina totaling $512.6 million in state appropriations. Because private institutions in North Carolina are not required to report to CFS and do not voluntarily provide such data, educational outcomes for students who receive state-supported educational financial aid and choose to pursue a postsecondary degree at a private institution in the state are not centrally tracked, and data on these students is not readily available. The Program Evaluation Division sought to analyze outcomes for students receiving the Need-Based Scholarship for Private Institution; however, a lack of valid and reliable educational data prevented accurate analysis.[17] Student outcomes are further discussed in Finding 4.

Public institutions can request student-level information from the Common Follow-Up System to assess educational and vocational outcomes. Information in CFS is made available to the public in general but also can be directly requested by public postsecondary educational systems such as the University of North Carolina System (UNC System) and the North Carolina Community Colleges System (NCCCS). Because they are seen as agents of state government, requests by these public systems can

---

[14] Employment can only be tracked for individuals who work for an employer that is required by law to remit payment for unemployment insurance within North Carolina.

[15] The Common Follow-Up System also includes information from stakeholder groups such as the Department of Health and Human Services and the Department of Public Instruction.
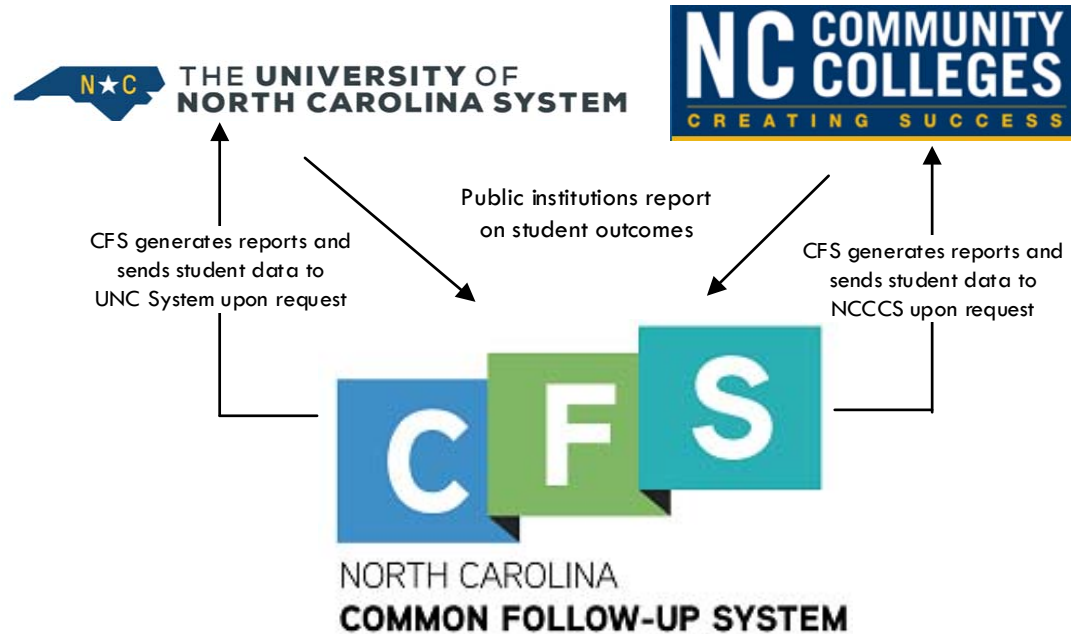
[16] The Program Evaluation Division utilized educational and vocational records accessible through the Common Follow-Up System.

[17] A lack of educational data for students prevents an assessment of educational outcomes entirely. Additionally, without regularly reported educational data, student success after graduation (e.g., employment and earnings) cannot be determined because no reported graduation date exists.

be fulfilled at an identifiable individual student level. Public educational systems can use CFS data to analyze outcomes for student groups that attend their institutions. For example, a public institution can request student-level information to assess how many students graduated with a specific degree, where they work in the state, and how much they earn. Exhibit 8 outlines the reporting arrangement between CFS and public educational systems.

Exhibit 8

Public Postsecondary Educational Systems Report to and Can Receive Information from the Common Follow-Up System

Source: Program Evaluation Division based on information from GDAC and LEAD.

Current interpretation of federal law hinders a mutually beneficial reporting arrangement with private institutions. Unlike public institutions, private institutions in the North Carolina Independent Colleges and Universities system (NCICU) are not considered agents of government and do not meet a federal definition that would allow equivalent access to CFS records. The Federal Educational Rights and Privacy Act legally defines an institution of postsecondary education as

> ". . . an institution that provides education to students beyond the secondary school level; 'secondary school level' means the educational level (not beyond grade 12) at which secondary education is provided as determined under State law."

State interpretation of federal law considers individual institutions within both the UNC System and NCCCS to meet this definition because of their role as agents of the government. Absent meeting this definition, institutions of NCICU are unable to receive identifiable individual student-level information that could be used to conduct a more holistic assessment of their students' outcomes. Consequently, private institutions have opted to exclude themselves from regularly reporting to CFS, and hence only information on students attending public institutions is available.[18]

---

[18] In addition to an inability to receive student information in return, private institutions have also declined voluntary participation in CFS out of a desire to ensure that records on students attending their institutions are safeguarded.

Efforts are underway to establish a reporting structure to provide some educational information from private institutions to the Common Follow-Up System. Although reporting is not mandatory or voluntarily, private institutions can engage in a mutual exchange of data at a level that would not identify individual students.[19] An arrangement wherein identifiable information is not provided would be permissible under the current state interpretation of federal law.

Georgia currently maintains such an arrangement with most of its private institutions. In Georgia, as in North Carolina, private institutions are not considered to meet the federal definition of an institution of postsecondary education. Private institutions in Georgia receive information from the state's data repository, but it does not include individual student-level information. Current efforts to establish a voluntary reporting structure in North Carolina mimic these arrangements in Georgia. In the proposed arrangement for North Carolina, private institutions would receive unidentifiable student information. Although exchanging information at this level would allow for some assessment of student outcomes, individual student success could not be measured. It should also be noted that other potential issues with the proposed arrangement exist including

- lack of an expected date for full implementation,
- limited ability to evaluate student success, and
- likelihood that full participation would be difficult to achieve because the arrangement is voluntary.

Some states require private institutions to report on student success. In contrast to Georgia's voluntary arrangement with private institutions, some states require private institutions to report student data. These states take differing positions on whether private institutions meet the federal definition of an institution of postsecondary education, which is vital to ensure that any exchange of identifiable student information is not a violation of federal privacy law. As a result, individual student information may or may not be shared in return.

- **Minnesota.** After efforts to permit voluntary submission of data on students attending private institutions failed because of limited participation, Minnesota enacted state law to require regular reporting to the Office of Higher Education. Because Minnesota does consider private institutions to meet the federal definition of an institution of postsecondary education, the state provides individual student-level information to each school for the purposes of improving instruction and providing educational financial aid.

- **Virginia.** Without pursuing voluntary efforts, Virginia enacted state law requiring all public and private institutions to regularly report to the State Council of Higher Education as a condition of receiving state-supported educational financial aid.[20] The council provides

---

[19] With this arrangement, NCICU would become a central data repository for all private institutions within their member organization that decide to participate in the CFS system.

[20] Virginia has a different educational financial aid distribution model from North Carolina wherein aid is provided and awarded to institutions for the benefit of any student. In North Carolina, educational financial aid is distributed to institutions to benefit specific students.

individual student-level information to public institutions but does not permit the same exchange with private institutions because Virginia does not consider private institutions to meet the federal definition of an institution of postsecondary education. Instead, private institutions only have access to publicly reported data that the council releases at an aggregate level.

In summary, North Carolina's central data repository on educational and vocational outcomes of postsecondary students is limited because, unlike public institutions, private institutions of NCICU are neither required to nor voluntarily report to CFS. Currently, arrangements are being pursued in order to increase the likelihood of voluntary reporting, but practices undertaken by other states demonstrate that a more beneficial arrangement may be possible.

Finding 4. Most outcomes for students who receive state-supported educational financial aid and attend public institutions exceed outcomes for students as a whole.

Educational outcomes are used to evaluate the success of students during their time at a postsecondary institution; vocational outcomes are used to evaluate the success of students after their postsecondary education is complete and they enter the workforce. Exhibit 9 provides descriptions of some common educational and vocational outcomes that are used to measure individual student success.

Exhibit 9: Educational and Vocational Outcomes Are Used To Measure Individual Student Success

Outcome Measure	Type of Outcome	Student-Level Description
Institutional Retention	Educational	Reenrollment at the same postsecondary institution year after year
Graduation	Educational	Completed degree reported at two-year, four-year, six-year, or eight-year intervals
Degree Attainment	Educational	Level of education received
Employment	Vocational	Employment in an industry for each year after graduation
Earnings	Vocational	Mean or median income after graduation

Note: Graduation rate intervals also can be reported as a percentage of normal time with a four-year graduation rate equal to 100% of normal time, six-year graduation rate equal to 150% of normal time, and an eight-year graduation rate equal to 200% of normal time. Graduation rates for students attending public two-year schools would be reported at the same percentages, with a two-year interval equal to 100% of normal time.

Source: Program Evaluation Division based on research of educational and vocational outcomes.

North Carolina students who receive state-supported educational financial aid experienced better educational and vocational outcomes than students as a whole. The State conducts no regular longitudinal reviews of the educational and vocational outcomes of students who receive state-supported scholarships, grants, or loans across all educational financial aid programs in North Carolina. However, the Program Evaluation Division conducted a longitudinal cohort analysis across three postsecondary educational systems. The analysis, which included the University of North Carolina System (UNC System) and the North Carolina Community College System (NCCCS), evaluated the educational and
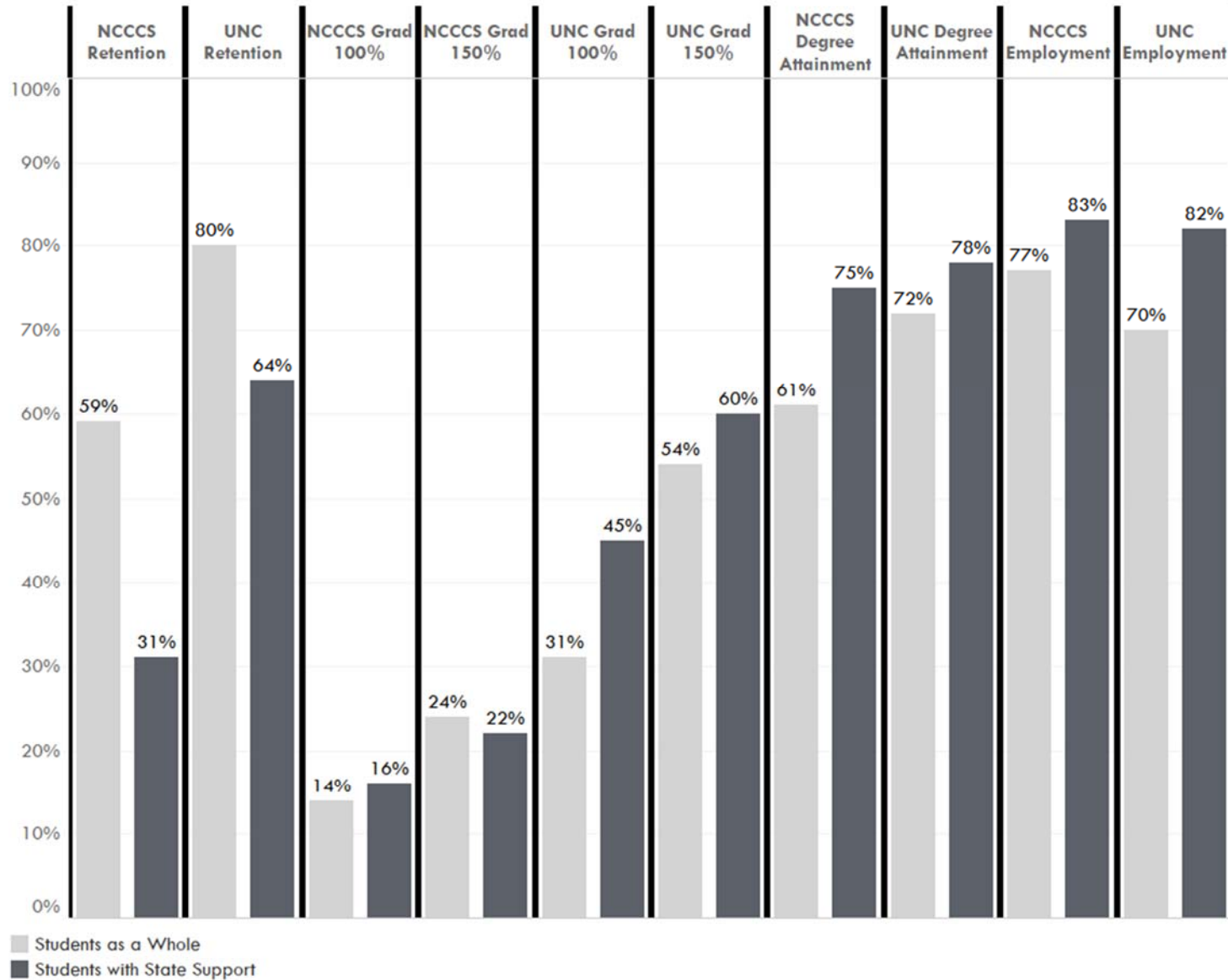
vocational outcomes of students who received state-supported educational financial aid in comparison to all students attending institutions in those systems.[21]

As shown in Exhibit 10, students receiving state-supported educational financial aid who attended a public institution tended to achieve better educational outcomes. For example, the two-year graduation rate for students attending an institution of NCCCS and receiving state-supported educational financial aid was 16%, compared to 14% for all students in NCCCS. Conversely, the three-year graduation rate was higher for students as a whole compared to the state-supported cohort (24% to 22%). For students attending an institution in the UNC System, both the four-year and six-year graduation rates for students who received state-supported educational financial aid exceeded the graduation rates for students as a whole (45% to 31% and 60% to 54%, respectively). Additionally, degree attainment for both NCCCS (75% to 61%) and UNC System (78% to 72%) students with state-supported educational financial aid were higher compared to students as a whole when assessed at 100% of normal time.

As also shown in Exhibit 10, students who received state-supported educational financial aid achieved higher employment levels across both NCCCS (83% to 77%) and the UNC System (82% to 70%) relative to their peers. Additionally, the Program Evaluation Division found that average post-graduation earnings for all students who received state-supported educational financial aid and attended an NCCCS institution were higher than earnings for students as a whole ($22,800 compared to $18,900). Average post-graduation earnings for all students who received state-supported educational financial aid in the UNC System were slightly lower than earnings for all students ($17,000 compared to $18,200 for students as a whole). When the assessment was narrowed to those students who received state-supported educational financial aid and were consistently employed, average post-graduation earnings were $25,900 for the UNC System and $29,300 for NCCCS.

---

[21] Longitudinal cohort analyses allow researchers to identify a specific population of individuals and review their outcomes over time. The Program Evaluation Division limited the study population for this project to those students initially receiving a state-supported scholarship, grant, or educational loan in 2010 and entering a postsecondary institution for the first time. These parameters allowed the Division to assess educational and vocational outcomes of the same student group rather than analyzing separate student groups that may not be characteristically comparable. The exception to these conditions are students who received support in the initial year awards were made for the Need-Based Scholarship for Private Institutions and the Forgivable Education Loans for Service program because these programs were not created until 2012.

Exhibit 10: Outcomes Are Generally Better for Students Who Received State-Supported Aid Compared to Peer Averages

	Students as a Whole	Students with State Support
NCCCS Retention	59%	31%
UNC Retention	80%	64%
NCCCS Grad 100%	14%	16%
NCCCS Grad 150%	24%	22%
UNC Grad 100%	31%	45%
UNC Grad 150%	54%	60%
NCCCS Degree Attainment	61%	75%
UNC Degree Attainment	72%	78%
NCCCS Employment	77%	83%
UNC Employment	70%	82%

Note: Students as a Whole represents all students of a postsecondary educational system. Students with State Support represents only those students from respective postsecondary educational systems who received state-supported educational financial aid per a 2010 cohort. NCCCS stands for North Carolina Community College System students. UNC stands for University of North Carolina System students. Degree attainment rates are measured at 100% of normal time. Retention rates do not capture students transferring across postsecondary educational systems. Employment only includes individuals who work for an employer that is required by law to remit payment for unemployment insurance within North Carolina.

Source: Program Evaluation Division based on information from SEAA, LEAD, NCCCS, and the UNC System.

In summary, educational and vocational outcomes are important measures of student success. The Program Evaluation Division found that students who receive state-supported educational financial aid and attended a public institution typically achieved outcomes that exceeded their peers.

Finding 5. The State Education Assistance Authority does not have an organizational strategic plan with performance goals; further, annual reports lack data on postsecondary state-supported educational financial aid programs.

Strategic planning is an important process for ensuring organizational effectiveness because it helps organizations focus on making decisions that create value, further mission, meet mandates, and satisfy stakeholders. A well-developed strategic plan defines the goals, activities, and desired results an organization seeks to achieve. In order to have a useful strategic plan, it is necessary for an organization to regularly collect and update data on the activities it performs as well as track its achievement of performance goals. A thorough strategic plan enables an organization to identify internal weakness, promote methods for improvement, and communicate with external actors. Exhibit 11 outlines the elements of a strategic plan.

Exhibit 11: Strategic Planning Elements

Strategic Planning Element	Questions to Inform Element
The **Mission Statement** is a declaration of a program's basic purpose and concisely identifies what the program does, why, and for whom.	• Who are we? • In general, what are the basic social or political needs we exist to meet, or what are the basic social or political problems we exist to address? • In general, what do we do to recognize, anticipate, and respond to these needs or problems? • How should we respond to our key stakeholders? • What are our philosophies, values, and culture? • What makes us distinctive or unique?
A **Vision Statement** is a coherent and powerful statement of what a program can and should be in the future. It describes how the organization should look when it is working well in relation to its environment and key stakeholders. Key elements of quality vision statements, include but are not limited to: mission, basic philosophy, core values, cultural features, goals, basic strategies, performance criteria, important decision-making rules, and the ethical standards expected of all employees.	• What would our program look like in 10 years if we are successful between now and then?
Values are the principles that govern behavior within an organization. A statement of values sets out a desirable code of behavior to which the organization adheres or aspires. Effective values are clear and succinct and are widely and frequently communicated. They also remain consistent and relevant over long time periods and provide guidance for carrying out individual responsibilities.	• How does the organization expect employees to conduct themselves?
Goals are broad statements of what a program wants to achieve over a long period of time. They stretch and challenge a program while being realistic and achievable. Goals should be clear and focused, address the primary external and internal issues facing the organization, and be easily understood by the public. The more specific the goal, the more likely it is to be achieved.	• Are the goals in harmony with the program's mission and will they help fulfill the program's vision? • Do the goals align with the vision and priorities of the State? • Do the goals provide a clear direction for program action? • Do the goals reflect program priorities?
Objectives are measurable, time-based statements of intent that should be derived from and directly linked to a stated goal. Objectives should help to prioritize resource allocation and shape the results of agency actions. Objectives should be Specific, Measurable, Achievable, Realistic, and Timely (SMART).	• Is the objective clearly related to the stated goal? • Does the objective clearly state what the program intends to accomplish? • Does the objective have specific targets and time frames? Can progress toward completion of the objective be measured? • Is the objective aggressive and challenging yet realistic and attainable with available resources? • How does it compare with the objectives of similar programs? • Will someone unfamiliar with the program understand what the objective means?
Performance Measures. Performance measures inform whether goals and objectives have been accomplished. Measuring performance demonstrates effectiveness and can be used to justify a program's existence. Measures are generally quantitative and ideally should include outcomes when possible. The absence of performance information can create problems for an organizations stakeholders and can harden organizational conflicts.	• Did we achieve the results we expected or did it produce results we didn't want or expect? • Should our strategy or approach be changed? • Should the initiative continue or not?

