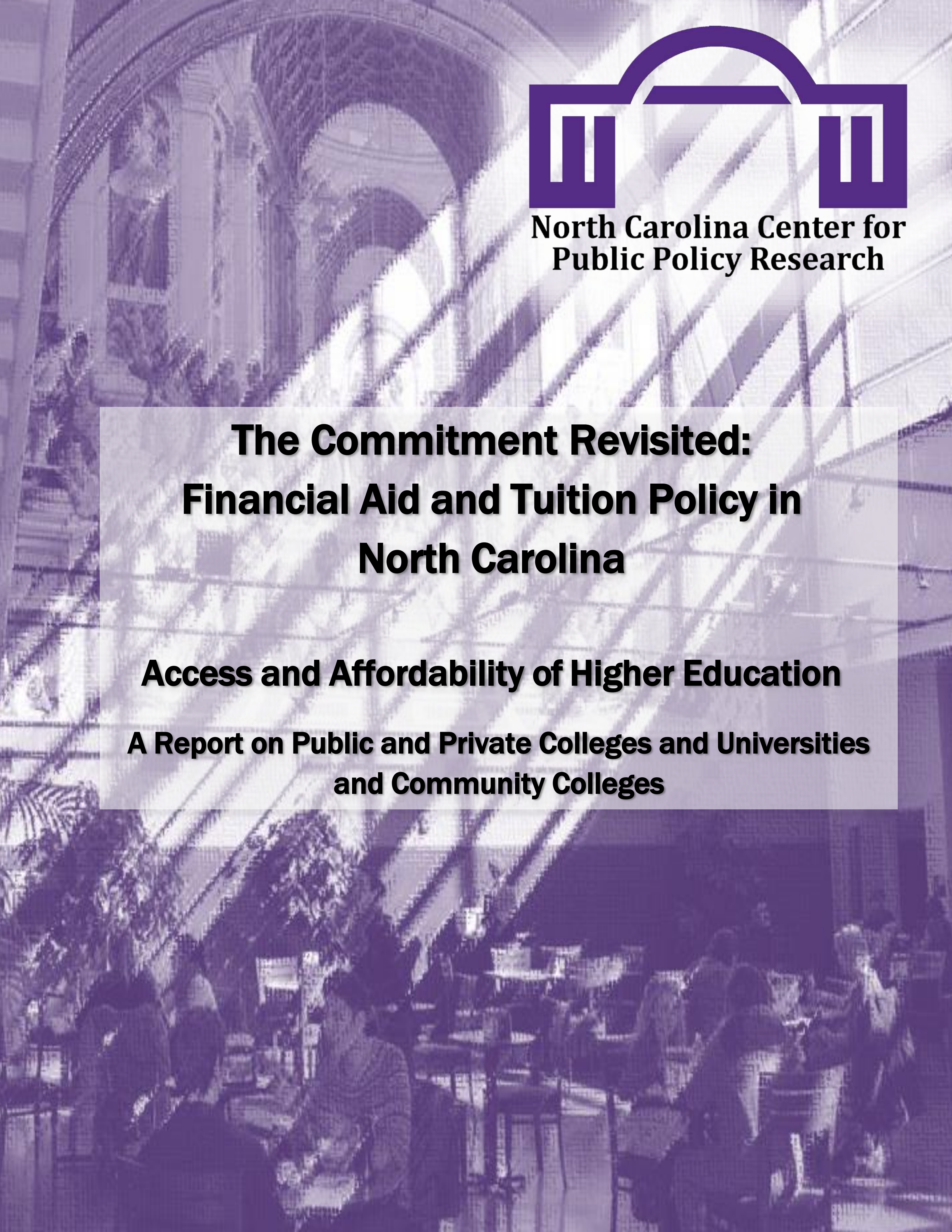


North Carolina Center for Public Policy Research

The Commitment Revisited: Financial Aid and Tuition Policy in North Carolina

Access and Affordability of Higher Education

A Report on Public and Private Colleges and Universities and Community Colleges

Major Funding Provided by:

Lumina FOUNDATION

Funding for this effort provided by the Lumina Foundation for Education of Indianapolis, IN; The N.C. GlaxoSmithKline Foundation of Research Triangle Park, NC; The Cannon Foundation of Concord, NC; James G. Hanes Memorial Fund of Winston-Salem, NC; Citi Foundation of New York City, NY; The Hillsdale Fund of Greensboro, NC; The Belk Foundation of Charlotte, NC; and The Mary Duke Biddle Foundation of Durham, NC.

The N.C. Center for Public Policy Research extends its sincere thanks to these foundations for their generous support of this project.

Preface

With the oldest public university in the country, North Carolinians have always valued higher education. The N.C. Constitution specifically requires the legislature to "maintain a public system of higher education."[1] It also requires that the benefits of public higher education "as far as practicable, be extended to the people of the State free of expense."[2] There is no comparable provision addressing higher education in the U.S. Constitution, and only two other states – Arizona and Wyoming – have similar obligations under their respective constitutions.[3] As far back as 1866, Governor Zebulon Vance described the University of North Carolina as "the pride and chiefest ornament of North Carolina."[4]

The state of North Carolina since has elected a long line of education governors – those who made a commitment to public and higher education a central component of their time in office. This common thread has guided governors in North Carolina's most recent history. In 1961, Governor Terry Sanford (D, 1961-65) told southern education leaders that "education must be the foundation of progress in the South."[5] This sentiment was later echoed by Governor Jim Hunt (D, 1977-85 & 1993-2001), who spoke about pride in the university system at a University of North Carolina commencement ceremony in 1978 during his first of four terms as Governor. "We can be proud of North Carolina's commitment to education at all levels – our system of technical institutes and community colleges, which are within driving distance of every citizen in this state."[6]

Governor James Holshouser (R, 1973-77), who presided over the restructuring of the state universities into a consolidated system of sixteen (16) universities, also made higher education a key priority. In 2009, Governor Holshouser told the Southern Pines newspaper that the reorganization of the university system "was the most important thing I did." Adding, "Today, I think we have an exceptional state university system. It may be the best in the country, and it's certainly among the top ones."[7] In a 1989 speech to Independent College Fund members, Governor Jim Martin (R, 1985-93) talked about the merits of higher education. "A liberal arts education," he explained, "teaches the whole person." While students "think to learn, they learn to think. Technology changes, job skills change, but the thinking person masters change and turns it to his or her advantage. The world offers possibilities; a strong liberal arts education teaches students to turn possibilities into reality."[8]

In 2000, during his fourth term in office, Governor Hunt again declared support for colleges and universities and explained the challenges of attaining a higher education and the importance of financial aid to meet those challenges. "We must find ways to increase access to our colleges and universities for more Americans. I'm talking especially about minorities, about children from low-income families, and about adults making career transitions."[9]

More recently, Governor Pat McCrory (R, 2013-present) indicated his support for higher education at all levels,[10] "In North Carolina, we have recognized the importance of collaboration between technical training, our public schools, our community colleges, our universities and our Department of Commerce because they all play a vital role in providing skilled labor to businesses across the state," he said. "Preparing our workforce at the highest of levels not only strengthens our economy, but also puts states at a competitive advantage here at home and internationally," continued McCrory.

But with dedicated State costs increasing for multiple programs in the State budget, and an increasing pressure to show concrete returns for public investments, the question now is what can the State provide, what should the State provide, and what does the State constitutional provision require be provided? In short, what does "free of expense" as far as practicable really mean?

Higher education is currently the subject of increased national scrutiny, as college costs continue to rise faster than inflation and students graduate into a difficult entry-level job market with significant debt. According to the College Board, tuition and fees at public four-year institutions increased by 19 percent beyond the rate of inflation between 2003-04 and 2008-09, and by an additional 27 percent between 2008-09 and 2013-14.[11] Students graduating in 2011-12 with a bachelor's degree (from the college they originally entered) borrowed an average of $26,500.[12]

In its 2011 survey,[13] the Pew Research Center found that college continues to be a goal for most, with 94 percent of parents responding that they expect their child to attend.[14] Also, 86 percent of college graduates surveyed said that college was a good investment for them.[15] But, 75 percent responded that college is too expensive for most people to afford.[16] And, 57 percent of Americans responded that the U.S. higher education system does not provide students a good value for money spent.[17]

The perceived purpose of a college education varies. Forty-seven percent (47%) of public respondents indicated that the main purpose of college is to teach work skills and transfer knowledge. Another 39 percent said the education helps a student grow personally and intellectually.[18] The survey of college presidents produced a more even split, with about half stating the purpose is intellectual growth and the other half answering that gaining job skills is the reason for a college education.[19]

Some financially successful entrepreneurs question the need to attend college at all. Peter Thiel, co-founder of PayPal, established the Thiel Fellowship in 2011, which gives people under 20 years of age a "no-strings-attached grant of $100,000 to skip college and focus on their work, their research, and their self-education."[20] There are also the frequently-cited successful individuals who dropped out of college and went on to found or co-found businesses such as Apple, Microsoft, Twitter, and Facebook.[21] While these individuals all support self-directed learning, it should also be noted that their businesses depend on the knowledge provided by college-educated employees.

These discussions and questions shape the larger national debate over the role of higher education. The debate in North Carolina is shaped by our State constitutional mandate to both provide a higher education system to residents of North Carolina as free of expense as far as practicable, and by decades of outspoken support for higher education by both Republican and Democratic governors. With the state's unique history in mind, the N.C. Center for Public Policy Research presents this report on financial aid and tuition policy in North Carolina's public and private colleges and universities and community colleges.

Endnotes

[1] N.C. Constitution Art. IX, § 8.

[2] N.C. Constitution Art. IX, § 9.

[3] For state constitutional provisions on education, online at: *www.educationjustice.org*.

[4] "The Duties of Defeat," An Address Delivered before the Two Literary Societies of the University of North Carolina on June 7, 1866, by Governor Zebulon Baird Vance. Online *at: http://www.docsouth.unc.edu/nc/vance/vance.html*, last accessed 6/30/13.

[5] Memory F. Mitchell, ed., *Addresses and Public Papers of Terry Sanford, Governor of North Carolina*, 1966, p. 150.

[6] Memory F. Mitchell, ed., *Addresses and Public Papers of James Baxter Hunt, Jr., Governor of North Carolina,* Vol. 1, 1982, p. 295.

[7] Florence Gilkeson, "Never Quit Being Governor: Jim Holshouser Continues to Serve Others," *The Pilot*, Southern Pines, NC, Feb. 22, 2009. Online at: *http://www.thepilot.www.clients.ellingtoncms.com/news/2009/feb/22/never-quit-being-governor-jim-holshouser/*, last accessed 4/21/13.

[8] Jan-Michael Poff, ed., *Addresses and Public Papers of James Grubbs Martin, Governor of North Carolina,* Vol. 1, 1992, p. 129.

[9] Jan-Michael Poff & William Harris Brown, eds., *Addresses and Public Papers of James Baxter Hunt, Jr., Governor of North Carolina,* Vol. 4, 2001, p. 408.

[10] Governor Pat McCrory's Remarks quoted in a National Governor's Association press release on education August 14, 2014. . Online at: *http://www.nga.org/cms/home/news-room/news-releases/2014--news-releases/col2-content/states-focus-on-preparing-future.html*.

[11] "Trends in College Pricing 2013," The College Board, Washington, DC, p. 15. Online at: *http://trends.collegeboard.org/sites/default/files/college-pricing-2013-full-report.pdf*, last accessed 1/22/14.

[12] "Trends in Student Aid 2013, the College Board, Washington DC, p. 21. Online at: *http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf*, last accessed 1/22/14.

[13] Paul Taylor, *et al.*, "Is College Worth It? College Presidents, Public Assess Value, Quality and Mission of Higher Education," Pew Research Center, Washington, DC, May 16, 2011, pp. 1-153. Online at: *http://www.pewsocialtrends.org/files/2011/05/higher-ed-report.pdf*, last accessed 4/21/13. The survey of the general public included 2,142 interviews from March 15-29, 2011. The margin of sampling error is plus or minus 2.7 percentage points for the total sample and 4.5 percentage points for adults 18-34 with a 95 percent confidence level. The survey of college presidents included 1,055 interviews from March 15-April 24, 2011. The margin of sampling error is plus or minus 2.8 percentage points for the total sample, 4.8 percentage points for presidents of four-year public universities, 3.8 percentage points for presidents of four-year private universities, 4.6 percentage points for presidents of two-year colleges, and 11.3 percentage points for presidents of private for-profit colleges and universities with a 95 percent confidence level.

[14] *Ibid*, p. 46.

[15] *Ibid*, p. 31.

[16] *Ibid*.

[17] *Ibid*, p. 5.

[18] *Ibid*, p. 14.

[19] *Ibid*, p. 15.

[20][20] Thiel Fellowship: About the Fellowship, 2011. Online at: *http://www.thielfellowship.org/become-a-fellow/about-the-program/*, last accessed 4/21/13.

[21] Alex Williams, "Saying No to College," *The New York Times,* New York, NY, Nov. 31, 2012, p. ST1. Online at: *http://www.nytimes.com/2012/12/02/fashion/saying-no-to-college.html?pagewanted=all*, last accessed 4/21/13.

Chapter One

The Scope of Financial Aid, Trends in Policy, and Why It Is Important

"*It is the responsibility of the community at the local, state, and national levels to guarantee that financial barriers do not prevent any able and otherwise qualified young person from receiving the opportunity for higher education.*"

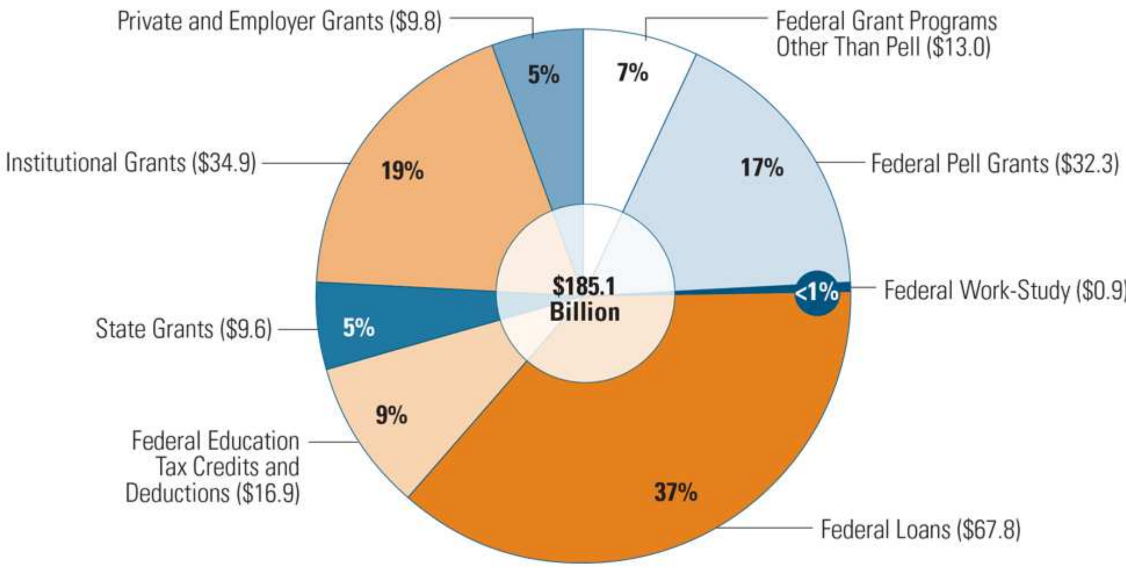
– 1947 Report from the President's Commission on Higher Education

On a cold, windy day in January 1969, Wilbur J. Cohen, then U.S. Secretary of Health, Education, and Welfare, penned a cover letter for the nation's first long-range plan for higher education. His department had been directed to prepare such a plan by President Lyndon B. Johnson. Cohen, labeled the "Man Who Built Medicare" by a popular magazine, reminded the President of the unprecedented increases in federal support for higher education between 1963 and 1968, including passage of the Higher Education Act of 1965. Cohen wrote, "Yet despite this progress, many students are still prevented from completing college by lack of funds."[1]

The report accompanying Cohen's letter urged a national commitment to "…promote equality of opportunity by ensuring that all able students can afford to go on to post-secondary education." By building on a base of programs already in place, and with cooperation between President Richard Nixon's administration and Congress over the next five years, that call for a national commitment to promote equality of opportunity resulted in the development of a national structure to provide student financial aid. That structure, with little modification, is the federal student aid system in place today.

Within that structure, the federal government is the source of most of the monies provided to students who could not otherwise afford to attend college. Federal student aid dollars are delivered to students through post-secondary educational institutions, and by state and nonprofit agencies. The figure below provides a representative view of the variety of financial aid currently available to undergraduates.

Undergraduate Student Aid by Source and Type (in Billions), 2012-13



SOURCE: The College Board, *Trends in Student Aid 2013*, Figure 2A.

The aid structure in place involves the states because (1) state agencies guarantee the federal loan programs, (2) some federal aid programs require matching state dollars, (3) states also provide significant additional funds used for student aid, and (4) much of the funding supports students attending public colleges and universities operated by the states. This involvement of the states required the development of state policies and mechanisms to implement the financial aid system.

Student financial aid is assistance provided to students to help them meet the cost of tuition, fees, and other expenses associated with attending college, collectively referred to as the cost of attendance. For the purposes of this report, we focus only on aid that is awarded directly to individuals, or credited to a student's account at a university or college to cover the cost of tuition, fees, room, meals, books, computers, and other reasonable living expenses. General government funding of higher education is not included in our definition of financial aid, although it should be noted that in many cases this type of support is substantial.

Financial aid officers at individual institutions of higher education prepare student financial aid packages. These packages may contain *work-study jobs, grants and scholarships,* which do not have to be paid back; *loans,* which have to be repaid; and *scholarship-loans*, which must be repaid only if the student fails to meet some agreed-upon criteria (for instance, employment in a field where the state is facing workforce shortages, such as teaching or nursing). During 2010-11, about 82 percent of the 2.7 million full-time, first-time degree or certificate seeking undergraduates attending colleges and universities in the United States received financial aid. Those who received grants were awarded an average of $9,660 at four-year institutions and $4,630 at two-year institutions.[2]

Students and their parents also may utilize several other vehicles provided by the state and federal governments to help pay for college. These include the federal education tax credits (first available in 1998), the federal tuition and fee tax deduction (beginning in 2002), and state-controlled tax-advantaged College Savings Plans.

A. Expenditures on Financial Aid

In 2012-13, financial aid totaled $238.5 billion to students in all post-secondary institutions in the United States.[3] In 2011-12, North Carolina's 16 public universities, 41 private colleges and universities dispensed $7.9 billion in financial aid,[4] and 58 community colleges.

Table 1.1 Financial Aid Awarded to Students by Sector of Higher Education in N.C., 2011-12						
	Aid to Undergraduates	**% of Total Aid to Undergraduates**	**Aid to Graduate and Doctoral Professional Students**	**% of Total Aid to Graduate and Doctoral Professional Students**	**Total**	**% of Total Aid by Sector**
University of N.C. Public Universities	$1,608,220,439	41%	2,466,760,506	62%	4,074,980,945	51%
N.C. Community Colleges	962,357,098	25%	0	0%	962,357,098	12%
Private Colleges and Universities	1,339,981,674	34%	1,538,831,646	38%	2,878,813,320	36%
Total	3,910,559,211		4,005,592,152		7,916,151,363	

Note: Percentages may not sum to 100 due to rounding.
Source: *Statistical Abstract of Higher Education in North Carolina 2012-13*, Research Report 1-13, University of North Carolina, Chapel Hill, NC, August 2013. For Aid to Undergraduates, see Amount Received, Table 65, pp. 205-06. For Aid to Graduate Students, see Public Total and Private Total, Table 70, pp. 221-22. For Aid to Doctoral Professional Students, see Public Total and Private Total, Table 71, p. 223.

B. Trends Influencing Financial Aid Policy Nationally and in North Carolina

Nationally, the issues facing financial aid policymakers are both financial and structural. In North Carolina, the challenges are financial, structural, and constitutional. This section examines a series of factors that could influence the direction policymakers can and should take related to financial aid policy.

Trend #1: Shifting responsibility between the States and the Federal Government: In terms of dollars, both federal and state grant aid is increasing. However, the proportion of grant aid provided by the federal government is increasing, while the state proportion remains relatively stable.

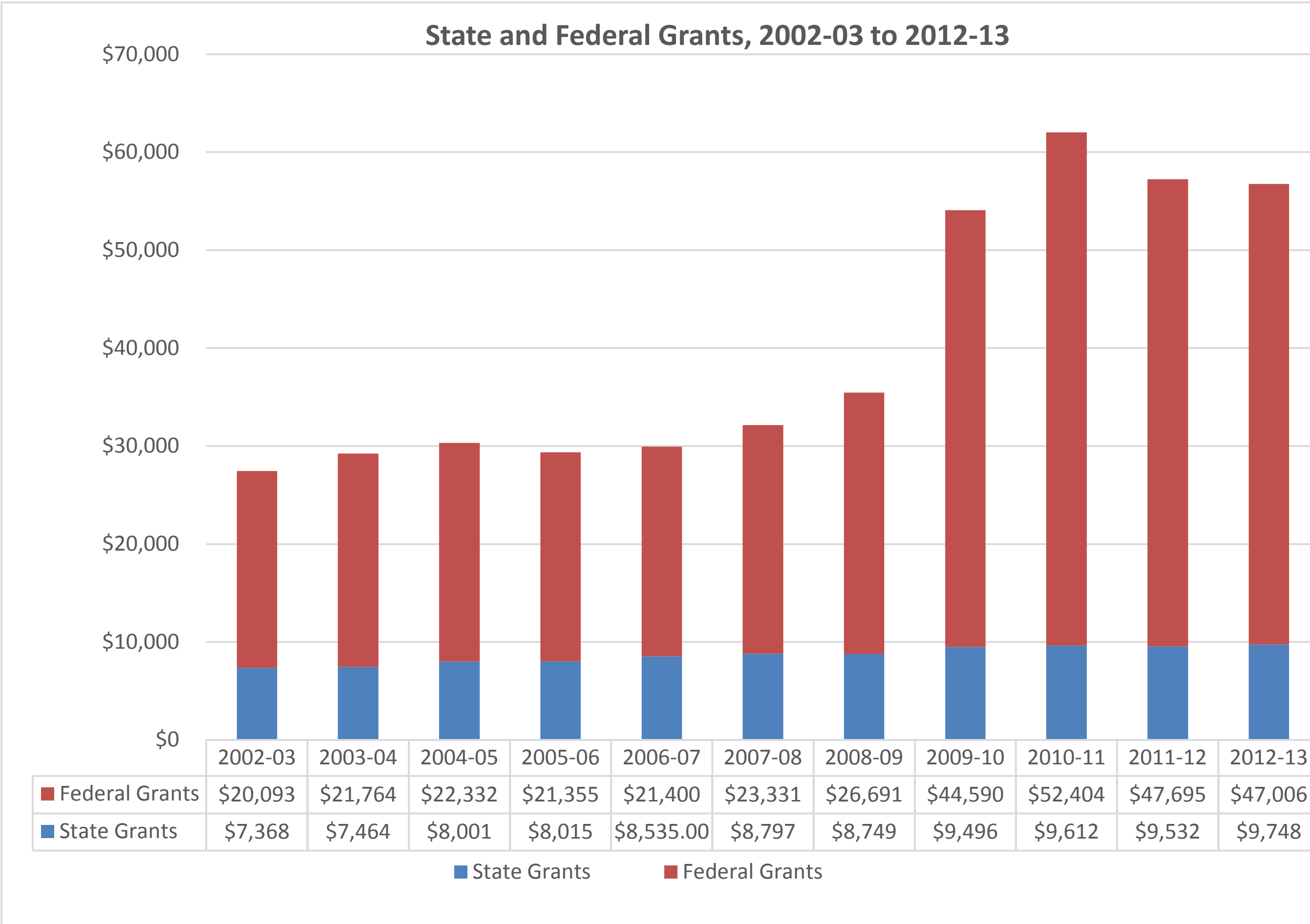
Total grant aid has increased over time, from $50.4 billion in 2000-01 to $115.7 billion in 2012-13 (see Table 1.2). Federal government grants have increased as a percentage of aid over that same time period from 29 percent to 41 percent of all grant aid. In fact, federal government grants are the only source of grants that has increased. From 2000-01 to 2012-13, institutional grants declined from 43 percent to 38 percent of all grant aid, private and employer grants declined from 15 percent to 13 percent, and state grants declined from 13 percent to 8 percent.[5]

Table 1.2 Federal, Institutional, Private and Employer, and State Grant Dollars and Percentages in Constant 2012 Dollars, 2000-01 and 2012-13, in Billions

Grants in 2012 Dollars	2000-01	2012-13
State Grants	$6	$10
Private and Employer Grants	$8	$15
Institutional Grants	$22	$44
Federal Grants	$15	$47
TOTAL	$50.4	$115.7
Percentages	**2000-01**	**2012-13**
State Grants	13%	8%
Private and Employer Grants	15%	13%
Institutional Grants	43%	38%
Federal Grants	29%	41%
TOTAL	100%	100%

Note: Percentages may not sum to 100 due to rounding.
Source: "Trends in Student Aid 2013," The College Board, Washington, DC, 2013, Overview of Grant Aid, Download Figure 5 Data. Online at: *http://trends.collegeboard.org/sites/default/files/sa-2013-figure-5.xls*, last accessed 12/17/13.

When just state and federal grants to students are considered, the shift becomes even more apparent. As the graph below indicates, while the total dollar value of grants has increased over time, almost all of that increase has been due to federal grant increases as a relative share.

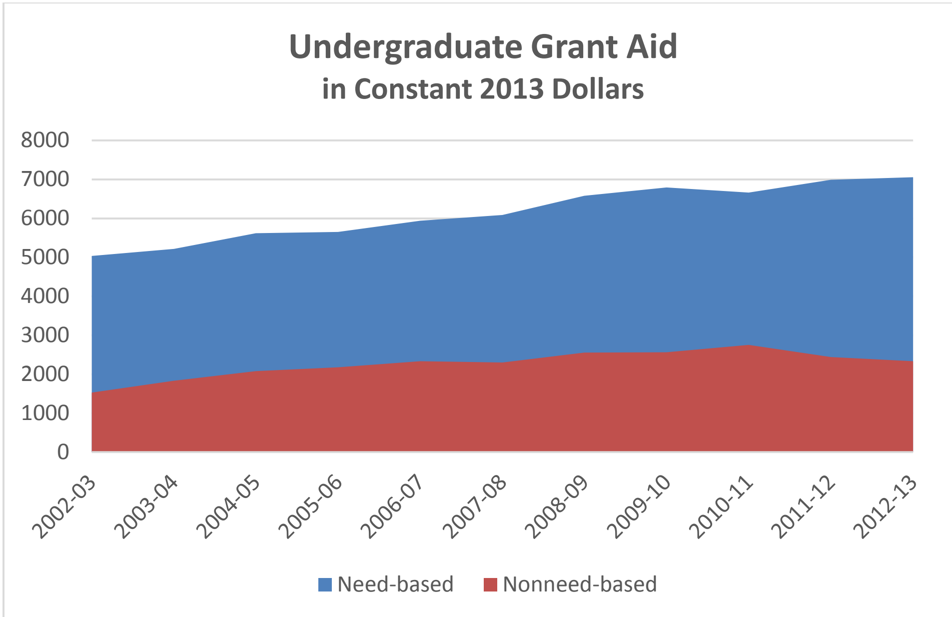


	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Federal Grants	$20,093	$21,764	$22,332	$21,355	$21,400	$23,331	$26,691	$44,590	$52,404	$47,695	$47,006
State Grants	$7,368	$7,464	$8,001	$8,015	$8,535.00	$8,797	$8,749	$9,496	$9,612	$9,532	$9,748

SOURCE: Trends in Student Aid 2013, The College Board, Table 1, accessed on October 1, 2014. Figures are in 2012 dollars (in millions). State and federal grants are portion of total funds used to finance postsecondary education expenses. Available at http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf.

Trend #2: Need-based financial aid is recovering (as a proportion of the total aid basket), but does not always keep up with expenses: Of the grant money awarded in 2012-13, 75 percent was need-based. This is a greater proportion than seen in the mid-2000s, but does not return to the 2002-03 levels. However, the buying power of that funding is weakening. Often the states are the ones trying to make up the difference.

According to the most recent survey from the National Association of State Student Grant and Aid Programs, 75.1% of 2012-13 grants were awarded because of need. In 2006-07, that proportion was only 72.8% of the total.



Source: 44th Annual Survey Report on State-Sponsored Student Financial Aid 2012-2013 Academic Year, National Association of State Student Grant and Aid Programs, p. 3. Accessed online October 1, 2014.

However, the actual total dollar amounts provided in need-based aid have increased, especially for the neediest. Pell Grants, which provide financial aid to the neediest students, have increased the total dollar amount in awards from $14.8 billion in 2002-03 to $32.3 billion in 2012-13. The number of recipients over the same period increased from 4.8 million to 8.8 million students (see Table 1.3). The grants are an increasing share of the nation's grant aid to students, rising from 10 percent of grant aid in 2000-01 to 13.5 percent of grant aid in 2012-13.[6]

Table 1.3 Federal Pell Grant Awards in Constant 2012 Dollars, 2002-03 and 2012-13

	Total Pell Grant Expenditures, in Billions	Maximum Pell Grant	Average Pell Grant Per Recipient	Number of Pell Recipients, in Millions	Pell Grant Percentage of Total Federal, State, Institutional, and Private Aid
2002-03	$14.8	$5,088	$3,099	4.8	12.1%
2012-13	$32.3	$5,550	$3,650	8.8	13.5%

Source: "Trends in Student Aid 2013," The College Board, Washington, DC, 2013. For first four columns, see Table on p. 24. For fifth column, see Table 1 on p. 10 (for percentage, divide Pell Grants by Total Federal, State, Institutional, and Private Aid).

Federal aid is also covering a decreasing portion of student expenses, despite increasing investments. In 1993-94, the maximum Pell Grant covered 37 percent of in-state tuition, fees, room, and board at a public four-year college or university. However, by 2013-14, it covered only 31 percent.[7] Some states have responded by offering more state-funded aid.

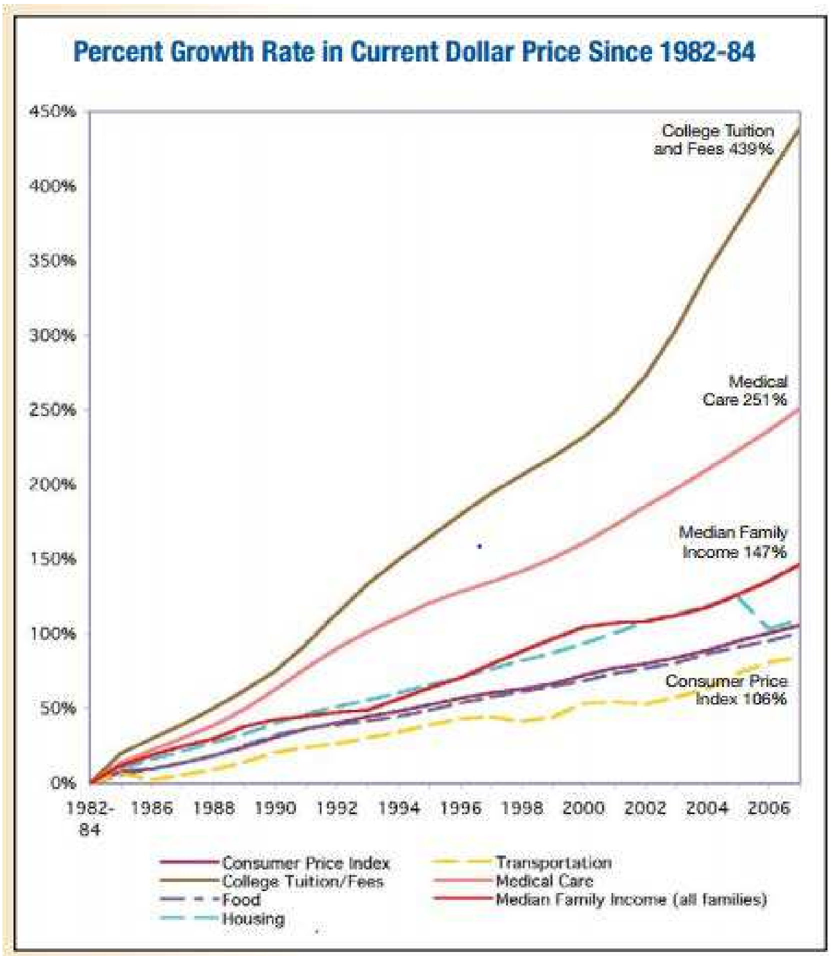
North Carolina has been a prime example of the trend toward more state-funded *need-based* aid. In 2011-12, North Carolina and seven (7) other states awarded 70 percent of all need-based state aid for undergraduates in the United States that year, with North Carolina awarding 3.9 percent. The other states are California (21.8 percent), New York (13.6 percent), Texas (8.9 percent), Pennsylvania (6.7 percent), Illinois (6.0 percent), New Jersey (4.9 percent), and Washington (4.2 percent).[8] In North Carolina, from 2001-02 to 2011-12, state-funded need-based grant aid increased by 261 percent, increasing from $74 million to more than $268 million. Between 2010-11 and 2011-12, however, state-funded need-based grant aid in North Carolina decreased by 14 percent from $312 million to $268 million.[9] In 2012-13, state-funded need-based aid totaled $332 million, up 23 percent from the previous year.[10]

Trend #3: Tuition and fee increases in recent years have dramatically elevated the cost of higher education, both nationally and in North Carolina. This potentially increases the gap between tuition and the ability to pay.

Nationally, tuition and fees have increased rapidly. In the decade from 2003-04 to 2013-14, inflation-adjusted charges for four-year institutions increased by 2.3 percent annually at private institutions and by 4.2 percent annually at public institutions.[11] According to the report *Trends in College Pricing*, "When room and board are included, total charges at public four-year institutions rose more rapidly between 2003-04 and 2013-14 than they did during either of the two preceding decades."

Since the 1980s, tuition has increased by 439 percent, even more than health care, which has increased by 251 percent, according to the National Center for Public Policy and Higher Education. This is more than four times the rate of inflation during the same period.

Figure 1.1

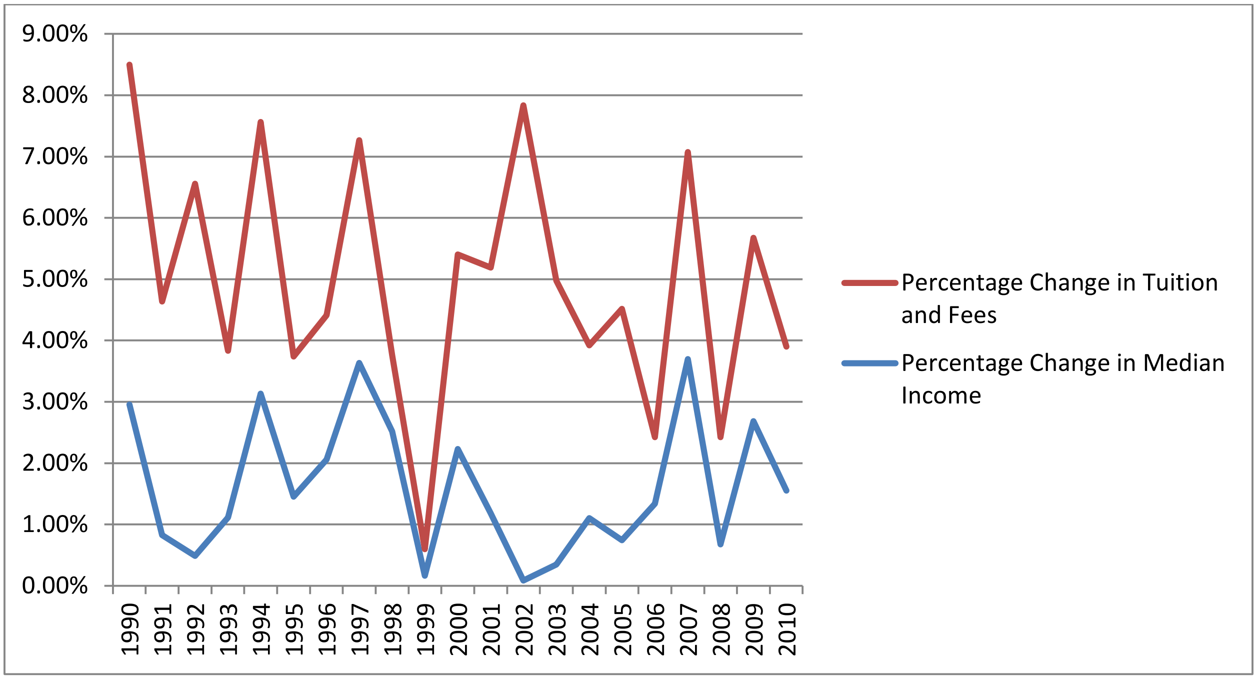


Source: Measuring Up 2008: The National Report Card on Higher Education, National Center for Public Policy and Higher Education, San Jose, CA, 2008, Figure 5, p. 8. Online at: http://measuringup2008.highereducation.org/print/NCPPHEMUNationalRpt.pdf, last accessed 1/3/2014.

The National Center for Education Statistics reported in March 2013 that tuition and fees at four-year public institutions increased nationally from $5,138 in 2002-03 to $7,209 in 2011-12, a 40.3

percent increase. In North Carolina, tuition and fees increased from $3,556 to $5,382, a 51.4 percent increase.[12]

Figure 1.2 Change in Tuition & Fees Exceeds Change in U.S. Median Income, 1990-2010



Sources: Created using data from the Digest of Education Statistics, Average Tuition and Fees for full-time degree-granting two-year and four-year institutions, 1990-2010, Inflation-adjusted dollars; U.S. Census Bureau, Median Household Income in Inflation-adjusted dollars, 1990-2010

Tuition increases, when combined with cuts to higher education funding, make it more difficult for students to afford college. According to the Center on Budget and Policy Priorities in Washington, DC,[13] state spending per student has been cut by an average of 28 percent between 2008, when the Great Recession started, and 2013. North Carolina cut state spending by 14.6 percent. Over that same period, the average tuition at public four-year colleges nationwide increased by an average of 27 percent, with a large variance among the states. According to the data, tuition in North Carolina increased by 31.3 percent between 2008 and 2013 (see figures 1.3 and 1.4).

Figures 1.3 and 1.4.

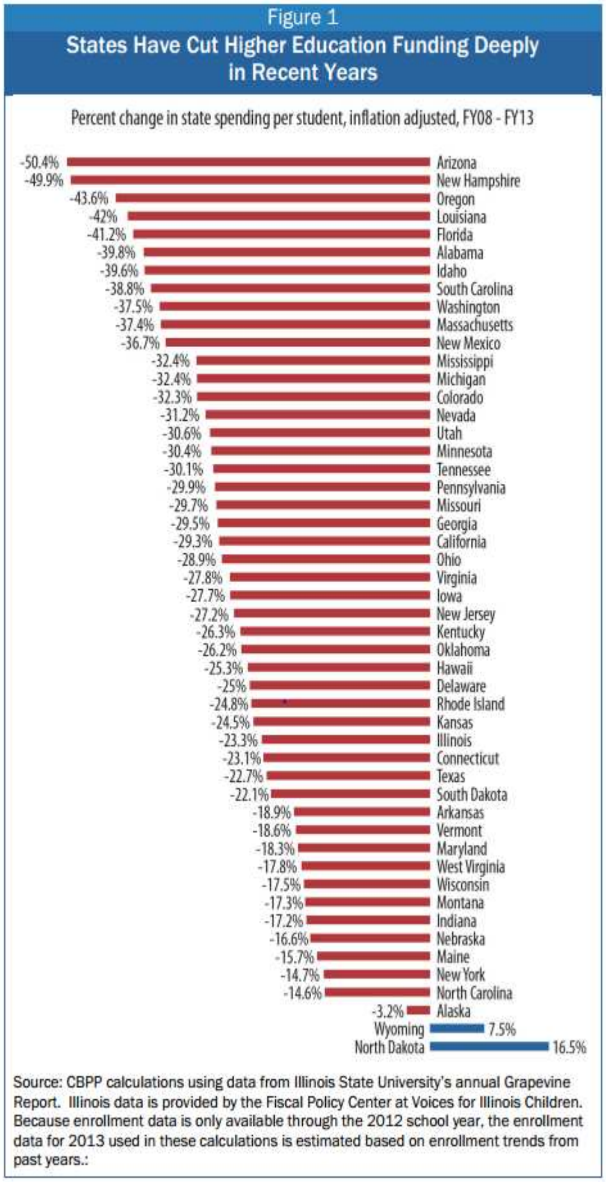


Figure 1
States Have Cut Higher Education Funding Deeply in Recent Years

Source: CBPP calculations using data from Illinois State University's annual Grapevine Report. Illinois data is provided by the Fiscal Policy Center at Voices for Illinois Children. Because enrollment data is only available through the 2012 school year, the enrollment data for 2013 used in these calculations is estimated based on enrollment trends from past years.:

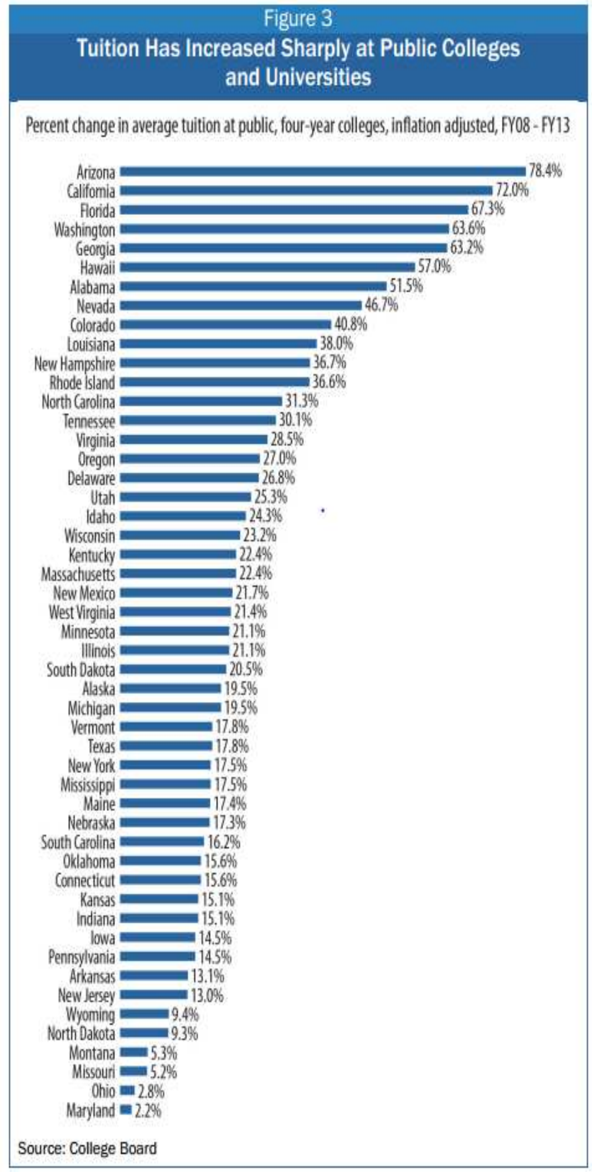
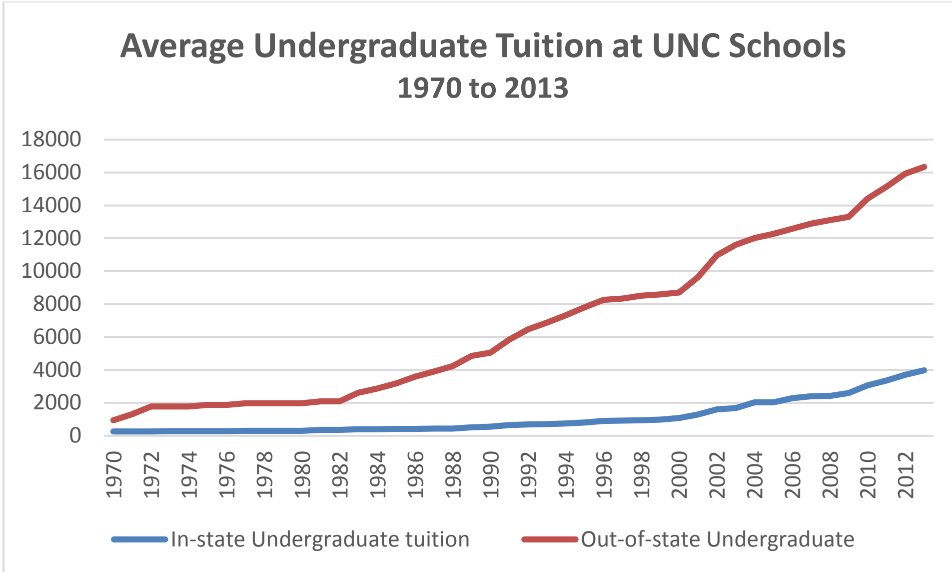


Figure 3
Tuition Has Increased Sharply at Public Colleges and Universities

Source: College Board

Source: Online at http://www.cbpp.org/files/3-19-13sfp.pdf, p. 4 and p. 9.

At the 16 public universities in North Carolina, in-state undergraduate tuition in the UNC system has increased in 24 of the last 26 years (there was no increase in 2005-06 or 2014-15), with increases ranging from 1.2 percent to 24.7. In some cases, those increases have been relatively small, or even very small. However, the overall affect has been a 120% increase in in-state undergraduate tuition for North Carolina residents during the 10-year period from 2003-04 to 2012-13.



Sources: Current tuition data are available online at http://www.northcarolina.edu/finance/tuition/index.htm. Historical data are available online at: http://www.ncleg.net/FiscalResearch/Statistics_and_Data/statistics_and_data.html.
*The average tuition figures reported in the table above are the unweighted mean tuition rates for each student category at the sixteen university campuses of the University of North Carolina System.

While tuition has been rising, college fees have also been increasing in North Carolina. In 2013-14, the average in-state undergraduate *tuition* in the UNC system was $3,967. Average in-state undergraduate *fees* added another $2,138,[14] further increasing the sticker shock for students. Student fees have increased by 62 percent between 2003-04 and 2013-14.[15]

The university system and the UNC Board of Governors are aware of the concerns about rising student costs. Local student government organizations have been passing resolutions for more than a decade encouraging adherence to the free as practicable language. More recently, during her address on October 12, 2013, newly installed UNC-Chapel Hill Chancellor Carol Folt said, "We want to increase the capacity of students from underserved communities to attend and succeed at our great North Carolina universities. And we really, truly want to develop a financial model to make our aspirations possible, sustainable, and affordable."

Some argue that students should work to cover the rising cost of a college education. Indeed, historically, students were able to cover all or a substantial portion of college costs by working their way through school. In 1906, Selby A. Moran, a stenography instructor, wrote a book extolling the virtues of working while attending school and provided a variety of examples for a student to earn money.[16] This included repairing gasoline stoves at 30¢ per hour, acting as a typesetter for $100-150 per year, selling copies of lectures for $3-4 a week, and soliciting orders for canned goods for $6 a week. Because college tuition at the time could run a student $150 a year,[17] or $3,774 in today's dollars, paying for at least of part of tuition through employment was a real possibility.

According to the U.S. Census Bureau, of the 19.7 million undergraduate students enrolled in college in 2011, 72 percent held a job. Of that number, 20 percent worked full time and 52 percent worked part time.[18] A report issued by a coalition of 33 sitting governors in 2011 indicated that fully seventy-five percent of today's students are juggling some combination of families, jobs, and school while commuting to class.

Trend #4: Enrollment at the State's institutions of higher education is relatively flat across the UNC system and among private institutions. This suggests a new model of financial aid may be in order.

After years of growth, overall enrollment in the UNC system has remained relatively flat or declined in recent years. Enrollment grew by 20 percent from 2003 to 2009, but started to level off in 2009. The total enrollment in the UNC system in fall 2012 was 221,010 students. In fall 2013, the number was 220,121 students, a decline of 0.4 percent. Enrollment has hovered around 220,000 for the past five years. These enrollment numbers vary by UNC campus; seven campuses enrolled more students in fall 2013 and nine campuses enrolled fewer.[19]

Enrollment at private institutions in North Carolina also remains relatively stable over the past five years. Fall 2012 enrollment at private institutions was 89,783, a 0.10 percent decrease from the fall 2011 enrollment of 89,829. In fall 2008, 86,235 students were enrolled in the state's private schools.[20]

While university enrollment is leveling or declining, the number of students in a curriculum program in North Carolina's community college system remains relatively high. Enrollment increased by 44 percent from 2002 to 2012, with significant increases due to students returning to school during the Great Recession. Fall 2012 enrollment was 326,171, a one percent decrease from the fall 2011 enrollment of 329,713 for curriculum students.[21] This number is substantially higher than in previous years, and could indicate that some North Carolinians have adopted the first two years at community college model as a real alternative to reduce overall costs.

Trend #5: Creation of forgivable education loans programs for targeted career paths. These programs are designed to address these shortages by providing money for college in exchange for an individual's commitment to work in occupations or regions that need more employees in these fields.

At different times, the state of North Carolina had operated as many as 16 different forgivable education loans for service programs. In 2005, for example, 16 workforce programs provided a total of $27.6 million to 4,230 students in North Carolina's higher education institutions.[22] A state review of six of these programs estimated that between 59 and 89 percent of recipients with scholarship-loans repaid the money with service in the workforce.

On April 13, 2010, the N.C. Center for Public Policy Research testified before the legislature's Joint Select Committee on State-Funded Student Financial Aid. Based on our research, the Center recommended the consolidation of workforce financial aid programs. The Center said, "The current system of multiple programs with different sets of rules creates undue administrative burdens on all public universities, community colleges, private colleges and universities. It is especially cumbersome for the smaller institutions. The long-term goal should be to consolidate many of these programs into one financial aid program designed to help the State address workforce shortages." In response, the 2010 legislature created a Working Group on the Consolidation and Simplification of State Student Financial Aid Programs, which recommended consolidation of the various programs.

In 2011, the N.C. General Assembly responded and merged many of these programs into the new N.C. Forgivable Education Loans for Service (FELS).[23] The FELS statute subsumed what had been twelve separate funds – (1) the Student Loan Program for Health, Science, and Mathematics Fund; (2) the Prospective Teachers Scholarship Loan Fund; (3) the Future Teachers of North Carolina Fund; (4) the Physical Education – Coaching Scholarship Loan Fund; (5) the Nurse Education Scholarship Loan Fund; (6) the Nursing Scholars Program Fund; (7) the Masters Nursing Scholars Program Fund; (8) the Graduate Nurse Scholarship Program for Faculty Production Fund; (9) the Board of Governors' Dental Scholarship Loan Fund; (10) the Board of Governors' Medical Scholarship Loan Fund; (11) the Optometry Scholarship Loan Fund; and (12) the Social Workers' Education Loan Fund.[24] FELS provides "financial assistance in the form of forgivable loans to qualified students who are committed to working in North Carolina in identified critical employment shortage professions."[25] In 2013-14, loans were available for teaching, allied health, nursing, and medicine.[26]

Of the 16 forgivable educational loans for service, eight (8) were geared toward producing teachers and principals. Five (5) of those programs now have been repealed or merged into the N.C. Forgivable Education Loans for Service (FELS).[27] In the 2012-13 school year, there were 428 teaching applicants and 49 medical applicants for the FELS program.[28]

The Task Force on the N.C. Nursing Workforce, convened by the N.C. Institute of Medicine, released a report in 2004 predicting "a shortage of anywhere from 9,000 nurses in 2015 to almost 18,000 by 2020."[29] Of the State's 16 former workforce contingent aid programs, seven (7) were oriented toward increasing the numbers of health care professionals, with four of those specifically for nursing students. Three of those programs now have been merged into the N.C. Forgivable Education Loans for Service (FELS). In 2012-13, FELS had 1,475 applicants for nursing.[30]

In 2012-13, the legislature established an advisory group to recommend the target employment areas for the N.C. Forgivable Education Loans for Service. The group included the N.C. Community Colleges, UNC-General Administration, and the Council for Allied Health in N.C., the N.C. Department of Commerce, the Cecil G. Sheps Center for Health Services Research, the N.C. Independent Colleges and Universities, and the N.C. Department of Public Instruction.[31]

In his Inaugural Address on April 12, 2006, former UNC system President Erskine Bowles stated, "Our state has a crying need for *more* teachers…. Over the course of the past year, UNC campuses produced more than 3,900 potential teachers, yet today North Carolina must hire more than 11,000 teachers each year. That is an enormous gap – a gap we must and will close."[32] A report by UNC General Administration dated June 2012 estimated the State's need for additional teachers at 12,350 in 2010-11 with an increased need to almost 14,000 within five (5) years. In 2010-11, UNC produced 4,436 teachers, fewer than in 2009-10 (4,538). The report said that the UNC System should produce about 33 percent of the State's need in this area, leaving 67 percent to be filled by other institutions.[33]

Trend #6: Debt burdens of all types have continued to increase for students.

In June 2010, for the first time, student loan debt exceeded credit card debt.[34] In December 2013, according to the student loan debt clock, outstanding student loan debt was $1,145,065,827,001, and constantly climbing.[35] "This is literally a new form of indenture," says Barmak Nassirian, associate executive director of the American Association of Collegiate Registrars and Admissions Officers. "[It is] something that every American parent should be scared of."[36]

For the Class of 2012, 68 percent of students graduating from four-year colleges and universities in the United States had student loan debt, according to the national nonprofit Project on Student Debt in Berkeley, California. Their average debt was $27,850, an increase of 5 percent from those graduating in 2011.[37]

According to the Project on Student Debt, the average student loan debt for borrowers in the Class of 2012 from North Carolina's four-year public and private colleges and universities was $23,893, ranking the State 32nd in average student loan debt among the 50 states. North Carolina also ranks 26th among the states in the percentage of the Class of 2012 who accumulated student loans, with 59 percent of graduates borrowing.[38]

Young adults are not the only ones with student debt. According to the Federal Reserve Bank of New York, more than two million people aged 60 or older owe an average of $19,000 in student loans, and both the number of borrowers and the amount of debt are increasing. During the Great Recession, many older Americans returned to school, took out loans, and are now struggling to repay. In 2005, the U.S. Supreme Court in *Lockhart v. United States* ruled that the federal government could garnish Social Security benefits to collect on outstanding student debt. In 2012, there were 119,000 cases where a retiree's benefits were reduced to pay for defaulted student loans, compared to six cases in 2000.[39]

C. Why Is Financial Aid an Important Public Policy Issue?

Attending college and the associated issue of financial aid are important public policy issues for all states and especially North Carolina. Here is a list of reasons State policymakers should address this issue:

- **Going to college is key to the long-term financial health of the citizens**

According to the report *Education Pays 2013: The Benefits of Higher Education for Individuals and Society*, over a 40-year career of full-time work, those with a bachelor's degree earn 65 percent more and those with an associate's degree earn 27 percent more.[40] While it takes most students until age 36 to break even – to make up for the wages lost while in college and pay back any debt – the financial advantages are significant. For those who attend public colleges or universities, the lower cost of tuition and fees brings the break even age down to 33.[41] Those with a college degree are less likely to be unemployed.[42]

A Pew Research Center survey and analysis, conducted in 2013, found that college graduates, aged 25 to 32 and employed full-time, earn about $17,500 more per year than young adults earn working with a high school diploma. The number of people with a college degree and the value of a college degree have increased. Though the Great Recession has significantly affected the job prospects of the millennial generation, the picture is much improved for college graduates.[43]

- **A strong, vibrant economy requires an educated workforce**

The changing economy demands more workers with a college education. Increasing the number of college-educated adults is key to North Carolina's competitiveness and economic future. According to Georgetown University's Center on Education and the Workforce, by 2020, 66 percent of the workforce nationally will require postsecondary education, and 61 percent of the workforce in North Carolina will require training beyond high school.[44] New jobs in North Carolina created between 2008 and 2018 that require post-secondary education will increase by 332,000.[45] The U.S. Bureau of Labor Statistics estimates that about 20.5 million jobs will be added to the economy between 2010 and 2020, and growth will be faster in jobs that require post-secondary education.[46]

North Carolina has already set a policy goal of higher educational attainment for its citizens. From 1992-96, the State's college enrollment rates hovered in the bottom third among the 50 states. In 1998, North Carolina's college enrollment rates reached and then exceeded the national average, and by 2000 and 2004, North Carolina ranked sixth in the nation in college enrollment rates. In 2010, North Carolina ranked 23rd, with an estimated 65.2 percent of recent high school graduates attending a public or private college or university or community college. The UNC system enrolled 25.7 percent of recent North Carolina high school graduates in fall 2012, down from a high of 30.9 percent in the fall of 2001.[47]

On February 8, 2013, the UNC system released its strategic directions plan for 2013-2018. This plan, called, "Our Time, Our Future," attempts to address this trend. The plan sets a goal of raising the percentage of State residents with a bachelor's degree or higher from 26 percent to 32 percent by 2018. By 2025, the goal is for North Carolina to be one of the ten most educated states in the country with 37 percent of the population holding a college degree. In new language proposed for revisions to the strategic plan, UNC "will work with the North Carolina Community Colleges System to develop an educational attainment measure that captures degrees earned at the Associate's and Bachelor's levels, as well as awarded certificates, diplomas, and third-party industry certifications."

- **Many citizens believe access to higher education should be a right, or at least something the State should see as a high priority**

In national polling in June 2012, 76 percent of respondents said access to higher education should be a right, and 46 percent believe this strongly. Two-thirds of respondents said that the cost of college is the greatest barrier to access to higher education.[48] In a February 2013 poll conducted by Elon University, 54 percent of respondents in North Carolina said the State government should spend more money on public universities, while 32 percent thought the funding level should be maintained, and 9 percent said the State should spend less money on public higher education.[49] National polling in 1993 indicated that 89 percent of respondents agreed that the price of higher education should not prevent students who are "qualified and motivated" from going to college.[50]

- **The college participation rate among low-income families suggests that financial issues are a barrier to education**

Among low-income families, the college participation rate was 37 percent in 2010, 20th in the nation. A student from a low-income family in North Carolina is almost 30 percent less likely to go to college than his or her peers.

Table 1.6 College Enrollment Rates of Recent High School Graduates, 1992-2010

	North Carolina	50 States and D.C.		North Carolina	
Year	**Estimated Percent of Recent High School Graduates in College**		**National Rank**	**Low-Income College Participation Rate**	**National Rank**
1992	49.4%	53.9%	36	NA	NA
1994	50.9	57.1	38	16.2	40
1996	53.6	58.7	33	16.3	39
1998	64.2	57.5	8	19.8	44
2000	65.5	56.4	6	20.3	36
2002	63.4	57.1	8	21.9	30
2004	64.2	56.0	6	26.6	22
2006	65.5	61.8	15	24.6	21
2008	65.9	63.8	15	26.2	22
2010	65.2	64.6	23	37.0	20

Sources: Columns 1-4 excerpted from Southern Regional Education Board, Table 19, Estimated College Enrollment Rates of Recent High School Graduates, June 2013. Online at: *http://www.sreb.org/page/1132/index_of_tables.html#participation*, last accessed 9/4/13.

Columns 5 and 6 excerpted from Tom Mortenson, N.C. Higher Education Opportunity Data Book, Tab 13 on College Participation for Students from Low-Income Families, Postsecondary Education Opportunity, Oskaloosa, IA, Updated in May 2012. Data available online with a paid subscription at *http://www.postsecondary.org*.

Unfortunately, some of this lack of participation could be due to a lack of information. In a national poll in December 2011 and January 2012, more than half of the students surveyed indicated they had ruled out college because of the sticker price without considering how financial aid might offset the cost. Fifty-eight percent of students from low-income families and 62 percent of student from middle-income families had ruled out college because of the price alone. Only 35 percent of the students reported that they had used the Net Tuition Price Calculators, which the federal government requires all higher education institutions to post on their websites.[51]

- **Financial Aid can be a strong tool to encourage participation by traditionally underserved minorities and in workforce challenged sectors.**

Financial aid can be a key policy tool in addressing workforce shortages in fields such as teaching, nursing, and biotechnology, as well as engineering and allied health professions.

- **The state has a constitutional requirement to keep higher education costs low.**

The North Carolina State Constitution mandates that "[t]he General Assembly shall provide that the benefits of the University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

D. Why Financial Aid and Tuition Policy Matter in a Globally Competitive World

A generation ago, the United States led the world in college attainment, but that is no longer true.[52] Each year, the Organization for Economic Cooperation & Development in Paris, France releases its report, Education at a Glance.[53] Including the United States, the OECD and its members are dedicated to global development. The report looks at key indicators for the organization's 34 member countries and some other G20 countries, a group of developing nations.

In its 2013 report, the OECD reported that 42 percent of those aged 25-64 in the United States have post-secondary education, ranking fifth behind only Russia (53 percent), Canada (51 percent), Israel (46 percent), and Japan (46 percent). The problem is that, among younger adults aged 25-34, the United States ranks 12th among the 36 countries included in the report – so the United States appears to be falling behind in college attainment. Furthermore, as indicated in the 2012 report,[54] the odds that a young person will go on to college in the United States if his or her parents did not have an upper secondary education is just 29 percent – one of the lowest levels of OECD countries, with only Canada and New Zealand lower.

John Hechinger of Bloomsberg News writes, "The United States has long touted its record of sending disadvantaged children to college. That pride is misplaced, [the OECD] study finds."

Endnotes

[1] Alice M. Rivlin, "Toward a Long Range Plan for Federal Support for Higher Education: A Report to the President," U.S. Department of Health, Education, and Welfare, Washington, DC, January 6, 1969, p. iii.

[2] U.S. Department of Education, National Center for Education Statistics, IPEDS, Table 387, Spring 2002-Spring 2012, Student Financial Aid Component.

[3] "Trends in Student Aid 2013," The College Board, Washington, DC, 2013, p. 3. Online at: *http://trends.collegeboard.org/sites/default/files/student-aid-2013-full-report.pdf* last accessed on 12/17/13.

[4] The North Carolina Independent Colleges and Universities Association is comprised of 36 nonprofit institutions. Students at the five N.C. Bible Colleges are eligible to receive federal student aid, so those schools are included in this count.

[5] "Trends in Student Aid 2013," note three above, Overview of Grant Aid, Download Figure 5 Data. Online at: *http://trends.collegeboard.org/sites/default/files/sa-2013-figure-5.xls*, last accessed 12/17/13.

[6] *Ibid.* For first four columns, see Table on p. 24. For fifth column, see Table 1 on p. 10 (for percentage, divide Pell Grants by Total Federal, State, Institutional, and Private Aid). For 2000-01 percentages, see "Trends in Student Aid 2011."

[7] *Ibid.* Figure 14B, p. 25.

[8] "43rd Annual Survey Report on State-Sponsored Student Financial Aid," National Association of State Student Grant and Aid Programs, Washington, D.C., 2013, p. 2 and p. 21. Online at: *http://www.nassgap.org/viewrepository.aspx?categoryID=351#* last accessed on 9/3/13.

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[15] Average in-state, undergraduate tuition and fees in 2003-04 equaled $3,006, less the average tuition of $1,683, equaled fees of $1,323. The average fees in 2013-14 equal $2,138, thus the 62 percent increase between 2003-04 and 2013-14.

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[22] N.C. State Education Assistance Authority Annual Reports, 2000-01 through 2007-08.

[23] N.C. Session Law 2011-74 (Senate Bill 137).

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Chapter Two

Types and Sources of Financial Aid in North Carolina, and Who Makes Policy

More than $7.9 billion in student financial aid is provided annually to North Carolina students, including $344 million in state funds just for undergraduates.[1] The state's complex financial aid structure developed over time to provide a variety of types of assistance.

A. Types and Sources of Financial Aid

1. Need-Based Aid vs. Non-Need-Based Aid

Most student aid falls into two categories - need-based or non-need-based. The latter is often merit-based. *Need-based aid* is awarded to students based on their ability to pay the sticker price of higher education. The baseline federal government program for providing need-based aid to the nation's poorest students is the Pell Grant. Named for former U.S. Senator Claiborne Pell (D-Rhode Island) and instituted in 1972, the program provides means-tested subsidies directly to students enrolled in college. Other need-based programs include state student incentive grants and low-interest, subsidized student loan programs.

Non-need-based aid and *merit-based aid* programs include scholarships, private loans, and education tax credits. There also are programs such as N.C. Forgivable Education Loans for Services (FELS) which awards aid based on an agreement by a student to pursue a certain occupation and remain in the state. Additionally, there have been hybrid programs such as the federal government's National Science and Mathematics Access to Retain Talent Grant, also known as the National SMART Grant, which includes requirements for maintaining a certain grade-point average in order to continue to receive aid.[2]

Table 2.1 Percent of UNC In-State Undergraduates Receiving Certain Types of Financial Aid, Fall and/or Spring, 2011-12				
	% of Undergraduates Receiving Any Aid	**% Receiving Need-Based Aid**	**% Receiving Non-Need-Based Aid**	**% Receiving Federal Pell Grants**
1. N.C. Central University	96.6%	89.5%	88.2%	73.9%
2. Elizabeth City State University	95.4	87.5	78.0	77.0
3. N.C. Agricultural & Technical State University	93.7	82.3	86.3	68.7
4. Fayetteville State University	89.5	82.6	84.5	73.4
5. Winston-Salem State University	88.3	80.4	79.4	65.1
6. UNC-Pembroke	85.6	74.5	54.0	59.3
7. Western Carolina University	82.0	63.6	66.7	41.7
8. UNC-School of the Arts	80.0	61.1	71.6	35.7
9. UNC-Greensboro	78.8	66.7	60.8	48.7
10. UNC-Charlotte	76.1	65.0	55.2	44.7
11. UNC-Asheville	73.5	57.7	55.5	40.6
12. East Carolina University	72.6	57.8	61.2	38.5
13. UNC-Wilmington	69.3	50.1	54.2	32.6
14. N.C. State University	67.6	47.7	52.5	25.8
15. Appalachian State University	65.6	46.9	51.6	27.4
16. UNC-Chapel Hill	64.6	39.5	42.3	22.5
All UNC Institutions	**75.3%**	**59.8%**	**59.7%**	**41.5%**
Source: University of North Carolina General Administration, 2013.				