Source: Program Evaluation Division based on John Bryson's Strategic Planning for Public and Nonprofit Organizations *and OSBM's* Strategic Planning Guidance: FY 2017–2019.

The State Education Assistance Authority (SEAA) does not have an organizational strategic plan, but annual reports contain some strategic elements. SEAA is required by state law to publish annual reports that provide a complete overview of organizational operations as well as a financial statement.[22] These reports are provided to both the Office of the Governor and the General Assembly as required and are available online for public review. The Program Evaluation Division found that SEAA annual reports contain items that are commonly found in a strategic plan such as a mission statement, vision statement, and list of organizational values. However, other strategic elements are missing such as performance goals, objectives, and measures. An organization with developed performance goals, objectives, and measures can better assess organizational effectiveness and determine areas for improvement.

In a request for internal performance measures, SEAA provided the Program Evaluation Division with a list of performance goals that could be outlined in a strategic plan and used for developing performance objectives and measures. SEAA's self-identified organizational performance goals include

- align spending of state funds with goals determined by legislative directive;
- design state need-based aid to complement, not replace, federal aid;
- fully commit allocated funds to intended student populations;
- ensure aid is available, consistent, and timely;
- ensure positive student applicant experience;
- facilitate the work of campus financial aid administrators who directly manage state student financial aid;
- engage with partner organizations; and
- publicize state-supported scholarship, grant, and educational loans/train stakeholders on access and administration of grants.

Although SEAA fulfills statutory reporting requirements, annual reporting provides limited information on state-supported educational financial aid programs. In reviewing SEAA's annual reports, the Program Evaluation Division found that report elements are generally limited to what is required by law and do not provide comprehensive data metrics on state-supported educational financial aid programs. SEAA has additional requirements under state law to provide information "to students and parents [that can] assist in selection of major and career options."[23] It fulfills these requirements by providing access to other data sources through the SEAA website. SEAA also regularly provides end-of-year program reports to specific entities that contain additional student information by aid program that could be useful to the public and stakeholder groups.[24] End-of-year program reports include data elements such as

---

[22] Annual reports are statutorily required per N.C. Gen. Stat. § 116-209.14.
[23] N.C. Gen. Stat. § 116-209.16A.
[24] End-of-year program reports are made available to the UNC System, NCCCS, NCICU, the North Carolina Lottery, the General Assembly's Fiscal Research Division, and the Office of the Governor.

- institutional distribution of state-supported aid, including award amounts and number of students served by aid program;
- student information, including expected family contribution ranges and dependency status; and
- total and average award amounts by student by county.

The Program Evaluation Division found other states provide detailed reports with data elements on educational financial aid programs similar to the information presented in SEAA end-of-year program reports, improving transparency and more aptly demonstrating effectiveness. These data include

- institution-level data on postsecondary educational systems, including the amount of state-supported educational financial aid received from each aid program and
- socioeconomic profiles on students who receive state-supported educational financial aid, including income and dependency status by fiscal year.[25]

In summary, SEAA does not possess a strategic plan. Annual reports contain some elements commonly found in a strategic plan, and internal performance goals could be used to further develop performance objectives and measures. Additionally, although SEAA fulfills annual reporting requirements, improvements could be made by publicly publishing additional metrics on aid programs as are currently collected in end-of-year program reports as well as reports produced by other states.

Finding 6. The State Education Assistance Authority faces sustainability challenges in its administration of the UNC Need-Based Grant, and current financial reporting practices inhibit a detailed assessment of financial health.

Administrating state-supported educational financial aid programs involves performing several activities. As described in the Background, the State Education Assistance Authority (SEAA) is the agent for administering state-supported educational financial aid programs in North Carolina. The Program Evaluation Division found that the costs per award remained relatively consistent over time from the period of Fiscal Year 2015–16 ($10.86) to Fiscal Year 2017–18 ($10.40). Exhibit 12 provides a description of the activities required to administer educational financial aid for the State and their associated costs.

---

[25] Appendix B provides an example of additional reporting metrics.

Exhibit 12: Activities Performed by SEAA in Administering State-Supported Educational Financial Aid Totaled $1.3 Million in Fiscal Year 2017–18

Activity	Description	Cost
Administrative	Assist in daily operations	$ 287,617
Award Calculations	Determine the amount of state-supported educational financial aid to be provided to recipients	65,584
Budgeting and Accounting	Oversee and review budgetary matters	69,245
Funds Processing	Ensure proper documentation and state funds are disbursed as intended	132,818
Information Technology	Assist with the distribution of state-supported educational financial aid and maintain a standard of security for confidential records	222,214
Legal Services	Ensure programs operate in accordance with law and assist in the legal aspects of collecting defaulted monies and necessary litigation	12,829
Loan Services	Ensure loan programs are performed as designed	254,727
Oversight and Review	Ensure award amounts are accurately disbursed and state-supported educational financial aid programs operate as designed	249,512
Total		**$1,294,545**

Note: Costs displayed are limited to those activities performed by SEAA and do not capture activity costs for administering state-supported educational financial aid across all of state government or costs outside SEAA staff expenses.

Source: Program Evaluation Division based on information from SEAA.

SEAA receives program administration funding to support the cost of administering educational financial aid programs. To offset costs associated with administering state-supported educational financial aid, SEAA receives funding through a variety of mechanisms depending on the program. These methods include

- a flat percentage of the state appropriations for the aid program,
- separate appropriations, or
- contractual arrangements.[26]

Program administration funding is used to support all aspects of an aid program including publicity, eligibility, software maintenance, operations, and technical support.[27] Exhibit 13 shows the method SEAA obtains funding to administer each aid program as well as the amount of administration funding and the total amount of state appropriations provided for each aid program for Fiscal Year 2017–18.

---

[26] Sources of funding include direct appropriations or escheats; the latter is restricted to funding educational financial aid awards.
[27] Some of these functions are contracted with outside entities such as the College Foundation Inc.

Exhibit 13: Program Administration Funding Varies By Aid Program, FY 2017–18

Aid Program	Program Administration Funding Method	Program Administration Funding Amount	Total Aid Program Funding
Child Welfare Postsecondary Support (NC Reach)	Contractual amount	$50,000	$1,984,125
Community College Grant	Contractual amount	$175,000	$18,000,000
Education Lottery Scholarship	Percentage of appropriations	1.5%	$30,450,000
Need-Based Scholarship for Private Institutions	Percentage of appropriations	1.5%	$88,351,588
UNC Need-Based Grant	N/A	N/A	$125,930,498
Forgivable Education Loans for Service	Prior year cost allocation	N/A	$16,594,166
Principal Fellows Program	Prior year cost allocation	$21,000	$3,258,000

Note: Program administration funding amounts exceed staff costs because such funds are used to support program operations in whole.

Source: Program Evaluation Division based on information from SEAA, the Department of Health and Human Services, NCCCS, and the UNC System.

SEAA does not receive program administration funds for the UNC Need-Based Grant. Instead, SEAA has used other forms of funding to support the costs of administering this aid program.

As the fiscal agent for the disbursement of educational financial aid for the State, SEAA is tasked with performing activities associated not only with state-supported aid but also with many federal educational financial aid programs including federal loans.[28] As such, SEAA administers the Federal Family Education Grant Loan program (FFEL), a former program under which students in North Carolina were eligible to receive federal educational loans. Federal provisions allow the State to use the earnings garnered from FFEL for select educational purposes. Under this provision, SEAA has used a portion of earnings from FFEL to offset program administration costs of the UNC Need-Based Grant.

The federal government terminated FFEL in 2010.[29] As a result, earnings on existing loans decreased by 28% from 2013 to 2018, thereby constraining the amount of funding available for SEAA to use to administer the UNC Need-Based Grant. The Program Evaluation Division determined total program administration costs for the UNC Need-Based Grant, based on a five-fiscal-year average, to be approximately $535,385 annually.[30] Exhibit 14 shows that, as earnings generated from FFEL shrink, SEAA has been required to use an increasingly greater proportion of these earnings to administer the UNC Need-Based Grant.

---

[28] An assessment of these activities was not included in this study because the activities are not affiliated with state-supported educational financial aid programs.

[29] Though Congress ceased origination of FFEL loans in 2010, SEAA and other guarantors continue to provide the guarantee on existing loans and perform additional responsibilities that are required of guarantors.

[30] Calculations include SEAA staff and overhead expenses as well as direct billing from College Foundation Incorporated, which is contractually responsible for the distribution of educational financial aid for eligible students of the UNC Need-Based Grant.

Exhibit 14: FFEL Earnings Do Not Ensure Sustainability of Supporting Program Administration Costs of the UNC Need-Based Grant
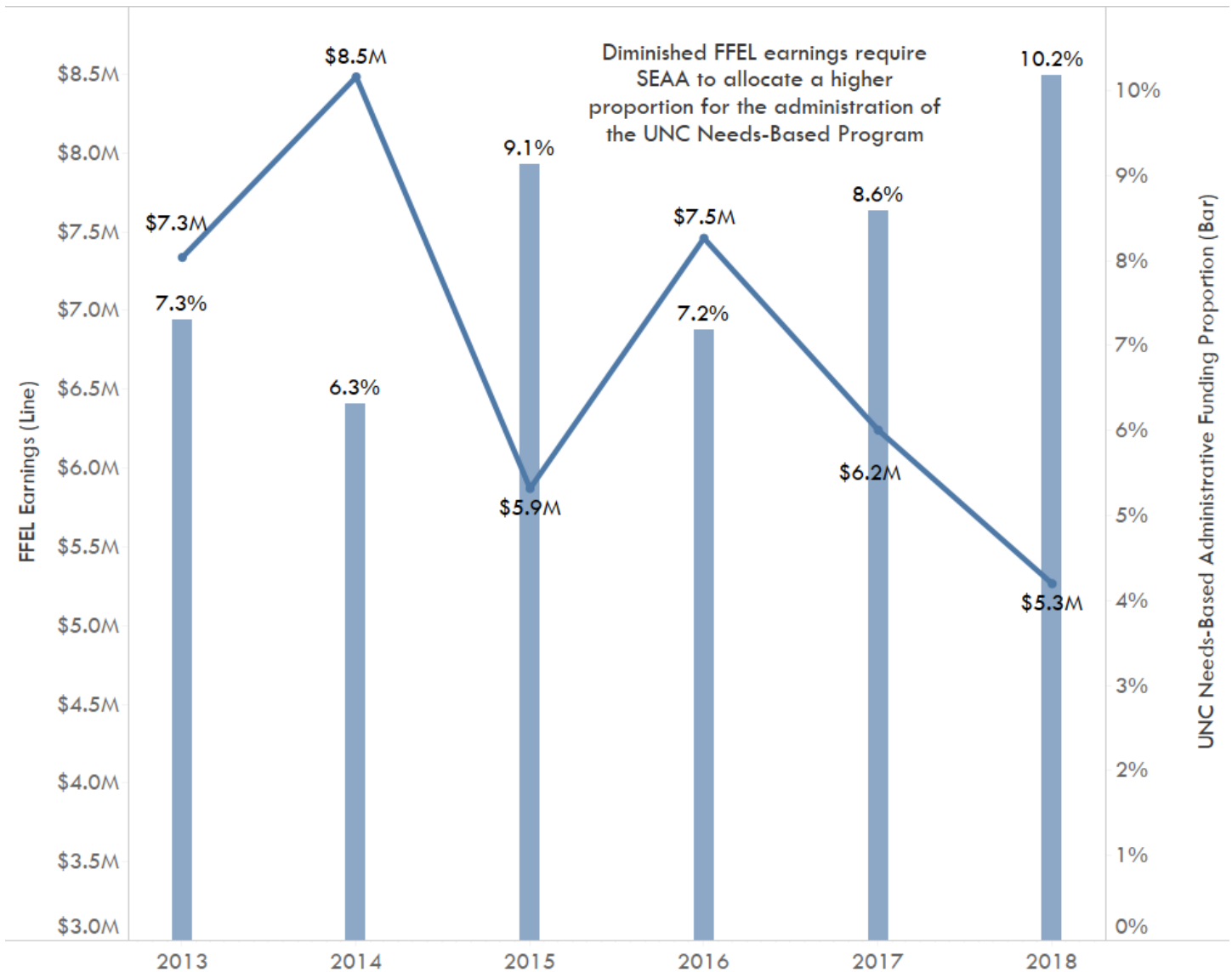
Note: The bar graph represents the year-by-year portion of earnings used to support administrative costs for the UNC Need-Based Grant, whereas the line graph represents the amount of earnings in total.

Source: Program Evaluation Division based on information from SEAA.

FFEL earnings lack long-term sustainability as the source of UNC Need-Based Grant program administration funding. As FFEL earnings continue to decrease, SEAA will be forced to use larger portions of earnings to cover program administration costs for the UNC Need-Based Grant. This approach is further challenged because SEAA is also required to perform outreach and other custodial activities for federal loans with these earnings such as financial literacy initiatives.

Additionally, financial reporting for SEAA's financial statements offer limited transparency. Financial statements encompass the whole scope of budgetary operations and should accurately report on all aspects of revenues, expenditures, and changes in net position. As discussed earlier in

this finding, SEAA receives 1.5% of total state appropriations for the Need-Based Scholarship for Private Institutions to cover costs of performing program administration. Since the program's inception in 2012, administration costs have totaled almost $8 million at an average of $1.3 million per year. However, despite its administration of this program, SEAA financial statements do not capture specific award costs. As a result, the true costs of SEAA's administration of this program are not reported, challenging oversight and limiting transparency.[31][32]

In summary, SEAA's administration of the UNC Need-Based Grant is jeopardized by the unsustainability of its current source of program administration funding. Further, SEAA administers the Need-Based Scholarship for Private Institutions yet its financial statements do not capture the total costs for this program.

---

[31] SEAA abides by the guidance of the governmental accounting standards board (GASB) for its financial statements.
[32] Currently, financial transactions related to the Need-Based Scholarship for Private Institutions can be identified through financial statements of the UNC System Office, the organization that serves as secretariat for appropriations for this program.

Recommendations

Recommendation 1. The General Assembly should modify state law to remove restrictions that hinder the State Education Assistance Authority's ability to fully expend educational financial aid for the Education Lottery Scholarship.

As detailed in Finding 1, the State Education Assistance Authority (SEAA) faces several challenges in expending the full appropriations provided by the State to meet the financial needs of students seeking a postsecondary education. Failing to fully expend state appropriations for state-supported educational financial aid means the number of unserved students and level of unmet need are both greater than necessary. Among all state-supported educational financial aid programs, the Education Lottery Scholarship carries restrictions on aid provision that create the greatest hindrance to fully expending funds.

To increase the number of students eligible to receive the Education Lottery Scholarship, the General Assembly should modify state law to increase the maximum expected family contribution from $5,000 to $6,000. Loosening income eligibility requirements in this manner would facilitate the provision of approximately 6,500 additional awards.

Further, the General Assembly should also consider raising the maximum educational financial aid amount that a student can receive from the Education Lottery Scholarship when he or she has also been awarded aid from the Federal Pell Grant. Currently, students who are recipients of funds from both programs cannot receive more than $4,000 total. To remedy issues presented by this restriction, the General Assembly should increase this amount to $5,100.

Recommendation 2. The General Assembly should direct SEAA to develop methods to rectify data limitations for managing educational financial aid loan programs.

As described in Finding 2, current recordkeeping practices and the use of an outdated data system for managing records on educational loans such as the Forgivable Education Loans for Service program prevent the State from determining the rate at which these loans are discharged through service repayment and therefore hinders the State in assessing the effectiveness of state appropriations for this program. Absent such information, it is difficult to determine if the Forgivable Education Loans for Service program is an effective method of combating critical employment shortages or if other public policy options should be pursued.

SEAA has stated that efforts are underway to rectify this issue. The General Assembly should direct SEAA to modify its recordkeeping practices for educational financial aid loan programs to accurately detail whether students receiving funds from these programs undergo service or cash repayment for the monies borrowed.

The General Assembly should direct SEAA to report on the correction of this problem including progress and an expected date of completion to the

Joint Legislative Education Oversight Committee and Joint Legislative Program Evaluation Oversight Committee by January 1, 2021.

Recommendation 3. The General Assembly should direct stakeholders for the Common Follow-Up System (CFS) to pursue methods for including reporting from institutions of the North Carolina Independent Colleges and Universities (NCICU) system.

As described in Finding 3, the State's central data repository on educational and vocational outcomes is limited by a lack of reporting from private institutions. Although state-supported educational financial aid is provided to students attending private institutions, these institutions are not required to report to CFS and cannot access student-level data from the system; hence there is currently no means of holistically evaluating the success of these students and the effectiveness of state appropriations for the Need-Based Scholarship for Private Institutions. Current efforts are underway that would provide some student data to CFS, but this data is limited. Revisiting state interpretation of the Federal Educational Rights and Privacy Act may provide a more beneficial reporting arrangement for both private institutions and the State.

The General Assembly should request quarterly reports on the progress of establishing voluntary reporting arrangements from the NCICU system and the Department of Information Technology's Government Data Analytics Center beginning January 1, 2021. Quarterly reports should include associated costs for incorporating private institutions into CFS as well as mutually-agreed-upon data elements for reporting.

Should voluntary efforts fail to meet a 25% participation rate by private institutions within a two-year timeframe, the General Assembly should direct that the provision of state appropriations for educational financial aid for the Need-Based Scholarship for Private Institutions be tied to participation in CFS.

Recommendation 4. The General Assembly should direct SEAA to create a strategic plan outlining performance goals and increase reporting metrics.

As detailed in Finding 5, SEAA does not have a strategic plan, and although current annual reporting includes some strategic elements, it does not include performance goals, objectives, and measures. Additionally, SEAA could provide more information on state-supported educational financial aid programs by making end-of-year program reports publicly available. Doing so would increase transparency and more aptly demonstrate aid program effectiveness.

The General Assembly should direct SEAA to develop and maintain a strategic plan in addition to its current annual reporting requirements. This strategic plan should outline the performance goals, objectives, and measures SEAA seeks to achieve and should track its progress towards

accomplishing these goals. The strategic plan should be made publicly available and be regularly updated.

The General Assembly should also direct SEAA to make additional data metrics on aid programs available by publishing its current end-of-year program reports that focus on state-supported educational financial aid for students seeking a postsecondary education.

The General Assembly should direct SEAA to report on the progress of its actions related to this recommendation to the Joint Legislative Education Oversight Committee and Joint Legislative Program Evaluation Oversight Committee by January 1, 2021.

Recommendation 5. The General Assembly should consider appropriating program administration funding for the UNC Need-Based Grant and should direct the Office of State Budget and Management to provide options to modify state law to include SEAA activities related to the Need-Based Scholarship for Private Institutions in its financial statements.