2. Expected Family Contribution and Unmet Need

The amount of financial aid a student may receive depends on a federally established evaluation of a family's assets called the *expected family contribution*. That figure is calculated using a formula that includes family income, employment compensation, the number of students in college, assets, and whether the student is dependent and living with his/her parents or independent. If a student's expected family contribution is "zero dollars," then the student is eligible for need-based aid equal to the total cost of attending college, including living expenses. Similarly, if a student's expected family contribution is $2,000 per year, for example, then the student is eligible for an amount of aid equal to the total cost of college minus $2,000. If a student's expected family contribution exceeds the cost of college, then the student is not eligible for need-based aid.

Unmet need for financial aid is the amount, if any, of a student's eligibility for need-based assistance that is not met by an institution's financial aid office. The aggregate of the unmet need of students is referred to as the institution's level of unmet need. It is usually expressed as a percentage of the gap between expected family contribution and the total cost of attendance that is not filled by need-based grants and scholarships.

There were 115,493 in state, full-time, degree-seeking undergraduate students in the UNC system in the 2011-12 school year. In that year, the unmet need for students with family income up to $30,000 was 44 percent of the cost of attendance. For students with family income between $30,001 and $48,000 (the median family income in North Carolina is $41,750), the unmet need was 39 percent. The average amount of student loans incurred varied from $5,661 to $6,818 (see Table 2.2).[3]

Table 2.2 Financial Aid Provided to In-State, Full-Time, Dependent Undergraduate Students in UNC System by Income Category, 2011-12

	Income Category				
	Up to $30,000	***$30,001 to $48,000***	***$48,001 to $75,000***	***$75,001 to $110,000***	***$110,001 or More***
Average Cost of Attendance	$17,265	$17,265	$17,265	$17,265	$17,265
Average Parental Income	16,222	38,776	61,074	91,048	156,641
Expected Family Contribution	286	2,280	6,516	14,263	31,087
Average Amount Provided in Grants/Scholarships	9,861	8,968	5,739	3,318	3,376
Need	17,369	15,608	11,709	5,376	1,259
Net Cost	7,829	8,942	12,816	16,539	17,495
Remaining Need	7,591	6,777	6,611	4,071	958
Remaining Need Percentage	44%	39%	38%	24%	6%
Average Amount of Student Loans Incurred in 2011-12 System wide	$5,661	$5,857	$6,352	$6,818	$6,810

Notes: 115,493 students were in state, full-time, degree-seeking undergraduates in both fall and spring semesters in 2011-12.

Need = *Average Cost of Attendance minus Expected Family Contribution.*
Net Cost = *Average Cost of Attendance minus Average Amount Provided in Grants/Scholarships.*
Remaining Need = *Average Cost of Attendance minus Expected Family Contribution and Average Amount Provided in Grants/Scholarships.*
Remaining Need Percentage = *Remaining Need as a Percentage of Average Cost of Attendance.*

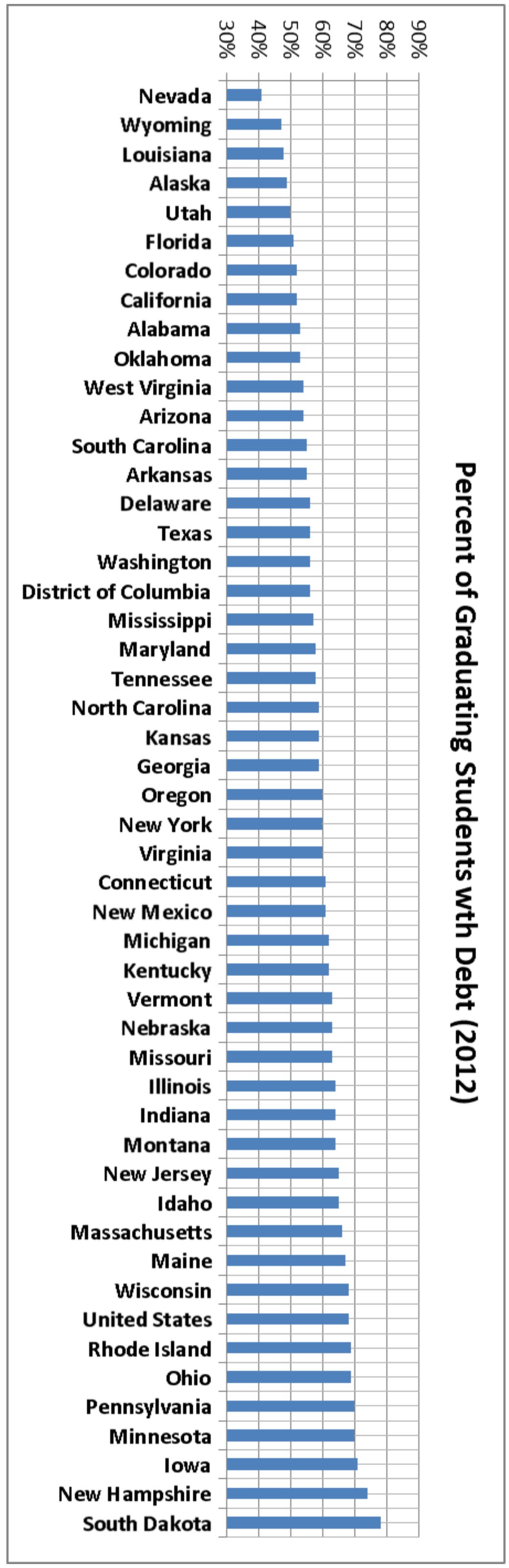
Source: University of North Carolina General Administration, 2013. *The numbers do not always add up because of the use of averages.*

3. Student Loans as a Form of Financial Aid

The Project on Student Debt in Berkeley, California reports that 68 percent of the graduates of the Class of 2012 nationally took out loans during their college career and that the average debt of those borrowers at the end of college was $27,850. North Carolina ranks 26th among the states cited in that study who accumulated student loans, with 59 percent of the graduates borrowing an average of $23,893 in both public and private colleges and universities.[4]

Adrianna Harrell of Fayetteville attended N.C. State University, majored in creative writing and communications media and aspires to be a television news anchor. She says, "All you hear is that college is thousands and thousands of dollars, and you're going to have to take out loans to pay for it. Moreover, you are going to be in debt and pay for it as soon as you graduate. It's kind of scary, and it makes you not like the idea of going to college."

Graph 2.1 Percent of Graduating Students with Debt, Source: The Project on Student Debt, Berkeley, CA. Online database at: http://projectonstudentdebt.org/state_by_state-sum2013.phpc.



Sidebar 2.1 Faces of Financial Aid in North Carolina

Matthew York Howie

Matthew Howie is a first generation college student who grew up in Concord, a half mile from the Charlotte Motor Speedway. After starting his education at UNC-Asheville, he studied politics, public policy, and urban planning at UNC-Chapel Hill because of his experience growing up in an area of the state that was undergoing unplanned suburban development.

"My parents were worried about paying for college," says Howie. "Without financial aid, I wouldn't have had the chance to come here and study."

Nishelle Vanessa Caudill

Nishelle Caudill grew up in Davidson County. She was accepted into the North Carolina Teaching Fellows program and received a scholarship-loan from the state to pay for her education at Western Carolina University in Cullowhee. She repaid her loan by working as a 6th grade math teacher in Macon County.

"I come from a single parent home where money was tight," says Caudill. "I promised myself that I would make something out of my life so that my children would not need to experience the difficulties my mom and I had to face. It was instilled [in me] at an early age that college was not an 'option,' but expected. I was well aware that the only way I would make it to college was by getting a scholarship or going into the military."

Zavier (J.J.) Mosley

Zavier Mosley, a full-time student at Martin Community College in Williamston, studied electrical and electronics technology. He worked on campus as a work-study student and served as a Supplemental Instruction Student Leader to help his fellow students stay "on track" with their studies. He also served as the college's student government president. "[Financial Aid] gave me the motivation to stay in school," says Mosley. "It was a blessing."

Brittany Hammonds

Brittany Hammonds, then a sophomore at UNC-Chapel Hill from Pembroke, was a Carolina Covenant Scholar and chose to attend Chapel Hill because participating in the Covenant program ensured that she would not incur debt. She has three younger sisters and hopes they will get the same opportunity that she is getting to attend college.

"Coming from a family where funds were not as accessible as they are for some other kids, [financial aid] was a major factor," says Hammonds.

The stories in this section come from 2010 interviews with the students.

4. Federal Student Loan Programs

The U.S. Department of Education provides two major loan programs, called Perkins Loans and Direct Loans, with a variety of options tailored to individual students.

Perkins Loans

The **Perkins Loan Program** or **National Direct Student Loan** (formerly National Defense Student Loans) originally was designed to assist the neediest students by giving preference to Pell Grant recipients, but it has evolved into a loan program with flexible rules that allows colleges and universities to meet unique student and family situations. Perkins Loans are provided by colleges and universities that opt to participate in the program. The loans are repaid to a revolving fund on each campus, which in turn provides the funding for loans to new students attending the same institution.

For the 2012-13 academic year, 1,587 institutions across the nation offered Perkins Loans.[5] The program had a total loan volume of $856 million in federal fiscal year 2012-13, down 54 percent in the past 10 years.[6] Perkins Loans aided 461,000 students, with an average loan of $1,857.[7] These loans often work in tandem with Pell Grants to serve the poorest students, but unlike the Pell Grants, the Perkins Loans must be repaid with 5 percent interest.

In North Carolina, 8,093 undergraduates received almost $21 million in Perkins Loans in 2011-12. The average loan per recipient was $2,577. Fifty-seven percent of the recipients attended an institution in the UNC system, and 43 percent attended a private college or university.[8]

Direct Loans

William D. Ford Federal Direct Loan Program (FDLP) are owned by the federal government and mostly administered by loan servicers under contract. They are made from federal funds and repaid to the federal government.

The Federal Family Education Loan Program (FFELP) was comprised of four types of privately-owned loans guaranteed by the state and non-profit agencies and reinsured by the federal government. Banks and other lenders provided these loans under terms specified in federal law. The loans were repaid directly to the lender, and the lender was guaranteed to receive a portion of the loan principal from the federal government if the borrower defaulted on the loan. These loans were discontinued on June 30, 2010, and new loans are issued from the Federal Direct Student Loan Program.[9]

Since 1988, federal subsidized and unsubsidized loans have been referred to as Stafford loans in honor of Senator Robert Stafford (R-Vermont) for his work on higher education. These loans are now available directly from the U.S. Department of Education through the Federal Direct Student Loan Program (FDSLP), and are now most often referred to as direct loans.

The main difference between Direct Loans and FFELP was that Direct Loan funds come from the federal government to the institution and then to the student, while FFELP funds originated from private lenders such as banks, credit unions, or other lenders that participated in the program. Students who obtained a loan under the FFELP had to choose a lender. Most colleges and universities offered a list of *preferred lenders* to borrowers. The student could opt to obtain the funds from any lending institution that participated in the FFEL program, even if it was not on their college or university's preferred list.

President Barack Obama successfully pushed for the end of the FFELP, saying:

> "It's that under the FFEL program, taxpayers are paying banks a premium to act as middlemen – a premium that costs the American people billions of dollars each year. Well, that's a premium we cannot afford – not when we could be reinvesting that same money in our students, in our economy, and in our country.
>
> And that's why I've called for ending the FFEL program and shifting entirely over to Direct Loans. It's a step that even a conservative estimate predicts will save tens of billions of tax dollars over the next ten years."[10]

Secretary of Education Arne Duncan summarized the results of the move away from the FFEL program, as follows:

> "[O]ne of the accomplishments I am most proud of is we've gone from six million Pell recipients – Pell Grants – to almost 10 million, more than a 50 percent increase in young people having access to college, many first generation college goers.… We got an additional $40 billion for Pell Grants, $40 billion without going back to taxpayers for a nickel. We simply stopped subsidizing banks and made those direct investments in young people."[11]

(1) Direct <u>Subsidized</u> Loans are need-based, federally-guaranteed loans. The federal government pays interest on the loan while the student is in school and for a six-month grace period after the student finishes or leaves school.[12] **(2) Direct <u>Unsubsidized</u> Loans,** and **(3) Direct PLUS Loans** are federally-guaranteed loans on which the interest accrues while the student is in school. PLUS loans are designed for graduate students, professional degree students, and parents of dependent undergraduate students.

According to a report by the College Board, *Trends in Student Aid*, "Students and parents borrowed $110.3 billion in education loans in 2012-13, down from a peak of $120.1 billion (in 2012 dollars) in 2010-11."[13] In 2012-13, the loan volume totaled $110.3 billion, 25 percent of which was federal subsidized loans, 50 percent was federal unsubsidized loans, 9 percent was parent PLUS loans, 7 percent was graduate student PLUS loans, 1 percent was Perkins and other federal loans, and 8 percent was nonfederal loans (see below). Total federal direct subsidized and unsubsidized loans totaled $83 billion.[14] The report notes, "Over the past decade, the total number of federal student loan borrowers increased by 69 percent, from 5.9 million in 2002-03 to almost 10 million in 2012-13."[15] About 35 percent of undergraduates took out a federal subsidized or unsubsidized loan.[16]

Interest rates on the loans are established by the federal government. The interest rate on direct subsidized loans was set at 5.6 percent for 2009-10, 4.5 percent for 2010-11, 3.4 percent for 2011-12, and 3.4 percent for 2012-13.[17] The interest rate for the direct unsubsidized loans was 6.8 percent, while the rate for PLUS loans was 7.9 percent.

Under bipartisan legislation signed in August 2013, undergraduate students taking out new federal loans after July 1, 2013 can expect a fixed interest rate of 3.86 percent on those loans. The law ties interest rates to the financial market and caps the undergraduate loan rate at 8.25 percent. Each individual loan is locked into the rate available at the time the student loan is taken out. The interest rate for unsubsidized loans for graduate and professional students is fixed at 5.41 percent, and the rate for PLUS loans is fixed at 6.41 percent. As of July 1, 2012, graduate students may take out unsubsidized direct loans, but not subsidized loans.[18]

A discreet change to the PLUS loan approval process in 2011 resulted in an increased number of loan denials at historically black institutions. Under the PLUS loan program, parents can borrow up to the cost of attendance at their child's school and must not have adverse credit history. The use of PLUS loans has increased, as parents borrow more money to meet rising college costs. In 2011, the U.S. Department of Education expanded the credit check for PLUS loan applicants to also designate accounts in collections or charged off within the last five years as delinquent. If a parent is denied approval for a PLUS loan, the student can then borrow an additional unsubsidized Stafford loan amount, under independent student status. Between October 2011 and October 2012, the denial rate increased from 28 to 38 percent for PLUS loan applicants, with a greater impact on historically black institutions and for-profit institutions.[19]

In 2011-12 in North Carolina, almost $790 million in federal loans was provided to 184,768 undergraduates in the UNC System, $263 million was provided to 76,810 community college students, and $454 million was provided to 94,064 private college and university students – totaling more than $1.5 billion in federal loans provided to North Carolina students. The same year, for the undergraduates in the UNC System, 45 percent of the federal loans were subsidized direct loans, 45 percent were unsubsidized direct loans, 8 percent were parent PLUS loans, and 2 percent were Perkins loans.[20]

5. Private Loans in North Carolina

Private loans, which are often called "alternative loans" or "nonfederal loans," are not subject to the ceiling on interest rates that applies to the federal loan programs. These are consumer loans made directly to students and their families from banks and other lenders. The terms of these loans are negotiated between borrowers and private lenders with regard to repayment options, risk level, rewards, and services. Since the loans are not federally guaranteed, the borrowers' credit ratings have a significant impact on the terms of the loan.

Until the Great Recession, students and their families had been increasingly turning to private loans to meet their higher education expenses, which often have less favorable terms than federal loans. In 1995-96, private loans comprised only 5 percent of educational borrowing.[21] This figure increased to a high of 26 percent in 2006-07. However, "the private student loan market has consolidated in recent years, with a number of smaller lenders leaving the business and some larger lenders selling their loans to others."[22] In 2012-13, the $9 billion in nonfederal loans again comprised just 8 percent of educational borrowing.[23]

In North Carolina in 2011-12, UNC undergraduates received $698,114 in nonfederal loans, community college students received $537,506, and students in private colleges and universities received $13,731,728 – totaling almost $15 million in nonfederal loans statewide.[24]

Sidebar 2.2. The Top 10 Student Loan Tips for Recent Graduates

Whether you are graduating or just taking a break from college, these tips will help you stay on top of your student loans. That means avoiding fees and extra interest costs, keeping your payments affordable, and protecting your credit rating.

1. **Know Your Loans:** It's important to keep track of the lender, balance, and repayment status for each of your student loans. These details determine your options for loan repayment and forgiveness. You can start by asking your lender. If that doesn't work, try visiting *www.nslds.ed.gov*. Once you log in there, you can find out your total loan amounts, lender(s), and the repayment status of your federal loans. If some of your loans are not listed, they are probably private (non-federal) loans. For those, try to find the paperwork that you signed; contact your school or lender if you cannot locate any records.

2. **Know Your Grace Period:** Different loans have different grace periods (how long you can wait after leaving school before you have to make your first payment). For Perkins loans, the grace period is nine months; for Stafford and most other federal loans, it's six months. The grace periods for private student loans vary, so consult your paperwork, or contact your lender to find out.

3. **Pick the Right Repayment Option:** When your federal loans come due, your loan payments will automatically be based on a standard 10-year repayment plan. If the standard payment is going to be hard for you to cover, there are other options that can help you manage your debt, including alternative repayment plans and deferments. Extending your repayment period beyond 10 years can lower your monthly payments, but you'll end up paying more – often a lot more – in interest over the life of the loan. The most important new option is the Income-Based Repayment program, which became available to students graduating in Spring 2009. It can cap your monthly payments at a reasonable percentage of income, and forgive any debt remaining after 25 years of payments. Forgiveness may be available after just 10 years of payments for borrowers in the public and nonprofit sectors (see #10 below). To find out more about Income-Based Repayment, visit *www.IBRinfo.org.*

4. Stay in Touch with Your Lender: Whenever you move or change your phone number, make sure to tell your lender right away. If your lender needs to contact you and your information isn't current, it can end up costing you a bundle. Open and read every piece of mail you receive about your student loans. If you're getting unwanted calls from your lender or a collection agency, don't stick your head in the sand! Talk to them about the issue: lenders are supposed to work with borrowers to resolve problems. Ignoring bills or serious problems can lead to default.

5. Remember That You Have Options: If you're having trouble making payments, don't panic. Whether it's due to unemployment, health problems, or going back to school, there are legitimate ways to postpone your federal loan payments, such as deferments and forbearance. Beware: interest accrues on both subsidized and unsubsidized loans during forbearances. First see if Income-Based Repayment could help instead: your required payment could be as little as $0 when your income is very low.

6. Stay Out of Trouble! Ignoring your student loans has serious consequences that can last a lifetime. Not paying can lead to delinquency and default. For federal loans, default kicks in after nine months of non-payment. When you default, your total loan balance becomes due, your credit score is ruined, the total amount you owe increases dramatically, and the government can garnish your wages and seize your tax refunds. Talk to your lender if you're in danger of default. You can also find useful information at: www.*studentloanborrowerassistance.org*.

7. Lower Your Principal If You Can: When you make a loan payment, it covers any late fees first, then interest, and finally the principal. If you can afford to pay more than your required monthly payment, you can lower your principal, which will reduce the amount of interest you have to pay. Include a written request to your lender to make sure that the extra amount is applied to your principal, otherwise they will just apply it to future payments. Keep copies for your records, and check back to be sure the overpayment was applied correctly.

8. Pay Off the Most Expensive Loans First: If you are considering paying off one or more of your loans ahead of schedule, or trying to reduce the principal, start with the one that has the highest interest rate. If you have private loans in addition to federal loans, start with your private loans, since they usually have higher interest rates and lack the flexible repayment options and other protections of federal loans.

9. Consolidate or Not To Consolidate: A consolidation loan combines multiple loans into a single monthly payment and one fixed interest rate. If consolidation is right for you, shop around for the best deal, but banks and private lenders are not making consolidation loans as often as they used to. There may be other options, but Direct Consolidation Loans from the U.S. Department of Education are definitely available. (Federal loans cannot be consolidated with private loans.)

10. Loan Forgiveness: There are programs that will forgive all or some of your federal student loans if you work in certain fields. Public Service Loan Forgiveness is a new federal program that forgives any student debt remaining after 10 years of qualifying payments for people in government, nonprofit, and other public service jobs. Find out more at www.IBRinfo.org. There are other loan forgiveness options available for teachers, nurses, AmeriCorps and PeaceCorps volunteers, and other professions. See a comprehensive list of loan forgiveness programs by state.

Source: The Project on Student Debt, Berkeley, CA. Reprinted with permission.

6. Student Loans Backed by the State of North Carolina

In 2011-12, more than $19 million was awarded in 3,202 forgivable loans for service in certain occupations in North Carolina. Some of those include the Board of Governors' Dental Scholarship Loans (23 loans totaling $904,704); the Board of Governors' Medical Scholarship Loans (71 loans totaling $1.86 million); Health, Science, and Mathematics Loans (274 loans totaling $2.26 million); the Millennium Scholarship Loans (41 loans totaling $248,831); the Nurse Education Scholarship Loans (469 loans totaling $969,121); the Nurse Educators of Tomorrow Scholarship Loans (127 loans totaling $1.8 million); the Nurse Scholars Program – Masters (165 loans totaling $844,106); the Nurse Scholars Program – Undergraduate (821 loans totaling $3.56 million); the Optometry Scholarship Loan (16 loans totaling $228,800); the Principal Fellows Program (110 loans totaling $3.14 million); and the Prospective Teacher Scholarship Loan (1,085 loans totaling $3.63 million). In 2012-13, almost $20 million was awarded in 2,921 forgivable loans, including 2,805 awards totaling $16,671,592 for the Forgivable Education Loans for Service (FELS) and 116 awards totaling $3,304,080 for the Principal Fellows Program.[25] Repayment is canceled through service in the occupation of need or paid in cash for those not fulfilling the obligation.

B. The Goal of Financial Aid: College Completion

1. Why Completing College Is Important

> *"I always say some form of higher education has to be the goal for every single child, whether it's a four-year university, two-year community college, trade, technical, or vocational training. Some form of education beyond high school is what's needed in today's globally competitive economy…. Education is an investment, and it's the best investment we can make in tough economic times."*
>
> *– Arne Duncan, U.S. Secretary of Education*

Both national and state policymakers argue that increasing the country's college completion rate is crucial to economic competitiveness in the future. In February 2012, the Advisory Committee on Student Financial Assistance released its annual report to Congress and the U.S. Secretary of Education. Entitled "Pathways To Success: Integrating Learning with Life and Work

To Increase National College Completion," the report finds that "[c]ollege completion rates are stagnant or falling today, particularly among young Americans, a trend that threatens to undermine the nation's global competitiveness and further exacerbate inequality in the nation's income distribution."[26]

In testimony to the Advisory Committee on the need for college completion, Dr. Paul Ligenfelter, the president of the State Higher Education Executive Officers (SHEEO), said:

> "*In 1973, …we had 66.4 million jobs in the United States held by people with a high school diploma or who had actually dropped out of high school. That was 66.4 million out of 91 million, 72 percent of the workforce. In 2009, we had 64 million jobs held by people with a high school diploma or less than a high school diploma, fewer than in 1973, and those people now account for 41 percent of the workforce. So in the past 35 or so years, all the job growth in this country has been for people who have some college or postsecondary associate, bachelor's or degree attainment and the economic rewards for having more education have expanded dramatically. The premium for having a bachelor's degree over a high school diploma now is 85 percent in lifetime earnings.*"[27]

On February 24, 2009, in his first address to Congress, President Barack Obama established a national goal for the United States to have once again the highest proportion of college graduates of any country in the world by 2020. More than 10 million more college graduates will be needed by 2020 to meet this goal, including 8 million more young adults earning associate's and bachelor's degrees.[28]

Yet, a substantial number of qualified high school graduates are not enrolling in four-year college apparently because of family financial concerns about the cost of college.[29] The 2010 annual report of the Advisory Committee on Student Financial Assistance projected "the loss of more than 3 million bachelor's degrees from 2000 to 2009 due to financial barriers."[30] Policymakers need to recognize that they cannot meet the nation's college completion goal without improving access to financial aid for students.

Figure 2.1. Reversing These Trends Is the Policy Challenge in Higher Education

Source: The U.S. Advisory Committee on Student Financial Assistance, *The Rising Price of Inequality: How Inadequate Grant Aid Limits College Access and Persistence,* Washington, DC, June 2010, Executive Summary, p. iii. Online at: *http://www2.ed.gov/about/bdscomm/list/acsfa/rpijunea.pdf*, last accessed 9/11/13.

In January 2012, the U.S. Bureau of Labor Statistics released employment projections through 2020. According to the report, overall employment is projected to increase about 14 percent during the 2010-2020 decade with more than half a million new jobs expected for each of four occupations – registered nurses, retail salespersons, home health aides, and personal care aides. Occupations that typically need postsecondary education for entry are projected to grow faster than average.[31]

In 2010, nationally, median wages for those with a degree in higher education were more than 200 percent higher than for those without a high school diploma and 80 percent more than those with a high school diploma. Median annual wages for those without a high school diploma were about $20,000. Those with a high school diploma and those with a postsecondary nondegree award – often called a certificate – had a median annual wage of about $34,000. The median annual wage for those with an associate's degree or higher was more than $60,000.[32] According to the College Board, median earnings for individuals with a bachelor's degree were $56,500 in 2011, while median earnings for high school graduates were $35,400.[33]

Table 2.3

Table 6. Employment and total job openings, by education category, 2010 and projected 2020

(Numbers in thousands)

Typical education needed for entry	Employment				Projected change, 2010–2020		Job openings due to growth and replacement needs, 2010–2020[1]		Median annual wage, May 2010[2]
	Number		Percent distribution						
	2010	2020	2010	2020	Number	Percent	Number	Percent distribution	
Total, all occupations	143,068.2	163,537.1	100.0	100.0	20,468.9	14.3	54,787.4	100.0	$33,840
Doctoral or professional degree	4,409.7	5,286.3	3.1	3.2	876.6	19.9	1,701.8	3.1	87,500
Master's degree	1,986.0	2,417.2	1.4	1.5	431.2	21.7	903.9	1.6	60,240
Bachelor's degree	22,171.1	25,827.2	15.5	15.8	3,656.1	16.5	8,562.4	15.6	63,430
Associate's degree	7,994.6	9,434.6	5.6	5.8	1,440.0	18.0	2,941.0	5.4	61,590
Postsecondary nondegree award	6,524.0	7,624.9	4.6	4.7	1,100.9	16.9	2,389.6	4.4	34,220
Some college, no degree	811.6	953.8	.6	.6	142.2	17.5	362.0	.7	44,350
High school diploma or equivalent	62,089.6	69,665.7	43.4	42.6	7,576.1	12.2	21,745.9	39.7	34,180
Less than high school	37,081.7	42,327.4	25.9	25.9	5,245.7	14.1	16,180.8	29.5	20,070

[1] Total job openings may not equal the sum of replacement needs and employment change. If employment change for a detailed occupation is negative, job openings due to growth are zero and total job openings equal replacement needs.

[2] For wage and salary workers, from the Occupational Employment Statistics survey.

SOURCE: U.S. Bureau of Labor Statistics.

Source: C. Brett Lockard and Michael Wolf, "Occupational Employment Projections to 2020," Monthly Labor Review, Bureau of Labor Statistics, Washington, DC, January 2012, p. 106, Table 6.

In North Carolina, in 2011, median wages for those with a postsecondary degree were more than 150 percent higher than for those without a high school diploma.[34] Without a high school diploma, median annual wages were $17,028. With a high school diploma or GED, the median is $24,849, and with some college or an associate's degree, the median is $30,326. But with a bachelor's degree, median earnings increase to $42,842, and those with a graduate or professional degree earned even more at $57,828.

The U.S. Bureau of Labor Statistics estimates that about 20.5 million jobs will be added to the economy between 2010 and 2020, and growth will be faster in jobs that require postsecondary education.[35]

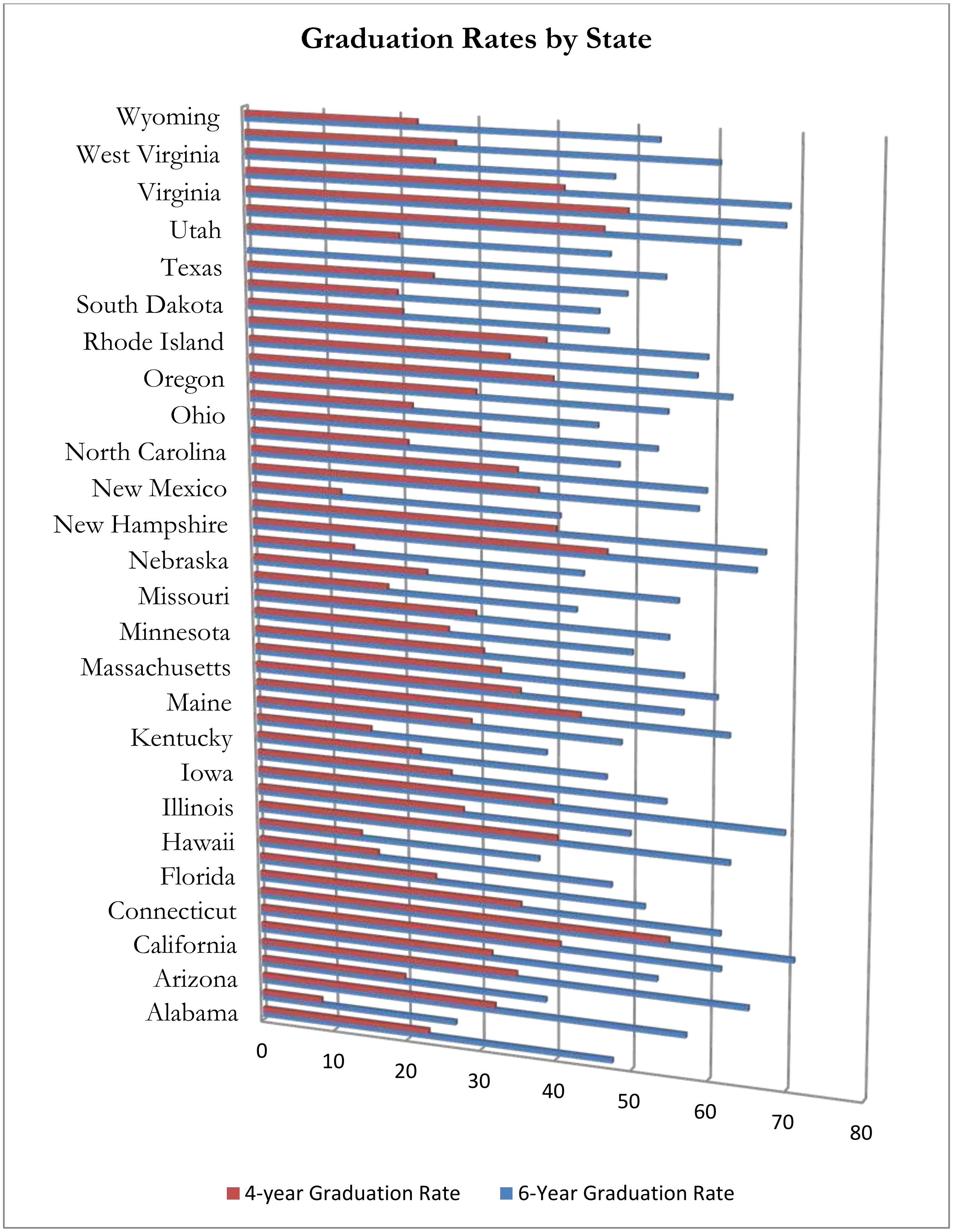
According to Georgetown University's Center on Education and the Workforce, 66 percent of the workforce nationally will require postsecondary education by 2020.[36] But projections for 2020 by the U.S. Bureau of Labor Statistics indicate that just 31.6 percent of the jobs (less than half of the Georgetown University projection) will require postsecondary education (see Table 2.3, above). According to the U.S. Bureau of Labor Statistics, [o]ccupations that typically need a high school diploma or less will continue to represent more than half of all jobs."[37] The authors of the Georgetown report assert that the methodology used by the U.S. Bureau of Labor Statistics to project employment under-predicts the demand for future postsecondary needs because projections are based on the level of education required by the job, not by the level of education actually present in the population.[38] Critics of the Georgetown methodology claim the report overstates postsecondary employment projections and does not address the issue that college graduates are underemployed based on their skills and knowledge.[39]

In 2011, the North Carolina Commission on Workforce Development projected that at least 42 percent of new jobs created in the state between 2011 and 2020 will require some postsecondary education.[40] The UNC System estimates that at least 23.4 percent and at most 32.6 percent of the workforce will need a bachelor's degree or higher by 2020.[41]

2. North Carolina's College Completion Rate

According to the *Chronicle of Higher Education's* website on college completion, North Carolina ranks 16th among the 50 states for public, four-year colleges with a six-year graduation rate of 59.1 percent. It ranks 28th among the 50 states for private, four-year colleges with a six-year graduation rate of 57.9 percent.[42]

Graph 2.2: Graduation Rates by State



Source: College Completion Microsite, the Chronicle of Higher Education. Online at: http://collegecompletion.chronicle.com/ about/#data, last accessed 9/11/13. Data include those students seeking a bachelor's degree at four-year public and private institutions and are averaged over three years from 2008-2010.