As described in Finding 6, SEAA receives program administration funding to offset costs associated with disbursing and administering state-supported educational financial aid for students pursuing postsecondary education. However, SEAA currently does not receive such funding to administer the UNC Need-Based Grant and instead uses earnings associated with a federal loan portfolio to support its costs. This source of funding is not sustainable because federal loans originating from this portfolio ceased in 2010 and associated earnings are declining. The Program Evaluation Division additionally determined that the program funding SEAA receives for its administration of awards for the Need-Based Scholarship for Private Institutions is not reflected in SEAA's financial statements.

To combat sustainability issues, the General Assembly should consider providing $700,000 in annual appropriations to SEAA to support program administration of the UNC Need-Based Grant.

Further, the General Assembly should direct the Office of State Budget and Management to provide options to modify statutory language to include all SEAA activities related to the Need-Based Scholarship for Private Institutions in its financial statements.

The General Assembly should direct SEAA and, where applicable, OSBM to report on the progress of its actions to the Joint Legislative Education Oversight Committee and Joint Legislative Program Evaluation Oversight Committee by January 1, 2021.

Appendices

Appendix A: Description of Educational Financial Aid Programs

Appendix B: Example of Additional Reporting Metrics

Appendix C: SEAA Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Agency Response

A draft of this report was submitted to the State Education Assistance Authority, the University of North Carolina System, North Carolina Community Colleges System, and North Carolina Independent Colleges and Universities to review. Their responses are provided following the appendices.

Program Evaluation Division Contact and Acknowledgments

For more information on this report, please contact the lead evaluator, Adora Thayer, at Adora.Thayer@ncleg.net.

Staff members who made key contributions to this report include Jacob Ford, Sara Nienow, and Carol Shaw. John W. Turcotte is the director of the Program Evaluation Division.

Appendix A: Description of Educational Financial Aid Programs

Aid Program	Program Description	Institutions Served
Child Welfare Postsecondary Support Program (NC Reach)	The NC Reach program is a state-funded scholarship for students adopted from Division of Social Services foster care after the age of 12 or aged out of the system on their 18th birthday. Eligibility for this scholarship is determined by the Division of Health and Human Services, and SEAA acts solely as a fiscal agent (via a contractual arrangement) for the disbursal of funds. In general, a student can continue to receive funds under this award for up to four years of undergraduate study pending the achievement of satisfactory academic progress and maintaining up-to-date documentation such as transcripts.	Public Institutions
Community College Grant	The North Carolina Community College Grant is a need-based financial assistance program for students enrolled in a community college. Although rules and policies governing the administration of this program are established by the State Board of Community Colleges, the program itself is administered, through a contractual relationship, by SEAA.	Community Colleges
Education Lottery Scholarship	The Education Lottery Scholarship was created in 2005 by the General Assembly. Funds for the support of this program are contingent each year upon appropriations made to SEAA and revenues from the North Carolina State Lottery program. In general, a student eligible for this program must be considered needy and must be enrolled in an undergraduate institution. If eligible, students can continue to receive funds if they achieve satisfactory academic progress toward the completion of a program of study.	Public Institutions
Need-Based Scholarship for Private Institutions	The North Carolina Need-Based Scholarship was created in 2011 by the General Assembly for students attending private institutions for the purposes of higher education. This scholarship program is solely supported by state appropriations provided each year. Student eligibility for this program is determined annually and is solely based upon the level of financial need of the student.	Private Institutions
UNC Need-Based Grant	The UNC Need-Based Grant is designed to assist students seeking to attend higher education in the University of North Carolina System, but who would be unable to do so without additional financial assistance beyond other forms of educational aid. Officials of the UNC campuses determine an individual student's eligibility for this grant.	UNC Institutions
Forgivable Education Loans for Service	The Forgivable Education Loans for Service (FELS) program aims to provide financial assistance to qualified students committed to working in North Carolina in a field with a critical employment shortage. Currently, this program targets employment demand for teachers and nurses. Recipients of this loan are eligible for continued aid if they meet all initial requirements of the loan, honor their promissory note, make satisfactory academic progress, and have not exceeded the number of funding years or amount available for their program of study. When recipients do not complete their field of study, including any necessary certifications or licenses, they are not eligible for loan forgiveness and must repay such amounts as they have received with interest.	Public and Private Institutions
Principal Fellows Program	The Principal Fellows Program was created in 1993 by the General Assembly to provide a competitive, merit-based means of financial aid to individuals with relevant teaching experience seeking to enter the field of education administration within North Carolina. Qualified applicants are determined by the NC Principal Fellows Commission per the Commission's established rules. Awards under this program may only be received one academic year at a time.	Select UNC Institutions

Source: The Program Evaluation Division based on information from SEAA.

Appendix B: Example of Additional Reporting Metrics

As discussed in Finding 5, the Program Evaluation Division identified additional metrics that could be used to improve the State Education Assistance Authority's (SEAA's) annual reporting. The Program Evaluation Division found that SEAA, in cooperation with its partners, house data that if reported would improve organizational transparency and better demonstrate effectiveness. Additionally, the Program Evaluation Division found other states provide detailed reports with data elements on educational financial aid programs including

- institution-level data on postsecondary educational systems including the amount of state-supported educational financial aid received from each aid program;
- socioeconomic profiles on students who receive state-supported educational financial aid including their reported income and dependency status by fiscal year; and
- comparisons with other states on the number and value of awards provided for merit, need, or special interest.

Exhibit A provides an example of additional reporting performed in Minnesota that could be replicable in North Carolina because it involves the use of data that SEAA currently already collects or can readily access.

Exhibit A: Excerpts of the Minnesota State Grant End-of-Year Statistics Report for Fiscal Year 2018

1.2 Enrollment Profile of Applicants by Income

As family income increases, the percent of students enrolled in public two-year institutions or private for profit institutions declined. In contrast, as income increases, more students enrolled in private four-year institutions and the University of Minnesota. The University of Minnesota had the highest median family adjusted gross income ($87,000 among all students) among Minnesota postsecondary sectors (Table 1). Among 2018 applicants from families with incomes below $20,000, 61% enrolled in a Minnesota State College and 13% enrolled at a State University (Figure 3).

This comparison highlights the potential economic stratification in enrollment among Minnesota students if state policy is intentionally or unintentionally directing lower income students to primarily low-cost public two-year colleges, regardless of the student's academic aspirations or abilities. The State Grant program provides funds to lower- and middle-income students to attend the institution of their choosing.
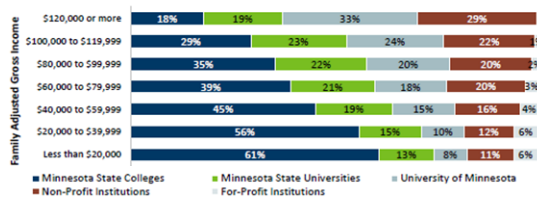
3. Comparisons with Other States
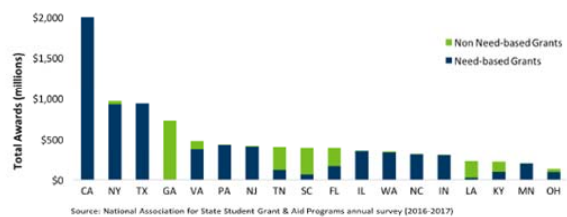
For the 2016-2017 academic year, Minnesota's State Grant program was the 17th largest in the nation for total grant aid awarded according to the annual survey of National Association of State Student Grant & Aid Programs (2018). The state ranks 11th when only need-based grant aid is considered.

The state grant spending per full-time equivalent (FTE) undergraduate places Minnesota 16th among all other states. Minnesota spends an average of $873 per FTE undergraduate as compared to the top-spending state, South Carolina ($2,190), according to the 2016-2017 annual survey of the National Association of State Student Grant & Aid Programs (Figure 11).

Source: The Program Evaluation Division based on information from Minnesota Office of Higher Education.

Appendix C: SEAA Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Net Position
June 30, 2018 and 2017

ASSETS

	2018	2017
CURRENT ASSETS:		
Restricted Cash and Cash Equivalents	$ 517,872,560	$ 488,312,592
Restricted Investments	74,090,993	63,391,139
Receivables:		
Accounts Receivable	5,936,533	5,549,002
Intergovernmental Receivables	2,733,422	1,343,130
Interest Receivable	30,294,322	29,090,575
Due From Component Unit	2,402,517	2,471,936
Notes Receivable	199,080,622	213,065,731
Prepaid Items	4,245	20,505
Total Current Assets	832,415,214	803,244,610
NONCURRENT ASSETS:		
Restricted Cash and Cash Equivalents	20,216,801	32,364,500
Restricted Investments	2,190,436,094	1,974,799,682
Notes Receivable	1,217,606,512	1,420,700,033
Total Noncurrent Assets	3,428,259,407	3,427,864,215
CAPITAL ASSETS:		
Office Furniture and Equipment	129,869	129,869
Data Processing Systems	14,023,038	13,318,049
Other Equipment	284,542	284,542
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(13,672,616)	(13,616,708)
Net Capital Assets	5,764,833	5,115,752
Total Assets	$ 4,266,439,454	$ 4,236,224,577

Source: The Program Evaluation Division based on information from SEAA financial statements.

Appendix C: SEAA Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position (continued)

LIABILITIES AND NET POSITION

	2018	2017
CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	$ 8,716,799	$ 12,471,716
Accrued Payroll	167,193	164,680
Interest Payable	4,277,940	3,226,720
Due to IRC Section 529 Plan Participants	159,769,977	144,889,204
Bonds Payable	160,941,671	191,687,508
Accrued Vacation Leave	11,188	15,336
Total Current Liabilities	333,884,768	352,455,164
NONCURRENT LIABILITIES:		
Due to IRC Section 529 Plan Participants	2,143,638,774	1,927,771,034
Bonds Payable	1,071,363,150	1,257,499,355
Accrued Vacation Leave	450,851	394,229
Net Other Postemployment Benefits Liability	3,822,561	
Net Pension Liability	1,075,117	1,053,292
Total Noncurrent Liabilities	3,220,350,453	3,186,717,910
Total Liabilities	3,554,235,221	3,539,173,074
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows--Nonexchange Transactions	127,779,382	124,983,124
NET POSITION:		
Net Investment in Capital Assets	5,764,833	5,115,752
Restricted for Educational Assistance Programs	490,837,589	496,044,526
Unrestricted	87,822,429	70,908,101
Total Net Position	584,424,851	572,068,379
Total Liabilities and Net Position	$ 4,266,439,454	$ 4,236,224,577

Source: The Program Evaluation Division based on information from SEAA financial statements.

Appendix C: SEAA Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position (continued)

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended June 30, 2018 and 2017

	2018	2017
OPERATING REVENUES:		
Interest Earnings on Loans	$ 54,146,212	$ 48,809,449
Miscellaneous	12,881,061	12,485,095
Total Operating Revenues	67,027,273	61,294,544
OPERATING EXPENSES:		
Personal Services	4,901,024	4,341,007
Supplies and Materials	237,539	187,426
Services	32,590,064	33,605,675
Interest	35,852,223	31,520,149
Depreciation	55,907	29,987
Student Loan Service Cancellations	19,643,381	21,737,524
Other Expenses	1,866,726	1,533,000
Total Operating Expenses	95,146,864	92,954,768
Operating Loss	(28,119,591)	(31,660,224)
NONOPERATING REVENUES (EXPENSES):		
State Aid	78,481,975	78,481,975
Noncapital Grants	136,026,704	100,175,582
Federal Grants	1,039,338	1,531,896
Investment Earnings	4,739,446	3,104,530
Grants, Aid and Subsidies	(183,692,002)	(157,174,244)
Total Nonoperating Revenues (Expenses)	36,595,461	26,119,739
Income (Loss) Before Special Item	8,475,870	(5,540,485)
SPECIAL ITEM	7,891,221	
Changes in Net Position	16,367,091	(5,540,485)
NET POSITION--Beginning of Year:		
Net Position--Beginning of Year, as Previously Reported	572,068,379	577,608,864
Cumulative Effect of Change in Accounting Principle (See Note 12)	(4,010,619)	
NET POSITION--Beginning of Year, as Restated	568,057,760	577,608,864
NET POSITION--End of Year	$ 584,424,851	$ 572,068,379

Source: The Program Evaluation Division based on information from SEAA financial statements.

October 4, 2019

John W. Turcotte, Director
Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603

Dear Mr. Turcotte:

Thank you for the opportunity to respond to the Program Evaluation Division's report on the findings and recommendations. I would also like to acknowledge the collegial interaction with the PED staff, particularly Adora Thayer, as we engaged in this work over the past seven months.

The leadership of the State Education Assistance Authority (SEAA) has thoroughly reviewed the report and offers this response, to better frame the current state of operations at the Authority. We value our work and are honored to perform these services for the citizens of North Carolina.

SEAA is committed to implementing State programs according to the legislation and honoring the statutory intent. Some of the grant programs that were the focus of the Division's work were authorized twenty years ago and delegated the design and/or operations of programs to the appropriate sector leadership to achieve the stated legislative purpose or goal. Over the years, minor changes have occurred, but on the whole, the programs operate as originally designed.

Below, please find our responses to selected findings:

Finding 1: SEAA seeks to promote access and reduce costs for students but challenges exist that prevent fully expending State appropriations for educational financial aid.

While we do not disagree with this finding, we believe the context is important. The financial aid timeline requires that grants be made available to students in the spring prior to August enrollment in order for students to make decisions about their financial ability to enroll in college. During the five-year period of examination (2013-2018), on average SEAA expended more than 97% of the grant appropriations in three of the four need-based grant programs evaluated and enabled thousands of students to make the choice to pursue higher education at one of 114 participating institutions in the State. Awarding funds to community college students is less predictable due to a higher enrollment of adult students and a sensitivity to general economic conditions that affects enrollment patterns.

In addition to the four major State grant programs, the Forgivable Education Loans for Service (FELS) program launched in 2012 serving a limited number of students who are seeking assistance to gain skills

www.NCSEAA.edu • 919-248-4642 • Fax 919-248-6642

10 TW Alexander Drive • Research Triangle Park, NC 27709 • *Mailing Address* P.O. Box 14103 • Research Triangle Park, NC 27709-4103
The University of North Carolina provides the secretariat for the Authority

to work in career fields designated as experiencing critical shortages. With no program history on which to project future expenditures, SEAA was conservative in making awards in the early years to ensure the program operated within its budget. During these years, SEAA collected valuable data on borrower experience with regard to applications, acceptance of offers, renewal of awards for continued enrollment and cash repayment rates to inform our future award practices. These historical metrics now form the foundation for SEAA's projections of the total amount of awards in a given year.

Finding 2: The State Education Assistance Authority cannot verify that educational loan programs encourage employment in fields with critical shortages.

The Forgivable Education Loans for Service program was created after the General Assembly consolidated fourteen legacy programs into the FELS program and merged the funds for those programs into one trust fund for FELS. The stated public purpose of the program is to "provide financial assistance in the form of forgivable loans for service to qualified students who are committed to working in the State in order to respond to critical employment shortages." The program does not consider the financial need of an applicant. The statute does not reference incentivizing or encouraging students who are not predisposed to study in the shortage fields or graduates to actually work in the fields. Certainly, the terms of the loan provide an incentive to borrowers, and indeed SEAA notes that our experience demonstrates that historically approximately 80% repay in service (this includes the legacy programs).

FELS recipients sign a promissory note committing to work in the state one year for each year of funding they receive; the loan carries an 8% interest for those who do not repay in service, which serves as a disincentive for borrowers who are not seriously considering service repayment. The widely available Federal Direct Loan with a current interest rates ranging from 4.53% -7.08% are better options for students who are not serious about entering the identified fields.

Beyond enforcing the terms of the promissory notes consistent with the law, SEAA cannot require individuals to work in North Carolina nor can we measure their actual commitment to service from an application. We offer the loans to students who have strong academic credentials but we (and they) cannot see future opportunities. As noted above, there is no incentive for students to borrow from FELS with the intent to repay in cash **with 8% interest** accruing from the date of disbursement. Generally, students who do not repay in service encounter life circumstances that they could not foresee; they drop out of college for multiple reasons, change majors, follow significant other/spouse to another state, or find jobs that pay them better than the field in which they trained. Further, the State's interest is not harmed, or even disserved, when a student elects to repay in cash as those funds can be used to assist future students. Given the purpose of the program, the gauge of effectiveness could be measured by the program's success of publicizing the availability of funds, generating applications and providing assistance to students committed to serving in the identified fields. Service repayment is a desired outcome, but the purpose was ultimately to provide financial assistance to North Carolina students who are capable of completing their education in eligible fields of study.

SEAA recognized that our software was outdated and engaged a firm to develop new software to support the State programs in 2018. The selected firm began work on the K12 programs first and now the focus is on the higher education programs. In addition to contracting for the development of a new system, we hired a business analyst and a project manager to support this project and to ensure we develop a system that meets the State's needs. We eagerly anticipate conversion to the new system in 2020.

Limitations of the current data system, however, do not totally hinder our ability to measure the number of students who pay in service compared to cash. SEAA takes a snapshot annually of the active accounts in repayment and routinely sees an approximate 80/20 split between service and cash in the FELS and legacy programs. This service/cash split has been constant among the legacy programs, even before the FELS program was created.

Finding 5: The State Education Assistance Authority does not have an organizational strategic plan with performance goals; further annual reports lack data on postsecondary State-supported educational financial aid programs.

Although SEAA has not generated a formal strategic plan for its programs, the agency annually evaluates the programs in accordance to the General Assembly's directives. Pursuant to Section 10.7(b) of the 2017 Appropriations Act (Session Law 2017-57), as carried forward in Section 8.1(b) of ratified House Bill 966, the SEAA conducts periodic (typically, annual) evaluations of expenditures of the student financial aid programs it administers.

As noted in the report, SEAA considers the following measures of utilization and effectiveness in carrying out its responsibilities for the grant programs:

- Number of students funded and average grants
- Amount of the appropriation expended
- Number and percentage of eligible students funded
- Whether there was sufficient funding to serve all eligible students
- Cutoff date (that is, through what application date were we able to provide funding)
- Comparison of cutoff data to prior year
- Level of sufficient reserve.

The overarching goal of the four grant programs was set by the General Assembly—help financially needy students pay for higher education. This goal of helping needy students supports the broad education goal set by MyFutureNC that two million adults in North Carolina have high quality postsecondary degrees or credentials to fill the jobs of the future.

PED notes in this finding that our annual report does not contain performance data or metrics about the State aid programs. The Authority operates over 50 programs and our annual report shares highlights of significant programs. The report provides narrative information about our activities, tables containing basic metrics on grant recipients and dollars disbursed, and summary financial statements. We disagree with PED that the annual report should contain performance measures on individual programs because this information is provided in other reports that are provided to the General Assembly. SEAA delivers its annual report as required by statute G.S. 116-2019.14 and its complete operating and financial statements are filed with the State Controller and the State Auditor and are available to the public through the agency's website. In addition, we communicate the outcomes and demographic data to stakeholders and interested parties by way of End of Year Reports on the major grant programs and an annual report on FELS; the Fiscal Research Division is one of the entities that receives those reports along with the system/association offices participating in the programs. The End of Year Reports contain demographic information about recipients, average awards, total dollars, number of students, institutions with recipients, enrollment patterns and more. Finally, we strive to be highly responsive to the General

Assembly and your staff when you need information, responding within hours if possible. We have had few requests for information about the financial aid programs.