In a report on retention and graduation rates released in February 2014, the UNC System reports that 39.6 percent of first-time, full-time students graduated within four years from their original UNC institution, compared to the national rate of 38.6 percent.[43] The *Chronicle of Higher Education* reports a 4-year graduation rate of 35.1 percent for public 4-year colleges in North Carolina, an average between 2008-2010.[44]

In the fall of 2012, the UNC Advisory Committee on Strategic Directions began working on a five-year plan for the UNC System. Jane Stancill, a higher education reporter for the *Raleigh News & Observer* wrote, "Setting a target for the percentage of North Carolinians with a higher-education degree is a dicey proposition. Any goal must be balanced with the reality that the state's financial fortunes may limit big growth at universities – and that tuition is increasing beyond the reach of more families in an ever-diverse population."[45]

Fred Eshelman, founder and former CEO of PPD (Pharmaceutical Product Development) in Wilmington, NC, and the chair of the Committee, said, "There's no point in cranking out people who can't get a job." He wants more data on the workforce needs in North Carolina going forward.

North Carolina's higher education governance structure may give the state an advantage in shaping financial aid policy to meet state goals in college completion rates. The North Carolina statute says, "The Board of Governors shall plan and develop a coordinated system of higher education in North Carolina" and that the Board, in consultation with representatives of the State Board of Community Colleges and of the private colleges and universities, "shall prepare and from time to time revise a long-range plan for a coordinated system of higher education…." It is also the Board's statutory duty to "maintain close liaison with the State Board of Community Colleges, the Community College System office, and the private colleges and universities of the State."[46]

Just getting a handle on how many students actually complete college is difficult. Released in November 2012, a report by the National Student Clearinghouse Research Center entitled

"Completing College: A National View of Student Attainment Rates," includes completion rates for students that follow *nontraditional* pathways – increasing the U.S. rate of those with postsecondary education from 42 percent to 54 percent. For students starting college in 2006, the report finds that six years later, 42.0 percent completed college at the same institution, another 12.1 percent completed college at a different institution, 16.1 percent were still enrolled, and 29.8 percent were not enrolled.[47]

Socioeconomic status continues to impact college enrollment. In 2012, 50.9 percent of low income students who recently graduated from high school immediately enrolled in college, compared to 64.7 percent of middle income students and 80.7 percent of high income students.[48]

C. Financial Aid Policy in North Carolina

Student financial aid policy for the 16 public universities in North Carolina is set by the N.C. General Assembly, the Governor, the UNC Board of Governors, and each campus' Board of Trustees. Similarly, financial aid policy for North Carolina's 58 community colleges is set by the N.C. General Assembly, the Governor, and the State Board of Community Colleges. Financial aid policy for the state's private colleges and universities is set largely by the boards of trustees at each of those schools. Since state and federal funding is involved, they too must work with the N.C. General Assembly, the Governor, and the State Education Assistance Authority.

Financial aid policy is implemented by the financial aid offices at each postsecondary educational institution in the state in collaboration with the State Education Assistance Authority. To participate in most student aid programs, the institutions must cooperate with NCSEAA because it is the conduit for a large amount of federal student aid. As the state agency responsible for distribution of many state- and federally-funded aid programs, and a great deal of privately-funded aid, the State Education Assistance Authority keeps one foot in the policy establishment arena and the other foot in the policy implementation arena.

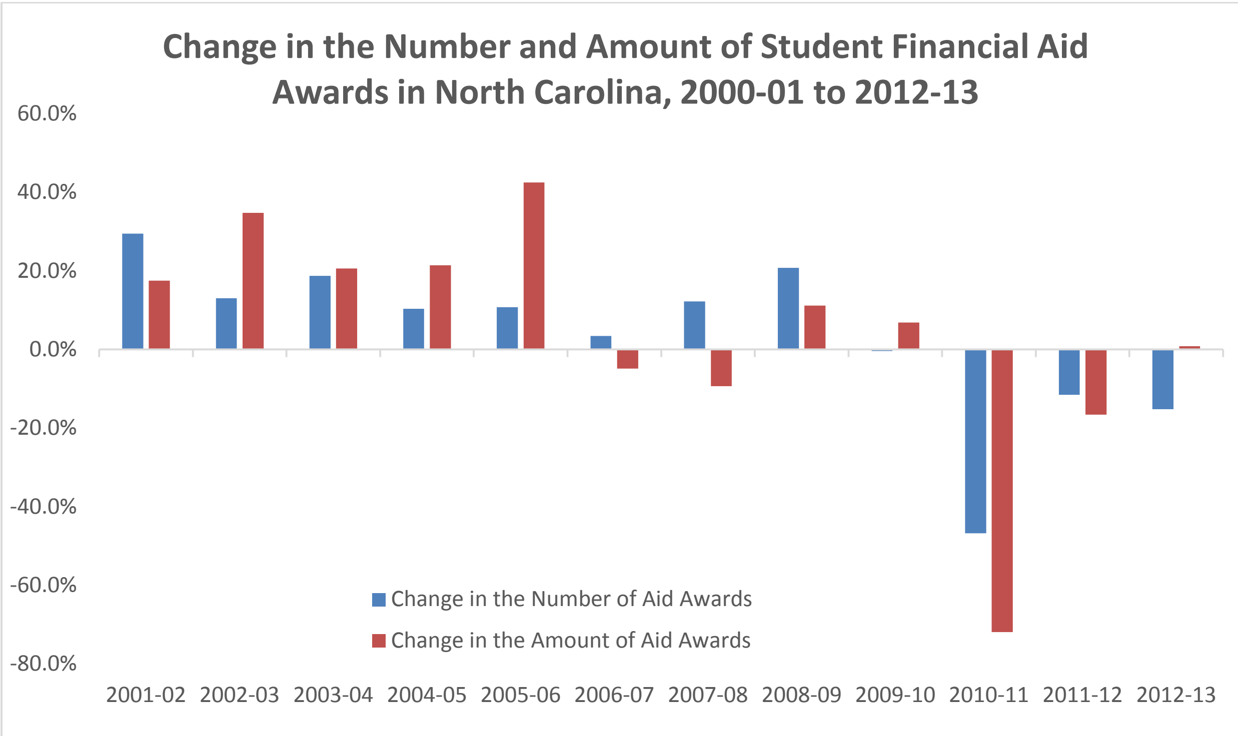
1. The State Education Assistance Authority

Established in 1965 and headquartered in a low, flat-roofed building located in a loblolly pine thicket in Research Triangle Park, the North Carolina State Education Assistance Authority is the state agency responsible for administering state funding of grants, loans, work study, and other financial aid to enable qualified students to attend college. N.C. General Statutes sections 116-201 to 203 create NCSEAA "to foster and provide financial assistance to properly qualified students in order to help them to obtain an education beyond the high school level." The statute also says that "a proper system of financial assistance…serves a public purpose and is fully consistent with the long established policy of the State to encourage, promote and assist education to enhance economic development."

The agency is governed by a nine-member board of directors. Seven of the members are appointed by the Governor. The chief financial officers of the UNC system and the N.C. Community College System serve on the board *ex officio*, according to state law.[49] The board members elect their own chair and vice-chair. The board hires the executive director of NCSEAA from among candidates who have been nominated by the President of the University of North Carolina. NCSEAA's 68 staff members[50] are hired through the personnel office at the University, but NCSEAA posts the advertisements, screens the applicants, and selects the employees. In the 2012-13 school year, NCSEAA awarded 151,139 student grants, loans, and scholarships totaling more than $302 million.[51]

The North Carolina State Education Assistance Authority Headquarters in Research Triangle Park

Graph 2.3 Change in the Number and Amount of Student Financial Aid Awards in North Carolina, 2000-01 to 2012-13



Source: Annual Reports of the N.C. State Education Assistance Authority, in 2012-13 Highlights, pp. 5 and 10. Online at http://www.ncseaa.edu/About_NCSEAA.htm, last accessed 9/11/13. Note that this figure reflects awards that are disbursed through NCSEAA. The FFEL program ended in 2010.

NCSEAA communicates with students and families about opportunities to obtain financial aid, helps procure resources for aid programs, and offers training programs to college and university personnel in administering financial aid. NCSEAA operates an extensive student loan collection system in order to recover defaulted loans. NCSEAA also administers North Carolina's "529" College Savings Plan, which provides options to families wanting to save money for their children's future higher education. Until its repeal, effective December 31, 2013, the state offered an annual tax deduction up to $5,000 for a married couple filing jointly to encourage participation in these plans.[52] NCSEAA works in close partnership with College Foundation, Inc. of Raleigh, N.C.

In the past, NCSEAA obtained capital for educational loans made available under North Carolina's Federal Family Education Loan Program (FFELP). In its capacity as the manager of the federal student loan program, NCSEAA was one of 35 *guaranty agencies* across the nation. These agencies were designated by the federal government to negotiate with lenders such as banks and other organizations that provide funds for student loans. Through the guaranty agencies, the federal government offered the lenders a guarantee that they would not lose money if a student defaulted on a loan in exchange for the lender agreeing to provide the loans at low interest rates. That program ended on June 30, 2010. The 35 guaranty agencies will continue to guarantee existing loans against default under FFELP.

In 2012-13, the N.C. State Education Assistance Authority processed almost 6,302 defaults on these loans by borrowers, totaling more than $82 million. According to the annual report, NCSEAA "[r]ecovered $38.2 million from defaulted NCFFELP borrowers, including funds from litigation and wage garnishment activities, seizure of federal and State tax refunds, collection agencies, and loan rehabilitation and loan consolidation programs. NCSEAA's recovery rate for the federal fiscal year 2012 was 26.18 percent." North Carolina has among the lowest default rates in the nation of all guaranty agencies for FFELP loans for the tenth consecutive year.[53]

2. College Foundation, Incorporated

Established in 1955, College Foundation, Inc. (CFI) is a nonprofit organization in Raleigh, NC. It administers a portfolio of more than $3.3 billion, including low-interest federal education loans, North Carolina's college grant program, and the "529" college savings program on behalf of the N.C. State Education Assistance Authority.[54] The organization has been the principal agent and sole source contractor for NCSEAA since 1966. It is reimbursed by NCSEAA for administration of these programs without any State-appropriated funds.

3. College Foundation of North Carolina

The North Carolina State Education Assistance Authority and College Foundation, Inc. created the College Foundation of North Carolina (CFNC) to serve as the single state source for information about college financial aid. The current CFNC partners are the N.C. Department of Public Instruction, the N.C. Community Colleges System, the N.C. Independent Colleges and Universities, the UNC System, the NCSEAA, and College Foundation, Inc.

CFNC seeks to create a one-stop resource and call center for students and families to get information about applying to and paying for college. By November 2013, 5 million user accounts had been established by students and prospective students on the website, with 449,988 accounts established in 2013 alone. The website averaged 11,142 daily visits in 2013, and students used the site to submit 447,378 applications for admission to North Carolina colleges and universities. CFNC's call center is staffed with operators who offer advice on how to pay and save for education after high school. Through November 2013, they responded to 102,442 phone calls and regional representatives made 2,557 visits.[55]

In the University system's long-range plan, the UNC Board of Governors describes the CFNC effort as an example of how it fulfills its goal of increasing access to higher education.[56] A July 2009 report on CFNC prepared by UNC General Administration and funded by the Lumina Foundation of Indianapolis, Indiana hails the program as an unqualified success and offers advice to other states on how to set one up.

The report also links the gains made in North Carolina's college-going rate among low income families to the establishment of the CFNC program. The report says, "… [I]n 2000, the year prior to the launch of the CFNC partnership and website, North Carolina ranked 36th in the United States, with 20.3 percent of students from low income families participating in college.… [B]y 2007, college participation among this population…had increased to 24.5 percent, resulting in a ranking of 21st and placing North Carolina second in the nation in its rate of improvement. It is anticipated that North Carolina will continue to see improvements in college participation rates as use of the CFNC.org tools and services increase."[57]

In May 2012, the College Board Advocacy & Policy Center released a report on successful practices that address the underutilization of financial aid in community colleges. The report highlights the work of CFNC as a successful model. The report says, "The College Foundation of North Carolina (CFNC) is one example of how multiple state-level organizations can combine resources to offer comprehensive, free information to help the state's citizens…. CFNC is a highly visible state initiative that focuses on encouraging financial aid application and college enrollment…. CFNC features statewide outreach programs and has commitments and support from a diverse group of state and community-based organization."[58]

UNC's Strategic Directions Plan for 2013-18 finds that all of the CFNC offerings, "united under the CFNC brand, are designed to convey a straightforward message to the people of North Carolina: college is within reach. The College Foundation plays an important role in helping the University fulfill and communicate its core commitment to affordable access." To this end, the plan's action steps include seeking a $1 million appropriation in year one, $2.5 million in year two, and $5 million thereafter to help support CFNC.

Sidebar 2.3 Tips for Filling Out the FAFSA

CFNC, in conjunction with the N.C. Association of Student Financial Aid Administrators and the State Employees' Credit Union, offers a FAFSA Day each February. In 2014, FAFSA Day will be held on February 22 with locations in every North Carolina county. College financial aid officers and other volunteers help students complete their FAFSA forms, which determines a student's eligibility for financial aid.

CFNC.org also offers the following tips for filling out the FAFSA (Free Application for Federal Student Aid), geared toward parents of dependent students and independent students:

1. The FAFSA application is free.

2. Filing the FAFSA allows you to apply for federal and state financial aid at the same time.
3. The application is available on January 1, and should be submitted as soon as possible. Financial aid awards are made until funds are depleted, so the earlier the better.
4. File your federal taxes before you fill out your FAFSA, and your tax information will automatically be transferred to the FAFSA.
5. You can submit corrections to your FAFSA at a later time if you submit the FAFSA before filing federal taxes.
6. Gather the information you need for the FAFSA: the school code for the schools you are applying to or the school you attend (look it up at www.fafsa.ed.gov); your PIN (find it at www.pin.ed.gov); social security card; driver's license; last year's tax return and W2 forms; and current assets information.
7. Never leave a question blank. Enter a "0" instead.
8. Your Expected Family Contribution is calculated from the FAFSA and included in your Student Aid Report, which is sent to you and the schools you selected.

Source: CFNC.org

4. Campus Financial Aid Offices

Each UNC institution, each community college, and each private college or university in North Carolina has an office or division responsible for management of scholarships and financial aid. These offices are the primary contact point for students seeking and receiving financial aid. Financial aid administrators have been given broad authority to exercise professional judgment to make awards to students and to manage institutional, state, and federal resources.

"My job is to assist students and families in identifying the resources available to help them achieve their dream of a college education," says Julie Poorman, Director of Financial Aid at East Carolina University.

D. Policymakers' Perceptions of Tuition Policy and Financial Aid Policy: Surveys by WICHE, the National Conference of State Legislatures, and National Governors' Association

In 2003, the Western Interstate Commission for Higher Education (WICHE) and the National Conference of State Legislatures (NCSL) surveyed legislators on the connections between state funding and state student financial aid policy. Forty-four (44) legislators from 29 states known for their work on higher education issues responded.[59] In 2004, WICHE and the National Governors' Association (NGA) also surveyed education advisors in 31 governors' offices in a companion survey.[60] Sixteen of these respondents worked for a Democratic governor, while the other 15 worked for a Republican governor, with representatives from all major regions in the country.

Legislators and education advisors in governors' offices assessed their own role as well as those of the other four primary state higher education policymakers (the state higher education agency, the university system governing board(s), the individual campuses in crafting both tuition and state student financial aid policy, and the governor or state legislature), depending on the survey. Generally, legislators viewed themselves as having the most significant role in establishing student financial aid policy, while they thought they only played "some role" relative to individual system governing boards when setting tuition policy. Legislators viewed their role as more significant than that of the governor on both tuition and financial aid policy. When compared to state higher education agencies, legislators viewed themselves as playing an equal role in tuition policy and as having a more significant role in student financial aid.

According to the education policy advisors, the governor's role is not primarily a decision-making role, but an influencing role. Education advisors say system governing boards play the most significant role in crafting tuition policies, and state legislators play the most significant role in setting financial aid policies.

The survey also asked legislators and education advisors in governors' offices to rate the degree of coordination among themselves and each of the other four primary policymakers.

Legislators do not indicate a large degree of coordination with any other policymakers on either tuition or financial aid policy. Only one legislator reported a high degree of coordination with individual institutions, and few legislators indicated a great deal of coordination with the governor on either tuition or student financial aid policy.

Likewise, governors' offices reported little coordination to ensure that tuition and financial aid policies complement one another and bolster statewide goals for increased college access and affordability. Indeed, not a single gubernatorial education advisor indicated a great deal of coordination with individual system governing boards and institutions toward student financial aid policy. Only one reported a great deal of coordination on tuition policy between the governor, legislature, and individual institutions.

Another set of survey questions revealed the legislative and gubernatorial perspectives on the relative alignment of tuition and student financial aid policy. First, in order to help legislators define "alignment" consistently, interviewers asked if the state had a "fundamental philosophy about the relationship between tuition and financial aid." Six legislators said their states had a "high tuition, high aid" philosophy, while another six legislators reported a "low tuition, low aid" philosophy. Twenty-two legislators reported no fundamental state philosophy. Ten (10) legislators reported some other type of tuition-aid philosophy, including medium tuition/high aid, low tuition/high aid, low tuition/adequate aid, moderate tuition/moderate aid, low tuition/high aid for needy students, and a policy that no qualified student be excluded for financial reasons.

The twenty (20) legislators who said their state did have a fundamental state philosophy on tuition and financial aid also said they believed that policymakers adhered to that philosophy. Seventeen legislators indicated that the state philosophy was "always" a consideration, while three said it was "occasionally" a consideration.[61] When asked to identify factors influencing decision-making about tuition and financial aid policy, legislators responded with such reasons as:

a. the state's economy
b. state's ability to fund
c. resources available
d. economic capacity of students
e. budget considerations
f. state tax limitation structures
g. state political cultures
h. number of applicants
i. job opportunities for students and population
j. need versus merit aid discussions and implications
k. targeted student populations, and
l. availability of federal funds.

By contrast, the majority of the governor's education policy advisors reported no such overarching approach based on a state's philosophy on the proper relationship between tuition and aid. Of those who said that their state did have an overall approach, three advisors indicated a "high tuition/ high aid" philosophy, another two indicated a "low tuition/low aid" philosophy. Seven others reported tuition/aid philosophies of:

a. high tuition/high financial aid for students enrolled in the public sector
b. some financial aid for students enrolled in the private sector
c. high tuition/moderate financial aid
d. low tuition/incremental financial aid, and
e. low tuition/moderate financial aid.

For the fourteen (14) education advisors indicating the existence of some state philosophy, eight reported that this philosophy was "always" a consideration in the policymaking process, and six (6) said it was "occasionally" a consideration. Nonetheless, the same education advisors in states that had a fundamental philosophy on tuition and aid policy said that financial factors were extremely important in the policymaking process. The financial factors included:

a. availability of state funds
b. state budget
c. state appropriations
d. state tax revenue, and
e. workforce/industry demands.

Likewise, education advisors to governors also cited "politics, access, and affordability" as recurring factors in policymaking. Other factors mentioned included "improving educational attainment, private institutions and market sector, diversity, and demographic trends."

Legislators and education advisors also were asked to evaluate their state's tuition and student financial aid policymaking system. Generally, legislators were positive about their policymaking system's flexibility, efficiency, equity, and fairness. This was true even among legislators who had previously reported little inter-policymaker coordination. However, nearly half (48 percent) of the legislators reported that their process impeded maximum legislative input, and 59 percent of the legislators said the process did not provide maximum student and parental input.

When asked to evaluate their respective state policymaking systems on tuition and student financial aid, the governors' education policy advisors were almost evenly divided. While the majority of advisors said their process afforded flexibility, maximum legislative input, and fairness, 52 percent did not regard the process as efficient, and 52 percent did not believe parents and students were allowed maximum input.

Legislators were undecided as to a question about whether state policy processes resulted in tuition and financial aid policy integration, with as many legislators agreeing as disagreeing and another quarter saying "neither." Delving deeper into the issue, interviewers asked legislators to assess the degree of integration. Thirty-nine percent reported a great deal of integration, nine percent reported some integration, 36 percent said these are usually completely separate conversations, and 16 percent said that different groups make policy decisions at different times. Nearly all legislators indicated a desire for closer decision-making alignment between tuition policy and financial aid policy.

Gubernatorial education policy advisors also were asked about the degree of integration between tuition and financial aid policymaking. Seven percent reported a great deal of integration, 10 percent reported some integration, 31 percent said these are usually completely separate conversations, and 45 percent said that different groups make policy decisions at different times. While most advisors indicated a desire for improved integration when appropriating higher education dollars, few felt that such integration existed.

When asked how the state might better integrate tuition and financial aid policies, legislators' responses included:

a. more flexibility for institutions
b. financial aid is the buffer to tuition increases
c. the higher education board needs to ensure all appropriated funds are used for financial aid
d. first, we need alignment among stakeholders
e. private firms who can help students maximize assistance
f. clearly laying out the current situation and showing the university system the targets
g. the legislature must be forced to join and then lead the discussion
h. the commission on higher education provides good coordination and a good mechanism to discuss problems, and
i. decrease the per-student awards while maintaining or increasing the total commitment [allowing the state to help many more of the most needy students].

Some legislators responded by expressing the economic impediments to policy alignment, saying, "The tradition of low fees is hard to overcome when the economy is bad," "State goals are compromised by state economies and what it can afford," or simply, "We need more revenue."

Governors' education policy advisors expressed firm belief in the power of communication to improve both policymaking and use of state resources. They differed on how best to promote communication, particularly when state policymakers grant tuition-setting authority to individual campuses in response to state budget cuts. Some respondents supported a statewide higher education agenda backed by an open forum for discussion about how to achieve that agenda. Others preferred a consolidation of decision-making authority under an effective board. Many championed the inclusion of participation rates and affordability measures into the decision-making process. One education advisor favored including financial aid requests in institutional, system, and state revenue and budget estimates in order to present financial aid policy as an explicit priority.

The two groups differed markedly on their perception of the political process. While legislators didn't think they had maximum input, governor's offices believed the process allowed maximum legislative input, even at the cost of efficiency and equity. Both groups realized the weak degree of coordination between themselves and state higher education agencies, system governing boards, and institutions. The two sets of respondents also agreed on the need to employ resources more effectively though improved policy alignment.

When asked about potential issues in future legislative sessions, both groups anticipated weakened state support for higher education and tuition increases in the future. Both legislators (95 percent) and governors' education advisors (97 percent) anticipated future tuition increases. However, a far greater percentage of legislators (80 percent versus 62 percent of the education advisors) said decreasing the state share of the higher education budget would be a possible issue in the future. About half of each group (45 percent of the legislators and 52 percent of the governors' education advisors) predicted that performance funding for higher education would be a future issue. Both legislators (59 percent) and education advisors to governors (72 percent) said finding the right mix between need-based and merit-based student aid would be a future issue.

Table 2.4 State Financial Aid and Tuition Policy: Policymakers' Perceptions

The Role of Primary Policymakers in Establishing *Tuition Policy*: Describe the role of each of the following individuals or entities in establishing tuition policy in your state.						
	Significant Role		*Some Role*		*No Role*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Educatio n Advisors*
Governor	19%	24%	51%	48%	30%	28%
Legislature	35%	24%	44%	52%	21%	24%
State higher education agency	35%	41%	32%	38%	23%	21%

Individual system governing board or boards (a)	65%	76%	23%	7%	12%	17%
Individual institutions	49%	52%	31%	41%	19%	7%

The Role of Primary Policymakers in Establishing *State Student Financial Aid Policy*: Describe the role of each of the following individuals or entities in establishing policies dealing with state student financial aid.

	Significant Role		*Some Role*		*No Role*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Educatio n Advisors*
Governor	33%	41%	60%	59%	5%	0%
Legislature	56%	52%	39%	48%	5%	0%
State higher education agency	38%	45%	33%	41%	17%	14%
Individual system governing board	37%	38%	36%	31%	24%	31%
Individual institutions	31%	41%	43%	48%	21%	10%

Level of Coordination Between the Legislature/Governor and Other Primary Policymakers When Setting *Tuition Policy*: What would you say is the level of coordination between the legislature/Governor and these other state entities when setting tuition policy?

	Great Deal of Coordination		*Some Coordination*		*No Coordination*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Educatio n Advisors*
Between the legislature and the governor	7%	3%	50%	55%	41%	41%
Between the legislature and the state higher education agency	20%	N/A	41%	N/A	32%	N/A
Between the legislature and the individual system governing board	14%	N/A	34%	N/A	48%	N/A
Between the legislature and the individual institutions	2%	N/A	33%	N/A	52%	N/A
Between the governor and the state higher education agency	N/A	14%	N/A	55%	N/A	31%
Between the governor and the individual system governing board	N/A	10%	N/A	45%	N/A	45%
Between the governor and the individual institutions	N/A	3%	N/A	31%	N/A	66%

Level of Coordination Between the Legislature and the Other Primary Policymakers When Making Policy Decisions About *State Student Financial Assistance*: What would you say is the level of coordination between the legislature and these other state entities when making policy decisions about state student financial assistance?

	Great Deal of Coordination		*Some Coordination*		*No Coordination*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Educatio n Advisors*
Between the legislature and the governor	16%	10%	50%	69%	32%	21%
Between the legislature and the state higher education agency	25%	N/A	45%	N/A	18%	N/A
Between the legislature and the individual system governing board	11%	N/A	36%	N/A	48%	N/A
Between the legislature and the individual institutions	2%	N/A	43%	N/A	50%	N/A
Between the governor and the state higher education agency	N/A	24%	N/A	62%	N/A	14%

Between the governor and the individual system governing board	N/A	0%	N/A	55%	N/A	45%
Between the governor and the individual institutions	N/A	0%	N/A	45%	N/A	55%

Overall Policy Process Regarding *Tuition and Student Financial Aid*: I'm going to read you a few statements about the overall policy process in your state regarding tuition and student financial aid.

	Agree		*Disagree*		*Neither*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Education Advisors*
The process is efficient.	52%	31%	20%	52%	25%	17%
The process allows for flexibility.	68%	66%	16%	14%	14%	21%
The process results in fair policy.	50%	52%	20%	10%	30%	38%
The process results in equitable policy.	50%	41%	18%	21%	18%	38%
The process provides for maximum legislative input.	27%	59%	48%	24%	23%	17%
The process provides for maximum input by students and parents.	23%	21%	59%	52%	18%	28%
The process results in the alignment of tuition and financial aid policy.	36%	28%	34%	45%	25%	28%

Process in Determining *Tuition and Financial Aid Policy*: What best describes the process in your state when determining tuition and financial aid policy?

	Legislators	*Education Advisors*
There is a great deal of integration between tuition and financial aid policy decisions.	39%	7%
These decisions are made by different groups at different times.	16%	45%
These are typically completely separate conversations.	36%	31%
Other: There is some integration.	9%	10%
Other: These are sometimes separate conversations.	N/A	3%
Other: No Answer.	N/A	3%

Potential Issues in Future Legislative Sessions/Future State Issues: For each of the following, please tell me whether you think this will be an issue [before the legislature/before the state] in the next [one to two years/two to three years] in your state.

	Yes		*No*		*Not sure*	
	Legislators	*Education Advisors*	*Legislators*	*Education Advisors*	*Legislators*	*Education Advisors*
Decreasing the overall share of the state higher education budget	80%	62%	11%	28%	9%	10%
Tuition increases	95%	97%	3%	0%	2%	3%
Limits on in-state tuition (for example, to only four or five years per student)	34%	21%	37%	45%	29%	34%
Differential tuition rates for residents versus nonresidents	68%	48%	23%	41%	9%	10%
Differential tuition rates for students in different programs (for example, college of education, college of business)	32%	41%	43%	34%	25%	24%

Linking tuition increases to median family income, the Consumer Price Index, or some other measure of inflation	18%	28%	45%	24%	36%	48%
Increasing taxes to offset tuition increases	25%	17%	52%	62%	23%	21%
Increasing need-based student financial aid	54%	83%	16%	7%	30%	10%
Increasing merit-based student aid	45%	48%	25%	24%	30%	28%
Finding the right mix of need- versus merit-based aid	59%	72%	20%	17%	21%	10%
Shifting funds from institutional support to student financial aid programs	27%	31%	36%	38%	36%	31%
Performance funding for higher education	45%	52%	27%	24%	27%	24%
Appropriations/tuition/financial aid policies that promote efficient growth/cost management.	N/A	83%	N/A	7%	N/A	10%
Appropriations/tuition/financial aid policies that promote student transfer and/or timely degree completion.	N/A	90%	N/A	7%	N/A	3%
Appropriations/tuition/financial aid policies that promote adult participation.	N/A	62%	N/A	7%	N/A	31%
Appropriations/tuition/financial aid policies that promote dual enrollment/early colleges.	N/A	76%	N/A	14%	N/A	10%
(a) "Individual system governing board or boards" refers to a board that governs multiple public universities or colleges. **Source:** *Western Interstate Commission on Higher Education/National Conference of State Legislatures.*						

E. Evaluating Financial Aid Policy and Performance Measures on Financial Aid

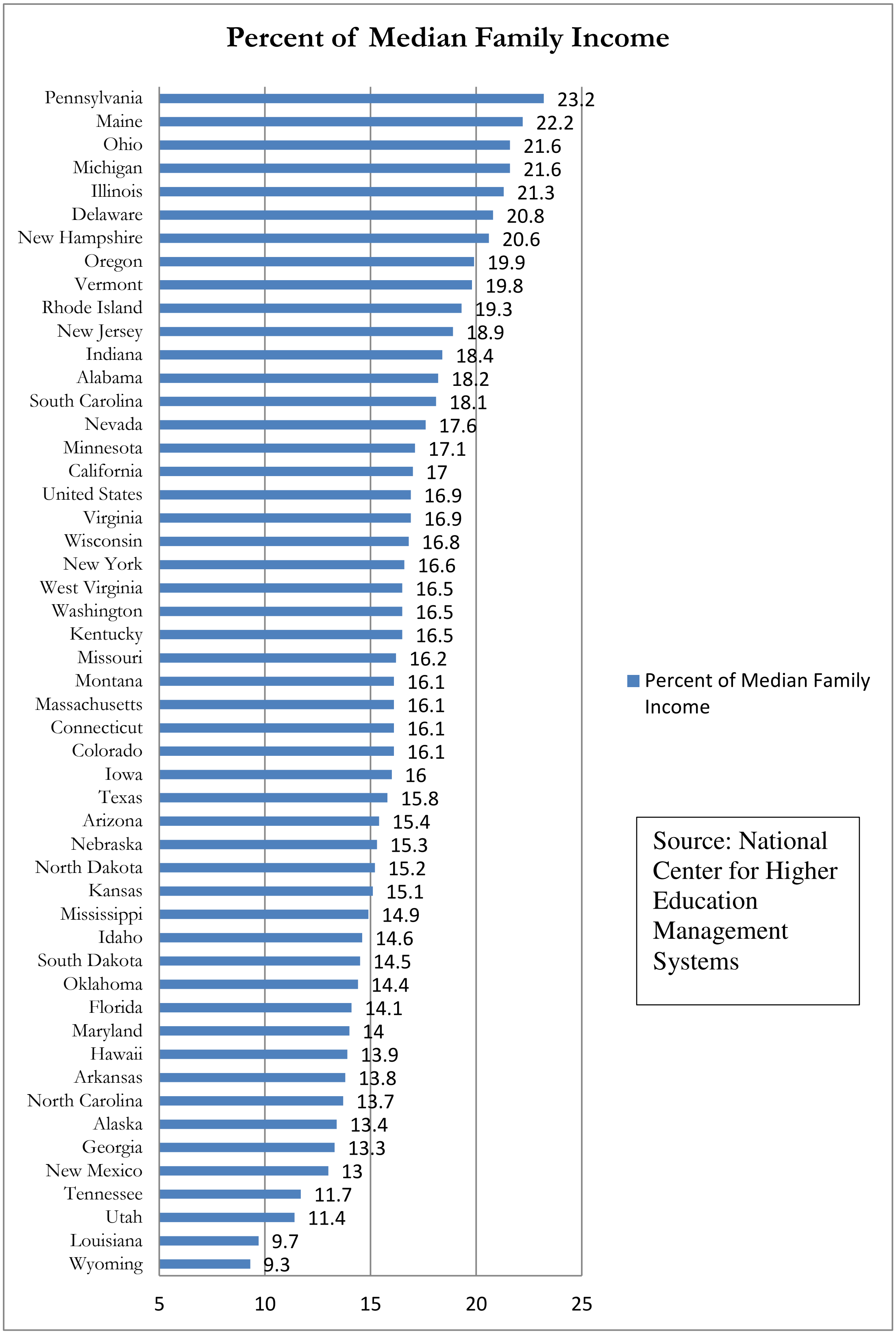
Financial aid is an institutional process that, if successful, leads to greater college affordability and completion of college. One measure is the percentage of student need for financial aid that is met by the institution.