While we believe that an expansive report on our grant programs with charts and tables would be an informative document, such an initiative is not inexpensive and will require added expertise to generate and analyze data, create graphs, charts and tables and to produce and evaluate our performance metrics for the general public.

Finding 6: The State Education Assistance Authority faces sustainability challenges in its administration of the UNC Need-Based Grant, and current financial reporting practices inhibit a detailed assessment of financial health.

We agree that SEAA needs administrative funding for the UNC Need-Based Program. In the early years, funding was provided, but later the source of funding for the program was changed entirely to Escheat funding and the administrative funding was lost. Currently the UNC Need Based Grant is funded with multiple sources including Lottery funds, Escheat funds and General Funds and an additional appropriation for administration is needed.

We disagree with the finding language that SEAA's financial reporting practices inhibit an assessment of the organization's financial health. SEAA is responsible for a wide array of programs related to education finance. Our financial statements accurately provide the financial information related to those programs in compliance with Governmental Accounting Standards Board requirements. The financial statements are audited each year by an independent accounting firm approved by the Office of the State Auditor. We are a non-major component unit in the State's Comprehensive Annual Financial Report and we consult with Office of the State Controller on how programs should be reflected on our financial statements. Due to legislative wording, the program funds for the NC Need-Based Scholarship that serves students attending private institutions is included on the UNC System Office's financial statements, not those of the SEAA. We have attempted to rectify the matter in consultation with OSBM and the UNC System Office, but we understand that the General Assembly must change the language as this report recommends. The Office of State Budget and Management has provided language to SEAA about the necessary changes and we are prepared to work with the General Assembly to address this issue.

Recommendations:

Recommendation 1: The General Assembly should modify State law to remove restrictions that hinder the State Education Assistance Authority's ability to fully expend educational financial aid for the Education Lottery Scholarship.

The SEAA fully agrees with the recommendation for the General Assembly to update the Education Lottery Statute qualifying criteria for students to account for inflation in the intervening years since the NC Education Lottery was implemented.

Recommendation 2:   The General Assembly should direct SEAA to develop methods to rectify data limitations for managing educational financial aid loan programs.

As explained in our response to Finding 2, SEAA has already begun the process of developing new software to enhance our ability to measure outcomes over time.

Recommendation 4: The General Assembly should direct SEAA to create a strategic plan outlining performance goals and increase reporting metrics.

As noted in Finding 5, SEAA has established performance metrics and annually conducts an analysis of our processes, including a feedback loop to improve upon the prior year's experience, in accordance with the directives included in the Appropriations Acts.

In addition, SEAA generates and transmits extensive information about State aid recipients in our annual End of Year Reports. With additional administrative funding, we will be able to produce an annual comprehensive report on the grant programs.
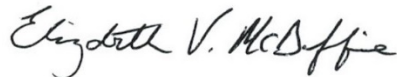
Recommendation 5: The General Assembly should consider appropriating program administration funding for the UNC Need-Based Grant and should direct the Office of State Budget and Management to provide options to modify State law to include SEAA activities related to the Need-Based Scholarship for Students Attending Private Institutions of Higher Education in its financial statements.

As noted in the report, the earnings on the Federal portfolio have now dropped to approximately $5 million, which is equal to the cost of administering the federal program. There are no excess funds with which to fund administration of our State programs; the UNC Need-Based Grant program is the only program lacking administrative funding.

We fully support necessary changes to the State law to include the Need-Based Scholarship for Students Attending Private Institutions of Higher Education program in the SEAA's financial statements.

We thank you for the opportunity to respond to the report.

Sincerely,

Elizabeth V. McDuffie
Executive Director

cc: Adora Thayer, Program Evaluator, Program Evaluation Division
Jacob Ford, Program Evaluator, Program Evaluation Division
Kiernan McGorty, Program Evaluator, Program Evaluation Division

Andrew P. Kelly
Senior Vice President for Strategy & Policy
Post Office Box 2688, Chapel Hill, NC 27515
910 Raleigh Road, Chapel Hill, NC 27514
(919) 962-5568 | apkelly@northcarolina.edu

October 7, 2019

John W. Turcotte
Director, Program Evaluation Division
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603

Dear Mr. Turcotte,

The UNC System is grateful for the opportunity to respond to the Program Evaluation Division's (PED) final report on the state's postsecondary financial aid programs: *Improvements Needed to Gauge Effectiveness and Expend State Funds Available for Postsecondary Financial Aid*. The response here is based on the excerpt of the full report that was shared with UNC System Office staff.

Financial aid is among the most important tools in our state's efforts to not only provide access to postsecondary education, but ensure that students complete a degree or credential. Each year, North Carolina's commitment to providing need-based financial aid, coupled with generous state support and low tuition, expands opportunities for more than 50,000 UNC students to enroll, make progress toward a degree, and minimize student debt. As you may know, the UNC System has set a goal to enroll and graduate more students from low-income families and from Tier 1 and Tier 2 counties, and the UNC Need-based Grant and Education Lottery Scholarship are critical to those efforts.

At the UNC System, we share the General Assembly's interest in improving the effectiveness of state grant programs. That is why, in the fall of 2018, the UNC System and North Carolina Community College System assembled the North Carolina Student Aid Study Group, which brought together practitioners and policymakers from both systems to examine the three programs that serve public college students: the Community College Grant, the UNC Need-based Grant, and the Education Lottery Scholarship.

The study group assessed the strengths and weaknesses of these programs and identified opportunities to improve them based on the latest research and best practices in other states. You can find the Study Group's recommendations included as Attachment A in this response (and on the UNC System website).

The Study Group's main recommendations include:
- **Simplify and consolidate the state grant programs that serve public college and university students by offering a single "North Carolina Scholarship."** Research suggests that the complexity of financial aid programs can undermine their effectiveness. In North Carolina, the existence of four separate grant programs, each with different sets of eligibility rules, introduces

Andrew P. Kelly
Senior Vice President for Strategy & Policy
Post Office Box 2688, Chapel Hill, NC 27515
910 Raleigh Road, Chapel Hill, NC 27514
(919) 962-5568 | apkelly@northcarolina.edu

such complexity.[1] Financial aid officers from UNC institutions highlighted particular challenges with the UNC Need-based Grant, which uses a different formula than other federal and state aid programs that is not consistent from year to year. As a result, students and parents cannot learn about grant eligibility and grant amounts until very late in the application process, often after they have already decided where to attend. In contrast, other states have designed user-friendly programs that allow students and families to learn about eligibility and grant amounts on a simple look-up table or calculator.

- Incentivize student success to reduce time to degree. The PED analysis found that, in general, grant recipients tend to experience positive student outcomes. This finding aligns with research on the positive impact of grant aid on retention and completion. However, the PED report also shows that less than half of UNC grant recipients complete a degree on-time. Similarly, the Study Group found that less than 40 percent of students who received a UNC Need-based Grant or Education Lottery Scholarship earned 30 credits in the 2017-18 academic year--the number of credits necessary to finish a 120-credit bachelor's degree in four years.

  These patterns reflect, in part, the fact that the NBG and ELS follow the federal Pell Grant program in defining "full-time" as 12 credits per semester (24 credits per year). Researchers and policymakers have argued that the 12-credit standard does not encourage students to earn the 30 credits per year necessary to complete a 120-credit bachelor's degree in four years.[2] In response, some states have reformed their grant programs to award more aid to students that attempt and earn 30 credits, and to allow students to use state grants during the summer session.[3]

  The Study Group recommendations call for the creation of a bonus award that would provide larger grants to UNC Need-based Grant recipients who earned 30 credits or more in an academic year, and for expanding the availability of grant aid in the summer to encourage students to finish their programs more quickly.

---

[1] See Dynarski, Susan and Scott-Clayton, Judith. "Financial Aid Policy: Lessons from Research." *The Future of Children*, Volume 23, Number 1, Spring 2013, pp. 67-91.

[2] Klempin, Serena Constance. "Redefining full-time in college: Evidence on 15-credit strategies." Community College Research Center. (September 2014): https://ccrc.tc.columbia.edu/media/k2/attachments/redefining-full-time-in-college.pdf

[3] See, for instance, Indiana's Frank O'Bannon Scholarship: https://www.in.gov/che/4506.htm.

THE UNIVERSITY OF
NORTH CAROLINA SYSTEM

Andrew P. Kelly
Senior Vice President for Strategy & Policy
Post Office Box 2688, Chapel Hill, NC 27515
910 Raleigh Road, Chapel Hill, NC 27514
(919) 962-5568 | apkelly@northcarolina.edu

As the General Assembly considers the PED report, we encourage legislators to also consider the recommendations of the Student Aid Study Group in the upcoming legislative session. University leaders and staff stand ready to assist in helping the legislature implement reforms that can make grant programs more effective in promoting access and success.

Below we have also shared some specific comments about the statistics used in the report.

Sincerely,

Andrew P. Kelly
Senior Vice President for Strategy and Policy

Andrew P. Kelly
Senior Vice President for Strategy & Policy
Post Office Box 2688, Chapel Hill, NC 27515
910 Raleigh Road, Chapel Hill, NC 27514
(919) 962-5568 | apkelly@northcarolina.edu

Specific comments about statistics used in the report:

- While the use of a single cohort of first-time, full-time students is appropriate for calculating retention and graduation rates, it is important to note that these measures exclude students who transfer into a UNC System institution and complete a degree, as well as those who transfer out of the UNC System and go on to complete a bachelor's degree elsewhere. Undergraduate enrollment in the UNC System is about 30 percent transfer students, meaning that these traditional measures leave out nearly ⅓ of the students, many of whom receive state grants. The report should note this limitation.

- It is not clear how the report authors measure retention. The report defines it as "reenrollment at the same postsecondary institution year after year." The federal Department of Education defines the retention rate as the proportion of first-time undergraduate students that return to the same institution the following fall. Using this definition, the UNC System InfoCenter shows an overall retention rate of 82.2 percent for the 2010 cohort of students, which is higher than reported in Exhibit 10.

- It is also unclear what methodology the analysts used to calculate employment rates and earnings since graduation. The data for UNC graduates are particularly confusing because the statistics differ from what is publicly available on the NC Tower website.

- It is important to recognize the limitations of the Common Follow-up System (CFS) for calculating employment rates and average earnings of UNC graduates. The CFS covers graduates in unemployment insurance-covered employment in North Carolina. As such, CFS does not include employment outcomes for graduates who leave the state and work elsewhere, those who are self-employed, or those who are federal employees. Similarly, students who enroll in graduate school following graduation may have some earnings while enrolled, but those earnings are not an indication of their long-term earning potential. Because large numbers of graduates fall into these categories, employment and earnings statistics calculated via CFS should be interpreted with caution. In particular, if graduates are not found in CFS because they work in another state or are self-employed, categorizing them as unemployed and/or having no earnings (ie: included as a "0" in the calculation of an average or a median) will paint an inaccurate picture of earnings and employment rates.

- As such, the UNC Employment percentage shown in Exhibit 10 would be more appropriately labeled "Percentage of Graduates Employed in North Carolina."
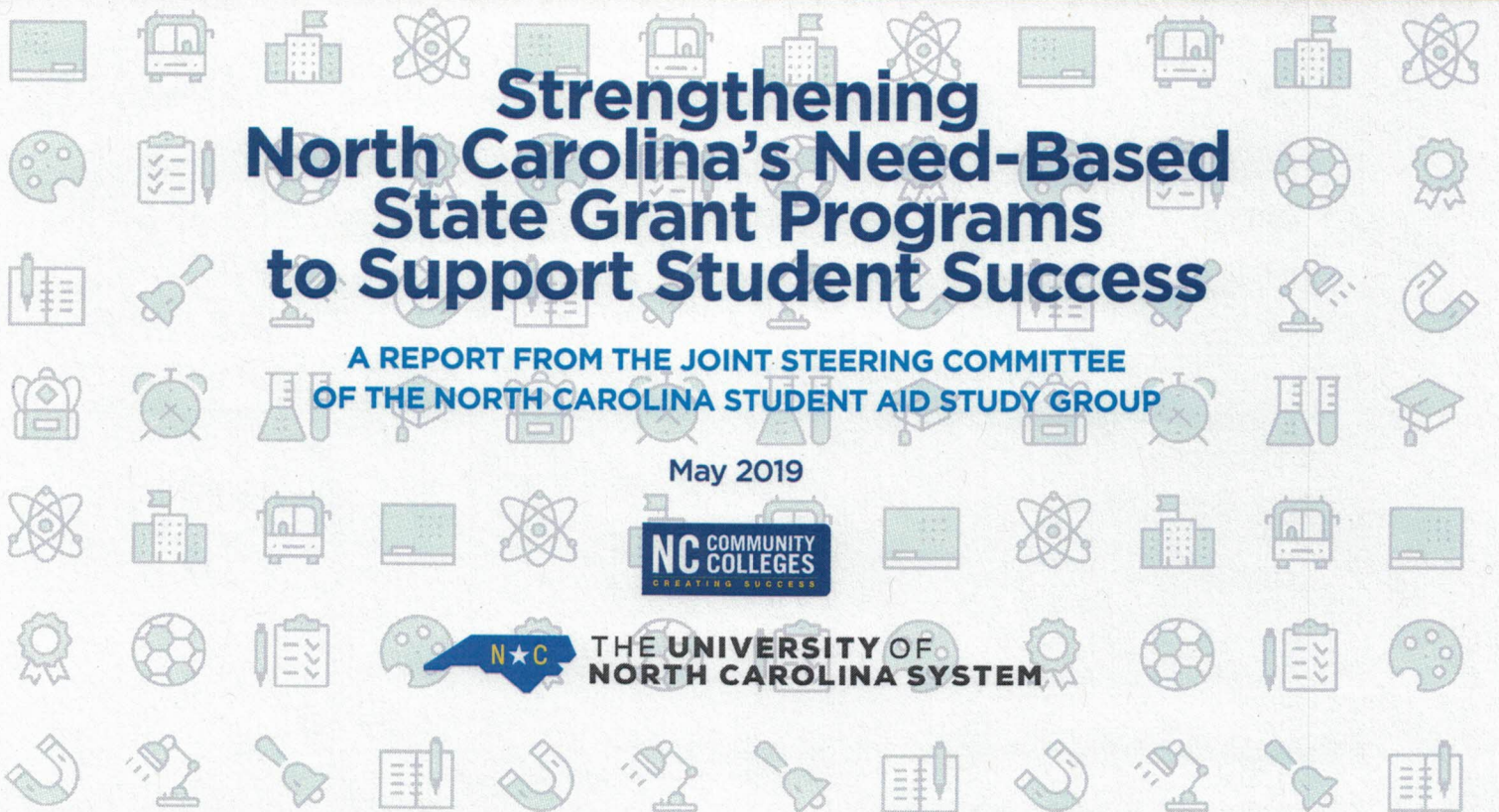
ATTACHMENT A
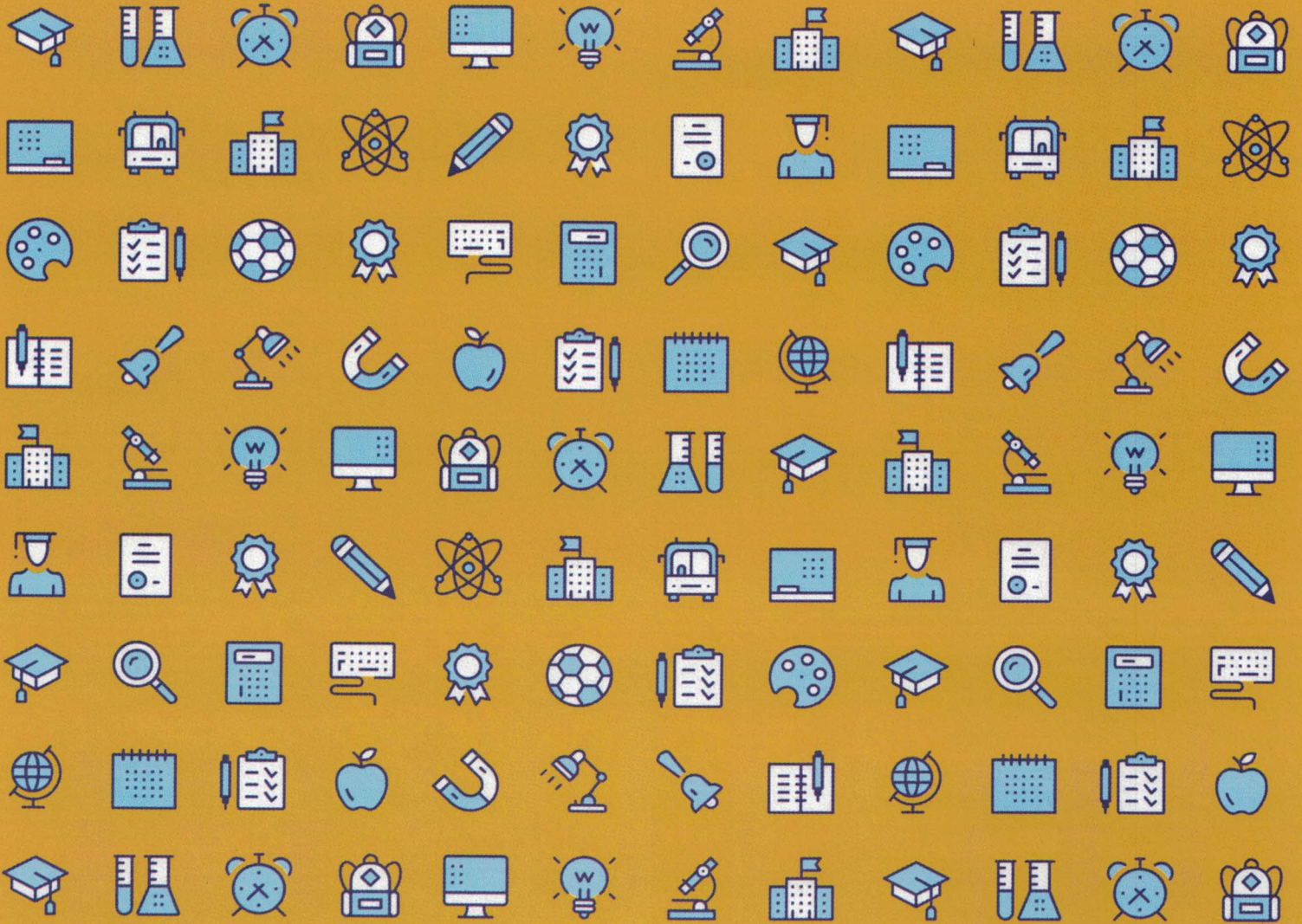
Strengthening North Carolina's Need-Based State Grant Programs to Support Student Success

A REPORT FROM THE JOINT STEERING COMMITTEE OF THE NORTH CAROLINA STUDENT AID STUDY GROUP

May 2019

NC Community Colleges
CREATING SUCCESS

N★C THE **UNIVERSITY** OF **NORTH CAROLINA SYSTEM**

Strengthening
North Carolina's Need-Based
State Grant Programs
to Support Student Success

A REPORT FROM THE JOINT STEERING COMMITTEE
OF THE NORTH CAROLINA STUDENT AID STUDY GROUP

May 2019

Table of Contents

Financial aid can be one of our
most effective tools to get more students
to and *through* postsecondary education,
but grant programs must be
designed and delivered in ways
that align with these goals.