The North Carolina Constitution mandates "that the benefits of The University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."[62] Another measure of affordability is the percentage of family median income that it costs for students to attend college. North Carolina ranks 8th lowest in the nation on this measure, requiring 13.7 percent of median family income to pay for the net cost of college. The national average is 16.9 percent.

According to *Measuring Up 2008: The National Report Card on Higher Education*, attendance at a North Carolina public four-year university required 23 percent of the State's median family income – after financial aid is taken into account.[63]

Attendance at the State's community colleges requires 21.9 percent of median family income after financial aid, ranking N.C. in a tie for 19th on this measure. Attendance at the state's private colleges and universities takes an average of 74.2 percent of median income – ranking North Carolina 36th in the nation in private college affordability.

Graph 2.4: Percent of Median Family Income Needed To Pay for College, by State, 2009



Steve Brooks says, "I don't like using the measure of the percentage of median income. I think that would not be bad for policymakers to know, but the general public isn't going to have a clue what that means." However, Brooks would like to see another measure added. "What I'd like to see them add is the net cost of tuition and fees after grants and scholarships by income level," he says.

In 2013-14, 94 percent of undergraduate state aid was need-based, 3.5 percent was forgivable loan for service, and 2.5 percent was non-need-based grants. State grant expenditures[64] account for 8 percent of total state support for higher education in North Carolina – less than the 13 percent average nationally, and compared to 38 percent in South Carolina, the highest in the United States.[65] North Carolina spends an average of $830 in state grant aid per full-time undergraduate student, 24 percent higher than the national average of $670.[66]

Two other measures of affordability used in other states bear mention. Some states use "State Need-Based Aid as a Percentage of Federal Pell Grant Aid" as a means of gauging how effectively they are addressing the declining purchasing power of the federal Pell Grant by providing state-funded aid. On this measure, North Carolina ranks 10th highest among the 50 states and provides state need-based aid totaling 70 percent of Pell Grant funding in the State.

Sidebar 2.4 Five Online Resources for N.C. Families Seeking Student Financial Aid

1. CFNC.ORG is sponsored by the State of North Carolina and by colleges across the state for the purpose of informing students about attending college and obtaining financial aid. CFNC is a one-stop shop for North Carolinians to apply to college and to fill out financial aid forms. Visit: *http://www.cfnc.org*
2. The U.S. Department of Education provides extensive information about federal student aid programs. If you want more information about federal programs, a good place to start is the online publication entitled *Funding Education Beyond High School: The Guide to Federal Student Aid.* Visit: *http://studentaid.ed.gov/students/publications/student_guide/index.html*.
3. There are many places to access the well-known Free Application for Federal Student Aid (FAFSA) online (e.g., see #1 above), but the original source is the U.S. Department of Education. The Department's website has a lot of detailed information to help with the form. Visit: *http://www.fafsa.ed.gov/*.
4. The National Association of Student Financial Aid Administrators (NASFAA) is a professional association providing excellent information on the basics of student financial aid. Visit: *http://www.nasfaa.org/students/About_Financial_Aid.aspx*.

The College Board, known for producing the SAT, also offers a number of online tools to help students plan, apply, and pay for college. Visit: *http://www.collegeboard.com/*.

Endnotes

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[2] The federal Higher Education Reconciliation Act of 2005 created two new grant programs for undergraduates: the Academic Competitiveness Grant (ACG) program and National Science and Mathematics Access to Retain Talent National SMART) Grant program. The ACG program encouraged students to take challenging courses in high school and thus increase their likelihood of success in college. The National SMART Grant program encouraged students to pursue certain college majors considered in high demand in the global economy (mathematics, science, engineering, technology, and certain languages deemed critical to the national interest). Congress provided $790 million for the 2006-07 academic year for these new programs, and $4.5 billion over five years. The ACG and National SMART Grants are no longer available as of 2011-12. Online at: *http://www2.ed.gov/about/offices/list/ope/ac-smart.html*, last accessed 9/7/13.

[3] University of North Carolina General Administration, 2013.

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[7] *Ibid*., Figure 7A, p. 18.

[8] *Statistical Abstract of Higher Education in North Carolina 2012-13,* note 1 above, p. 205.

[9] "Trends in Student Aid 2011," The College Board, Washington, DC, 2011, p. 10.

[10] Remarks by the President on Higher Education, Washington, DC, April 24, 2009. Online at: *http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-on-Higher-Education/*, last accessed 9/11/13. The Federal Family Education Loan Program was eliminated with the passage of the "Student Aid and Fiscal Responsibility Act," part of the "Health Care and Education Reconciliation Act of 2010, "Public Law 111-152, 111th Congress, March 30, 2010.

[11] Secretary of Education Arne Duncan on The Diane Rehm Show. Transcript online at: *http://thedianerehmshow.org/shows/2012-10-09/secretary-education-arne-duncan/transcript,* last accessed 1/3/2014.

[12] If the student receives a Direct Subsidized Loan that is first disbursed between July 1, 2012, and July 1, 2014, they are responsible for paying any interest that accrues during the grace period. If they choose not to pay the interest that accrues during the grace period, the interest is added to the principal balance. For more information, see: *http://studentaid.ed.gov/types/loans/subsidized-unsubsidized*, last accessed 1/3/2014.

[13] "Trends in Student Aid 2013," note 6 above, Figure 6, p. 17.

[14] *Ibid.* Database online at: *http://trends.collegeboard.org/student-aid/figures-tables/loans,* last accessed 1/3/2014.

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[16] *Ibid*., p. 21.

[17] For historical interest rates, see *ibid.*

[18] Current interest rates are online at: http://studentaid.ed.gov/types/loans/interest-rates, last accessed 1/3/14.

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[21] See database, note 14 above.

[22] "Trends in Student Aid 2012," The College Board, Washington, DC, 2012, p. 17.

[23] See database, note 14 above.

[24] *Statistical Abstract of Higher Education in North Carolina 2012-13,* note 1 above, Table 67, pp. 213-15. Non-federal loans include institutional loans and other loans.

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Chapter Three

The History of North Carolina's Policy on Financial Aid

A. The 1969 Legislative Study Commission on Student Financial Aid

While North Carolina has been supporting financial aid programs since at least 1945, the State's policy formulation began in earnest in 1968. The need for development of a State policy on student financial aid was first expressed publicly in a 1968 report of the North Carolina Board of Higher Education. The report identified student aid as a need for the future and said, "[C]learly the purpose of such assistance [financial aid] is best served when opportunity for education is assured without regard to the happenstance of birth or economic background."[1]

The Board's report suggested that the 1969 General Assembly appoint a study commission on the topic. The legislature agreed and created the North Carolina Legislative Study Commission on Student Financial Aid, which issued reports in 1970 and 1971. The Commission wrestled with developing a student financial aid policy for North Carolina but concluded, "At the state level, goals are rarely explicit and public policy often is contradictory or difficult to discern. North Carolina is no exception. Yet, as has been true in other states, before a specific [proposal] can be developed major questions of public policy must be resolved. A specific program of action should grow out of a consideration of alternate approaches designed to implement public policy."[2]

The Commission's report identified nine (9) policy questions needing answers before the State's policy could be defined:

(1) Should a state student aid program provide assistance to students attending both public and private institutions of higher education?

(2) Should a state program of student financial aid be available to students at all levels of post high school education?

(3) Should a state student aid program include assistance to students attending proprietary institutions?

(4) Should aid in a state student assistance program be made available directly through a centralized state agency or indirectly through the educational institution attended by the student?

(5) Should financial aid gaps which exist among institutions be equalized?

(6) How should student financial aid be allocated when the need exceeds available resources?

(7) Should state aid be based exclusively on financial need?

(8) Should a state program of student financial aid take into consideration the differences in tuition and required fee charges among institutions?

(9) Who should pay for post high school education – the student, society, or both?

The Commission made recommendations to answer seven of the nine public policy questions it posed. The Commission recommended the following:

"(1) A comprehensive state-administered and state-supported system of student financial aid should be available to North Carolina students attending both public and private post-high school educational institutions in North Carolina.

(2) A State program of student financial assistance should make aid available to North Carolina students attending approved post high school institutions, public and private, in North Carolina, through the baccalaureate level.

(3) A State student aid program should include aid to students attending accredited proprietary institutions in North Carolina.

(4) A comprehensive system of student aid should be administered by a centralized agency which makes awards directly to North Carolina students.

(5) A State supported system of student financial aid should seek to eliminate aid gaps among institutions and compensate for differences in institutional resources that exist.

(6) A State supported system of student financial assistance should make aid available only on the basis of need.

(7) A State program of student financial assistance should take into consideration variations in costs between different types of institutions; provided, however, that aid to a North Carolina student attending a North Carolina private institution should not exceed the true cost which would have been paid by the State (aid and tuition subsidy) if he had elected to attend a comparable public institution in North Carolina."

Note: Recommendations six and seven are responses to questions seven and eight, respectively.

The Commission did not reach a consensus on an answer to question six (How should student financial aid be allocated when the need exceeds the available resources?) and on question nine (Who should pay for post high school education – the student, society, or both?). There was great debate at the time about whether the State should provide funds for North Carolina students to attend *private* colleges and universities.

The Commission divided the question (number nine above) of who should pay for higher education into two parts – paying for student aid and paying for higher education operations. They agreed that both the student and society should pay for a state student aid program, but could not agree on who should pay for higher education operating costs.

The question of developing a state financial aid policy in North Carolina began with a systematic analysis and a call for a specific program of action. All of the study commission's seven recommendations have been addressed, at least in part, by North Carolina policymakers, in the years since 1971. This report details the various programs that resulted from the enacted recommendations.

"From the outside, I suspect the state's student aid policy looks like a patchwork quilt of programs, but in fact, I think they dovetail pretty well, and in the end form a blanket that you can put over somebody and keep him warm, said Steve Brooks, former director of the State Education Assistance Authority. In a way, that's the only thing that will really work to serve people in different circumstances and various levels of needs."

The most significant deviations from the study commission's original recommendations came in the form of the legislature's support for two types of State-supported *non-need-based* student aid. The first was the Legislative Tuition Grant program, which, until 2012, provided $1,850 per student to 37 private colleges and universities for each North Carolina student enrolled full-time in undergraduate courses. The rationale for this was that if these students had gone to public universities, the legislature would have had to provide more faculty, classroom space, laboratories, dormitories, academic programs, etc. on public campuses. This program was repealed in July 2012 and replaced with Need-Based Scholarships for Students Attending Private Institutions of Higher Education.[3] The legislature appropriated more than $81 million for this program in 2012-13[4] and more than $86 million in 2013-14.[5]

The second non-need-based student aid effort was the development of educational loan for service programs, called "scholarship loans," where a student agrees to pursue a career where workers are in short supply in exchange for forgiveness of an educational loan. The rationale for this was the need to improve workforce shortages in certain key fields such as teaching and nursing.

B. Innovative Approaches to Financial Aid Policy in Other States

Other states have taken a variety of innovative approaches to provide student aid. In 2006, the Massachusetts Board of Higher Education's Task Force on Student Financial Aid conducted an extensive review of state financial aid programs. The task force's final report identified 22 innovative programs that "focus on meeting the critical needs of their respective states and/or improving access for underrepresented student populations."[6] The task force said the innovative student aid programs had these features:

1. The promotion of early awareness, college readiness, and attendance
2. Support for need-based financial aid and other types of financial aid linked to merit and college readiness
3. A substantial financial commitment to funding higher education
4. Assistance for students from underrepresented populations (e.g. low-income, first-generation, and adult learners)
5. The promotion of partnerships with the business community to support college access

Among the programs identified as innovative are the Arkansas Workforce Improvement Grant, Florida's First Generation Matching Grant Program, Indiana's Twenty-First Century Awards, the Oklahoma Higher Learning Access Program/Oklahoma's Promise, the Oregon Opportunity Grant Program, and South Carolina's Access and Equity Undergraduate Scholars Program. A Jobs for the Future report released in 2012 highlights innovative financial aid programs in Virginia and Washington.[7] And, a U.S. Advisory Committee on Student Financial Assistance also describes additional innovative programs in Connecticut, Kentucky, New Jersey, New York, Tennessee, Texas, Washington, and Wisconsin.[8] Each of these programs has at least one element that could be useful in discussing aid programs in North Carolina.

The **Arkansas Workforce Improvement Grant**[9] targets adult learners returning to school who may not be eligible for programs geared for students entering college directly from high school. To be eligible for the program, a student must be at least 24 years old, enrolled in college either full- or part-time, and have financial need.

Arkansas' approach of placing an age requirement ensures that some state funds will be available to adult learners who could not otherwise afford to return to school. North Carolina's community colleges have the most experience in our State in providing assistance to adult learners – those who are usually financially independent of their parents. This expertise is reflected in the current structure of the State's need-based aid program for community college students. The N.C.

Community College grant program has provisions that allow independent students to remain eligible for help even if they have a higher income than dependent students. Programs like the UNC Need-Based Grant program for public universities also could be improved by lowering barriers to adult learners.

Florida's First Generation Matching Grant Program.[10] is available only to students whose parents have not earned baccalaureate degrees. Students must attend state universities, and the institutions must provide a dollar-for-dollar match to the annual state appropriation.

A program that is available only to first generation college students is a way to increase the college-going rate of low-income and minority students. North Carolina's current programs use income exclusively to define eligibility. Florida's approach opens the door to college for children from middle income families where the parents did not attend college.

Indiana's Twenty-First Century Scholar Awards.[11] are given to students that meet established academic eligibility standards and who enroll as "Twenty-First Century Scholars" in the seventh or eighth grade. Additionally, recipients must take a pledge to work hard academically and stay out of trouble in high school and participate in an academic success program in college. The state may reduce the award based on a family's greater ability to pay for college.

Indiana's approach provides early communication with potential college students. Additionally, it allows the amount of the aid to each student to vary based on the amount of tuition and fees they would have to pay, the family's ability to provide financial support, and the availability of state funds.

The **Oklahoma Higher Learning Access Program/Oklahoma's Promise**.[12] is a program the state uses to initiate a contract with eighth, ninth, and tenth grade students. The program is available to students whose family income is $50,000 or less. The students must agree to stay out of trouble and to complete a college preparatory curriculum. In exchange, the state agrees to help pay the student's college tuition.

Like Indiana, a strong feature of Oklahoma's program is early involvement in the student's education. Bob Shireman, former director of the Project on Student Debt says the *early* involvement of the student in a program increases the likelihood of college attendance. "It is important for innovative programs to be a part of the student's decision-making process," says Shireman.

The **Oregon Opportunity Grant Program**[13] was created in 1971 and assists students with family incomes below about $70,000. Students may attend community colleges, public universities, or private independent four-year institutions in Oregon. In 2005, the program was expanded to include part-time students. The advantages of the Oregon effort are that part-time students are eligible and that funds are available to students across all sectors of higher education.

South Carolina's Access and Equity Undergraduate Scholars Program,[14] which lost its funding during the Great Recession of 2007-09, had three stated goals: (1) addressing financial needs of traditionally underrepresented students, (2) removing barriers that inhibit transfer from two-year to baccalaureate degree-granting institutions, and (3) strengthening the state's historically black colleges. The program was available only to students who are historically underrepresented in all of the state's colleges and universities.

South Carolina's program eased the transition from community college into four-year colleges. Like our neighbor to the south, North Carolina has a high number of historically black colleges that disproportionally serve low-income students and could be strengthened by targeted financial aid.

In February 2012, the Advisory Committee on Student Financial Assistance released its annual report to Congress and the Secretary of Education entitled, "Pathways to Success: Integrating Learning and Work To Increase National College Completion." The report highlights the role of the states in setting degree completion goals with consideration towards the needs of nontraditional students.[15] States described as having model programs include:

- **Wisconsin:** Offers grants "that allow for expenditure not only on the academic side of things, but on the 'life' part of things – on the transportation, on the childcare, the things that will either enable to inhibit progress towards a credential."[16]
- **Washington:** "The State of **Washington's** Opportunity Grant Program, the goal of which is to put low-income students into high-demand and high-wage workforce programs, provides students with a **single point of contact and advocates** to help students progress along their degree path. This fully funded program also provides advising services, success classes, and funds for emergency services."[17]
- **Kentucky:** The Ready-To-Work Program "integrates certain Temporary Assistance for Needy Families (TANF) services with community and technical colleges, so that students can have their **social service and educational needs met in one place**."
- **New York:** "One of the best state strategies for improving degree completion among nontraditional students is **creating institutions** specifically geared towards their needs and objectives," including Excelsior College and Empire State College in New York, Thomas Edison State College in New Jersey, and Charter Oak State College in Connecticut.[18]

The report also presents some nontraditional approaches for states to consider. Washington and Tennessee have implemented outcomes-based systems for funding higher education so that institutions get more money if their students meet designated goals. Florida requires common course numbers to facilitate transfers for students. Texas offers a retroactive degree, "providing students with a credential at sixty (60) hours when students only complete half of a four-year program." The report also suggests that to keep college affordable, states could lock in tuition rates for students while they complete their academic course of study.[19]

Sidebar 3.1   Maximizing Financial Aid in Developmental Education

Students taking developmental education courses in Virginia's Community College System can access content through modules, targeting only those basic skills components that they need. The VCCS began the effort to redesign its developmental English and math models in 2010 to move from the standard, single-model developmental courses to modules that line up with the areas the student needs to learn.

Since federal financial aid will cover up to thirty (30) credit hours of developmental courses, a student's ability to streamline the process and complete these courses quickly is integral to college success. Faced with the challenge of aligning financial aid policies with the varied enrollment in modular courses, where a student may take up to four modules during one semester, the VCCS advises students on which modules to register for and tracks student progress to ensure financial aid is correctly calculated.

Source: *"Aid and Innovation: How Federal Financial Aid Policy Impacts Student Success and How States Can Respond," Jobs for the Future Report.*

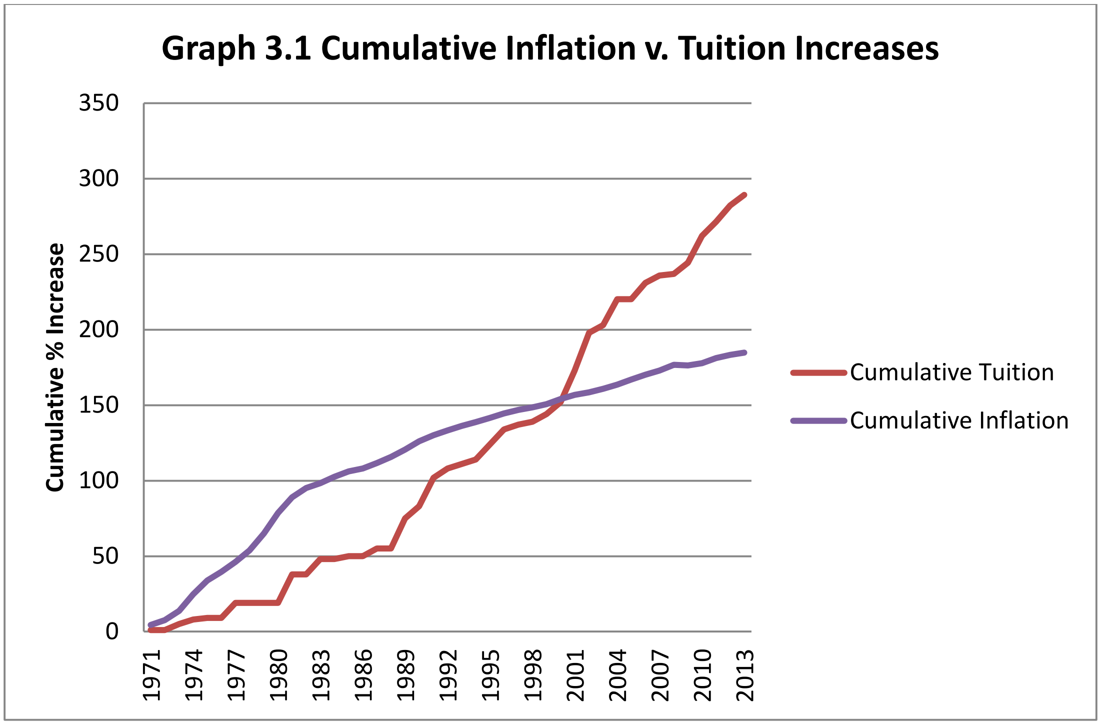
C. North Carolina's Policy on Student Financial Aid

"By definition, we don't have a financial aid policy," says Harold Martin, formerly UNC's Senior Vice President for Academic Affairs and now Chancellor at North Carolina A&T State University. "What we have is a commitment to increasing access while keeping tuition affordable per the state's Constitution."

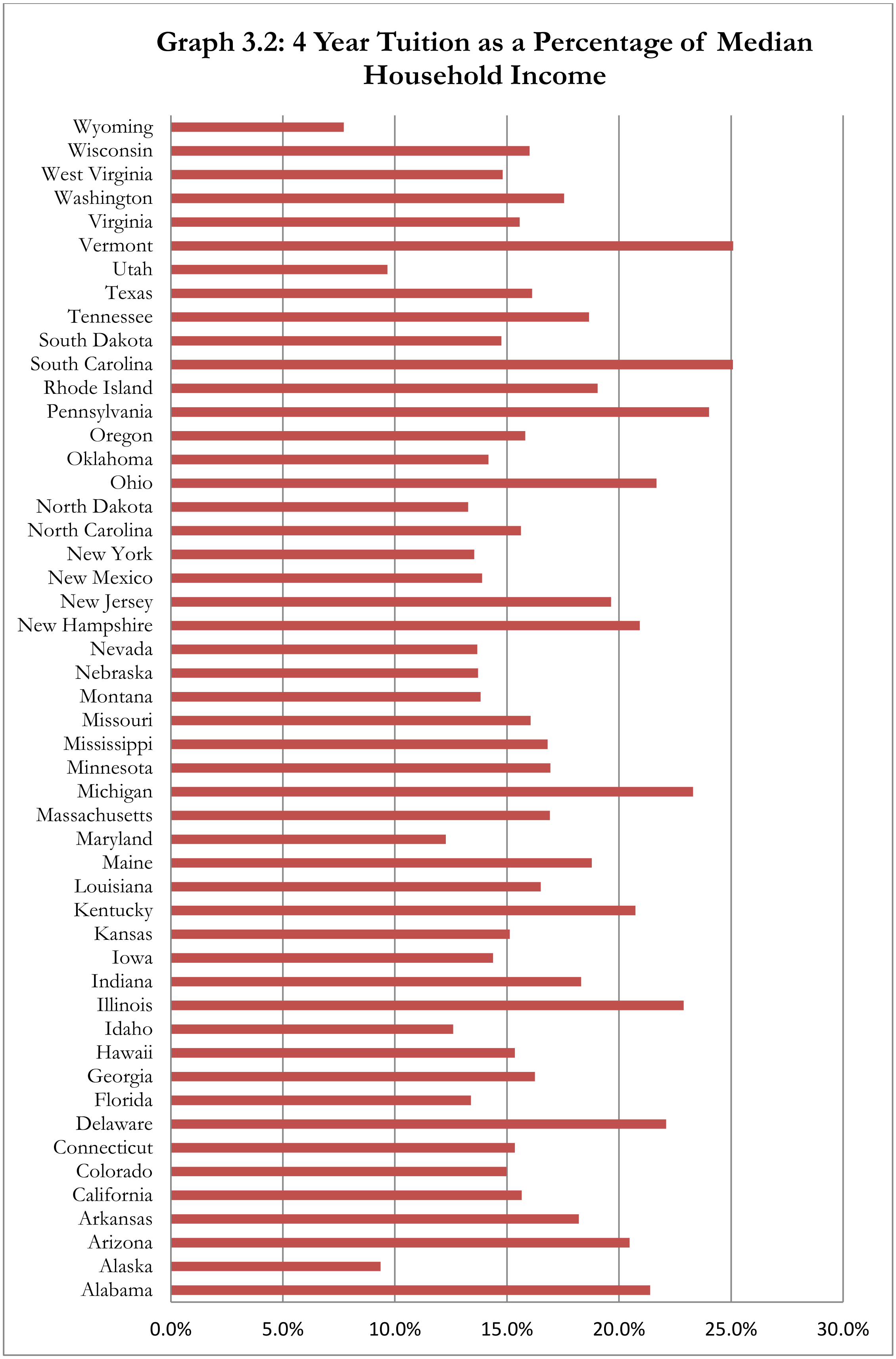
University board members and the president are governed by Article IX, Section 9 of the State's Constitution, which says "The General Assembly shall provide that the benefits of The University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense." Historically, this provision has been interpreted as a mandate for low tuition and has been the bottom line in making higher education affordable in North Carolina.

In his book, *Refinancing the College Dream,* professor Edward St. John, formerly with Indiana University and now at the University of Michigan, links tuition increases to widening inequality. He writes, "The drift toward high tuition in public colleges and universities has contributed to the growing gaps in opportunity between students of low-income and middle-income families and between whites and people of color. If states choose to let tuition rise rather than provide adequate subsidies to institutions, they should also provide adequate state grants to equalize opportunity for low-income students to persist, controlling for academic preparation and performance."[20]

During a July 2013 interview that included a discussion on student debt, Peter Hans, chairman of the UNC Board of Governors, explained "The federal government is beginning to examine the way that it provides these loans and grants to students and whether that is actually fueling tuition increases. It's a rule of economics; you subsidize something, you're going to get more of it. When the federal government subsidizes tuition through loans and grants, guess what, schools raise tuition because it's a way for them to raise revenue. Universities need to be ahead of the curve in debating these questions and resolving them if they can."



Source: See earlier data plus Consumer Price Index 1913-Current, U.S. Department of Labor, Bureau of Labor Statistics, Washington, DC. Online at: http://www.ftp.bls.gov/pub/ special.requests/cpi/cpiai.txt.


Graph 3.2: 4 Year Tuition as a Percentage of Median Household Income
Wyoming
Wisconsin
West Virginia
Washington
Virginia
Vermont
Utah
Texas
Tennessee
South Dakota
South Carolina
Rhode Island
Pennsylvania
Oregon
Oklahoma
Ohio
North Dakota
North Carolina
New York
New Mexico
New Jersey
New Hampshire
Nevada
Nebraska
Montana
Missouri
Mississippi
Minnesota
Michigan
Massachusetts
Maryland
Maine
Louisiana
Kentucky
Kansas
Iowa
Indiana
Illinois
Idaho
Hawaii
Georgia
Florida
Delaware
Connecticut
Colorado
California
Arkansas
Arizona
Alaska
Alabama
0.0%
5.0%
10.0%
15.0%
20.0%
25.0%
30.0%

Source: The College Board, Annual Survey of Colleges. Average tuition and fee prices are weighted by full-time enrollment. Data on individual states should be interpreted with caution because of the possible impact of reporting errors and missing data on states with small numbers of institutions.

The State has added programs designed to increase access to college by low-income North Carolinians such as the UNC Need-Based Grant, the N.C. Community College Grant, and the Education Lottery Scholarship. "A poor kid can't go to school, even if tuition is free," says Steve Brooks. "Low tuition might be a good thing, but it's not a sufficient thing." Brooks adds, "We're low tuition and moving toward high or moderate aid. I think that's really the best policy to make it affordable."

D. The Former Policy of Earmarking 25 Percent of UNC Tuition Increases for Financial Aid

The UNC Board of Governors and the individual UNC campuses have a formalized procedure for evaluating the impact of increasing tuition and fees. "The Board of Governors' policy is to consider a number of factors before raising tuition rates, including the economic impact on students," says Rob Nelson, UNC's former Vice President for Finance.

In 2003, the UNC Board of Governors decided to allow individual UNC institutions to initiate tuition increases (subject to approval by the Board of Governors) and keep the full proceeds for the levying campus, rather than having the revenue divided among all UNC schools. The policy requires campuses to consider the impact of tuition and fee changes on student access, the current total level of charges to students, indebtedness of students, and unmet need for financial aid. Similarly, the provisions of the policy that are applicable to tuition and fee changes initiated by the Board of Governors require the same analysis.[21]

Since the policy has been in place, the UNC Board of Governors has directed UNC institutions to provide plans for the use of the proceeds of tuition increases before the Board will approve changes in tuition rates. From 2003 to 2006, the Board encouraged, but did not require, UNC institutions that were proposing tuition increases to set aside at least 25 percent of the proceeds from the increased amount to be used for student financial aid.

In a September 29, 2006 memorandum to the UNC Board of Governors, then-UNC President Erskine Bowles announced a four-year plan that would cap tuition increases at 6.5 percent annually for school years 2007-08 through 2010-11. The plan said each campus requesting a tuition increase "will be required to set aside at least 25 percent of new tuition revenues to be added to the campus' pool of financial aid."[22] The plan was approved by the Board of Governors on October 13, 2006 as the report of the Task Force on Tuition Policy. However, the plan was not incorporated into the UNC Policy Manual.

The 25 percent goal was informally enforced by the Board on an annual basis, but was never formally incorporated into the UNC Administrative Code policy manual. UNC's former senior vice president for Academic Affairs and now N.C. A&T State University Chancellor Harold Martin said, "The President will review the plan and advise the Board of Governors as to whether the plan has been effective. Based on the assessment, changes to the policy may be recommended to the Board for approval."

In October 2006, the policy was approved by the UNC Board of Governors. The four-year plan took effect in 2007-08 and limited tuition increases to a maximum of 6.5 percent annually through academic year 2010-11.

Higher education reporter Jane Stancill wrote in the Raleigh *News & Observer*, "For a dozen years now, when University of North Carolina campuses have raised tuition, they have set aside a percentage of the revenue to cover the cost for lower-income students. Now the UNC Board of Governors is debating the merits of that strategy. Several members of the Republican-majority board have expressed concern about the philosophy of middle and higher income families subsidizing tuition for other families."[23] In response, UNC President Tom Ross floated a recommendation to remove the minimum 25 percent requirement and instead cap the set aside at 25 percent.

In September 2012, the UNC Board of Governors voted to remove the minimum 25 percent set aside. Instead, campuses were instructed to individually analyze the financial aid funds available to them from all sources and what might be needed, and after thorough campus discussion and review, recommend the amount the institution would set-aside from any tuition increase proposal.

In response to the Board's decision, Cameron Carswell, the former non-voting student representative on the Board, noted that a student that does not receive financial aid pays about $7 per month to support need-based financial aid – worth it in her mind for the diversity gained. The late Franklin McCain, a civil rights leader and former member of the Board, reminded the Board of an earlier presentation they had heard on the need to better educate the State's poorest and minority students. Carswell said, "If you take financial aid out of the equation, lower class families aren't going to feel it…because they are not going to be in college anymore. The policies we're discussing here could be contrary to what we need to prepare the system for the future."

Under the new plan that begins in 2015-16, annual resident undergraduate tuition increases are capped at five percent and tied to state funding. The cap is subject to an increase if the annual change for in-state, full-time equivalent student funding is reduced. It is subject to a decrease if the change is more than 5 percent. The new cap applies only to in-state undergraduate tuition. The 5 percent cap applies to all fees except debt service fees, which are described as time-limited and project-specific to each campus.

Under the new 15 percent "freeze and cap" policy, need-based financial aid is decoupled from tuition increase set-asides. Instead, campuses may allocate a maximum 15 percent of their total tuition revenue for need-based financial aid awards. Campuses that currently exceed the 15 percent cap (UNC Chapel Hill at 20.9%; Elizabeth City State University at 20.1%; N.C. State University at 17.9%; Fayetteville State University at 16.9%; Winston-Salem State University at 15.9%; and N.C. Central University at 15%) must freeze their allocation at the 2014-15 amount of aid. All other campuses may increase amounts of need-based aid funded by tuition revenue, but only up to the 15 percent cap.

In addition to changes initiated by the UNC Board of Governors and changes initiated by individual UNC constituent institutions, action by the General Assembly is a third way that tuition and fees may increase. The legislature does not have any formalized process for discussing or evaluating the impact of tuition and fee increases on financial aid.