Foreword

Financial aid can be one of our most effective tools to get more students *to* and *through* postsecondary education, but grant programs must be designed and delivered in ways that align with these goals.

In August 2018, we convened the North Carolina Student Aid Study Group to assess this important question. Over the past seven months, the study group—made up of leaders and financial aid practitioners from across the community college and university systems—engaged in a detailed examination of the state grant programs that serve public postsecondary students in North Carolina. The questions guiding our work were straightforward: Are our grant programs designed to maximize access *and* success? When and how do families learn about these opportunities? Are the programs well-designed to serve adult students?

To answer these questions, we consulted state and national experts to examine our current programs, lessons from research, and best practices in other states. From there we broke into small, cross-system workgroups focused on specific issues to generate recommendations. In the pages that follow, you'll find those recommendations and a summary of the study group's findings.
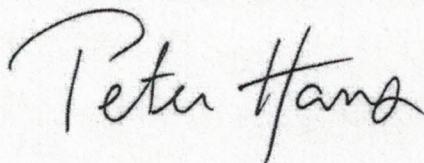
The work has already yielded results, as the group's draft recommendations shaped the financial aid requests in the joint 2019-2021 budget priorities put forward by the UNC and North Carolina Community College Systems. However, the full impact of the Study Group's work will be felt in the months and years ahead, as the recommendations provide a roadmap for more sweeping changes that will help more North Carolinians reach and complete the path to a postsecondary degree or certificate, thereby maximizing the return on state investments.

We are proud of the work this study group performed and wholeheartedly endorse its findings and recommendations. To move from recommendations to action will require continued refinement of these ideas, detailed policy development, and engagement with state policymakers.

We've built the roadmap for improvement. Now it's time to implement it.
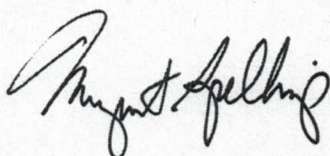
Peter Hans
President, North Carolina Community College System
Co-chair, North Carolina Student Aid Study Group

Margaret Spellings
President Emerita, University of North Carolina System
Co-chair, North Carolina Student Aid Study Group

Executive Summary

Labor market projections indicate that by 2027, about 70 percent of jobs in North Carolina will require education beyond high school.[1] With an attainment rate of 49% in 2017, North Carolina must help more students get *to* and *through* the state's community colleges, public four-year universities, and private institutions.

Financial aid programs are a key tool in addressing issues of affordability, access, and equity on the pathway to boosting college completion. The promise of financial aid can help to foster a college-going culture in the state, thereby ensuring that prospective students understand that education after high school is an option for them and encouraging them to make the transition to college. Aid programs help students pay tuition and living expenses, enabling them to afford the costs of enrolling and focus on their studies. But aid affects more than access and affordability; a growing body of research shows that student aid programs can also encourage students to stay on track to a degree and earn one in a timely fashion.

To ensure that aid programs are aligned with these multi-faceted goals, policymakers must thoughtfully examine the incentives built into aid programs' structure and implementation to ensure they are optimally designed to advance the goal of increasing attainment. Leaders across the country have worked to simplify aid programs, notify students about their aid eligibility and postsecondary options earlier, and redesign grants to encourage college completion. New research has shown that early notification can positively affect student beliefs and behavior in the years leading up to college;[2] that helping families complete aid applications can increase enrollment;[3] and that academic incentives can encourage students to take more credits and spend more time studying.[4]

The North Carolina Student Aid Study Group (Study Group) was born because University of North Carolina and North Carolina Community College Systems leadership recognized that it was time to assess the current design and delivery of the state's need-based grant programs for public higher education students. The study group focused on the North Carolina Education Lottery Scholarship (ELS), the North Carolina Community College Grant (CCG), and the UNC Need-Based Grant (NBG).

Co-chaired by UNC System President Emerita Margaret Spellings and North Carolina Community College System President Peter Hans, the Study Group thoroughly analyzed these student aid programs and their associated outreach efforts to identify strengths, weaknesses, and opportunities for improvement. Drawing on experts from North Carolina and across the nation, the Study Group examined North Carolina's programs in the context of lessons from research and promising programs from other states. This comprehensive analysis informed a set of recommendations to improve the simplicity, transparency, and accessibility of financial aid; promote early awareness; and incentivize student success. These actionable reform ideas will enhance our state's ability to meet access, affordability, and student success goals.

1   Georgetown Center on Education and the Workforce projections of education requirements for North Carolina shared with the authors upon request.

2   Destin, Mesmin, and Daphna Oyserman. "From Assets to School Outcomes: How Finances Shape Children's Perceived Possibilities and Intentions." *Psychological Science* 20, no. 4 (2009): 414-418.

3   Bettinger, Eric P., Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. "The role of application assistance and information in college decisions: Results from the H&R Block FAFSA experiment." *The Quarterly Journal of Economics* 127, no. 3 (2012): 1205-1242.

4   Barrow, Lisa, and Cecilia Elena Rouse. "Financial incentives and educational investment: The impact of performance-based scholarships on student time use." *Education Finance and Policy* (2016); Scott-Clayton, Judith. "On money and motivation: a quasi-experimental analysis of financial incentives for college achievement." *Journal of Human Resources* 46, no. 3 (2011): 614-646.

Study Group Membership

UNC System Representatives

- Darrell Allison
  UNC Board of Governors

- Robert Rucho
  UNC Board of Governors

- Imani Burwell, Advisor
  *Warren County High School,
  Carolina College Advising Corps
  University of North Carolina at Chapel Hill*

- Philip Dubois, Chancellor
  University of North Carolina at Charlotte

- Rachelle Feldman, Associate Provost
  University of North Carolina at Chapel Hill

- Louis Hunt, Senior Vice Provost
  North Carolina State University

- Sharon Oliver, Director of Financial Aid
  North Carolina Central University

- Deborah Tollefson, Director of Financial Aid
  University of North Carolina at Greensboro

- Sandy Baum, Senior Fellow
  Urban Institute

NCCCS Representatives

- Kali Brown, Dean of Student Support Services
  Vance-Granville Community College

- Pamela Harrell, VP for Student Services
  Johnston Community College

- Rosemary Kelly, AVP for Student Services
  Fayetteville Technical Community College

- Lisa Koretoff, Director of Financial Aid
  Guilford Technical Community College

- Dennis King, President
  Asheville-Buncombe Technical Community College

- Laura Leatherwood, President
  Blue Ridge Community College

- Daniel "JJ" McEachern,
  Dean of Enrollment Management
  Central Piedmont Community College

- Christopher Sabin,
  Director of Veterans Programs
  Coastal Carolina Community College

- Chad Williams, VP for Student Services
  Randolph Community College

Joint Steering Committee

- Lisa Chapman, Chief Academic Officer
  NCCCS

- Jennifer Haygood, Chief of Staff
  NCCCS

- James "JW" Kelley, Associate Vice President –
  Student Services
  NCCCS

- Andrew P. Kelly, Senior Vice President for
  Strategy and Policy
  UNC System Office

- Elizabeth McDuffie, Executive Director
  North Carolina State Education Assistance Authority

- Elizabeth Reilley, Director of Data Analysis
  and Policy Research
  UNC System Office

- Shun Robertson, Assistant Vice President
  for Policy Development and Analysis
  UNC System Office

External Partners

- Annika Many, Principal
  EdBridge Partners

- Martha Snyder, Senior Director
  HCM Strategists

Recommendations of the Study Group

FOCUS AREA A:
CREATE A SYSTEM THAT IS SIMPLE, TRANSPARENT, TARGETED, AND ACCESSIBLE

1. Simplify the grant structure by offering a single, generically named "North Carolina Scholarship" to provide a base level of need-based student aid to eligible students.

- Create one set of rules for determining eligibility and aid amounts based on the federal methodology for Expected Family Contribution and institutional costs of attendance.
- Promote simplicity and reduce confusion by ensuring that program details mirror the federal Pell Grant program where possible and appropriate; for example, in eligibility rules, proration, and satisfactory academic progress requirements.
- Take steps to minimize the effect of this simplification on the total amount of state aid that flows to individual institutions.
- Provide a method for students and families to estimate how much their federal and state need-based aid would be based on a combination of data inputs such as family income, EFC, institution, and number of credit hours.
- Structure the program to build upon Pell, assisting students beyond those Pell-eligible (e.g., 110% of Pell-eligible EFC) with the amount awarded decreasing for higher EFCs (awards should "slope").

2. Allow summer awards consistent with Pell criteria.

3. To the extent possible, fund need-based grant programs at a level that allows grants to be awarded to all eligible students regardless of FAFSA filing date and start term.

4. Avoid limiting eligibility for state financial aid programs by age or time since high school enrollment.

FOCUS AREA B:
PROMOTE EARLY AWARENESS

5. Expand financial aid counseling efforts across the state with multi-pronged strategies for engaging and supporting students.

These efforts could include:
- Establishing a statewide virtual financial aid center that offers technology-based counseling sessions (e.g., Skype, FaceTime, Facebook Live) with after-hours and weekend availability;
- Increasing the number of College Advising Corps, NC Career Coaches, and College Foundation of North Carolina's regional financial aid representatives;
- Leveraging evidence-based practices, like text messaging/nudging campaigns and artificial intelligence communication technologies (e.g., AdmitHub) to support students through application and financial aid process; and
- Continue incorporating financial aid counseling with college or university admission fairs (e.g., CACRAO).

6. Invest in state-level communication and marketing to develop simple messages focused on the value of and opportunities to access a college education, and outreach strategies that are proactive, targeted and personalized for various student populations.

These strategies could include:
- Accessing data from the NC Department of Public Instruction, including ACT data, to identify and reach out to high school students with simple messages for academic expectations, postsecondary options, and accessibility of financial aid;
- Expanding the use of social media and traditional marketing strategies that can engage both students and parents in a college-going campaign effort with simple messages about affordability/availability of financial aid; and
- Developing student-focused, story-telling narratives and information about college opportunities, such as career and technical education programs, that can (re)-engage non-traditional aged students.

7. Simplify and modernize CFNC's web portal and governance to support future flexibility and efficiency.

FOCUS AREA C:
INCENTIVIZE STUDENT SUCCESS AND REDUCE TIME TO DEGREE

8. Create a separate bonus award for students who complete 30 or more credit hours per academic year and incorporate a parallel reward system for part-time students to encourage on-time completion.

- Policymakers should work to ensure that the bonus award is structured to minimize administrative burden and fulfill the requirement in S.L. 2014-100, section 11.8.

9. Expand availability of state grant funding in the summer to encourage students to complete their programs more quickly.

10. Enhance completion incentive programs with advising and student services that emphasize the same message to all students, not only financial aid recipients.

- Advising should clarify the financial consequences of taking additional semesters to complete a credential and help students choose the right major for degree completion.
- A statewide campaign to promote on-time completion at 2- and 4-year institutions and highlight transfer initiatives should accompany advising efforts. This campaign should highlight initiatives like transfer articulation agreements and "2+2" co-admission programs.

11. Implement and study a program to provide a one-time award to students who earn a college transfer associate degree covered by the Comprehensive Articulation Agreement prior to transferring to a UNC System institution.

FOCUS AREA D:
TEST INNOVATIVE IDEAS AND EVALUATE CURRENT PROGRAMS FOR EFFECTIVENESS

12. Evaluate the effectiveness of current programs and outreach efforts, and measure the impact of differing levels of state grant aid on enrollment and completion, in order to ensure the best use of state resources.

This work could include, but would not be limited to:
- Studying the current NCSEAA Forgivable Education Loans for Service (FELS) to assess effectiveness of the program. Expand or modify based on the results.
- Evaluating current financial aid outreach activities to understand which efforts are effective, which efforts should be reduced or discontinued, and the return on investments. Scan other states' financial aid outreach efforts for best practices and innovative ideas.

13. Pilot a statewide scholarship program to support short-term, career-focused training in high-demand fields. Such an initiative should include business and industry partnerships and may include matching funds from employers.

14. Study and pilot a program that forgives some portion of student account balances to encourage adult reentry into postsecondary education.

This program could include, but would not be limited to:
- One-time forgiveness of non-tuition debts (e.g. parking tickets, fines, other fees) and Title IV money typically charged to students based on charges from the Department of Education (a limited/ "up-to" amount should be established after examining the typical amounts of these kinds of debts among stop-outs);
- Debt forgiveness over time upon completion of credit hours regardless of Satisfactory Academic Progress (SAP) standing.

15. Pilot "Finish Line" support for students who are within striking distance of graduating.

- For example, a program could award grants to students who complete student success sessions such as meeting with an academic advisor for a graduation audit, a career advisor, and complete financial literacy workshops.

Introduction

The state of North Carolina invests hundreds of millions of dollars in student aid each year in service of its constitutional mandate to provide higher education that is "as free as practicable." These investments help ensure that the price of attendance will not be a barrier to college enrollment and completion for qualified North Carolinians of all ages.

As the UNC System and North Carolina Community College System work to build on this strong foundation, both institutions are intensely focused on increasing postsecondary access and success. The importance of those priorities is reflected in both systems' strategic plans, which emphasize increases in completion rates, improved access for key groups, and smoother transitions from K-12 to college. These system priorities are also of critical importance to the state's new attainment goal to reach 2 million adults between the ages of 25 and 44 with a high-quality postsecondary credential or degree by 2030.

Student aid is an essential tool in our pursuit of these goals. But to meet the challenge, our state aid programs must adapt. A growing body of research has provided many lessons on how student aid design and delivery can influence college aspirations, enrollment decisions, and student success. We also know that particular design features—like complicated application processes, poor timing, and insufficient flexibility—can weaken and ultimately undermine the goals of financial aid programs.

As such, the University of North Carolina and North Carolina Community College Systems' leadership recognized that it was time to assess the current design, outreach, and delivery of the state's three need-based grant programs for public higher education students: the NC Education Lottery Scholarship, the NC Community College Grant, and the UNC Need-Based Grant.

The systems jointly created the North Carolina Student Aid Study Group (Study Group), co-chaired by UNC System President Emerita Margaret Spellings and North Carolina Community College President Peter Hans. With a formal launch in August 2018, the Study Group convened national and state higher education leaders, financial aid experts, and state policymakers to examine state aid programs, identify lessons from research and other states about the optimal design of student aid, and develop evidence-based reforms to enhance the effectiveness of state aid investments.

In seeking to answer key questions, the Study Group was guided by core principles and clear goals.

Key questions

- Are our grant programs designed to maximize access *and* success for all UNC System and community college students?
- How do students and families learn about these opportunities, and can the state do more to reach back into the K-12 pipeline to inform students about their options?
- Do the programs create incentives for timely degree completion?
- Are our student aid programs designed to meet the needs of nontraditional students?

Principles

- Student aid programs should be as simple, predictable, and transparent as possible to the end users.
- The state should work to ensure that prospective students and their families have opportunities to learn about student aid opportunities and postsecondary options early in their school careers.
- State aid should be targeted at those on whom it will have the largest effect on enrollment and success.
- State aid rules and procedures should encourage student progress and timely degree completion without compromising access.
- State aid rules and procedures should provide sufficient flexibility to serve the needs of different types of students.
- Potential reforms should focus primarily on making the most productive use of existing state investments.

Goals

1. Conduct a detailed assessment of the strengths, weaknesses, and opportunities for improvement in existing state student aid programs and outreach efforts in the context of new goals and economic conditions.
2. Examine lessons gleaned from rigorous research and from other states about the effective design and targeting of student aid programs and associated outreach efforts.
3. Use the findings from 1 and 2 to develop a set of evidence-based reforms that can increase the efficiency and effectiveness of the state financial aid programs and outreach efforts that serve UNC System and NCCCS students.

Study group process

- **Steering group**
  Guided content development, agenda planning, and overall process

- **Five in-person meetings**
  Focused on content areas reinforced by findings from a survey of financial aid directors at UNC System and NCCCS institutions. *(See online Appendix D.)*

  September 10, 2018
  - Overview of existing NC programs

  October 10, 2018
  - *Targeting, Predictability, and Simplicity*
  - *Outreach and Accessibility*

  October 31, 2018
  - *Optimizing Aid for Student Success*
  - *Supporting Non-Traditional Students*

  November 28, 2018
  - Review of draft recommendations
  - Technical analysis framework

  December 12, 2018
  - Review of financial modeling
  - Discussion of recommendations

- **Four working groups organized around key issues**
  Supported by steering group staff and commissioned policy briefs by national experts, working groups developed draft recommendations for each issue (in italics above)

- **Technical analysis**
  Financial modeling enabled analysis of core recommendations' budgetary and distributional impact

The state of North Carolina invests hundreds of millions of dollars in student aid each year in service of its constitutional mandate to provide higher education that is "as free as practicable." These investments help ensure that the price of attendance will not be a barrier to college enrollment and completion for qualified North Carolinians of all ages.

The Status Quo in
North Carolina Student Aid

To begin its review, the Study Group assessed the current state of North Carolina's three primary financial aid programs for public college and university students: the North Carolina Education Lottery Scholarship (ELS); North Carolina Community College Grant (NCCCG); and University of North Carolina Need-Based Grant (UNCNBG). Additional state aid programs for special populations were beyond the scope of the group's review.

North Carolina's financial aid expenditures were examined in a national context[5]:

- North Carolina's ratio of grant dollars per undergraduate FTE has been consistently above the national average.
- Nearly all (98 percent) of North Carolina's investment in grant aid is need-based, well above the national average of 75 percent.
- The total amount of undergraduate aid in North Carolina increased by 109% from 2000-2016—and the total invested in need-based aid increased by over 300%. Investments in the three main programs have leveled off in recent years despite growth in enrollments at UNC System institutions.

North Carolina's three primary need-based aid programs are targeted at needy students for whom the cost of attending higher education may be a barrier. These programs share some basic eligibility criteria, such as requiring students to be North Carolina residents for tuition purposes and to make satisfactory academic progress. But they differ in terms of how financial need is calculated and how awards are determined. See Table 1 for a basic description of the three grant programs.

Two programs (ELS and NCCCG) use what is known as the Expected Family Contribution (EFC) to determine aid amounts. The EFC is calculated via a federally-defined formula that uses family income and assets, number in the family, and number in college. The UNCNBG uses a different formula to calculate the family contribution.

TABLE 1: *Primary need-based aid programs in North Carolina* (page 9)

The following tables (Table 3 and Table 4) illustrate how the Community College Grant and North Carolina Need Based Grant are determined.

For the Community College Grant, the maximum award a student can receive from all three (Pell, ELS, and CCG) totals $4,680. As a result, students from the lowest-income families (i.e. those with a lower EFC) are likely to receive little or no state support through the ELS and CCG because their Pell Grant approaches or exceeds $4,680. Similarly, those students with EFCs over 5,000 are not eligible to receive support from the ELS.

TABLE 2: *Community College Grant (Sample Students)* (page 9)

The UNC Need-Based Grant works in a different manner. The family contribution for that grant is calculated using a unique formula that is different from the federal EFC, which makes understanding specific award levels less transparent. The UNC NBG fills in any gap left between EFC and COA after Pell and other awards are factored in. Table 3 provides an illustration of how award levels work.

TABLE 3: *UNC Need-Based Grant (Three Students Attending Same University)* (page 9)

These programs are part of a larger framework of student aid that includes federal grants and loans, local grant aid, institutional aid—which varies widely across institutions—and private scholarships. Table 5 uses institution-level data from the Integrated Postsecondary Education Survey (IPEDS) to provide a snapshot of the different sources of grant aid received by all undergraduates (the top rows) and by first-time, full-time undergraduates (the bottom rows) at UNC System and NCCCS institutions in 2016-17.

Just over half of students in both systems receive some grant aid, and UNC System students receive more grant aid in total than do students at NCCCS. NCCCS institutions receive more Pell Grant aid in total than UNC System institutions, which reflects the fact that community college students are more likely to be low-income and to qualify as independents. Indeed, only a fraction of the students included in NCCCS IPEDS reporting are first-time, full-time students. In contrast, institutional aid is much more prevalent at UNC institutions, and accounts for more grant aid than the state grant programs. Data reported to the UNC Board of Governors indicate that UNC System institutions budgeted $208 million in tuition revenues to need-based institutional aid for undergraduate and graduate students.

---

5 National Association of State Student Grant & Aid Programs (NASSGAP)

TABLE 1. PRIMARY NEED-BASED AID PROGRAMS IN NORTH CAROLINA

	Institutions	Financial Need 2018-19	Grant Value	Recipients 2017-18	Average Award 2017-18	Total Amount Awarded
NC Education Lottery Scholarship (ELS)	NC Community Colleges / UNC System institutions	EFC > 2,200 and ≤ 5,000	In combination with Pell, not to exceed $4,000	25,919	$1,079	$27,971,676
NC Community College Grant (CCG)	NC Community Colleges	EFC > 700 and ≤ 8,500	Combines with Pell and ELS	23,863	$725	$17,311,062
UNC Need-based Grant (UNCNBG)	UNC System institutions	Unmet need determined by unique program formula	Does not use federal EFC; separate formula Range: $500-$4,200	50,154	$2,410	$120,991,629

TABLE 2. COMMUNITY COLLEGE GRANT (SAMPLE STUDENTS)

	Student A	Student B	Student C	Student D	Student E
Expected Family Contribution	$100	$1,850	$2,650	$5,150	$7,050
Pell	$6,045	$4,245	$3,445	$945	0
Edu. Lottery Scholarship	0	0	$552	0	0
	(Pell > $4,000)	(Pell > $4,000)		(EFC > 5,000)	(EFC > 5,000)
CC Grant	**0**	**$435**	**$683**	**$2,000**	**$1,700**
Total Grants	$6,045	$4,680	$4,680	$2,945	$1,700

TABLE 3. UNC NEED-BASED GRANT (THREE STUDENTS ATTENDING SAME UNIVERSITY)

COST OF ATTENDANCE	$15,000	$15,000	$15,000
Minus: Family Contribution (not Federal EFC)	$100	$3,500	$6,000
Pell Grant (capped at $5,730)	$5,730	$2,645	0
NC Education Lottery Scholarship	0	$1,352	0
Federal American Opportunity Tax Credit Estimate	$900	$900	$2,500
Self Help	$5,325	$5,325	$5,325
Difference Paid by UNC Need-Based Grant	**$2,945**	**$1,278**	**$1,175**
Total Grant Aid	$8,675	$5,275	$1,175

TABLE 4. A SNAPSHOT OF STUDENT AID AT UNC AND NCCCS INSTITUTIONS (AY2016-17)

All Undergraduate Students	UNC System	NCCCS
Number and Percentage of Undergraduate Students Awarded Any Grant Aid	104,911 (57%)	117,900 (53%)
Total grant aid from federal, state, institutional, and other sources	$881,094,205	$516,471,482
Total recipients	104,911	117,900
Average per recipient	$8,398	$4,381
Total Pell Grant aid	$284,953,528	$389,479,700
Total recipients	66,464	91,827
Average per Pell Grant recipient	$4,287	$4,241
Average per student receiving any aid	$2,716	$3,303

First-Time, Full-time Students	UNC System	NCCCS
Number and Percent of First-time Full-time Students Awarded Grant Aid	19,425 (58%)	13,561 (68%)
Total Grant Aid[6]	$177,671,490	$63,520,243
Total Recipients	19,425	13,561
Average per recipient	$9,147	$4,684
Total Pell Grant Aid	$55,150,855	$52,995,891
Pell Grant recipients	12,166	11,379
Average per Pell Grant recipient	$4,533	$4,657
Average per student receiving any aid	$2,839	$3,908
Total State and Local Aid	$35,406,039	$6,757,035
State and local aid recipients	11,634	4,225
Average per state/local grant recipient	$3,043	$1, 599
Average per student receiving any aid	$1,823	$498
Total Institutional Aid	$84,489,981	$3,034,039
Institutional aid recipients	17,186	2,335
Average per institutional aid recipient	$4,916	$1,299
Average per student receiving any aid	$4,350	$224

Key Issues

In consultation with specialists from the North Carolina State Education Assistance Authority and the UNC and NCCC Systems, as well as national postsecondary finance and financial aid experts, the Study Group identified four key issues to examine:

1. *Targeting, Predictability, and Simplicity*
2. *Outreach and Accessibility*
3. *Optimizing Aid for Student Success*
4. *Supporting Non-Traditional Students*

A survey of financial aid administrators at UNC System and NCCC institutions reinforced the need to address these core topics. (See online *Appendix D* for detailed survey results.) Respondents agreed that North Carolina's aid programs are overly complex, making them difficult for students and families to understand and anticipate how much aid they may receive. Respondents were uncertain how the programs promote student success and indicated that the programs were not well designed for adult learners.

The Study Group commissioned a set of policy briefs by national experts that evaluated North Carolina's aid programs and outreach efforts relative to best practice in each core area. Authors presented their findings before the group and served as resources for the member working groups. See *Appendix E* for full briefs.

6 Note: Pell, State or Local, and Institutional grants do not add up to Total Grant Aid due to exclusion of federal grant programs other than Pell Grants.

Findings and Recommendations

Each focus area was assigned a team of study group members who examined data and policy briefs and developed a set of recommendations that were discussed, debated, and ratified by the full study group. This process included technical analysis by researchers at the State Higher Education Executive Officers Association (SHEEO) who examined the budgetary and distributional impact of enacting key recommendations under varying scenarios.

The following is a summary of the research, best practice, and analysis that informed each set of recommendations. *The commissioned policy briefs in online Appendix E include citations for a host of relevant studies and state policy examples.*

FOCUS AREA A: CREATE A SYSTEM THAT IS SIMPLE, TRANSPARENT, TARGETED, AND ACCESSIBLE[7]

Research/Best practice

Research suggests that the complexity of applying for aid can lead to inaction.[8] **Simplicity** can be addressed in several ways, including limiting the number of separate programs so that students receive a clear, coherent message about aid availability and ensuring that the process for applying, receiving, and maintaining eligibility for aid is as streamlined as possible. States can simplify the aid process for students by:

- Streamlining the number of programs to maximize the number of eligible students that receive aid from a single program;
- Eliminating conflicting, arbitrary, or early deadlines that disproportionately harm underserved students, who often apply too late after funding is exhausted.[9]

Oregon Opportunity Grants, for instance, are awarded based on EFC until funds are exhausted, regardless of application date;
- Designing specific supports based on where students struggle in the process to ease application burdens and administrative hurdles;
- Creating a centralized application portal; and
- Coordinating state aid with federal and institutional sources of aid.

Uncertainty about the cost of college can also depress aspirations and enrollment. **Transparency** and predictability regarding financial aid can help families understand and plan for college, which has positive effects on enrollment. States can increase transparency by making students and families aware of their eligibility early and providing estimates of what they may be eligible to receive. Better transparency can be addressed through:

- Providing students and families with early information. Several early commitment programs, such as those in Indiana and Oklahoma, make students aware of their eligibility for aid while they are still enrolled in middle school. While these programs come with other academic and behavioral parameters for students, research suggests that such programs impact the enrollment of students who are eligible; and
- Creating look-up tables or aid calculators based on family income to help parents and students estimate aid and plan. While the actual formula within the aid program may be driven by EFC calculations, a more general estimate, using understandable parameters such as income and family size, can provide families with the simple information they need to prepare for college-going.

Aid programs also differ in what groups of students they target, and those design choices have implications for program effectiveness. Evidence indicates that **targeting** aid to students with high financial need can have a significant impact on enrollment. Studies find an additional $1,000 in aid is associated with a 3-4 percentage point increase in college enrollment.[10] While the targeting

continued

---

7 See Appendix E: Baum, Sandy, "North Carolina Student Aid Study Group Policy Issue Brief: Improving the Targeting, Predictability, and Simplicity of North Carolina's State Grant Programs," (2018).

8 Castleman, Benjamin, Saul Schwarz, and Sandy Baum (eds.) (2015), *Decision Making for Student Success: Behavioral Insights to Improve College Access and Persistence.* New York: Routledge; Dynarksi, Susan and Judith E. Scott-Clayton. "The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics." *National Tax Journal,* 59, no. 2 (2006): 319-356; Dynarski, Susan and Judith Scott-Clayton. Financial Aid Policy: Lessons from Research. Working Paper 18710. National Bureau of Economic Research (2013); Bettinger, Eric P., Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics* 127, no. 3 (2012): 1205-1242.

9 Hoover, Eric and Scott Carlson, "Students on the Margins: For many low-income families, college is a question mark," *The Chronicle of Higher Education* (2017); Pingel, Sarah, Brian Sponsler, and Neal Holly. "Redesigning State Financial Aid: Principles to Guide State Aid Policymaking." Denver, CO: Education Commission of the States (2018).

10 Dynarski, Susan and Scott-Clayton, Judith. "Financial Aid Policy: Lessons from Research." *Future of Children* 23 no. 1 (Spring 2013): 67-91.

of aid to students with greater financial need is key, the structure of the aid programs is also important; if students cannot access the aid due to enrollment intensity requirements or burdensome application requirements, they cannot benefit from the program. State financial aid programs can increase accessibility and target more efficiently by:

- Minimizing sharp differences between students on either side of an eligibility determination, known as cliff effects. Grants such as the Cal Grant, for which students are either eligible or ineligible, create steep cliff effects for students who do not meet the determined income or EFC eligibility level. These all-or-nothing scenarios can have significant impact on students. State programs should be tapered to gradually decline for higher EFCs; and

- Ensuring that eligibility is not limited to students who enroll full-time or who have recently graduated from high school. These eligibility parameters particularly impact access for older students, who may be several years removed from high school or have other obligations such as work and family that prevent them from enrolling in full course loads. Recognizing the unintentional impacts of these limitations, several states have adjusted programs to ensure access for non-traditional students:

  - After determining that some adult students enrolled in more credits than they could manage to qualify for aid, the Illinois Student Aid Commission changed state policy to allow students enrolled in three or more credit hours per semester to access aid.[11]

  - Initial participation in the Tennessee Reconnect program is exceeding projections after enrollment intensity requirements were lowered to part-time (six credits per semester); a program pilot found that participation suffered when nearly full-time enrollment (nine credits per semester) was required.[12]

  - Indiana's adult grant requires enrollment in six credit hours per semester—but traditional students receive additional aid when they exceed 12 credit hours.

- Providing the same level of grant funding for summer courses as for those taken in the fall and spring can facilitate progress and credit accumulation.

North Carolina Analysis

- North Carolina minimizes the effort required for students to apply for state aid by using the FAFSFA as its application. However, multiple programs create unnecessary complexity and a lack of transparency.

- UNC's Family Contribution—an alternative to the federal Expected Family Contribution—adds complexity, reduces predictability for students and aid officers, and is not transparent.

- In accordance with best practice, aid programs currently do not have fixed deadlines beyond which otherwise eligible students are denied aid.

- The structure of the ELS and CCG programs counteract some of the Pell Grant program's progressivity. Rather than increasing in value in step with the Pell Grant, North Carolina's state grants decline as the Pell Grant increases.

- Aid programs include part-time students who are enrolled at least half time and those who are not recent high school graduates.

- Adult students are less likely to receive any state grant aid compared to traditional-age students, even though adult students are more likely to be low-income and to have higher unmet need.

- Some adult and transfer students lose aid before completing a degree due to financial aid term limits (six for an associate degree, ten for a bachelor's degree).

---

11 Illinois Student Assistance Commission, "Initiative to aid Illinois adult workers," (2000), https://www.isac.org/dotAsset/eadbf229-cd07-477d-bae7-269d64daab1a.pdf

12 Gonzales, Jason, "Free Tennessee community college for adults program shatters expectations in its first year," *Nashville Tennessean*, (2018), https://www.tennessean.com/story/news/ education/2018/08/27/tennessee-reconnect-community-college/1109159002/

Study Group recommendations: Create a system that is simple, transparent, targeted, and accessible.

1. Simplify the grant structure by offering a single, generically named "North Carolina Scholarship" to provide a base level of need-based student aid to eligible students.

- Create one set of rules for determining eligibility and aid amounts based on the federal methodology for Expected Family Contribution and institutional costs of attendance.
- Promote simplicity and reduce confusion by ensuring that program details mirror the federal Pell Grant program where possible and appropriate; for example, in eligibility rules, proration, and satisfactory academic progress requirements.
- Take steps to minimize the effect of this simplification on the total amount of state aid that flows to individual institutions.
- Provide a method for students and families to estimate how much their federal and state need-based aid would be based on a combination of data inputs such as family income, EFC, institution, and number of credit hours.
- Structure the program to build upon Pell, assisting students beyond those Pell-eligible (e.g., 110% of Pell-eligible EFC) with the amount awarded decreasing for higher EFCs (awards should "slope").

2. Allow summer awards consistent with Pell criteria.

3. To the extent possible, fund need-based grant programs at a level that allows grants to be awarded to all eligible students regardless of FAFSA filing date and start term.

4. Avoid limiting eligibility for state financial aid programs by age or time since high school enrollment.

Cost Implications

Consolidation into one "North Carolina Scholarship:" The recommendation to consolidate programs can be implemented in a way that is budget neutral. Consolidation will require shifting the UNC NBG from the current "total family contribution" to the federal EFC, which would result in changes to the amount of aid going to different groups of students. Adjustments to the other components of the formula (e.g., cost of attendance) can limit changes to the aggregate amount of state aid that institutions receive.

To the extent possible, fund programs such that all eligible students receive grant funding regardless of FAFSA filing date: Technical modeling indicates that about 12,500 students would have been eligible for a UNC Need-Based Grant but filed their FAFSA after grant funds had been depleted. Funding these students at current rates regardless of filing date would cost an additional $22 million. Funding the ~7,500 of those who filed prior to July would have cost an additional $13 million. Grant amounts and schedules could be adjusted to minimize additional costs.

Research suggests that the complexity of applying for aid can lead to inaction when it comes to applying for aid and for college. Simplicity can be addressed in several ways, including limiting the number of separate programs so that students receive a clear, coherent message about aid availability and ensuring that the process for applying, receiving, and maintaining eligibility for aid is as streamlined as possible.

FOCUS AREA B: PROMOTE EARLY AWARENESS [13]

Research/Best practice

Behavioral economics research provides insights into the factors that drive individuals to participate in certain programs or respond to incentives. Generally, this research points to the importance of "Simple, Often, and Easy" as principles that should guide outreach and informational strategies.[14] When it comes to financial aid, building early awareness through simple messages, establishing easy processes that remove or limit administrative burdens, and issuing frequent reminders or follow-ups are all important strategies that can encourage students to take timely action toward applying for and maintaining aid. Some specific outreach strategies include:

- Simplify and target messaging around aid, affordability, and net price.
  - Tennessee Promise features a simple slogan: "Two years of tuition-free attendance at a community college." The state created a simple initial form requiring minimal information to authorize outreach to parents over an extended period.
- Provide students with early, easy-to-access information, including details about academic expectations, potential aid amounts, and how aid may vary by institution type and/or enrollment intensity.
  - Early commitment programs guarantee college financial aid to students from low-income families beginning in middle school, contingent upon the student meeting certain academic and other requirements. Indiana's 21st Century Scholars programs enrolls low-income seventh and eighth graders, while Oklahoma's program enrolls students in eighth, ninth and tenth grades with family incomes up to $55,000.

- Open resources and toolkits such as Lumina Foundation's KnowHow2Go can help high schools provide college workshops more easily, particularly in underserved areas.
- Use data to identify particular student populations, then reach out to them earlier and more often with specific messages.
  - University of Michigan's HAIL Scholarship used simple messaging and direct outreach to parents and schools—identified through targeted data—to attract low-income students.
- Use frequent reminders ("nudges") to refocus attention.
  - Text-messaging campaigns can help students progress through complex processes.
  - Community college students who received a series of text messages about financial aid resources and deadlines were 12 percentage points more likely to return to campus sophomore year, a randomized control trial found.[15]
  - Leveraging access to student information systems, Georgia State's artificial intelligence bot generated outreach messages geared toward the specific tasks students had to complete next.[16]
- Facilitate FAFSA completion with outreach, assistance, and financial and recognition incentives.
  - One study found that FAFSA completion increased when workshop attendees knew that a $1,000 scholarship would be awarded to one attendee.[17]
  - Tennessee's "FAFSA Frenzy" and California's "Race to Submit" campaigns displayed schools' FAFSA completion rates publicly to encourage greater support for students.

---

13 See Appendix E: Gurantz, Oded, "North Carolina Student Aid Study Group Policy Issue Brief: Improving Outreach and Accessibility of Financial Aid," (2018).

14 Thaler, Richard, Cass R. Sunstein, and John P. Balz. "Choice Architecture" in E. Shafir (ed.) *The Behavioral Foundations of Public Policy*. Princeton, NJ: Princeton University Press (2012); Guyton, John, Day Manoli, Brenda Schafer and Michael Sebastiani. "Reminders & Recidivism: Evidence from Tax Filing and EITC Participation among Low-Income Families." Unpublished working paper (2016); Manoli, Day and Nick Turner. "Do Notices Have Permanent Effects on Benefit Take-Up? *NYU Tax Law Review* 70 (2017): 439-533; Bettinger, Eric P., Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics* 127, no. 3 (2012): 1205-1242.

15 Castleman, Benjamin L. and Lindsay C. Page, "Freshman Year Financial Aid Nudges: An Experiment to Increase FAFSA Renewal and College Persistence." *The Journal of Human Resources* 51, no.2 (2016): 389-415.

16 Page, Lindsay C. and Hunter Gehlbach, "How an Artificially Intelligent Virtual Assistant Helps Students Navigate the Road to College." *AERA Open* 3, no. 4 (2017).

17 Gurantz, Oded, "A Little Can Go a Long Way: The Impact of Advertising Services on Program Take-Up." *Educational Evaluation and Policy Analysis* 40, no. 3 (2018): 382-398.

- New research on the postsecondary pipeline in North Carolina suggests that there is a fair number of qualified students who do not enroll in any postsecondary education. A study of high school graduates from North Carolina public high schools found that, among graduates who met three out of four college readiness benchmarks, 20 percent had not enrolled in any postsecondary institution by the following fall.[18] Among those who met two out of four, 27 percent had not enrolled.[19] In total, this study suggests about 19,000 students who met two or more benchmarks on the ACT did not enroll "on-time." More effective outreach could potentially encourage more of these qualified students to consider postsecondary enrollment.