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Chapter Four

Academic Research on Financial Aid and Tuition Policy

North Carolina's financial aid policymakers are fortunate to have access to a deep vein of high-quality research on college affordability. A number of investigators from multiple academic disciplines have analyzed trends and results associated with state financial aid policy. These studies are useful in discussions about the direction North Carolina should take.

A. Implications for North Carolina's Financial Aid and Tuition Policy

Katherine Baird, associate professor of economics at the University of Washington-Tacoma, examined factors that influence student decisions to enroll in public colleges and universities. She found that spending more money on state *need-based* aid and creating available slots at public higher educational institutions could increase student enrollment in college. "[This] analysis highlights the important role that state need-based aid and state higher education capacity policy play in explaining a state's public enrollment rates," writes Baird.[1]

James Monks of the Robins School of Business at the University of Richmond explored the impact of the offer of *merit-based* financial aid on enrollment decisions at a highly selective institution. He found the offer of merit-based assistance (scholarships) could significantly increase the chances that a student will enroll in an institution offering the aid.[2]

Laura W. Perna, associate professor at the Graduate School of Education at the University of Pennsylvania, and Chunyan Li, a doctoral candidate there, examined national trends in college affordability. They documented that college has become less affordable in recent years, especially for students from families of modest means.

"In order to ensure college access and choice for [low-income] students, federal, state, and institutional policymakers must improve college affordability," write Perna and Li. "The most effective strategies are likely those that result in better targeting of scarce financial aid resources towards students from lower- and lower-middle-income families."[3]

Perna and Li also collaborated with Michelle Asha Cooper from the University of Maryland-College Park in a study of ways to improve the experience of students who must work to afford college. The three researchers found that nearly all students now work at a job while in college. The increasing number of students who work appears to relate to decreasing educational affordability. They found that working 15 or fewer hours per week usually enhances a student's education in terms of helping with school expenses and building career-related skills. The finding is even stronger if the job is on campus and is linked to the student's program of study or career goals. The researchers conclude, "Given the prevalence of working and the range of potential negative consequences, institutions must examine student employment patterns on their individual campuses, reduce the financial need to work, improve the quality of student's employment experiences, and adapt the delivery of educational services to better serve working students."[4]

Larry D. Singell and Joe A. Stone, both in the economics department at the University of Oregon, investigated the "Bennett Hypothesis." Named after former U.S. Education Secretary Bill Bennett, the hypothesis originated in 1987 when Bennett opined that increased federal appropriations for the Pell Grant program do not increase access for lower income students because universities raise tuition in response. "[Financial aid] insulates them from normal market forces of supply and demand," says Bennett. "[It allows institutions] blithely to raise their tuitions, confident that federal loan subsidies would help cushion the increase."[5]

Singell and Stone uncovered evidence both for and against the Bennett hypothesis. The two researchers found that *public* universities do not raise tuition for *in-state* students in response to Pell Grant increases. However, *private* universities do raise tuition in response to Pell Grant increases.

Public universities raise their tuition rates for *out-of-state* students in the same manner as private schools.

"The fact that out-of-state tuition appears to respond to the level of the average Pell Grant while in-state tuition does not, suggests that public universities are either explicitly or implicitly constrained to maintain low cost access for in-state students, but not necessarily out-of-state students," write Singell and Stone.[6]

Donald E. Heller, previously director of the Center for the Study of Higher Education at Pennsylvania State University and now dean of the College of Education at Michigan State University, has written extensively on college affordability and financial aid policy. At a 2006 symposium, Heller highlighted trends in student financial aid. He noted a trend toward expansion of state merit-based aid programs and demonstrated that likely beneficiaries of these programs are students from higher income families. "If these trends continue, we are likely to see students from traditionally under-represented populations receiving proportionally less aid," writes Heller. "This has important implications for their ability to enroll in college, and persist through to attain a degree once there."[7]

Heller also explored the trend of creating debt-minimizing, tuition-discounting programs like UNC-CH's Carolina Covenant and similar programs at Harvard, the University of Virginia, and the University of Maryland. "While these are noble efforts, they are likely to have little impact overall on college access for poorer students," writes Heller. "These institutions enroll relatively small numbers of these low-income students, and while the financial aid policy changes will make it easier for these students to attend, they still must meet the academic criteria required for entrance. Only if these new policies are adopted by large numbers of public and private institutions are we likely to see them having much impact on the enrollment of lower-income students."[8]

In 1997, Heller undertook an update and verification of important earlier research by scholars Larry Leslie and Paul Brinkman. Leslie and Brinkman calculated that every $100 tuition increase yields a drop in college enrollment of 0.5 to 1.0 percentage points. Heller's expansion of the original research confirmed Leslie and Brinkman's estimates.

Heller says, "Whether examining tuition, financial aid, or the net cost of attendance, the evidence is very consistent and can be summarized in one sentence: As the price of college goes up, the probability of enrollment tends to go down." Heller also found unequal impacts on enrollments based on the demographics of groups of students and on how prices were affected by financial aid. For example, lower-income students are more likely to respond to changes in tuition and aid than are students from middle- and upper-income families. African American students are more likely to respond to changes in tuition and aid than are white students.[9]

Table 4.1 Professor Donald Heller's Findings on Higher Education Pricing and Tuition and Financial Aid Policy

Tuition	Increases in tuition lead to declines in enrollment. The consensus among the studies is that every $100 increase in tuition results in a drop in college enrollment of 0.5 to 1.0 percentage points across all types of institutions.
Financial Aid	Decreases in financial aid also lead to declines in enrollment, with the effect differing depending on the type of aid awarded. In general, student enrollments are more likely to be affected by grant awards than by loans or work-study.
Differences among income groups	Lower-income students are more likely to respond to changes in tuition and aid than are students from middle- and upper-income families.
Differences among races	Black students are more likely to respond to changes in tuition and aid than are white students. For Hispanic students, the evidence is mixed.
Differences between sectors	Students in community colleges are more likely to respond to tuition and aid changes than are students in 4-year public colleges and universities.

Source: Donald E. Heller, "Student Price Response in Higher Education," *Journal of Higher Education*, Volume 68, Number 6, Ohio State University Press, Columbus, OH, November-December 1997, p. 650.

Heller also analyzed factors related to financial aid and student "persistence," or continuation in college on behalf of the Western Interstate Commission on Higher Education. One of his most significant research findings, with implications for state financial aid policy, is that need-based grants are the most effective tool available to states to improve college participation.[10]

Heller also says that a state's ability to use financial aid policy as an instrument to improve college participation rates relates to the state's higher governance structure. He writes, "States with more centralized control over public higher education institutions or systems have more opportunities to ensure that state and institutional financial aid programs work in tandem to accomplish the state's goals regarding higher education access, persistence, and degree attainment."[11] Thus, North Carolina's higher education governance structure may give our State an advantage in shaping financial aid policy, access, and college completion rates.

In an examination of policies that affect enrollment of low-income students at post-secondary institutions, James Monks finds that the sticker shock experienced by low-income students when they see a school's total cost of attendance makes those students less likely to enroll at private schools. Additionally, the average price charged to low-income students even after grants and scholarships makes those students less likely to enroll. Schools that spend more money per student attract more low-income students. The study suggests, "The model of high price-high aid practiced by many private institutions may lead to discouraging more low-income students from enrolling than it does entice them through generous financial aid packages, at least at private institutions."[12]

For a comprehensive review of academic research on student financial aid, see *The Effectiveness of Student Aid Policies: What the Research Tells Us*, a book-length report by The College Board.[13]

B. Is Cost or Academic Preparation the Major Barrier To Obtaining Higher Education? What Does the Research Say?

As early as 1928, financial aid for students has been a part of the prescription from researchers seeking to lessen the negative impact of high tuition and fees on college enrollment.[14] In

1947, the President's Commission on Higher Education concluded that college costs were a factor in the varying college participation rates by race and income. The Commission's report says, "For the great majority of our boys and girls, the kind and amount of education they hope to attain depends, not on their own abilities, but on the family or community into which they were born or, worse still, on the color of their skin or the religion of their parents."[15]

Others argue that academic preparation (instead of the cost of college) is the major barrier to higher education. Both sides of the debate agree that there are merits to each facet of the debate because costs and academic preparation are both barriers to college participation.

However, the acknowledgment that both sides are right does not prevent either camp from pushing for government financial resources to address the public policy question in the manner they see fit. For example, during the 2004 debates on amendments to the federal Higher Education Act of 1965, the cost camp – led by Professor Edward St. John – publicly challenged a series of statistical reports produced under contract for the U.S. Department of Education. St. John and his colleagues, including Donald Heller, now at Michigan State University, Harvard's Bridget Terry Long, and UVA's David Breneman said that the education department's studies were responsible for shifting focus away from providing need-based financial aid grants and toward tax breaks for the middle class.

"These reports have made errors that kids in basic stat[istics] courses learn they shouldn't make," says St. John. "And they've naively led people to believe that if kids just took the right courses in high school that everybody can go to college."[16]

The central criticism from St. John and his colleagues is that the education department's approach failed to examine students who do not apply for college. Their argument is that cost is the reason those students do not seek admission to higher education institutions. The department's contractor doubted whether it is possible to measure the impact of cost on students who chose not to apply.

"They're complaining about data that nobody has," says Lutz K. Berkner, the department's contractor. "They say that we should be able to figure out how much financial aid students who didn't apply to college and didn't apply for financial aid would have gotten if they did. Well, we can't do that. Nobody can do it, although you can make up numbers, which is what they have also done."[17]

St. John says, "About half of low-income students who met their preparation criteria did not enroll in four-year colleges." He recalls the department's executive summary of the report is deceptive and says, "The fact is that the report showed large numbers of prepared students left behind."

Heller explains, in his portion of the critique of the education department's studies, that the reports oversimplify the conclusion that the gap in college participation rates is mostly attributable to parental educational levels rather than parental income levels, which are associated with those educational levels. Heller says this can lead policymakers to conclude that gaps in participation rates are not a problem they can address in the near term. Heller writes, "However, if the differences in college entry rates are at least in part a factor of differences in resources among these – a conclusion that is not just plausible, but likely, given the findings of other researchers – then there *is* a role for government and higher education institutions in closing the gap. The policy levers of financial aid and tuition levels can be utilized to help overcome these differences in resources."[18]

C. Linking Tuition Policy and Financial Aid Policy in the Planning Process

Historically, in state budgeting for public universities, policy discussions about setting tuition levels occur separately from discussions about financial aid. For example, in North Carolina, the UNC Board of Governors in the past discussed tuition policy in February and financial aid policy in

September. The advocates for new revenue make their case for tuition increases, and once consensus has formed, the debate begins about how to mitigate the tuition increases with financial aid.

The legislature rarely appropriates all of the money requested by UNC for financial aid. For example, UNC requested $35.6 million from the General Fund for the UNC Need-Based Grant program for 2007-08, but the program was funded only with escheats – a source of funding that at the time was unstable and not sustainable for a continuing program. UNC requested $22.5 million in new money for the UNC Need-Based Grant for 2010-11, but the legislature appropriated only $11 million.

In November 2001, the Western Interstate Commission for Higher Education (WICHE) conducted a study that began with the supposition that "once tuition and appropriations were determined, policymakers looked at the budget dust to determine how much was left over for financial aid." The organization then designed a study "to explore state-level strategies to better align financing and financial aid policies and support more informed decision-making on issues surrounding financial aid and financing in higher education."[19]

The first phase of the project was a case study of five (5) states that agreed to participate in deliberations on more closely integrating their tuition and financial aid policy discussions. The states involved in the project were Arizona, Connecticut, Florida, Missouri, and Oregon.

WICHE's study reports favorable impacts on the participating states from building closer links between tuition and aid policy. The report concludes that the study "clearly provided an important platform in these five states for a new conversation – one that helps policymakers and higher education leaders think creatively and constructively about the relationships among appropriations, tuition, and financial aid. Most particularly, they are looking at these issues in a more holistic, coordinated manner than they have in the past."[20]

North Carolina's public university administrators argue that the tuition and aid discussions are already linked, despite occurring seven months apart at the Board level. They view the discussions as an ongoing, behind-the-scenes exercise that results in the Board's separate actions on setting tuition levels and making budget requests involving financial aid.

"In the Board of Governors' mind, they are closely linked," says Rob Nelson, UNC's former vice president of Finance. "Tuition drives the aid discussion." The Board's tuition policy requires consideration of the economic impact of tuition decisions on students.[21]

"They are considered concurrently," says Harold Martin, former UNC Senior Vice President for Academic Affairs. "We continue to work to increase aid through our budgetary process while also working to keep tuition as low as practicable."

"It is concurrent, but it is not gaming the system," said Steve Brooks. He worries that having the public discussions simultaneously could create the false perception that the Board would raise tuition to maximize revenue from federal student aid programs such as Pell Grants.

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Chapter Five

Public Opinion on the Cost of College and Financial Aid: Lessons for Policymakers

Pollsters often survey the public to see what they think about the cost of college and financial aid. In analyzing multiple polls from previous years, themes emerge and provide guidance for policymakers making decisions about the availability and adequacy of student financial aid.

Studies by the National Center for Public Policy and Higher Education: Education Is Essential

Since 1993, John Immerwahr, a professor at Villanova University, has partnered with the National Center for Public Policy and Higher Education of San Jose, California (now the Higher Education Policy Institute) and the Public Agenda Foundation of New York to produce a series of surveys of public opinion on higher education issues. The 1993 poll found that 79 percent of Americans believe that high school graduates should go to college "because in the long run they will have better job prospects." The poll also found that 89 percent of Americans "feel that society should not allow lack of money to prevent a qualified and motivated student from getting a college education."[1]

The next installment of Immerwahr's polls came in 1998.[2] The survey of 700 Americans found that "Americans believe that higher education is more important than it has ever been, both as a key to a middle-class lifestyle and as a resource for the local economy…[and] are convinced that no qualified or motivated student should be denied an opportunity to go to a college or university merely because of the price." The poll also found that 77 percent of Americans believe that "students appreciate the value of a college education only when they have some personal responsibility for paying for what it costs."

The 2000 poll found that 87 percent of Americans believe that a college education has become as important as a high school diploma used to be.[3] The pollsters also learned that the value placed on a college education is highest among those who have the lowest rates of college participation. African American and Hispanic parents were more likely than white parents to identify a college education as the single most important factor for a young person "to succeed in the world today."

The next poll in the series was conducted in October 2003 and found tremendous consistency in public attitudes with the earlier studies.[4] Yet, despite the overall long-term stability in public opinion, the researchers found that the views of African Americans, Hispanics, and parents of high school students are trending toward what the pollsters labeled an "unpleasant scenario." Among those three demographic subgroups, higher education increasingly was seen as simultaneously more essential, but less accessible.

In 2007, Immerwahr polled 1,001 Americans, and the polling results were supplemented with focus-groups held around the country and with interviews of 25 corporate, media, philanthropic, and legislative leaders.[5] Again, there was remarkable consistency with earlier findings, except that the researchers found widespread concern about the rising price of a college education. This concern was most acute among minority parents. The poll found that 59 percent of Americans said that higher education costs are going up as fast as or even faster than health care costs and that 78 percent of respondents agreed that students have to borrow too much money to pay for their college education.

Focus group respondents told researchers, "Many poor people cannot take advantage of the financial aid that is available because they lack the information, mentorship, or support necessary to go to college." Participants in the groups also pointed out that, "Academically qualified poor people are sometimes hampered by demanding external problems, such as the need to work to support their families, concerns about childcare, and lack of self-confidence."

Another poll in the series was conducted in December 2008.[6] The researchers noted a marked increase in the number of Americans who see obtaining a college degree as "the only way to succeed in America," with 55 percent of respondents holding that view. The first time this question was asked in the poll series was 2000, when only 31 percent of Americans saw it that way. The researchers called this 24 percentage point increase a "remarkable change in a fairly short period."

The analysis also noted an all time high of 67 percent in the number of people saying "that many qualified people did not have the opportunity to attend college." Coupling the results of these two questions, the researchers concluded, "American public attitudes seem to be on a virtual collision course. At a moment when college is more frequently perceived as absolutely essential, more Americans think that a college education is out of reach for many." Additionally, the researchers saw a significant increase in the number of Americans who were "worried that financial help was not easily available for students," up ten points since 2007 to 39 percent.

The most recent poll in the series was conducted in December 2009.[7] The poll shows that "[s]ix out of ten Americans now say that colleges today operate more like a business, focused more on the bottom line than on the educational experience of students. Further, the number of people who feel this way has increased by five percentage points in the last year alone and is up by eight percentage points since 2007."[8] The researchers conclude that Americans are now more skeptical that institutions are doing all they can to keep higher education affordable. The researchers note that more people continue to think higher education is absolutely necessary for success (55 percent in 2009 versus 31 percent in 2000), and more people continue to think that many qualified people do not have access to higher education (69 percent in 2009 versus 47 percent in 2000).[9]

Studies by the American Council on Education: Cost Is a Barrier for Many

A 1995 report by the American Council on Education (ACE) of Washington, D.C. reviewed the findings of 30 different public opinion polls. The ACE report found "the main concern of the public is the high cost of higher education and the financial barrier to college for many."[10] The report also found that 73 percent of Americans support financial aid for members of minority groups, despite low support for racial preferences in public policy generally.

In 1998, ACE conducted a nine-month study with 16 focus groups in eight cities and a national telephone survey of 2,000 Americans. The study examined knowledge and attitudes about college costs and the financing of a college education. It came to six conclusions: (1) the public thinks that higher education is vitally important and a good value for the money; (2) people worry about the price of attending college and think the price can be brought down without affecting academic quality; (3) the public has a distorted view of what it costs to attend college; (4) people have no idea why college costs increase; (5) the public does not know how much financial aid is available to help pay college bills, where it comes from, and how to get it; and (6) the public thinks that college leaders are indifferent to their concerns about the price of attending college.[11]

Study by the Polling Firm of Lake Snell Perry and Associates: Low College Continuation Rates Are a Serious Problem

A study entitled "Leaks in the Post-Secondary Pipeline: A Survey of Americans," was conducted for Jobs For the Future by a nationally-recognized polling and research firm, Lake Research Partners, which is led by pollster Celinda Lake.[12] The national survey of 1,010 Americans was conducted in September and October 2003. While asking about the public's knowledge of high school and college completion trends, Lake's firm found that a majority of Americans were aware of the nation's low college continuation and completion rates. The poll found that 90 percent of Americans consider it a "serious problem" that a low percentage of students who stay in high school eventually graduate from college.

The firm also found that "Americans believe cost is the primary impediment for students – especially lower-income students – in the pursuit of a college degree." The cost of college was seen as a "serious" problem by 84 percent of respondents. Similarly, about two-thirds (64 percent) of respondents considered lack of equal access to college by low income students a "major problem." Additionally, the firm found that 72 percent of Americans believe that increasing financial aid for needy students would "help a lot" in addressing the low college continuation and completion rates.

Studies by the Gallup Organization on Behalf of Student Lender SLM Corporation (Sallie Mae): Families Need To Save More for College and Borrowing Is Important

Student loan provider SLM Corporation (Sallie Mae) partnered with the Gallup polling organization in 2008 to begin an annual survey of college students and parents.[13] The study's major purpose was to investigate how students and their families paid for college in 2007-08. The researchers found that *parental income and savings* was the largest single source of funding for college, with the average student covering 32 percent of the full cost of attendance in this manner. *Borrowing by students* was the second largest source of funding at 23 percent, and *borrowing by parents* was third at 16 percent, producing a combined total of 39 percent on average of college costs being paid for with borrowed funds. Other sources of funding included *grants and scholarships* at 15 percent, *student income and savings* at 10 percent, and *support from friends* at 3 percent. The report noted that middle-income families borrowed more on average than lower-income families, and said, "This may suggest that middle-income families were borrowing more to reach for a higher-cost post-secondary institution."

Additionally, the 2008 Gallup survey found that 94 percent of students and 96 percent of parents agreed that one of the reasons they were attending college was to make an investment in the student's future. One parent from Wisconsin who was interviewed for the study said, "I think it's almost required nowadays in order to have a good career, and I wanted [my daughter] to have that. And to be independent, especially as a woman, you need to go to college." When asked whether borrowing to pay for college was preferable to not going at all, 77 percent of parents and 87 percent of students agreed.

Gallup's 2009 survey for Sallie Mae found that only 29 percent of American families are on track to save enough money to pay for college.[14] Families save on average 3.6 percent of their annual income, when realistically they need to save 5.7 percent of their income, the Gallup survey found.

"The urgency of addressing college affordability has never been felt so strongly across the full spectrum of American families," said Indiana Treasurer Richard Mourdock. "These survey numbers suggest that saving for higher education has become a high priority for the nation, and we should encourage that commitment by providing creative solutions and support for families of all income levels."

Additionally, the 2009 study identified tuition increases as the top concern of parents with 58 percent expressing worry. Among those who expressed worry, nearly 60 percent said they were "extremely worried." The survey also showed the significance of student borrowing. Among students who took out loans to pay for college, 33 percent reported that without the loans they would have delayed school or not attended. For students from families earning less than $35,000 per year, loans were even more crucial with 44 percent responding that they wouldn't be in school without the loans.

The Great Recession hit in 2007 and 2008, and the students making decisions about higher education in 2009-10 were the first to take the decline in the economy into consideration as they made decisions about whether and where to go to college. This is reflected in the 2010 Gallup poll.[15] The survey found families using the same types of funding, but they used more funding from all sources to pay for the rising cost of college. "The surveyed families report that their costs of attendance have increased 17 percent over last year and 28 percent above two years ago."[16] Almost half of the respondents were extremely worried that tuition would continue to rise. Ninety-nine (99) percent of the families said they were trying to find ways to make college more affordable, for example by reducing personal spending.

In the 2011 poll, now conducted by Ipsos, a global market research company, families reported paying nine percent less for college than they had in the previous year.[17] The substantial increase in Pell Grants is documented with respondents reporting that grants and scholarships covered 33 percent of costs compared to 23 percent the year before. For the first time since the start of the survey, more families applied for FAFSA (the Free Application for Federal Student Aid). With the Great Recession in full swing and unemployment rates figuring prominently in newspaper headlines, 90 percent of the students strongly agreed that college is an investment in the future.

As the economy began to recover in fits and starts, the 2012 Ipsos poll found students paying a greater percentage of the cost of college and parents cutting back.[18] In 2011-12, respondents reported that grants and scholarships covered 29 percent of the cost of college, parent income and savings for 28 percent, student borrowing for 18 percent, student income and savings for 12 percent, parent borrowing for nine percent, and relatives and friends for four percent. "Drawing from savings, income, and loans, students paid 30 percent of the total cost of attendance last academic year, up from 24 percent four years earlier, while parents covered 37 percent, down from 45 percent in the same time period," said Sallie Mae's press release.[19]

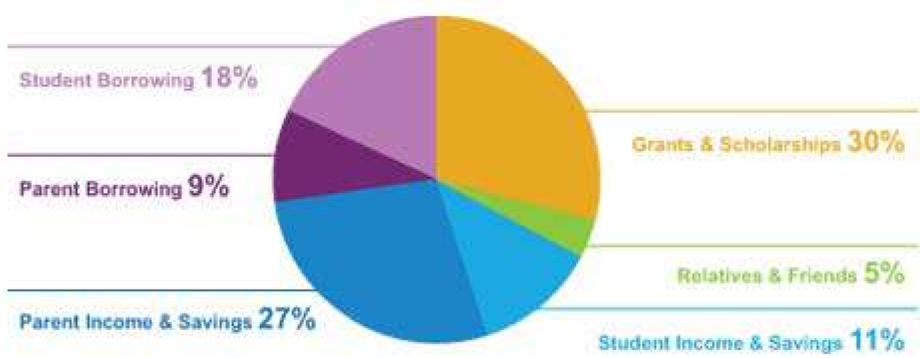
Other important findings from the 2012 Ipsos poll include:

- Sixty-nine (69) percent of families are eliminating college choices because of cost, the highest percentage since the survey began.
- Cost saving measures for families include reducing personal spending by students (66 percent), having a roommate (55 percent), living at home (51 percent), and reducing personal spending by parents (50 percent).

- Rising tuition cost is leading more students to enroll at community colleges (29 percent as compared to 23 percent two years ago).
- Students report that they drive the decision of *where* to go to college, but parents drive the decision of *how to pay* for college.
- The number of students who have credit cards continues to drop. Thirty-five (35) percent of the students surveyed report having a credit card, down from 42 percent in 2010. The average balance is $775.

In the 2013 survey, Sallie Mae/Ipsos found similar results. Financial aid, like grants and scholarships, covers a larger portion of the tuition bill, paying for 30 percent of costs in 2012-13. The other significant sources that Americans use to cover costs include parent income and savings (covering 27 percent of costs), student borrowing (18 percent), and student income and savings (11 percent). The survey also found that support for a college education remains high, with 85 percent responding that college is an investment in the student's future.[20]

Figure 5.1. How the Typical Family Pays for College, 2012-13



Source: "How America Pays for College 2013," Sallie Mae's Study of College Students and Parents, Ipsos Public Affairs.

Study by the National Center for Education Statistics: Gaps in the Information Parents Receive About Planning and Paying for College

In 2008, the federal government's National Center for Education Statistics published the results of a survey of 6,800 parents of students in grades 6-12.[21] The analysis, entitled "Parent Expectations and Planning for College," examined the expectations parents had about educational attainment for their children and the amount and type of planning done by parents.

The study found that 91 percent of the parents expected their children to continue their education beyond high school, with 65 percent expecting their children to earn a bachelor's degree or higher. The researchers found no significant gaps by race, with 64 percent of African American parents, 64 percent of whites, and 64 percent of Hispanics expecting their children to get a bachelor's degree. However, parents of Asian students had higher expectations, with 80 percent expecting their children to attain a college degree. The study did note gaps in parental expectations by income, with 83 percent of families with annual incomes of more than $75,000 expecting their children to get a bachelor's degree, compared to 51 percent of parents making $25,000 or less. A gap also was evident by parental educational level, with 88 percent of parents who had bachelor's degrees expecting the same of their kids, but only 44 percent of parents who had not completed high school expecting their children to earn a college degree.

Parents also were asked to assess how well their child's school was doing at providing information to their family about planning for post-secondary education. The responses were split, with 40 percent reporting their child's school provided "no information" or that the school "did not do very well," 32 percent saying the school did "very well," and 28 percent saying the schools did "just ok."

Another major topic of the study was parental perceptions of whether they had enough information about paying for post-secondary education to plan their family's finances adequately. Overall, 66 percent of parents said they had enough information to begin planning to pay for their child's college education. However, researchers noted a racial gap in the responses to this question, with 72 percent of whites saying they had enough information, and 62 percent of Asians agreeing. But, only 58 percent of Hispanic parents and 47 percent of African American parents said they had enough information. Income levels also made a difference as 81 percent of parents earning more than $75,000 said they had enough information, while only 49 percent of parents earning $25,000 or less agreed. Finally, among parents with a bachelor's degree, 81 percent said they had enough information to plan their family finances, while only 31 percent of parents with less than a high school education agreed.

Findings from Other Recent Polls

In its 2011 survey, the Pew Research Center asked the public and college presidents to respond to questions centered around one inquiry: Is college worth it?[22] The results of the survey provide mixed messages about the value and purpose of higher education. Fifty-seven percent of Americans responded that the U.S. higher education system does not provide students a good value for money spent,[23] and 75 percent responded that college is too expensive for most people to afford.[24] By contrast, 86 percent of college graduates surveyed said that college was a good investment for them. College continues to be a goal for most, with 94 percent of parents responding that they expect their child to attend.[25]

The perceived purpose of a college education also varies. While 47 percent of the public respondents stated that the main purpose is to teach work skills and knowledge, 39 percent said a college education helps a student grow personally and intellectually.[26] The survey of college presidents produced a more even split, with about half stating the purpose is intellectual growth and the other half answering that gaining job skills is the reason for a college education.[27]

In a national poll by The College Board in December 2011 and January 2012, more than half of the students surveyed indicated they had ruled out colleges because of the sticker price, without considering how financial aid might offset the cost. Fifty-eight percent of students from low-income families and 62 percent of students from middle-income families had ruled out colleges because of the price alone. Only 35 percent of the students reported that they had used the Net Tuition Price Calculators, which the federal government requires higher education institutions to post on their websites.[28]

In national polling in June 2012 conducted by The Carnegie Corporation, 76 percent of respondents said access to higher education should be a right, and 46 percent of them believe this strongly. Two-thirds of respondents said that the cost of college is the greatest barrier to access to higher education.[29]

A survey by TIME and the Carnegie Corporation in October 2012 found that 89 percent of the public and 96 percent of senior administrators at colleges and universities agree that higher education is in crisis.[30] Eighty percent of the public think college is not worth the price, and 73 percent support caps on tuition by the federal government. Fifty-five percent of the public think the average debt loan (noted in the poll as $25,250) is too high. Fifty-eight percent of the public and 69 percent of the college leaders believe that "not everyone should be encouraged to go to college."[31]

In a February 2013 poll conducted by Elon University of North Carolina residents, 54 percent of respondents said the state government should spend more money on public universities. Thirty-two percent thought the funding level should be maintained, and nine percent said the state should spend less money on public higher education.[32]

A Pew Research Center survey and analysis, conducted in 2013, found that millennial college graduates, aged 25 to 32 and employed full-time, earn about $17,500 more per year than young adults working with only a high school diploma. Among Millennials surveyed, 72 percent with a bachelor's degree said that college had paid off, and 17 percent said college would pay off in the future. In terms of job satisfaction, 53 percent of college-educated Millennials said they are "very satisfied" at work, while 37 percent of Millennials with a high school diploma or less did so. When asked about the future, 63 percent of Millennials with a college degree responded they were confident they have enough training and education to get ahead in their current job, compared to 41 percent of high school graduates. Nine in ten adults (91 percent) with a bachelor's degree or more education responded that their undergraduate education had paid off or will pay off in the future.[33]

Guidance for Policymakers from the Polls

Policymakers can learn eight major lessons from the common threads weaving through the results of these 49 national public opinion studies. First, Americans believe college is more important than ever "because in the long run they will have better job prospects." Second, the cost of college is viewed as a serious problem with public attitudes on a collision course. But at a time when college is perceived as absolutely essential, more Americans think that a college education is less accessible and out of reach financially. Third, African American and Hispanic parents are more likely than white parents to say a college education is essential to succeed in the world today, but they also see a college education as less accessible. Fourth, many parents report that their families are not receiving adequate information about planning and paying for college. This information gap is more acute among parents of African American and Hispanic students, parents with lower incomes, and parents without a college degree. Fifth, the public has a growing suspicion about how well colleges and universities use the money they have. They think college leaders are indifferent to their concerns about tuition costs and the total cost of attending college. Sixth, the public does not know how much financial aid is available to help pay college bills, where it comes from, and how to get it. Seventh, they are concerned about college retention and completion rates. Eighth, the public thinks that financial aid programs are part of the solution to improving access to higher education.

Endnotes

[1] John Immerwahr, "The Closing Gateway: Californians Consider Their Higher Education System," California Higher Education Policy Center, San Jose, CA, September 1993, p. 19. A national public opinion survey was conducted by the organization to provide comparative figures for a California-specific survey. The organization later changed its focus

and its name to The National Center for Public Policy and Higher Education. It is now the Higher Education Policy Institute.

[2] John Immerwahr, "The Price of Admission: The Growing Importance of Higher Education," The National Center for Public Policy and Higher Education, San Jose, CA, Spring 1998, 18 pages.

[3] John Immerwahr with Tony Foleno, "Great Expectations: How the Public and Parents–White, African American, and Hispanic–View Higher Education," The National Center for Public Policy and Higher Education, San Jose, CA, May 2000. Online at: *http://www.highereducation.org/reports/expectations/expectations.shtml*, last accessed on 9/18/13.

[4] John Immerwahr, "Public Attitudes on Higher Education: A Trend Analysis, 1993 to 2003," The National Center for Public Policy and Higher Education, San Jose, CA, February 2004, 21 pages.

[5] John Immerwahr and Jean Johnson, "Squeeze Play: How Parents and the Public Look at Higher Education Today," The National Center for Public Policy and Higher Education, San Jose, CA, May 31, 2007, 55 pages.

[6] John Immerwahr and Jean Johnson, "Squeeze Play: The Public's Views on College Costs Today," The National Center for Public Policy and Higher Education, San Jose, CA, February 4, 2009, 11 pages.

[7] John Immerwahr and Jean Johnson with Amber Ott and Jonathan Rochkind, "Squeeze Play: Continued Anxiety on Cost, Harsher Judgments on How Colleges Are Run," The National Center for Public Policy and Higher Education, San Jose, CA, February 2010, 17 pages. This survey was conducted from December 9-13, 2009. A national random sample of 1,031 adults was included in these telephone interviews. The response rate was 14.3 percent, and the margin of error for total respondents was plus or minus 3.05 percentage points.

[8] *Ibid*., p. 2.

[9] *Ibid*., p. 7.

[10] James Harvey and John Immerwahr, "Goodwill and Growing Worry: Public Perceptions of American Higher Education," American Council on Education, Washington, DC, 1995, 38 pages.

[11] Stanley O. Ikenberry and Terry W. Hartle, "Too Little Knowledge is a Dangerous Thing: What the Public Thinks and Knows about Paying for College," American Council on Education, Washington, DC, 1998, 64 pages.

[12] Lake Snell Perry and Associates, "Leaks in the Postsecondary Pipeline: A Survey of Americans," Washington, DC, October 2003, 12 pages.

[13] Gallup, Inc., "How America Pays for College: Sallie Mae's National Study of College Students and Parents," SLM Corporation, Reston, VA, August 2008, 51 pages.

[14] Gallup, Inc., "How America Pays for College: Sallie Mae's National Study of College Students and Parents 2009," SLM Corporation, Reston, VA, August 2009, 57 pages.

[15] Gallup, Inc., "How America Pays for College: Sallie Mae's Study of College Students and Parents 2010," SLM Corporation, Reston, VA, August 2010, 64 pages. The survey was conducted from March 24-May 3, 2010. A national sample of 1,624 students and parents was included, with 95 percent confidence that the margin of error was plus or minus 3 percentage points.

[16] *Ibid*., p. 9.

[17] "How America Pays for College: Sallie Mae's Study of College Students and Parents 2011," SLM Corporation, Reston, VA, August 2011, 50 pages. The survey was conducted from May 3-June 13, 2011. The national sample included 813 undergraduate students and 798 parents of undergraduate students, a total of 1,611 respondents. With 95 percent confidence, the margin of error was plus or minus 2.5 percentage points.

[18] "How America Pays for College: Sallie Mae's Study of College Students and Parents 2012," SLM Corporation, Reston, VA, July 2012, 52 pages. The survey was conducted by Ipsos from April 2-May 13, 2012. The national sample included 801 undergraduate students and 800 parents, a total of 1,601 respondents. With 95 percent confidence, the margin of error was plus or minus 2.5 percentage points.

[19] Sallie Mae, Press Release, "While Strongly Valuing College, Families Continue to Cut Costs: Students Assume Greater Share of College Costs, While Parents Trim," Newark, DE, July 16, 2012. Online at: *https://www1.salliemae.com/about/news_info/newsreleases/Sallie+Mae+Releases+2012+How+America+Pays+Study.htm*, last accessed 9/19/13.

[20] "How America Pays for College 2013," Sallie Mae's Study of College Students and Parents, Ipsos Public Affairs, Paris, France, 2013, 59 pages. The survey was conducted from April 10, 2013 to May 9, 2013. The national sample included 1,602 individuals: 802 parents of undergraduate students and 800 undergraduate students. With 95 percent confidence, the margin of error was plus or minus 2.5 percentage points.

[21] Laura Lipmann, Lina Guzman, Julie Dombrowski Keith, Akemi Kinukawa, Rebeca Shwalb, and Peter Tice, "Parent Expectations and Planning for College: Statistical Analysis Report (NCES 2008-079)," National Center for Education Statistics, Institute of Education Sciences, U.S. Department of Education, Washington, DC, April 2008, 28 pages. The report was based on a sample of survey data collected in the federal government's 2003 Parent and Family Involvement in Education Survey, a component of the National Household Education Surveys Program.

[22] Paul Taylor, *et al.*, "Is College Worth It? College Presidents, Public Assess Value, Quality and Mission of Higher Education," Pew Research Center, Washington, DC, May 16, 2011. Online at: *http://www.pewsocialtrends.org/files/2011/05/higher-ed-report.pdf*, last accessed 9/19/13. The survey of the general public included 2,142 interviews from March 15-29, 2011. The margin of sampling error is plus or minus 2.7 percentage points for the total sample, and 4.5 percentage points for adults 18-34 with a 95 percent confidence level. The survey of college presidents included 1,055 interviews from March 15-April 24, 2011. The margin of sampling error is plus or minus 2.8 percentage points for the total sample, 4.8 percentage points for presidents of four-year public universities, 3.8 percentage points for presidents of four-year private universities, 4.6 percentage points for presidents of two-year colleges, and 11.3 percentage points for presidents of private for-profit colleges and universities with a 95 percent confidence level.

[23] *Ibid.*, p. 5.

[24] *Ibid.*, p. 31.

[25] *Ibid.*, p. 46.

[26] *Ibid.*, p. 14.

[27] *Ibid.*, p. 15.

[28] studentPOLL, by the College Board and Art & Science Group, Vol. 9, Issue 1, September 14, 2012. Online at: *http://www.artsci.com/studentpoll/v9n1/index.html*, last accessed 9/19/13. This poll included a "random national sample of high school seniors who registered for the SAT and who completed an optional web-based survey in early December 2011 or late January 2012. Some 1461 students completed the online survey…. The margin of sampling error for this student population is plus or minus 2.56 percent. The respondents are weighted to resemble the population of students' based upon gender, race, and the region of the United States where they reside."

[29] The Carnegie Corporation of New York, NY, conducted a national online survey of 1,000 U.S. adults from June 4-6, 2012.

[30] GfK Custom Research North America conducted a web-based poll for TIME and the Carnegie Corporation of New York from October 1-8, 2012. They surveyed a national sample of 1,000 U.S. adults and 540 senior administrators at public and private two- and four-year colleges and universities.

[31] Josh Sanburn, "Higher-Education Poll," TIME U.S., October 18, 2012. Online at: *http://nation.time.com/2012/10/18/higher-education-poll/*, last accessed 9/19/13.

[32] Elon University Poll, "What North Carolina thinks about Higher Education Funding," February 24-28, 2013. Online at: *http://www.elon.edu/docs/e-web/elonpoll/030713_ElonPoll_highered.pdf*, last accessed 9/4/13. The live phone poll of 891 North Carolinians was conducted between Feb. 24 -28, 2013, and had a margin of error of plus or minus 3.28 percentage points.

[33] Paul Taylor, *et al.*, "The Rising Cost of *Not* Going to College," Pew Research Center, Washington, DC, February 11, 2014. Online at: *http://www.pewsocialtrends.org/2014/02/11/the-rising-cost-of-not-going-to-college/*, last accessed 2/14/14. The survey of the general public included landline and cell phone interviews with 2,002 adults from October 7-27, 2013. The margin of sampling error is plus or minus 2.7 percentage points for the total sample.

Chapter Six

Need-Based Grant Programs in North Carolina

Need-based grant programs are the first of many building blocks of financial aid systems. Before the Great Recession, North Carolina had been on the leading edge of two national trends in need-based grants, developing both state-funded programs and programs funded by institutional resources available at public universities.

A. State-Funded Need-Based Grant Programs

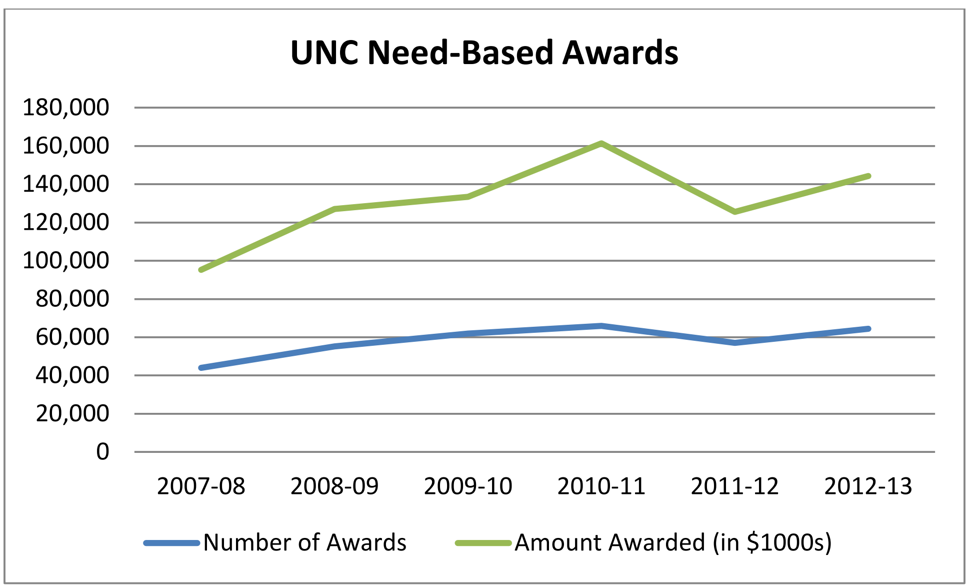
The foundation of need-based financial aid grant programs in the 50 states is still the federal Pell Grant program. The Pell Grants are targeted toward the nation's poorest citizens. In 1993-94, a Pell Grant paid for 37 percent of the cost of a public college or university education, but by 2013-14, it covered only 31 percent of the cost.[1] In 2013-14, the maximum Pell Grant award was $5,645. As of July 1, 2012, students are limited to receiving a Pell Grant for no more than 12 semesters during their lifetime. States responded to this erosion in the value of the Pell Grant by developing state-funded grant programs that are need-based. North Carolina offers three grant programs targeted for students in each of the three sectors of higher education – public universities, community colleges, and private colleges and universities.

1. Need-Based Financial Aid Programs Designed for Each Higher Education Sector

The state funds three parallel need-based programs that are specific to each sector of higher education – the **UNC Need-Based Grant** for public university students, the **N.C. Community College Grant** for community college students, and the **N.C. Need-Based Scholarship** for students in private colleges and universities. "The parallel system works well," said Steve Brooks, former Executive Director of the State Education Assistance Authority. "Where each has its own program, there is less elbowing and arguing over technical aspects of the eligibility formula – so the program can be closely targeted to the needs of the students served by each sector of higher education."

The **UNC Need-Based Grants** are need-based awards available for eligible students attending any of the 16 constituent college-level institutions of the University of North Carolina. Award amounts vary based on legislative appropriations. When the General Assembly provides more funding, the maximum amount of the grant increases. In 2007-08, the program provided more than $95 million in grants to students in the UNC system. Both the number of grant awards and the total amount steadily increased to more than $161 million in 2010-11, before declining in 2011-12 to $125.6 million, trending up in 2012-13, and remaining flat in 2013-14 and 2014-15.

Graph 6.1: UNC Need Based Grants, 2008-2013



Source: "Annual Reports 2008-09 through 2012-13," North Carolina State Education Assistance Authority.

When April Daley was 20, she was a senior at N.C. State University from Clemmons who aspired to be a lawyer. She had a 3.4 grade point average and was double-majoring in communications and political science. She was a first-generation college student and a recipient of a

UNC need-based grant. "My freshman year, I could not afford my books because they cost $600 for just the first semester," she says. "The UNC Need-Based Grant has made going to school a whole lot better. I don't have to worry as much about getting books for my classes and getting rent for my dorm."

The **UNC Need-Based Grant** served 64,421students in 2012–13 with expenditures of $144.4 million — an average of $2,240 per student. That same year, expenditures for the companion **N.C. Community College Grant** were more than $14.4 million and served 25,717 students – an average of only $560 per student. Almost all Community College grant recipients also receive an Education Lottery Scholarship. Also that year, the **N.C. Need-Based Scholarship**[2] served 25,668 students with expenditures of $81.7 million – an average of $3,182 per student. Also, the UNC system served a total of 188,353[3] North Carolinians eligible for these grants, the community colleges served more than 234,816[4] residents, and the state's private institutions served 54,770[5] residents.

Table 6.1 Need-Based Grants: Expenditures and Students Served, 2012-13			
	Total Expenditures	*Number of Students*	*Average Award Per Student*
UNC Need-Based Grant	$144.4 million	64,421	$2,240
N.C. Community College Grant	14.4 million	25,717	560
N.C. Need-Based Scholarship	81.7 million	25,668	3,182

Source: N.C. State Education Assistance Authority, 2012-13 Annual Report. Note that average tuition costs per student are a component of the calculation formula.

Hannah Gage, Chair of the UNC Board of Governors from 2008-2012 and emeritus Board member, says UNC students got $14 million in state need-based grants in 2001-02, and received $126 million in 2008-09. She says "North Carolina's commitment to need-based aid has made all the difference in the world."

Despite this progress, there is still a gap between the amount of grant funding received by students and the total cost of attendance across the UNC system. For example, among in-state undergraduate students across the UNC system, the average amount of financial need for students from families with incomes up to $30,000 was $17,369 in 2011-12. The average amount provided by grants and scholarships covered 57 percent of the average total cost of attendance. The average family income for these students is $16,222, and the average expected family contribution is $286. With 43 percent of the cost of attendance remaining, these students covered an average of 33 percent with loans.

Sidebar 6.1 How Students Pay for College: Real People, Real Stories

In 2011, staff of the UNC System presented a primer on financial aid to the UNC Board of Governors, called "Real People, Real Stories."[1] Here are scenarios that explain how students, arriving at college with different backgrounds, could pay for their education in 2011-12.

Wolfpack Student 1. Wolfpack Student 1 enrolls at N.C. State University as a freshman for the 2011-12 school year to pursue a degree in computer engineering. A student from Fayetteville, his family of five also is putting his older sister through college. His parents' adjusted gross income for 2011-12 is $68,549, and the cost of attendance at State as an in-state student – which includes tuition, fees, room and board, and miscellaneous expenses – is $19,388.

After filling out the FAFSA, the family's expected contribution for his first year of college is $3,655, taking into account the fact that his sister is also in college. Based on these calculations, his financial need for the 2011-12 school year is $15,733, which is simply the cost of attendance minus the expected family contribution.

Even with several grants and scholarships, including a $1,900 Pell Grant, a $2,420 UNC Need-Based Grant, a $1,500 N.C. Education Lottery Scholarship, and $5,900 in grants from NCSU and the computer engineering department, he is still $4,013 short of having his full need met. To cover this remaining cost, he has several options. He could get a job, such as a work-study position in the computer engineering department, he could take out a student loan, or he could pursue a combination of these options. A subsidized Stafford loan may be a smart bet, as he wouldn't pay interest on the loan while he is a student and for six months after he graduates. Because the annual limit for this loan is $3,500, he would have to use other sources to make up the $513 difference.

Wolfpack Student 2. Compare the story of Wolfpack Student 1 to the financial aid path for Wolfpack Student 2. Starting N.C. State University in 2011-12, she comes from a family of three in Hickory. Her parents' adjusted gross income for 2011-12 is $1,480. It had been $49,528 in 2010-11, but her parents lost their jobs during the Great Recession. With the annual tuition of $19,388, her family's expected contribution is $0, so her financial need is the full cost of attendance, $19,388.

Her financial aid package includes the maximum Pell Grant of $5,550, a UNC Need-Based Grant of $3,052, and a Need-Based Grant from N.C. State for $5,900. With $14,502 covered by grants, she still needs $4,886 to meet her full cost of attendance. She has options similar to Wolfpack Student 1, as she could also take out a subsidized Stafford loan of $3,500, and an unsubsidized loan of $1,386 to make up the difference.

The Undecided Student. The Undecided Student can't decide between UNC-Wilmington, N.C. Central University, and N.C. State. She lives in Charlotte with her parents and younger brother, who is still in high school. Her parents' adjusted gross income in 2011-12 is $19,487, and their expected family contribution, regardless of the school she chooses, is $0. In 2011-12, cost of attendance at UNC-Wilmington is $17,332; $17,874 at N.C. Central; and $19,388 at N.C. State. She could pay her costs by combining grants and loans in a variety of ways.

For example, at UNC-Wilmington, where cost of attendance is $17,332, she could use the $5,550 Pell Grant, an $800 Federal Supplemental Educational Opportunity Grant, a $2,576 UNC Need-Based Grant, and a $4,200 need-based grant from UNC-Wilmington. With $13,126 covered by grants and $4,206 remaining, she could take out a subsidized Stafford loan of $3,500 and an unsubsidized loan of $706 to make up the difference.

At N.C. Central, with a cost of attendance of $17,784, the Undecided Student could also use the $5,550 Pell Grant, a $1,000 Supplemental Educational Opportunity Grant, a UNC Need-Based Grant of $1,712, and a $1,000 need-based grant from N.C. Central. This would leave her with $8,612 left to cover. As a freshman, she could borrow the maximum $3,500 subsidized Stafford loan and the maximum $2,000 unsubsidized Stafford loan. Additionally, she could begin a work study or other on-campus job and use her earnings to pay for tuition. However, even if she received a work-study award of $1,000, she would still owe more than $2,000 of the total cost of attendance.

If she attends N.C. State, where cost of attendance in 2011-12 cost $19,388, the Undecided Student also could use a combination of grants and loans to pay for college. With the $5,550 Pell Grant, a $500 Supplemental Educational Opportunity Grant, a $3,052 UNC Need-Based Grant, and $5,400 in need-based grants from N.C. State, she would need $4,886 from other sources. One option would be to take out a $3,500 unsubsidized Stafford loan and a $1,386 unsubsidized Stafford loan. Depending on where she decides to go to college, the Undecided Student will graduate with $4,200-$7,600 in student debt.

2. N.C. Need-Based Grants

The North Carolina Education Lottery Scholarship[6] was created by the 2005 General Assembly to provide financial assistance to low-income, in-state students attending eligible colleges and universities located within North Carolina.[7] With one exception, students who are eligible for a federal Pell Grant also can receive an Education Lottery Scholarship. The exception is that the Education Lottery Scholarship allows a student to have a higher *expected family contribution* ($5,000 or less) and still receive the aid.[8] This provision is designed to bridge the so-called "Pell Gap," where students who work earn a little too much money to get a Pell grant. In 2012-13, a total of 27,432 students at the 16 UNC college institutions and the 58 community colleges received $27.5 million in lottery-funded scholarships, down from 2010-11, when 32,912 students received $34.5 million.[9] Grants ranged in size from $100 to $3,400.[10]

3. Grant Programs That Have Been Repealed

The **Education Access Rewards North Carolina Scholars Fund (EARN)** grants were offered for the first time in 2008-09. The EARN Grant had a maximum award of $4,000 but was available only for two years of college. It was restricted to students who were dependent on their parents and were residents of North Carolina. During the first year of operation, 13,798 students at the state's 16 public universities, 58 community colleges, and 36 eligible private colleges and universities received a total of $48 million. The EARN program was repealed by the 2009 N.C. General Assembly,[11] but remained in place for the fall 2009 semester only. The program was projected to award $53.7 million to low-income students in its second and final year of operation.[12]

In June 2004, the North Carolina Center for Public Policy Research released a study of racial disparities in a broad range of areas of public policy, including education, health, housing, economic well-being, and other fields. In education, we found disparities in college completion rates: Asians had the highest college completion rates (44 percent), whites (25 percent), African Americans (13 percent), Hispanics (10.5 percent), and American Indians (10.4 percent).[13] The disparities have increased. In North Carolina, according to the 2006-2010 U.S. Census American Community Survey, the percent of people 25 and older with a bachelor's degree is 51.3 percent for Asians, 28.9 percent for whites, 16.7 percent for African Americans, 11.8 percent for Hispanics, and 11.5 percent for American Indians.[14]

In a separate study, we also documented four different measures of college-going rates. We found North Carolina to be at or below the national average on all of these measures.[15] To address these two policy problems, the Center recommended a new tuition assistance program to increase college-going rates and address racial disparities. We recommended what we called a Hope College Tuition Assistance Program. This covers part of the college cost for all students from households whose family income was 200 percent or less of the federal poverty level and who graduate from high school with a B average.[16]

The Center recommended that the State use Georgia's Hope Scholarship as a model, but with important differences. First, Georgia's popular Hope Scholarship Program is a *merit-based* scholarship for all students who meet specified eligibility requirements, including grade point average, coursework, and residency. The Center said North Carolina's program should be *need-based* for qualifying students who have the credentials to gain acceptance into the State's public universities.

Second, the Center recommended that North Carolina's program be funded by appropriations from the State's General Fund, rather than from a state lottery that takes a larger percentage of the income of the poor than of those with greater financial means.[17]

Third, the Center said the program should pay only a portion of college costs, leaving it to students to contribute to their own education through work-study, academic scholarships, loans, or some other means. The Georgia HOPE Scholarship program previously covered tuition costs, most fees, and included a book allowance. It is now tied to lottery revenues and scholarship amounts vary.

One key similarity between the Georgia program and the Center's proposal was that both would be available to all households who met the income threshold for eligibility. A second major similarity was that both programs would provide help to thousands of young people in states where the dream of college has been eroded by multiple tuition and fee increases.

Former Governor Mike Easley announced a proposal for a new scholarship initiative called Education Access Rewards North Carolina Scholars Fund, or EARN. The program was then enacted into law by the 2007 General Assembly.[18]

"The idea is to increase the college-going rate. The idea is to keep college costs down for the students and for the taxpayers," said Dan Gerlach, Easley's fiscal advisor who also lobbied to get the program enacted. Gerlach is now President of the Golden LEAF Foundation in Rocky Mount. The EARN scholarship sought to enable low- and moderate-income students to attend and graduate from a State post-secondary institution by eliminating the need for student loans. EARN paired current federal assistance with a two-year State grant and a ten-hour work week. In essence, Easley intended the scholarship program to dovetail with his Learn and Earn program (see Sidebar 6.2) by allowing Learn and Earn graduates with two years of college credit to complete a four-year, state university degree without debt.[19]

Sidebar 6.2: Learn and Earn Initiative Also Designed To Increase College-Going Rates

The EARN scholarship was one of a pair of former Gov. Mike Easley's initiatives designed to increase the state's college-going rate. The other was Learn and Earn, an initiative that is administered jointly by the N.C. Department of Public Instruction and the North Carolina New Schools Project. It is now called the Early College High School Initiative. Located on the campuses of two- or four-year colleges and universities, Learn and Earn early college high schools provide an academically rigorous course of study. The goal is to ensure that all students graduate with a high school diploma and two years of university transfer credit or an associate's degree, usually in five years. Early college high schools are intended to serve students who are typically under-represented in the college-going population. These are students who are first generation college-going, students from low-income families, those who are members of a minority group, and those who have met with failure in conventional schools.

The number of early college high schools has grown from 13 in 2005 to 74 in 2011-12.

Source: N.C. Department of Public Instruction, Report to the North Carolina General Assembly on Early College High School (Learn and Earn), Raleigh, NC, January 15, 2012, p. 3. Online at: http://www.ncleg.net/documentsites/committees/JLEOC/Reports%20Received/Archives/2012%20Reports%20Received/Learn%20and%20Earn%20High%20Schools.pdf

"The reason why it's limited to two years is to give an incentive to these kids to take college courses when they're in high school, saving the taxpayers $10,950 per year, which is the taxpayer subsidy for full-time equivalent [students] at the university system," said Gerlach.

"We wanted to set up a 'no excuses' plan that would show you a pathway to get your degree," said Gerlach. "You do not absolutely legally have to work 10 hours a week, but to make the math work [to obtain an education debt-free], you do."

The EARN program was administered by the State Education Assistance Authority. EARN funds could be allocated only to those students who met the following eight criteria:

(1) Students must have been residents of North Carolina, both legally and for tuition purposes.

(2) Students must have acquired, within seven months of the fiscal year of the grant's dispersal, a North Carolina high school diploma, a General Education Development Certificate from a North Carolina institution, or certifiable completion of a high school education in a home school setting.

(3) Eligible students must have been enrolled full-time as an undergraduate at one of the State's eligible post-secondary institutions, including those institutions defined under law as community colleges or constituent institutions of the University of North Carolina System. The 2008 legislature expanded this requirement to make students attending the State's private colleges and universities also eligible.

(4) Students must have been deemed an "eligible dependent student" under federal Title IV programs or be a ward or dependent of the court, and also, must have come from a family whose income does not exceed 200 percent of the federal poverty level.

(5) Students must have been eligible for the federal Pell Grant.

(6) To ensure second-year grant retention, students must have maintained "satisfactory academic progress in a course of study" according to Title IV programming.

(7) Students must not have received a grant that, when combined with the Pell Grant, exceeded the cost of attendance.

(8) Students' grants could not exceed a two year duration.[20]

Table 6.2 EARN Scholarship Eligibility Requirements (prior to repeal)	
Residency (must meet all)	State resident U.S. resident Resident for tuition purposes
Secondary Credential (must meet one)	N.C. high school diploma GED Certificate from N.C. institution Certificate of home school high school completion
Enrollment	Full-time undergraduate enrollment in UNC, N.C. Community College system, or other approved institution
"Eligible Dependent Student" (must meet all)	Must meet federal Title IV definition of a dependent or be a state ward or dependent of the court Family income must not exceed 200 percent of federal poverty level
Pell Grant	Must meet eligibility requirements.
Academic Performance	Must maintain Title IV standards for "satisfactory academic progress"
Outside Grants	Other grants may not combine with Pell Grant to exceed the cost of attendance
Duration	Grant may not exceed two years

EARN grants could not exceed $4,000 per academic year. The law establishing the program also provided that if the available funding failed to provide each eligible student the maximum allocation, eligible students who had completed at least one academic year of college credit would receive the maximum grant. All other eligible students would receive a reduced amount. The law obligated the State Education Assistance Authority to report to the Joint Legislative Education Oversight Committee on December 1 every year, starting in 2009. The legislature appropriated more than $27.6 million to the Authority from the State's General Fund for the 2007-08 fiscal year, and $60 million from the General Fund, plus $40 million from the Escheat Fund for FY 2008-09. However, during the following year – the program's first and only full year of operation in 2008-09 – EARN grants declined to a total of $48 million.[21]

What is the future of an EARN-type grant in North Carolina? Former Governor Easley regarded the EARN program as a major legislative success. Said Easley, "We have put reality behind the vision of an affordable, debt-free education from pre-kindergarten to an undergraduate degree at a state university."[22]

"I think EARN is the most innovative state program that I have ever heard of," said Steve Brooks when the program was active. "EARN has resulted in some wonderful financial aid opportunities for some students whose parents are really struggling. For that to be written into a public law and be made universal is pretty remarkable."

Shortly after former Governor Easley proposed the program, University of North Carolina then-President Erskine Bowles said, "We are in lockstep with the governor on this." Bowles explained that the proposal, when combined with Easley's Learn and Earn program, could motivate high school students to graduate and pursue a college degree. Bowles saw the EARN program as integral to the goal of providing increased access to education to a greater number of people in a competitive economy and said failure to meet this goal has dire consequences.

Hope Williams, President of North Carolina Independent Colleges and Universities, requested during a joint meeting of the House and Senate Appropriations Subcommittees on Education in 2007 that the EARN initiative also apply to students in private colleges and universities. Williams feared that private college enrollment would suffer by losing students to the UNC system. The legislature agreed to her request in 2008.[23] Just a year later, with a sharp downturn in the economy, the General Assembly reversed direction.

In August 2009, with the State facing a $4.5 billion revenue shortfall, authorization for the EARN program was repealed. Former Representative Hugh Holliman (D-Davidson) said, "It's just a function of the money." The program was repealed effective for the calendar year 2010-11, Students who received EARN scholarships in the fall semester of 2009 did not receive awards in spring semester 2010.

"They're hitting the neediest students," said Deborah Tollefson, the Financial Aid Director at UNC-Greensboro. "To lose those funds in the current year is really tough. Most of the UNC system schools don't have the… resources to replace them." She believed most students receiving the funds in the fall would have to take out loans to cover the grants they would have gotten in the spring.[24]

Before the repeal of the EARN grant, the State's two largest need-based grant programs were EARN and the Education Lottery Scholarship. Of the two, the EARN program provided more aid to the neediest students. In the 2008-09 academic year, 70 percent of awards in the EARN program went to students from families earning less than $30,000 annually. By contrast, 77 percent of lottery scholarship awards went to students with family incomes higher than $30,000.

The **North Carolina Student Incentive Grant**[25] began in 1972 when the federal government first offered funds to states on a matching basis to provide need-based grants for college. In 2010-11, the N.C. Student Incentive Grant provided approximately $5.6 million to students in the State's 16 public universities, 58 community colleges, and 37 private colleges and universities.[26]

The program was administered by the State Education Assistance Authority and used eligibility requirements similar to the federal Pell program. The exception was that a recipient could not be enrolled in a program designed primarily for career preparation in a religious vocation. Grant awards ranged up to $700 per year and were available only to the neediest students. The legislature eliminated funding for this grant for the 2011-12 academic year when the federal matching funds ended, and the program has been discontinued.[27]

Table 6.3 Awards from North Carolina's Major Need-Based Student Aid Programs in 2008-09

Aid Programs Available to All Three Sectors of Higher Education	*UNC System*	*Community Colleges*	*Private Colleges and Universities*	*Total*
NC Student Incentive Grants	$3,045,535	$1,766,020	$623,814	$5,435,369
Education Lottery Scholarships	15,596,169	13,674,604	4,287,052	33,557,825
EARN Grants	20,259,193	20,359,797	7,410,543	48,029,533
Sector-Specific Aid Programs				
UNC Need-Based Grant	126,996,462	N/A	N/A	126,996,462
NC Community College Grant	N/A	16,497,311	N/A	16,497,311
State Contractual Scholarship Program	N/A	N/A	43,557,825	43,557,825
Total	$166,199,072	$52,131,351	$55,981,027	$274,311,450
Percentage of Total Annual Awards	61%	19%	20%	

Sources: N.C. State Education Assistance Authority Annual Reports and UNC Statistical Abstracts.
N/A means that the grant is not available to students in that sector of higher education.

B. Institutionally-Funded Aid: Tuition Discounting Programs to Minimize Student Debt

Tuition discounting is a common practice at almost all of the nation's public and private four-year colleges and universities. Simply put, it is using institutional resources – not federal or state – to help cover a student's college costs. It is defined by The College Board in a report entitled *Tuition Discounting: Not Just a Private College Practice* as "…institutional grant aid and discounts granted in an effort to increase the probability that particular students will choose to enroll."[28] For example, federally-funded Pell Grants and state-funded UNC Need-Based Grants are not tuition discounting. The funds come from the government and are allocated to students according to formulas beyond the control of the higher education institution.

An institution's *tuition discount rate* may be thought of as the percentage of its annual tuition and fee revenue derived from student financial aid. It does not come from the state or federal government. The formula used by The College Board to calculate the tuition discount rate was originally developed by the National Association of College and University Business Officers (NACUBO) and is expressed as:

Tuition Discount Rate	=	Total institutional grant aid --- Total gross tuition and required fee revenue

or

Tuition Discount Rate	=	Average institutional aid per student --- Published tuition and required fee rate

Table 6.4 National Tuition Discount Rates by Sector of Higher Education

Academic Year	Public Four-Year Discount Rate	Public Two-Year Discount Rate	Private Four-Year Discount Rate
2000-01	20.5	12.0	28.6
2001-02	20.5	13.1	29.1
2002-03	20.1	10.9	30.2
2003-04	18.6	8.0	30.7
2004-05	18.5	8.1	30.1
2005-06	18.8	7.8	30.6
2006-07	19.1	8.2	31.1
2007-08	19.3	10.6	31.5
2008-09	18.3		33.1

Source: Sandy Baum, Lucie Lapovsky, and Jennifer Ma, "Tuition Discounting: Institutional Aid Patterns at Public and Private Colleges and Universities, 2000-01 to 2008-09," The College Board, New York, NY, Sept. 2010, p. 4.

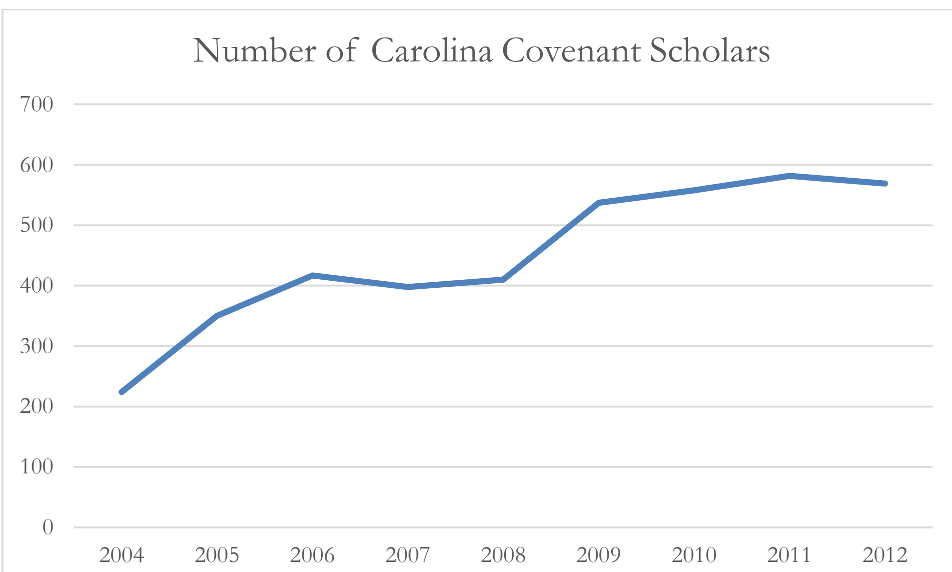
1. Debt-Minimizing Programs in N.C.