- North Carolina does not notify students of their potential eligibility before they begin the aid application process. The state could improve transparency by sharing a summary of current aid opportunities and average grant amounts as well as a simple look-up table with potential aid amounts.

- Seven CFNC regional representatives are positioned across the state and conduct topical sessions about choosing colleges, careers, financial aid and saving for college as early as elementary school, but usually for middle and high school ages. In the year ending June 30, 2018, nearly 96,000 people attended sessions with CFNC representatives.

- Students are not identified for outreach communication early enough. In general, much of the college access information developed by CFNC is housed on the website, meaning it only reaches students who seek it out.

- The CFNC website is undergoing a major update to provide users with a more streamlined interface, which will make the website more user-friendly and easier to navigate. In addition to this website, CFNC provides call centers with specialists trained to answer calls and emails about college admissions, careers and financial aid. In the year ending June 30, 2018, the centers answered more than 105,000 calls and over 9,000 emails.

- North Carolina has initiatives to increase FAFSA completion, such as FAFSA Day at local colleges, community centers and credit union branches, but it is unclear whether current offerings are convenient for low-income families.

- The State Education Assistance Authority partners with CFNC to provide high school counselors with the names of high school seniors and their FAFSA status. This information enables counselors to contact students who have not completed the FAFSA. At present, over 300 high schools have joined the "Finish the FAFSA" initiative.

- CFNC sets an annual goal for the statewide FAFSA completion rate and works directly with school counselors along with the counseling liaison at the Department of Public Instruction to encourage FAFSA completion. The myFutureNC Commission identified FAFSA completion as a key indicator of success as part of its work on a statewide attainment goal, which may make the FAFSA completion rate even more salient.

Behavioral economics research provides insights into the factors that drive individuals to participate in certain programs or respond to incentives. When it comes to financial aid, building early awareness through simple messages, establishing easy processes that remove or limit administrative burdens, and issuing frequent reminders or follow-ups are all important strategies that can encourage students to take timely action toward applying for and maintaining aid.

18 Graduates were matched through the National Student Clearinghouse, which allowed researchers to track their outcomes even if they left the state for college.

19 Tippett, Rebecca and Nicole Kahn, "Postsecondary Enrollments Report: 2009-2016 North Carolina Public High School Graduates," myFutureNC Commission (2018), https://www.myfuturenc.org/wp-content/uploads/2018/09/DataBrief-College-Access-FINAL2.pdf

5. Expand financial aid counseling efforts across the state with multi-pronged strategies for engaging and supporting students.

These efforts could include establishing a statewide virtual financial aid center that offers technology-based counseling sessions (e.g., Skype, FaceTime, Facebook Live) with after-hours and weekend availability;

- Increasing the number of College Advising Corps, NC Career Coaches, and CFNC's regional financial aid representatives;
- Leveraging evidence-based practices, like text messaging/nudging campaigns and artificial intelligence communication technologies (e.g., AdmitHub) to support students through the application and financial aid process; and
- Continue incorporating financial aid counseling with college or university admission fairs (e.g., CACRAO).

6. Invest in state-level communication and marketing to develop simple messages focused on the value of and opportunities to access a college education, and outreach strategies that are proactive, targeted and personalized for various student populations.

These strategies could include accessing data from the NC Department of Public Instruction, including ACT data, to identify and reach out to high school students with simple messages for academic expectations, postsecondary options, and accessibility of financial aid;

- Expanding the use of social media and traditional marketing strategies that can engage both students and parents in a college-going campaign effort with simple messages about affordability/availability of financial aid; and
- Developing student-focused, story-telling narratives and information about college opportunities, such as career and technical education programs, that can (re)-engage non-traditional aged students.

7. Simplify and modernize CFNC's web portal and governance to support future flexibility and efficiency.

Cost Implications

Expand financial aid counseling efforts. Efforts are underway in the long legislative session to expand both the College Advising Corps and the North Carolina Career Coaches programs. A bill introduced in the House would provide $2,183,333 in recurring funding in 2019-20, with an increase to $2,550,000 by 2020-21, to expand the number of advisers in Tier 1 and Tier 2 counties. Another bill has called for an additional $2.8 million in recurring funds to expand the NC Career Coach Program by 20-30 additional career coaches.

Invest in state-level communication and marketing. The UNC System, the North Carolina Community College System, and the Department of Public Instruction have developed a pilot marketing campaign to promote FAFSA completion. Estimated costs will not exceed $100,000, and funding will be drawn from the UNC System Office's federal GEAR UP grant.

FOCUS AREA C:
INCENTIVIZE STUDENT SUCCESS AND REDUCE TIME TO DEGREE[20]

Research/Best practice

With student demand for financial aid exceeding available resources, increasing the effectiveness—not just the amount—of aid is important. In addition to increasing access, need-based aid has been shown to impact persistence. For instance, a randomized control trial of the Wisconsin Scholars Grant found that awarding $3,500 to full-time Pell Grant recipients increased retention by one to three percentage points per term and increased on-time graduation by 4.7 percentage points.[21]

Beyond ensuring that states' aid programs are targeting aid to reduce the financial barriers for low-income students, there are other design elements that can further support student success. Too often, however, states build in GPA-based incentives, which can reduce student course loads, discourage STEM majors, and decrease retention rates for low-income students. More effective strategies for encouraging persistence and timely completion include:

- Supporting enrollment beyond 12 credit hours. By adopting the Pell Grant definition of full-time enrollment as 12 credit hours per semester, many state aid programs reinforce the incentive to enroll in fewer than the 15 credit hours per semester they need to graduate on time. Awarding additional grant aid to students who enroll in 15 or more credits can help more students make timely progress toward a degree.
  - Indiana students must complete 30 credit hours annually to maintain maximum grant awards. The requirement has shown positive impact on credit completion.
  - In Minnesota, longstanding policy prorates grant awards for students enrolled in fewer than 15 credit hours per semester.
- Creating incentives for students to enroll in and complete more credits. Rigorous evidence suggests that performance-based bonuses can encourage students to enroll in and earn more credits, spend more time studying, and earn better grades.[22]
- Using aid as a tool to encourage associate degree completion. Research suggests that transfer students who complete an associate degree prior to transferring to a four-year university have a higher probability of eventually completing a bachelor's degree.[23] In many states including North Carolina, completion of particular associate degrees activates statewide articulation agreements that entitle students to transfer with junior standing. In response, some states have created programs that provide scholarships or tuition discounts to students who complete an associate degree prior to transferring. Massachusetts' MassTransfer initiative provides tuition credits of $900 to $1,500 to associate degree recipients that graduate with a 3.0 GPA and transfer within one year of receiving their associate degree.
- Providing clear information for students through proactive advising and other resources. For incentives to be effective students must understand the benchmarks, the requirements must be attainable, and the awards must closely follow the performance of required action.[24]
- Expanding access to non-financial supports, such as advising, support services, and mentoring.[25]

20 See Appendix E: Richburg-Hayes, Lashawn and Zoe Jacobson, "North Carolina Student Aid Study Group Policy Issue Brief: Optimizing State Financial Aid for Student Success," (2018).

21 Goldrick-Rab, Sara, Robert Kelchen, Douglas Harris, and James Benson. "Reducing Income Inequality in Educational Attainment: Experimental Evidence on the Impact of Financial Aid on College Completion." *American Journal of Sociology* 121, no. 6 (2016): 1762-1817.

22 Barrow, Lisa, and Cecilia Elena Rouse. "Financial incentives and educational investment: The impact of performance-based scholarships on student time use." *Education Finance and Policy* (2016); Barrow, Lisa, Lashawn Richburg-Hayes, Cecilia Elana Rouse and Thomas Brock. "Paying for Performance: The Education Impacts of a Community College Scholarship Program for Low-Income Adults." *Journal of Labor Economics* 32, no. 3 (2014): 563-599.

23 Kopko, Elizabeth M. and Peter M. Crosta, "Should Community College Students Earn an Associate Degree Before Transferring to a 4-Year Institution?" *Research in Higher Education* 57, no. 2 (2016): 190-222.

24 Richburg-Hayes, Lashawn. "Incentivizing success: Lessons from experimenting with incentive-based grants," in Andrew Kelly and Sara Goldrick-Rab (eds.), *Reinventing financial aid.* Cambridge, MA: Harvard Education Press (2014).

25 Evans, Willliam N., Melissa S. Kearney, Brendan C. Perry, and James Sullivan. "Increasing Community College Completion Rates Among Low-Income Students: Evidence from a Randomized Controlled Trial Evaluation of a Case Management Intervention." Working Paper 24150. National Bureau of Economic Research (2017); Horng, Eileen, Brent J. Evans, Anthony L. Antonio, Jesse D. Foster, Hoori S. Kalamkarian, Nicole F. Hurd, and Eric P. Bettinger. "Lessons learned from a data-driven college access program: The National College Advising Corps." *New Directions for Youth Development* 140 (2013): 55-75.

- When provided access to in-person supports, individuals are more likely to enroll in and persist through college. For example, access to H&R block accountants increased FAFSA completion and college enrollment. In another randomized study, access to academic success coaching services increased retention rates.[26]
- Virtual advising can minimize costs and increase geographical spread. Students completed more aid application steps on time after receiving personalized text messages and outreach from a "conversational artificial intelligence" bot piloted at Georgia State.[27]
- Connecting students to academic supports shown to increase the likelihood of completion and to other financial supports (i.e. SNAP).
  - Indiana's "You Can. Go Back" campaign provides information for adults on not only financial aid, but also employment opportunities, child care, and other resources.

North Carolina Analysis

- The 2013 budget bill required the State Educational Assistance Authority (SEAA) to study how state grant award schedules could be structured to encourage students to complete 30 credits per academic year and to revise grant payment schedules accordingly (the provision was amended in 2014).[28] In response, the Community College Grant was restructured to add a "Full-time plus" status to the award schedule that currently provides an additional $400/semester in aid to students who attempt 15 or more credits in a semester. In the case of the UNC Need-Based Grant, policymakers concluded that students already had financial incentive to enroll in 30 credits during the fall and spring because they do not pay additional tuition for attempting credits beyond a 12-credit load. To incentivize completion of 30 hours in an academic year, SEAA reserved UNC Need-Based Grant

money for summer aid to help students who could reasonably meet the 30-credit benchmark with summer coursework.[29]

- Data from the UNC System indicate that a sizable proportion of state grant recipients do not attempt or earn 30 credits per academic year. In the 2017-18 school year, for instance, 42% of students who received a Need-Based Grant or Education Lottery Scholarship attempted 30 credits across fall and spring; 28% earned 30 credits across those two semesters. Including hours attempted and earned in the summer, those proportions grow to 52% and 38%, respectively.
- Traditionally, state grants have not been available to defray the cost of summer courses. As noted above, however, in the summer of 2018 the SEAA provided $2.8 million in Need-Based Grant aid to UNC System institutions for summer scholarships to be used by eligible students who were within one or two courses of meeting 30 credit benchmarks for the year. The pilot project provided grants to about 3,840 Need-Based Grant recipients at an average grant amount of $725. The summer scholarships helped more students meet the 30-credit benchmark; of the 3,769 grantees who entered the summer having not earned 30 credits in the fall and spring, 82% were able to reach that 30-credit benchmark by the end of the summer. Nearly 6% of grantees graduated that summer, thereby avoiding another semester. In all, 6% more Need-Based Grant and Education Lottery Scholarship recipients reached 30 credits in 2018 than in 2017.
- Completion of particular associate degrees activates the terms of the Comprehensive Articulation Agreement between the NC Community College and UNC Systems, which ensures that degree completers can enroll in a UNC System institution with junior standing. Bachelor's degree completion rates are higher among transfer students who transfer to a UNC System institution having already earned an associate of arts or associate of science.

26 Bettinger, E. P., & Baker, R. B. (2014). The Effects of Student Coaching: An Evaluation of a Randomized Experiment in Student Advising. Educational Evaluation and Policy Analysis, 36(1), 3-19.
   Bettinger, Eric P., Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." Quarterly Journal of Economics 127, no. 3 (2012): 1205-1242.

27 Page, Lindsay C. and Hunter Gehlbach, "How an Artificially Intelligent Virtual Assistant Helps Students Navigate the Road to College." AERA Open 3, no. 4 (2017).

28 General Assembly of North Carolina, Session 2013, Session Law 2014-100, Senate Bill 744, https://www.ncleg.net/enactedlegislation/sessionlaws/html/2013-2014/sl2014-100.html

29 State Education Assistance Authority, "Report on Incentive for Students to Enroll in Thirty Semester Hours," (2016), https://www.ncleg.gov/documentsites/committees/JLEOC/Reports%20Received/Archives/2015%20Reports%20Received/30%20Hour%20Financial%20Aid%20Incentive%20Grant%20April%202016.pdf

TABLE 5: COST ESTIMATES FOR PROVIDING BONUS AWARDS TO EDUCATION LOTTERY, COMMUNITY COLLEGE GRANT AND UNC SYSTEM NEED-BASED GRANT RECIPIENTS

Model	2016-17	2017-18
(1) $800 Bonus for earning 30+ Hours in Fall and Spring	$8,933,600	$9,346,400
(2) $800 Bonus for earning 30+ Hours in Fall, Spring, and Summer	$14,581,600	$15,627,200
(3) Half bonus for earning 15+ in fall semester and also half bonus for earning 15+ in spring	$9,775,600	$10,171,600

Study Group recommendations: Incentivize student success and reduce time to degree.

8. Create a separate bonus award for students who complete 30 or more credit hours per academic year and incorporate a parallel reward system for part-time students to encourage on-time completion.

- Policymakers should work to ensure that the bonus award is structured to minimize administrative burden and fulfill the requirement in S.L. 2014-100, section 11.8.

9. Expand availability of state grant funding in the summer to encourage students to complete their programs more quickly.

10. Enhance completion incentive programs with advising and student services that emphasize the same message to all students, not only financial aid recipients.

- Advising should clarify the financial consequences of taking additional semesters to complete a credential and help students choose the right major for degree completion.
- A statewide campaign to promote on-time completion at 2- and 4-year institutions and highlight transfer initiatives should accompany advising efforts. This campaign should highlight initiatives like transfer articulation agreements and "2+2" co-admission programs.

11. Implement and study a program to provide a one-time award to students who earn a college transfer associate degree covered by the Comprehensive Articulation Agreement prior to transferring to a UNC System institution.

Cost Implications

Create a Bonus Award for Students Who Complete 30 or More Credit Hours per Academic Year: Analysts modeled a number of different scenarios, including per-semester bonuses for students attempting or earning 15+ credits and per-academic year bonuses for those attempting/earning 30+ credits in an academic year. Table 5 summarizes what the costs of such bonuses would have been in the most recent years under three models based on an $800 bonus for 30 earned credits.

As noted above, the Community College Grant already features a "Full-time plus" category, which provides $400/semester in additional grant money to those who attempt 15+ credits in the fall and/or the spring. The modeling suggests that about $2 million a year would have gone to NCCCS students attempting 15+ credits in the fall or spring of 2017-2018. If that bonus program replaces the "Full-Time plus" program, those funds could be put toward a new bonus program, summer scholarships, or reinvested in the standard grant.

Expand availability of state grant funding in the summer: As a result of the Study Group's efforts, the UNC and Community College systems included a request for expanded summer grants modeled on the NCSEAA's summer 2018 pilot. The request is for $10 million recurring in the first year of the biennium ($7 million UNC, $3 million NCCCS), rising to $12 million recurring in year two ($8 million to the UNC System, $4 million to NCCCS).

Offer a one-time award to students who earn a college transfer associate degree prior to transferring to a UNC institution: Also thanks to the work of this Study Group, the UNC-NCCCS joint budget priorities also request $4 million in recurring funding for an associate degree scholarship as described above. That budget request would provide $1,000 scholarships to 4,000 transfers who complete their transfer associate degree prior to transferring.

FOCUS AREA D: TEST INNOVATIVE IDEAS AND EVALUATE CURRENT PROGRAMS FOR EFFECTIVENESS[30]

Research/Best practice

As the demographics and needs of students continue to shift,[31] states have worked to address the unique needs of nontraditional students by piloting various strategies. These tactics include providing financial supports to pathways that are not always eligible for core financial aid programs, such as workforce credentials and other alternative strategies to address gaps in aid, advance opportunities for underserved populations, and meet critical workforce and economic demands include:

- Conduct a policy audit to identify potential barriers for students and consider innovative solutions.
- Recruit and support adult students through targeted outreach and assistance.
  - Tennessee's Reconnect grant program allows adults who have not previously earned an associate or bachelor's degree to enroll in a degree or certificate program tuition-free.
  - Mississippi's Complete to Compete campaign reviews prior credits earned, helps students find the most efficient path to a degree, and offers personalized coaching and one-time $500 grants to help students afford the costs of returning to school.[32]
- Consider ways to provide financial aid for specific, high-demand occupations to support students who want to earn a credential and see return on investment more quickly.
  - Oklahoma's Adult Promise initiative covers tuition and fees for students enrolling in degree programs related to the state's 100 critical occupations list.
- Assess options to allow aid to be used for non-credit programs that meet workforce needs.
- Remove existing barriers due to adults' prior postsecondary attempts.
  - Offer flexibility on Satisfactory Academic Progress requirements vis-a-vis state grant programs.
  - Help adult students navigate financial holds at prior institutions that prevent re-enrollment.

North Carolina Analysis

- Just over 900,000 North Carolinians over the age of 25 have some college, but no degree. An additional 1.3 million have a high school/GED and no college credit.
- Currently, short-term workforce programs offered in the North Carolina Community Colleges are subsidized at a lower rate than programs designed for transfer students, and those enrolled in many short-term programs are not eligible for the Community College Grant. Prospective students face higher out-of-pocket costs.
- The UNC System's "Part-Way Home" initiative identified financial aid as both a key concern of students who had stopped out of a UNC System institution and as an important tool in recruiting adults back to complete their degrees.[33] Nearly half of stop-outs surveyed cited inadequate financial aid as a key factor in their decision to leave college.

30 See Appendix E: Laderman, Sophia, Dustin Weeden and Andy Carlson, "North Carolina Student Aid Study Group Policy Issue Brief: Advancing Financial Aid Programs to Support Adult Students," (2018).

31 Lapovsky, Lucie. "Rethinking Student Aid: Nontraditional Students" in Sandy Baum, Michael McPherson and Patricial Steele (eds.), *The Effectiveness of Student Aid Policies: What the Research Tells Us*. New York: The College Board (2008).

32 Brown-Graham, Anita R. and Catherine Moga Bryant, "A Focus on Non-Completers: One Strategy for Upskilling the Existing Workforce in NC," (2018), https://www.myfuturenc.org/wp-content/uploads/2018/06/Policy-Brief-Non-Completers-Brown-Graham.pdf

33 The University of North Carolina General Administration, "The University of North Carolina Report on Part-Way Home Initiative," (2017), https://myapps.northcarolina.edu/alstakeholder/download/2/research-on-north-carolina-adult-learners/557/pwh-final-report.pdf

Study Group recommendations: Test innovative ideas and evaluate current programs for effectiveness.

12. Evaluate the effectiveness of current programs and outreach efforts, and measure the impact of differing levels of state grant aid on enrollment and completion, in order to ensure the best use of state resources.

This work could include, but would not be limited to:
- Studying the current NCSEAA Forgivable Education Loans for Service (FELS) to assess effectiveness of the program. Expand or modify based on the results.
- Evaluating current financial aid outreach activities to understand which efforts are effective, which efforts should be reduced or discontinued, and the return on investments. Scan other states' financial aid outreach efforts for best practices and innovative ideas.

13. Pilot a statewide scholarship program to support short-term, career-focused training in high-demand fields. Such an initiative should include business and industry partnerships and may include matching funds from employers.

14. Study and pilot a program that forgives some portion of student account balances to encourage adult reentry into postsecondary education.

This program could include, but would not be limited to:
- One-time forgiveness of non-tuition debts (e.g. parking tickets, fines, other fees) and Title IV money typically charged to students based on charges from the Department of Education (a limited/ "up-to" amount should be established after examining the typical amounts of these kinds of debts among stop-outs);
- Debt forgiveness over time upon completion of credit hours regardless of Satisfactory Academic Progress (SAP) standing.

15. Pilot "Finish Line" support for students who are within striking distance of graduating.

- For example, a program could award grants to students who complete student success sessions such as meeting with an academic advisor for a graduation audit, a career advisor, and complete financial literacy workshops.

Cost Implications

The cost of these pilot programs would vary depending on the scale of the pilot, proposed award amounts, and evaluation costs.

As the demographics and needs of students continue to shift, states have worked to address the unique needs of specific populations by piloting various strategies. These tactics include providing financial supports to pathways that are not always eligible for core financial aid programs, such as workforce credentials and alternative learning pathways.

From Recommendations to Action

Moving the Study Group's multifaceted recommendations from ideas to implemented policy will require varying levels of action by policymakers across the state, including the General Assembly, UNC System Board of Governors, and the North Carolina State Board of Community Colleges. This section identifies short-term, medium-term, and long-term actions.

SHORT-TERM *(In Progress)*

Action has already begun on several NC Student Aid Study Group recommendations:
- Advocate for proposals that reflect the Study Group's recommendations that are currently in front of the General Assembly:
    - expanded college and career counseling (Focus Area B)
    - summer scholarships (Focus Area C)
    - transfer associate degree scholarships (Focus Area C)
- Pilot the joint communication effort focused on promoting FAFSA completion.
- Engage State Board of Community Colleges and UNC Board of Governors on the report and the recommendations of the Study Group.
- Ask relevant Board of Governors and State Board of Community College committees to examine current governance of financial aid and outreach programs, and then to make recommendations for improvement.
- Conduct further research and analysis on effectiveness of existing aid programs and support efforts of the Program Evaluation Division (PED) of the General Assembly to evaluate grant program outcomes.
- Identify any necessary statutory, regulatory, or policy changes necessary to facilitate consolidation of the need-based aid programs serving UNC System and NCCCS students.
- Redesign the cfnc.org website. A previously planned website redesign is currently underway and will take recommendations from the Study Group under advisement.

MEDIUM-TERM *(Summer/Fall 2019)*

While some progress has been made toward actualizing the recommendations of the Study Group, there is more work to do. The sustained engagement and will of the NCCCS System, UNC System, NCSEAA, and the General Assembly will be required to implement the recommendations. Potential steps include:

- Launch a collaborative effort between the UNC System, NCCCS, and SEAA to draft a plan for the initial consolidation of aid programs into one North Carolina Scholarship and prepare a list of any statutory changes needed for the short legislative session.
- Develop new grant schedule and "look-up tables" to reflect the consolidated North Carolina Scholarship.
- Seek philanthropic funding to implement and study pilot projects.

LONG-TERM *(Fall 2019 onward)*

- In concert with financial aid officers, develop a proposal for a 30-credit bonus award in anticipation of a request for additional funding for such a program in the 2020 short legislative session.
- Convene representatives from the UNC System, NCCCS, and SEAA staff to analyze the feasibility of aligning additional components of the consolidated program between sectors (e.g., grant formulae).
- Work with the State Board of Community Colleges and UNC Board of Governors to include bonus proposal in joint budget priorities.
- Rigorously evaluate pilot projects in an effort to inform state policy and investment.

Online Appendices

The online Appendices include relevant studies and examples. Visit: https://www.northcarolina.edu/sasg19

A. Meeting agendas and materials
B. Working group roles with group rosters
C. North Carolina state student aid programs
D. Financial aid administrator survey results
E. Policy briefs (4)

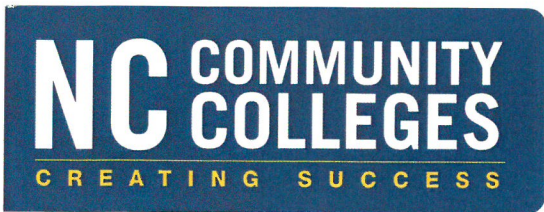NC COMMUNITY COLLEGES
CREATING SUCCESS

N★C THE **UNIVERSITY** OF
NORTH CAROLINA SYSTEM

May 2019

© Strengthening North Carolina's Need-Based State Grant Programs to Support Student Success

https://www.northcarolina.edu/sasg19

NC COMMUNITY COLLEGES

CREATING SUCCESS

NORTH CAROLINA COMMUNITY COLLEGE SYSTEM
Peter Hans
President

October 7, 2019

Mr. John Turcotte, Director
Program Evaluation Division
North Carolina General Assembly,
Legislative Office Building, Suite 100
300 North Salisbury Street
Raleigh, NC 27603

Dear Mr. Turcotte:

Thank you for the opportunity to respond to the Program Evaluation Division's (PED) report on state scholarships and education loan programs. We would like to thank your staff for their professionalism and cooperation in working with the System Office staff in the preparation of this report. In addition, we would like to express our appreciation to the Joint Legislative Program Evaluation Oversight Committee for recognizing the critical importance of state-funded financial aid to North Carolina's higher education students.

Our technical response to the report is attached, but I wanted to take this opportunity to highlight our ongoing work to improve student success through the North Carolina Student Aid Study Group. The North Carolina Student Aid Study Group is a joint effort of the University of North Carolina System and the North Carolina Community College System. Between August 2018 and January 2019, the Study Group looked closely at the primary state grant programs that serve public college students in North Carolina: the UNC Need-Based Grant, the Community College Need-Based Grant, and the Education Lottery Scholarship. The Study Group assessed the strengths and weaknesses of North Carolina's grant programs, heard from national experts about the lessons North Carolina can learn from research and experience in other states, and developed evidence-based reforms to enhance the effectiveness of state aid investments. The Study Group's report,

Strengthening North Carolina's Need-Based State Grant Programs to Support Student Success, contains findings and recommendations from this study. We are currently working closely with our partners at UNC and SEAA to implement these recommendations.

State financial aid is a critical component of ensuring that deserving students are able to achieve their education goals, find well-paying jobs, and provide a better life for themselves and their families. As open door institutions, community colleges work to maximize state financial aid to ensure funds are available to students regardless of when they enroll.

This report has highlighted the need for our students to have access to financial aid that works for their life circumstances. Therefore, although somewhat beyond the scope of this report, I believe we must also begin to think more broadly and strategically about what academic programs should be eligible for state financial aid, particularly in light of the State's postsecondary attainment goal. As you know, the myFutureNC Commission and the General Assembly have adopted the goal that by 2030, two million North Carolinians between the ages of 25 and 44 will hold a high-quality credential or postsecondary degree. Many of these high-quality credentials are not academic degrees, but nevertheless critical in ensuring that North Carolina remains economically competitive. However, students enrolling in these workforce training programs are not eligible for financial aid. Furthermore, many community college students are "non-traditional." For example, students who enroll less than half time are not eligible for financial aid. Other students want to attend classes during the summer, but financial aid is only available during the traditional academic year. For North Carolina to remain competitive and reach its objective, we must ensure that our state financial aid programs are aligned with and in support of North Carolina's attainment goal.

Thank you for the opportunity to respond. We greatly appreciate the Committee's and the General Assembly's continuing support of our students and our mission. Should the Committee wish to make legislative recommendations, we are happy to assist in whatever way the Committee deems appropriate. Please do not hesitate to contact me if you have questions or need further information.

Sincerely,

Peter Hans

ATTACHMENT: TECHNICAL RESPONSE

On September 30, 2019, we were provided the Summary and Findings 1 and 4 of the draft report, as we understand is customary with multi-agency reports. Therefore, the following responses only pertain to those sections of the report that were presented in the September 30 draft with changes conveyed to us by PED staff on October 4.

Finding 1

Because community colleges are "open-door" institutions, awarding all grant funds before classes start could result in deserving students not having access to state-funded aid.

We agree with the finding that there are challenges preventing full expenditure of state financial aid. In particular, there are unique circumstances specific to community colleges that make it impractical to attempt to fully expend funds each year. Community colleges are open door institutions, and work to ensure that financial aid is available for qualifying students regardless of when they enroll. Our colleges strive to be as welcoming to the student who applies early as they are to the student who walks in the door the day classes start. Further, our enrollment is tied very closely to the economy (both locally and statewide), making it virtually impossible to predict future enrollment with a high degree of accuracy. This is one reason why community colleges' enrollment is funded in arrears. Therefore, attempting to award all grant funds before classes start could mean that some students would not have access to state-funded aid.

In an effort to maximize student aid, in recent years the Community College System has focused on adjusting payment schedules to include available reserve dollars. As a result, we anticipate that the reserve will be entirely spent by the end of the 2020-21 academic year. Without additional resources, community college students' need-based grants will be reduced in future years.

On a technical note, Finding 1 notes that state grants meet 7% of community college students' need. This metric excludes federal funds, such as Federal Pell Grants, which are the largest source of financial aid for our students and which form the basis of how much state aid is awarded. Given the complexity and interrelationships of financial aid programs, we would recommend including all sources of need-based aid for a clearer picture of how programs are meeting students' needs.

Finding 4
First, we are pleased to see that your analysis showed that our aid-receiving students do as well as our general student population in the measures calculated in the report. The NC Community College System has long had a performance component to its funding formula, which includes

metrics similar to the ones you have calculated, but more specific to community college students. *See* NC Community Colleges 2019 Performance Measures for Student Success. We appreciate the additional time and effort of the Program Evaluation Division's staff to explain the methodology, formulas, and data behind the outcome measures presented in the report. However, we still have questions about these measures and thus are instead providing general technical notes regarding Finding 4. We would welcome the opportunity to continue to work with PED staff on these measures.

1. <u>"Curriculum Completion Rate" is a Better Measure of Student Success.</u> Success for a community college student is often transfer to a four-year institution, which may or may not include completion of an associate degree. For this reason, we use a "curriculum completion rate" in our performance metrics, which includes students that complete a degree, as well as students that successfully transfer to a four-year institution. This metric also recognizes that a large number of our students enroll part-time and would not be expected to complete within two years, i.e., the 100% of normal time referenced in the report. The "graduation rate" and "retention" measures would be substantially higher when considering these factors.

2. <u>Analysis of the Effectiveness of Financial Aid Should Include All Need-Based Aid.</u> Students with the lowest Expected Family Contribution (with the least family resources), receive the highest Pell Grant awards. To ensure that financial aid dollars are available to as many deserving students as possible, students receiving the highest Pell Grant awards are not deemed eligible to receive additional state-funded, need-based aid. However, any analysis of the effectiveness of need-based aid on student success should include these students to present a complete picture of the success of financial aid programs.

3. <u>Availability of Employment and Wage Data is Limited.</u> Employment data obtained from NC Department of Commerce's Labor and Economic Analysis Division (LEAD) is limited and therefore cannot provide a complete picture of employment rates. The Common Follow-Up System is a key partnership between the NC Community College System, LEAD, the UNC System and other partners. While all parties are working to expand the data available in the Common Follow-Up System, data currently available does not include individuals who are self-employed, employed by the federal government, or employed out-of-state. We understand that this limitation is noted elsewhere in the report, but we feel it should be noted wherever this data is cited.

A. Hope Williams
President

October 7, 2019

Mr. John W. Turcotte, Director
Program Evaluation Division
300 N. Salisbury Street, Suite 100
Raleigh, NC 27603-5925

Via Email Only to Ms. Adora Thayer (Adora.Thayer@ncleg.net)

Subject: North Carolina Independent Colleges and Universities' Response to
             Program Evaluation Division's Examination of State Scholarship
             and Loan Programs

Dear Mr. Turcotte:

Thank you for the opportunity to submit a response to the Program Evaluation Division (PED) report examining "… the extent to which state-funded scholarships, grants, and educational loan programs have met their goals." The PED Workplan stipulates the evaluation will also examine the educational and vocational outcomes of students who have received this support. North Carolina Independent Colleges & Universities (NCICU) is the statewide office of North Carolina's 36 private, nonprofit liberal arts, comprehensive and research colleges and universities accredited by the Commission on Colleges of the Southern Association of Colleges and Schools (SACS). We appreciate that your staff provided the portion of the report which relates to the North Carolina Need Based Scholarship (NCNBS) to us on September 30, and we are responding to that portion of the report.

The NCNBS Succeeds in Meeting the General Assembly's Goals

NCICU believes the NCNBS is highly successful in meeting the goals the General Assembly outlined in 1971 when it created the first State grant program for North Carolina students with financial need attending private colleges and universities located in the State. The goals the General Assembly outlined were to provide *access* to higher education to financially needy North Carolinians and "…encourage and assist private institutions to continue to educate North Carolina students…." (G.S. 116-19, 1971, c.744, s.1.) The original program has evolved into the NCNBS and is awarded by the State to financially needy North Carolinians who attend a private, nonprofit, postsecondary educational institution with its main permanent campus in North Carolina. Each campus must provide permanent on-premises housing, food services and classrooms with full-time faculty and administration.

The State's investment in the NCNBS is currently $88.9M, which is approximately 2 percent of the State's higher education budget. Another measure of effectiveness is the Return on Investment (ROI) to the State for that funding. The ROI of that 2 percent of

State funding for North Carolina undergraduate students with financial need is substantial—in educational, economic and cultural outcomes. NCICU campuses award nearly 1 in 3 Bachelor's Degrees and 1 in 3 Graduate/Professional Degrees in North Carolina. We award 89 percent of the Physician's Assistants (PA) degrees, 59 percent of the Medical degrees, 55 percent of the Pharmacy degrees, 52 percent of the Master's in Nursing degrees and 64 percent of the Law degrees. Approximately 25 percent of North Carolina's K-12 teachers who were educated in North Carolina graduated from an NCICU college or university.

NCICU campuses enroll almost 67,000 undergraduates, over half of whom are from North Carolina; and over 23,000 graduate students, two-thirds of whom are from the State. Nearly 80 percent of the students at NCICU campuses receive some type of financial aid and half of our North Carolina undergraduates receive federal Pell Grants because of their North Carolina families' significant financial need. Our campuses raise and award over $660M in scholarships and grants to their students each year in addition to state and federal financial aid.

Together, NCICU campuses are the State's largest private employer with over 66,000 employees and create over $14.2B in added State income to North Carolina's economy. Of our 36 campuses, eleven are in rural areas. In several counties and regions of the State, the NCICU campus is the largest private employer. By providing access to college for North Carolina students through the NCNBS, the State benefits from the degrees awarded by independent colleges and universities. In addition, these degrees help the State make progress towards the General Assembly's state education attainment goal of 2 million North Carolinians between the ages of 25 and 44 earning a high-quality credential or postsecondary credential by the year 2030 (H.B. 664, S.L. 2019-55.) The education and economic development engines of these campuses and the cultural opportunities they provide are integral to a strong and vibrant North Carolina.

Student Unit Record Level Wage Data

The PED Report points out that educational and vocational outcome data are maintained by the Labor and Economic Analysis Division of the Department of Commerce in what is known as the Common Follow Up System (CFS). The report also notes that individual student record level data are not available from CFS to NCICU campuses because the Department of Commerce says federal law prevents the Department from reporting student unit record level data to non-state entities. The Department can and does provide this data to the UNC and Community College Systems as public entities. The report explains that without data from private institutions the State cannot receive data on the vocational outcomes of students attending NCICU institutions. While the purpose of the NCNBS is to provide access to higher education and not to develop a vocational program, NCICU agrees that vocational information is important to the State. We believe this information is also important to parents, students. and to colleges and universities and we have been working with the Department of Commerce for some time to find a way to receive the wage data.

NCICU has been working with the State since it first began to discuss efforts in 2009 to build a State Education Longitudinal Data System (SLDS) to provide education information about students from Pre-K through post-secondary and higher education and into the workforce. The N.C. Department of Commerce has been a full and active partner in that effort. However, since the Department cannot provide student unit record level wage and vocation data to private colleges without violating federal law, NCICU has focused on resolving the problem. NCICU does not believe it would be fair, reasonable or equitable to ask colleges and universities to submit personally identifiable data on their graduates if the college will not be able to see the wage information that results from the submission of their graduates' data.

In the last year, we learned at a national conference that private colleges and universities in several other States do obtain some amount of wage and vocational information from their State. We have brought that information to the attention of the Department of Commerce and are in discussions about options to provide at least some level of wage data to independent colleges and universities. Subsequently, the partners in SLDS have worked on an MOU that would govern SLDS and would include CFS data in SLDS.

We understand from a conversation on October 1 that draft language prepared by Commerce has been incorporated into the draft MOU which is in the final stages. The language provides that when a private institution's wage data is requested, only the level of data the private institution could receive and review from CFS will be provided to others. These data, while they likely will be aggregate data to some degree, will be significant in detail and provide important information to our colleges and universities and the General Assembly.

Recommendation by PED Staff

The PED Report recommends that the General Assembly direct stakeholders in CFS "...to pursue methods for including reporting from institutions of the ... (NCICU) system" beginning in January 2021. The Report goes on to recommend that if a certain percentage of participation by private institutions is not achieved within a two-year timeframe, that NCNBS aid be tied to institutions' participation in CFS. We believe that this proposal would be a sea-change in the partnership between the State and NCICU/independent colleges and universities and we strongly disagree with this recommendation.
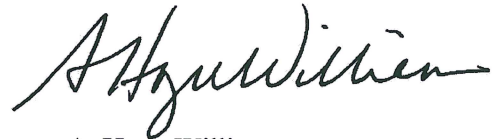
NCICU has been working voluntarily with the Department of Commerce on CFS and we are continuing that work. As mentioned earlier, wage data are of great interest and value to parents, students and independent colleges and universities as well as to the State. The North Carolina General Assembly, since the inception of the first State grant program for North Carolina students attending private colleges and universities, has been careful to avoid making these college access funds for North Carolina students contingent on other actions by the colleges and universities. In return NCICU and our independent colleges and universities have responded throughout the years and will continue to respond in the future to the requests from the General Assembly.

The NCNBS state grant program provides North Carolina families which have financial need with a vital measure of choice about which institution of higher education best serves their needs. NCICU and our individual independent colleges and universities greatly value the support provided by the State aid to our North Carolina students and we deeply appreciate the recognition by the State of the contributions our colleges and universities make to North Carolina.

We believe this mutually beneficial relationship, based on our commitment to educating North Carolina students and the General Assembly's commitment to providing higher education for North Carolina, including students attending the State's independent colleges and universities, should continue as a partnership based on trust in that mutual commitment. NCICU and our colleges and universities work closely with the General Assembly and have done so since long before the first State aid program was established almost 50 years ago. We respectfully request that based on this historic, positive relationship, the General Assembly and NCICU continue to work together in partnership for our North Carolina students and the State without creating unnecessary mandates.

Sincerely,

A. Hope Williams

AHW/ghh