Since 2003, five UNC institutions have initiated debt-minimizing programs with the stated goal of eliminating or reducing the proportion of financial aid that is provided to students in the form of *loans*. Each of the five UNC institutions – UNC-Chapel Hill, N.C. State University, Appalachian State University, UNC-Wilmington, and UNC-Greensboro – have developed programs with different missions, requirements, and funding mechanisms. The five universities are among the numerous institutions nationwide implementing such programs to reduce debt for low-income students. The programs at N.C. State, Appalachian State University, and UNC-Greensboro are for North Carolina residents only, while the programs at UNC-Chapel Hill and UNC-Wilmington are for both resident and non-resident students.

Carolina Covenant[29] is the name for the college financial aid program initiated by UNC-Chapel Hill in October 2003. The university promises that students from low-income families can graduate from UNC-Chapel Hill with no student loan debt. Also, the program includes comprehensive efforts by the university to recruit more students from low-income families, along with counseling and academic support for participants.

The threshold income for eligibility for UNC-CH's first class of Covenant scholars (224 students in the 2004-05 academic year) was 150 percent of the federal poverty level. In 2005-06, eligibility was expanded to include dependent students from families at 200 percent or below of the federal poverty standard. As of 2012, more than 4,000 students had received aid through the Carolina Covenant program. Since admittance into UNC-CH is "need-blind," Covenant recipients must meet the same academic qualifications as students not receiving aid.

Graph 6.1: Number of Carolina Covenant Scholars Over Time.



Sources: For years 2004-10, see Shirley Ort's PowerPoint, UNC-Chapel Hill Board of Visitors, Oct. 8, 2012, Slide 19. For 2011 and 2012, see the common data sets for 2011-12 and 2012-13, *online at:* *https://oira.unc.edu/facts-and-figures/data-summaries-and-publications/common-data-set*.

Programs like Carolina Covenant require sizable endowments and a large, consistent stream of annual giving. UNC-CH has sought private donations to assist with funding the initiative, including a special $10 million fundraising campaign chaired by basketball coach Roy Williams toward an endowment for the program. In 2005, the UNC-CH campus Board of Trustees approved allocating all revenues from the sale of trademark-licensed university products to scholarships and financial aid. A portion of this revenue goes toward the Covenant program.

In 2011, researchers looked at the Carolina Covenant since UNC-Chapel Hill was "the first public university to offer a financial aid program replacing loans with grants." They found that the Covenant is a:

> 'financial aid initiative started by UNC-Chapel Hill to provide an undergraduate education to low-income students without the use of loans. Through a combination of federal, state, and institutional grants packaged with a 12-14 hour federal work study position, the program meets 100 percent of need without the use of loans. The university communicates the message to students that if you meet the academic requirements for admission, finances will not be a barrier to attendance'.[30]

The researchers said the Covenant was similar to a program first instituted by Princeton University, and that after the Covenant was implemented, several other public institutions followed suit. Those include the University of Virginia, University of Pennsylvania, and Indiana University. They found that "[t]his wave of creating major no-loan programs for low-income students represents one of the first and perhaps most prominent examples of the role of competition in improving need-based financial aid and access to higher education."

The researchers noted that UNC-Chapel Hill was already meeting 100 percent of the need of students prior to implementing the Covenant, but that the Covenant formalized the university's commitment: "Branding the university's commitment to low-income students in the form of a named program distinguished Carolina's access initiative from prior efforts." They concluded, "The decision to make such a public commitment to low-income students required an understanding of the role of Carolina's brand, which is tied directly to the 'best buy' distinction the institution routinely receives" in rankings of colleges and universities.[31]

In April 2006, N.C. State University announced **Pack Promise**.[32] The program provides financial aid to approximately 325 students in each class whose family income is at or below 150 percent of federal poverty level. The university seeks to add 200 new freshmen each year. A total of 1,000 Pack Promise students were enrolled in 2012-13. The institution guarantees that the participant's student need-based loans will not exceed $3,500; before 2011-12, the ceiling for the guarantee was $2,500. Along with aid, Pack Promise beneficiaries are entitled to mentoring, financial aid counseling, and research opportunities. The program is funded by private donations and by a portion of the institution's most recent campus-initiated tuition increase. Since 2011-12, Pack Promise has been available only to residents of North Carolina.

"N.C. State attracts many first-generation college students who've had no family history of success in higher education and [who] in many cases do not have the same support mechanisms of students from families with a history of college graduates," said former N.C. State Provost Larry Nielsen. "It's important that we help them make the transition to college life and build the supports that will help them graduate on time, which is in itself a cost-saving measure."

In December 2006, Appalachian State University unveiled **Appalachian Commitment to a College Education for Student Success (ACCESS)**.[33] The program is limited to students at or below federal poverty level, and Appalachian's goal is for participants to graduate with no student loan debt. The program will ensure that recipients receive enough aid to cover the entire cost of attendance, and possibly a job on campus to provide money for personal expenses.

About 50 students per year will participate in the ACCESS program. The scholarships are paid for by the proceeds from a private endowment fund started by former ASU Chancellor Ken Peacock. Peacock's first gift to the endowment was money that was donated to a memorial fund for his mother.

"These young people have shown leadership, and they have done well on their SATs," says Peacock. "They have overcome challenges and demonstrated that they should have the right to graduate debt free." [34]

The fourth tuition-discounting program is UNC-Wilmington's **S.O.A.R.** (Success, Opportunities, Aid, Responsibilities) program, which began in Fall 2007. The program provides financial aid for approximately 275 students each year whose family incomes are at or below 200 percent of the federal poverty level. The original goal involved limiting loan debt to $1,000 or less for students with a federal work study award. S.O.A.R. recipients incur debt at an amount lower than their peers. Recipients also receive academic support, financial aid counseling, and academic assistance. In 2012-13, the S.O.A.R. program expanded to include out-of-state students.

"This initiative was advocated by UNC-W students on the Campus-Initiated Tuition Increase Committee, and their maturity and concern really impressed me," said Rosemary DePaolo, former Chancellor of UNC-Wilmington. "It's important to me that we help make a college education accessible for as many North Carolina students as possible. S.O.A.R. will enable us to reach out to 500 more students, to help them make the transition to college life and to encourage them to graduate on time. This is, in itself, a cost-saving measure not only for these students and their families, but also for the university and the taxpayers."

Beginning in fall 2010, UNC-Greensboro started a new program called **UNC-G Guarantee,**[35] awarding the scholarship to 107 students as of 2013. In 2010-11, 35 students received the scholarship, with 38 students selected in 2011-12, and 34 students in 2012-13. The program is available to students whose family income is at or below federal poverty level. Initial funding for the program comes from a $6 million anonymous gift to the university that was earmarked for financial aid.

Chancellor Linda Brady says, "As a public university, UNC-G has a special obligation to provide access, especially for first-generation college students and others with limited means." In addition to the financial aid, students will receive an array of academic support services to ensure they have every opportunity to be successful in college.

Table 6.5 Summary of Programs Created at Public UNC Institutions To Minimize Debt				
Program	*Residency of Participants*	*Financial Eligibility Threshold of Participants*	*Financial Provisions*	*Source of Program Funding*
UNC-Chapel Hill's Carolina Covenant	In-state and out-of-state	200% or less of federal poverty level	Recipients will graduate with no loan debt	Private donations and trademark licensing revenue
N.C. State's Pack Promise	In-state only since 2011-12	150% or less of federal poverty level	Recipients' student loans will not exceed $3,500	Private donations and tuition revenue
Appalachian State's ACCESS	In-state only	100% or less of federal poverty level	Goal is recipients will graduate with no loan debt	Private donations
UNC-Wilmington's S.O.A.R.	In-state; out-of-state since 2012-13	200% or less of federal poverty level	Recipients' student loans will be kept low	Private donations and tuition revenue
UNC-Greensboro's Guarantee	In-state only	100% or less of federal poverty level	Recipients will graduate with little or no student loan debt	A large private donation is funding the program initially, but UNC-G is seeking other donations

Beginning in August 2007, Davidson College, a private institution, replaced student loans with grants, under a program called The Davidson Trust. Davidson was the first national liberal arts college to completely eliminate student loans in its financial aid packages. In the fall of 2011, 47 percent of Davidson students received financial support from The Davidson Trust. It costs Davidson $3.5 million annually to replace loans with grants, and will require a total of $70 million to fully endow the initiative. The Davidson Trust received a $25 million gift in 2012. The college was able to begin the effort because of a $15 million gift from The Duke Endowment of Charlotte. In approving the policy, college trustees committed to lead the effort to raise the necessary funds and pledged neither to raise tuition nor to reduce academic programming to meet the costs of the policy.[36]

2. Pluses and Minuses of Tuition Discounting Programs

One advantage of tuition discounting programs is to help a college enroll students who would not otherwise attend that school because of high costs. If the discount is given only to students who couldn't otherwise enroll, thereby filling classroom slots that would have remained empty, a program may actually increase the net revenue from tuition at the institution. Under this scenario, the tuition discounting works like the pricing on an airline ticket. If a flight is not full, the airline will keep dropping the price of the seat until someone buys it rather than flying an empty seat. For the colleges, that revenue may even be used to finance other institutional need-based financial aid programs.

The disadvantages of tuition discounting programs are related to their potential to drift from their original purpose in at least three ways. One danger is that the programs could be used to attract and enroll students who *can* afford to pay for school by other means – thereby misdirecting resources intended to help low-income students. Another danger is that an institution's discounting program could be used only to support students who would attend the school anyway, rather than to attract others. But the greatest danger is the potential for institutions to discount to their detriment when they cannot afford the net loss of revenue that discounting can produce.[37]

Discounting can have a negative impact on access to higher education as well. Founded in 1833 in Oberlin, Ohio, Oberlin College is a liberal arts institution that was the first fully co-educational college in America and the first to regularly admit African Americans. In 1993, it determined that its competitors in the higher education marketplace – all of which had larger endowments – were able to offer deeper tuition discounts. So, the college's trustees had to choose between lowering the quality of their programs to afford discounting or accepting fewer low-income students. Even with the college's long history of promoting access, the trustees opted to switch from need-blind admissions to need-aware admissions to limit the number of needy students it enrolled.[38]

In 2006, The College Board of New York, N.Y. released an analysis of tuition discounting practices across the nation. The College Board's analysis placed tuition discounting in the context of all grant aid that is provided directly by institutions, including athletic grants-in-aid and need-based grants. The group concluded, "Not only are significant amounts of institutional aid in the public sector being distributed based on criteria other than need, but a high proportion of dollars are allocated to students whose financial circumstances would permit them to enroll without these subsidies."[39]

3. The Future of Tuition Discounting Programs in the UNC Constituent Institutions

According to Steve Brooks, formerly director of the North Carolina State Education Assistance Authority, the development of the EARN program could have made additional debt-minimizing programs unnecessary at UNC institutions beyond the five that have already created such programs.[40] However, the UNC system does plan to expand the amount of campus-based privately-funded financial aid available to students in the constituent institutions.

Harold Martin, now Chancellor at N.C. A&T State University, said, "In every major capital campaign for one of the campuses, an important component of that capital campaign is scholarship support for students. There is never enough funding for *merit*-based scholarships. Keep in mind that the state provides need-based aid, while merit aid is more appropriately derived by campuses from private donors, since the definition of 'merit' would vary from campus to campus," says Martin. "We have placed that responsibility on [Chancellors'] shoulders to go out and be more aggressive and assertive in raising private funds to address the growing need for aid to those students who don't have financial need."

Research Note: The Historic Weaknesses of the Escheat Fund as a Source of Funding for Student Aid Programs

The Escheat Fund is comprised of abandoned and unclaimed money and property – for example, utility deposits, money that is left in safe deposit boxes, or insurance policy proceeds. The Escheat Fund is required by Article IX, section 10(2) of the State Constitution to be used for "worthy and needy students who are residents of this State and are enrolled in public institutions of higher education in this State."

From 2004 through 2010, the legislature used not only the interest but also part of the principal for student aid. Previously, the State spent on student aid only the interest earned on the Fund.

In 2009-10, money from the Escheat Fund was used to fund 12 student aid programs for a total of $186 million. In 2013-14, the Escheat Fund provides a total of $87 million in funding for three programs—the UNC Need-Based Grant, the Community College Grant, and the Veteran's Scholarship.

Even though the balance in the Escheat Fund increased from almost $476 million in 2003-04 to more than $686 million in 2006-07, the percentage of the amount spent on student aid that was principal and not interest increased from 12 percent in 2003-04 to a high of 96 percent in 2008-09. The total principal withdrawn between 2004-12 has been more than $882 million. According to a letter written by State Treasurer Janet Cowell, a former state senator, to Governor Pat McCrory in May 2013, "If the General Assembly had not carried out these withdrawals, the Escheat Fund balance would have been approximately $1.2 billion compared to a balance of $344 million at the end of Fiscal Year 2012."

The Treasurer has been cautioning the state about the use of principal since May 2009, when she wrote the members of the General Assembly, saying, "It is my duty as State Treasurer to express a strong concern about the depletion of the Escheat Fund, a primary source of student scholarships. At the current rate of withdrawal, the fund will have a negative balance by 2012."

Cowell's letter also explained the importance of keeping sufficient money in the Escheat Fund to meet contractual investment obligations, to fulfill escheats claims, and to have enough capital to earn sufficient interest that can be used for student aid. "A pool of capital (fund balance) amounting to $200 million is essential. This will provide staff with the cash needed to pay out claims and the flexibility to liquidate assets in a prudent manner," said Cowell.

On April 13, 2010, the N.C. Center for Public Policy Research presented its research on this issue to the legislature's Joint Select Committee on State-Funded Student Financial Aid, alerting them to this problem. Even with the Center's research, the Treasurer urging the legislature to be cautious, the repeal of a major student aid program (EARN) in 2009, and a budget provision suggesting a $200 million minimum balance, the Escheat Fund balance was down to $344 million in 2011-12.

On January 13, 2011, a presentation to the UNC Board of Governors laid out the Escheat Fund challenge. In 2010-11, UNC Need-Based Aid totaled $162,288,763, of which $116,432,200 came from the Escheat Fund. The Escheat Fund had declined by 39 percent from 2006-10, and the Treasurer's Office at that point projected that "the Escheat Fund will not be a viable source of funding for financial aid after 2013.

	FY 2011-12		FY 2012-13		FY 2013-14	
Source of Funds	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**	**Amount**	**Percent of Total**
General Fund	48,891,429	26.1%	67,469,726	45.7%	47,443,867	38.7%
Escheat Fund	127,354,154	68.1%	37,287,242	25.3%	64,287,242	52.5%
Lottery Fund	10,744,733	5.7%	42,878,374	29.0%	10,744,733	8.8%
Total	186,990,316	100.0%	147,635,342	100.0%	122,475,842	100.0%

Sources: Senate Appropriations Committee, Report on the Continuation, Expansion, and Capital Budgets, House Bill 200, May 24, 2011, p. F-15; Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, House Bill 950, July 24, 2012, p. F-6; Joint Conference Committee Report on the Continuation, Expansion, and Capital Budgets, Senate Bill 402, July 21, 2013, p. F-13. Note that FY 2011-12 includes forward funding monies.

In 2011, due to the diminishing Escheat Fund principal, the N.C. General Assembly shifted the funding formula for the UNC Need-Based Financial Aid Program to include a higher proportion from the General Fund. For the 2012-13 and 2013-14 school years, students are limited to receiving a need-based grant from this program for nine full-time academic semesters, unless the student is enrolled in an official five-year degree program or the student falls under another exception, including military service or disability. This provision decreased the total funds needed for the program by almost $5 million annually.

Beginning in the 2014-15 academic year, students may receive a need-based grant for only 10 full-time academic semesters or 12 full-time academic semesters in a five-year degree program, unless the student is granted a waiver from this limitation. The 2011 N.C. General Assembly also directed that $59 million of the 2012-13 appropriated funds be carried forward and held in reserve by the State Education Assistance Authority to be used for need-based grants in the 2013-14 school year, increasing program stability.

The 2013 state budget established a UNC Need-Based Financial Aid Forward Funding Reserve in the N.C. Student Loan Fund in order to shift the Need-Based Financial Aid program to forward funding in 2015-16 and provide additional stability. The budget transferred $100 million in 2013-14 and $22.5 million in 2014-15 from the General Fund to fund the Reserve. The funds will be used to fund grants from the UNC Need-Based Financial Aid Program, beginning with the 2015-16 year. Money for the reserve comes from the Education Lottery Fund, the N.C. Student Loan Fund, the overall appropriation to the Board of Governors for the UNC System, the National Board Certification Loan program, and the McLendon Scholarship Fund. According to former Senator Pete Brunstetter (R-Forsyth), moving to a forward-funding model for college scholarships was necessary so that the amount of money needed for scholarships can be determined nine months in advance

Endnotes

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[3] *Statistical Abstract of Higher Education in North Carolina 2012-13*, Research Report 1-13, University of North Carolina, Chapel Hill, NC, August 2013, Table 2, p. 6.

[4] *Ibid.,* Table 6, p. 25.

[5] *Ibid.*, Table 2, p. 11.

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[38] Rupert Wilkinson, *Aiding Students, Buying Students: Financial Aid in America*, Vanderbilt University Press, Nashville, TN, 2005, pp. 142-43.

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Chapter Seven

Tax-Advantaged College Savings Plans

Tax-advantaged investment plans provide tax incentives to encourage people to save money for future college costs. They are increasingly popular as forms of state and federal government aid for students. The two most common tax-advantaged benefits offered by states are tax-free savings plans and tax-free prepaid tuition plans. Both types are commonly called "529 plans," a term derived from their section number in the federal tax code.[1] In June 2013, $205 billion dollars were invested nationally in more than 11 million such accounts, with an average account size of $18,013.[2] During the Great Recession, the average value of individual 529 accounts declined 33 percent, from $13,313 to $8,944 in constant 2009 dollars over the period between December 2007 and March 2009.[3] However, "as of December 31, 2012, the average balance in a 529 plan account was $17,174 compared to $10,690 at the end of 2008."[4]

A. State 529 Plans

Residents in all 50 states may participate in some type of 529 plan. Forty-eight states (including North Carolina, but not Washington or Wyoming) and the District of Columbia have created savings programs. These plans allow savings for college to accumulate tax-free and, if the savings are used for post-secondary education expenses, they can be withdrawn tax-free. Twelve states (not including North Carolina) have tax-free prepaid tuition plans, which are guaranteed to cover fixed portions of tuition prices in the future, regardless of tuition increases.[5] Earnings in both types of plans – savings and prepaid tuition – are not subject to *federal* taxes. Many states offer tax benefits in addition to those provided by the federal government, and five states – Arizona, Kansas, Maine, Missouri, and Pennsylvania – even offer tax breaks on plans sponsored by other states.[6]

Sixteen states offer both types of 529 plans, and many states have multiple savings plans.[7] The savings plans were first authorized by Congress in 1996, and subsequent amendments in 2001 and 2006 made them more attractive to investors. The prepaid tuition plans have been around since 1988 but have been losing ground to the savings plans, which are now the most common type of 529 plan. Until July 1, 2006, prepaid tuition plans were considered assets, and this made it more difficult for students to qualify for other forms of need-based financial aid.[8] The proportion of funds in prepaid tuition plans versus savings plans declined from 81 percent of the total in 529 plans in 1999 to 31 percent in 2002, 14 percent in 2007, and 12 percent in 2012.[9]

In June 2013, the largest state plan in terms of number of accounts and total value of the accounts was the Virginia College America savings plan. On June 30, 2013, that plan had more than 2 million accounts with total assets of almost $39 billion. The plan with the fewest number of accounts in mid-2013 was the Indiana College Choice CD savings plan, with 1,306 open accounts. (See **Appendix Table 1**, State 529 Plans: Assets and Number of Accounts, for more detail).

B. North Carolina's 529 College Savings Plan

North Carolina's National College Savings Program, more commonly called the N.C. 529 Plan, was created by the N.C. General Assembly in 1996.[10] The North Carolina State Education Assistance Authority administers the plan. At the discretion of the Authority, either the State Treasurer or an investment manager invests the funds.[11]

North Carolina offers a savings plan but not a prepaid tuition plan. Like all state plans, the N.C. 529 plan offers federal tax incentives for college savings. These include tax free withdrawals for qualified higher educational expenses and tax free earnings on investments. In September 2012, total assets in the N.C. 529 plan exceeded $1 billion for the first time.[12] As of January 1, 2014, North Carolina is now one of eight states collecting state income tax that does not offer a tax deduction or credit for contributions to the state's 529 plan. California, Delaware, Hawaii, Kentucky, Massachusetts, Minnesota, and New Jersey are the other states in this category.

In 2013, the legislature repealed the tax deduction for contributions to North Carolina's 529 College Savings Plan. Session Law 2013-316 (House Bill 998) repealed N.C. General Statute §105-134.6. Section (d)(4) of this statute previously allowed a deduction from taxable income, not to exceed $2,500, for contributions to an account in the Parental Savings Trust Fund of the State Education Assistance Authority. For married couples filing jointly, $5,000 could be deducted.

As a historical look back, in tax year 2006, N.C. income taxpayers could receive a tax deduction of up to $750 ($1,500 for married couples filing jointly) for contributions to North Carolina's 529 plan if the taxpayer's income did not exceed certain thresholds based on their filing status.[13] Beginning in tax year 2007, the deductions increased to $2,500 ($5,000 for joint filers), and the limits on income were removed, but they were set to resume beginning in tax year 2012.[14]

In April 2010, the N.C. Center for Public Policy Research presented its research to the legislature's Joint Select Committee on State-Funded Student Financial Aid. It was recommended that the General Assembly make permanent the tax deduction for contributions to North Carolina's 529 plan, regardless of income. In 2011, the N.C. General Assembly made the deduction permanent and eliminated the income thresholds for contributions to the N.C. 529 savings plan, as the Center had recommended.[15]

As of June 30, 2011, the plan's Parental Savings Trust Fund had 136,688 account owners and more than $1.23 billion invested. There was a 21 percent increase in 529 contributions during fiscal year 2012-13 to $237.6 million, while $69.9 million was paid out in withdrawals to pay for college.[16]

However, the 2013 legislature completely repealed this tax deduction for all 529 College Savings Plan contributions as part of the comprehensive state tax code overhaul in the 2013 session.[17] As a result, beginning January 1, 2014, North Carolina taxpayers making contributions to a N.C. 529 College Savings Plan, will not receive a state income tax deduction.

State Sen. Bob Rucho (R-Mecklenburg) defended the repeal of the 529 plan tax credit as a means "to simplifying the tax system and making it fairer overall."[18] He said, "Through reducing the individual income tax, they can decide how they want to spend their extra money. I encourage parents and others to contribute to the college expenses of their loved ones, but not at the expense of all taxpayers."

Steve Brooks, former executive director of the N.C. State Education Assistance Authority, said, "We are hopeful that a future General Assembly will consider reinstating the tax credit."[19]

Any person and some organizations can create an account for any child. Various investment options, ranging from conservative to aggressive, are available to those who establish accounts. The N.C. 529 plan offers 14 different investment options allowing investors to customize their 529 plan with regard to personal tolerance for risk and return.[20] However, federal requirements do limit the number of times per year that assets in the plans can be shifted.[21]

Table 7.1 North Carolina's 529 College Savings Plan: Accounts and Assets, 2009-2014

Year	Total Number of Accounts	Percent Change in Number of Accounts	Total Assets in Accounts	Percent Change in Asset in Accounts
2009	$71,944		$538,161,887	
2010	$83,899	16.6%	$716,783,594	33.2%
2011	$96,939	15.5%	$855,065,850	19.3%
2012	$102,942	6.2%	$972,144,303	13.7%
2013	$125,853	22.3%	$1,409,260,335	45.0%
2014*	$128,208	1.9%	$1,549,087,849	9.9%

Note: 2014 data only reflects six months of activity. Source: College Savings Plans Network, 529 Plan Data.

C. Mutual Funds Available in N.C.'s 529 College Savings Plan

The *North Carolina Dependable Income Fund* is the lowest risk option available. The fund is invested through the N.C. Treasurer's short-term investment portfolio. It includes U.S. government securities.[22] Investors also can choose a federally-insured deposit account operated through the State Employees' Credit Union.[23]

North Carolina also has several options made available by The Vanguard Group, an investment management company, *Vanguard Individual Investment Options* and *Vanguard Age-Based Options*. The individual investment funds include five multi-fund investment options and four single-fund investment options, consisting of various portfolios of stocks and bonds.

Sidebar 7.1: College Savings Survey

The following are highlights from an online survey about college savings conducted in June 2013 of 2,538 families with children 18 years old and younger with incomes of at least $30,000 per year. The survey was sponsored by Fidelity Investments.

- 69% Of the families have started saving for college
- 61% Have a financial plan in place to reach college savings goals
- 33% Are investing in a 529 college savings account
- 26% Are planning to pay all college costs
- 69% Are planning to pay a portion of college costs
- 4% Are not planning to pay for any college costs

Parents, on average, gave themselves a grade of B-minus on their progress in saving for college.

Source: "7th Annual College Savings Indicator," Executive Summary of Key Findings, Fidelity Investments. Online at: *https://www.fidelity.com/static/dcle/welcome/documents/2013-CSI-Executive-Summary.pdf*.

The age-based funds offer three choices: conservative, moderate, or aggressive. Money will move around in each option as the student ages. As the student nears college, money will be invested in more conservative options.[24]

D. Comparing N.C.'s 529 College Savings Plan to Other State Plans

In November 2004, the UNC Board of Governors asked the General Assembly "to allow taxpayers who make contributions [to the N.C. 529 plan] to deduct all, or a portion of, their total contributions in calculating North Carolina taxable income for any given tax year beginning in 2005."[25] The 2005 legislature did not act on the Board's request immediately.

Mutual fund evaluator Morningstar, Inc. then provided an even less rosy analysis of N.C.'s 529 plan. In its 2006 annual report, North Carolina's plan was rated as one of the worst in the country, in part because it did not offer income tax deductions for annual contributions.[26]

In July 2006, the legislature included a $750 tax deduction ($1,500 for married couples filing jointly) in the state budget bill for the N.C. 529 plan for tax year 2006 if taxpayers' income fell below certain income thresholds.[27] The 2007 legislature increased the amount of the deduction for tax years 2007 and after to $2,500 ($5,000 for joint filers), and removed the income limitations for tax years 2007 through 2011. In 2011, the N.C. General Assembly eliminated the income thresholds that were scheduled to resume in 2012 for contributions to the N.C. 529 savings plan.

Since North Carolina's low ranking by Morningstar in 2006, the state income tax deduction was made permanent (before being repealed in 2013), the N.C. 529 plan has reduced investment fees, and the investment plans include less expensive options. As a result of these changes, in 2012 Morningstar awarded North Carolina's plan a bronze medal, along with 18 other state plans (see table 7.3).[28] With the elimination of the state income tax deduction for N.C. 529 plan contributions made beginning January 1, 2014, the State's 529 plan ranking will likely be affected. Because there is no state tax incentive to invest in the N.C. plan, contributors may choose to invest in another state's 529 plan - one that offers lower fees or more attractive investment options.

E. Tax Revenue Lost to 529 Plans

The total estimated cost of the federal tax breaks for 529 plans, also known as qualified tuition programs, in lost *federal* government revenue is $2.02 billion in 2013 and increasing to $3.06 billion in 2018.[29] In 2011, in North Carolina, 37,395 taxpayers filed for the state deduction. With a total deduction value of $94.5 million, the lost revenue to the state was $6.1 million.[30] The deduction was eliminated, effective January 1, 2014.

F. Making 529 Plans More Accessible to Low-Income Families

By their nature, 529 plans are more likely to be used by middle- and upper-income families. Because low- and moderate-income families have less wealth to transfer to 529 plans, they are not as able to take advantage of tax-free savings accumulation. Additionally, low- and moderate-income families often have little or no tax liability. Consequently, there is no incentive to seek the annual tax breaks for contributions provided by states, which included North Carolina before 2014. In 2009, of the 28,025 taxpayers in North Carolina who took the deduction, 2,786 had an adjusted gross income (AGI) of less than $40,000; 9,324 had an AGI between $40,000 and $100,000; 11,288 had an AGI between $100,000 and $200,000; and 4,627 had an AGI of $200,000 or more.[31]

Some states have taken steps to make their 529 plans more socio-economically inclusive. Eleven states – Arkansas, Colorado, Kansas, Louisiana, Maine, Missouri, Nevada, North Dakota, Rhode Island, Utah, and West Virginia – currently offer some type of matching contribution to low-income families who participate in 529 plans.[32]

Researchers at Washington University in St. Louis, Missouri have identified other features that make 529 plans more accessible to people of modest means. Those features include: (1) targeted outreach to low-income families; (2) no or low enrollment fees; (3) low minimum initial and subsequent contributions; (4) automated features such as direct deposit and payroll deduction; (5) affordable management fees; (6) existence of an "age adjusted" option; (7) scholarships, especially means-tested awards, offered through the plan; and (8) connections between the 529 plan and college preparation programs.[33] Another option suggested by the same researchers is creating a default investment option. This makes enrollment simpler because families opening accounts do not have to wade through multiple fund choices when they are initially opening their 529 account. This option, when paired with a separate idea of making it possible to automatically deposit tax refunds in the 529 plan, can significantly lower the barriers for low-income families to participate because saving money becomes much simpler.[34]

Table 7.2: Factors That Increase a 529 Plan's Accessibility to Low-Income Families and Evaluation of North Carolina's 529 Plan

Factor Increasing Accessibility to Low-Income Families	*Does N.C. 529 Plan Include?*	*Explanation*
Targeted outreach: advertising and publicity specifically aimed at low-income families.	Yes	CFNC conducts outreach and simultaneously markets the 529 plan.
No or low enrollment fees	Yes	N.C. has no fee.
Low minimum initial and subsequent contributions	Yes	N.C. has a $25 minimum for initial and subsequent contributions, which is on the lower end among plans.
Workplace enrollment and automated features such as direct deposit and payroll deduction	Yes	
Affordable management fees	Yes	N.C. has management fees of 0.25 percent, which are on the lower end of management fees among states.
Existence of an "age adjusted" option that moves assets to lower risk investments as beneficiary nears college age	Yes	N.C. has an "age adjusted" option.
Connections between the 529 plan and college preparation programs to encourage participation by low-income families	Yes	CFNC conducts outreach through the college preparation programs and simultaneously markets the 529 plan.
Existence of matching grants for low-income investors	No	
Scholarships – especially means-tested awards – offered through the plan	No	
State excludes dollar value of a 529 plan from calculations to award need-based aid	No	
Tax refunds may be automatically deposited into 529 accounts	No	
Existence of a default investment option to allow people to enroll without making choices between the available funds	No	

Note: The factors that increase accessibility of 529 plans to low-income families are adapted from the work of researchers at the Center for Social Development at the George Warren Brown School of Social Work at Washington University in St. Louis, Missouri. See footnote 34.

North Carolina's 529 plan is designed for middle class families. The State's plan lacks five of the 12 features listed in the table above that make a state 529 plan accessible to low income families.

"These programs really are for people of middle income," says Brooks. "People making less than $30,000 or so probably can't afford to save much, if anything. And they don't really need to, if they know the financial aid system for college. We are going to take care of them pretty much [all] of the way."

However, this depends on one's views about how much debt students should incur. For example, among in-state undergraduate students across the UNC system, the average amount of financial need for students from families with incomes up to $30,000 was $17,369 in 2011-12. The average amount provided by grants and scholarships covered 57 percent of the average total cost of attendance. The average family income for these students is $16,222, and the average expected family contribution is $286. With 43 percent of the cost of attendance remaining, these students covered an average of 33 percent with loans.[35] Providing incentives for low-income families to save money for college could reduce the amount of student loan debt incurred by those who can least afford to start their careers with a heavy debt load.

G. The Role of 529 Plans in Paying for College

Congress and the states have embraced 529 plans as part of the solution for addressing rising costs in higher education. The state 529 plans are emerging as an important means for middle class students and their families to pay for college. As a public policy option, the plans are evolving quickly and growing in popularity. Nationally, the dominant policy trends have been to offer greater tax breaks and lower fees to encourage additional interest in 529 plans.[36] There are also efforts to increase 529 plans' accessibility to lower-income families. Timothy Wyman, a board member of the national Financial Planning Association, says, "We're probably in the third inning of a nine-inning baseball game. [529 plans] will become more important, and more folks will use them because there's no sign that college costs are going to be going down or decelerating."[37]

Endnotes

[1] 26 U.S. Code § 529.

[2] "College Savings Plans Network 529 Report: An Exclusive Mid-End Review of 529 Plan Activity," College Savings Plans Network, September 2013, p. 3. Online at: *http://www.collegesavings.org/includes/pdfs/Sept%202013%20529%20Report_FINAL.pdf*, last accessed 9/30/13. In addition to the state-sponsored plans, a prepaid tuition plan is not included in these figures. It is sponsored by more than 270 private colleges and universities and has assets of $235 million in 8 million accounts, as of June 2012.

[3] "Trends in Student Aid 2009," The College Board, Washington, D.C., 2009, p. 18.

[4] "College Savings Plans Network 529 Report: An Exclusive Year-End Review of 529 Plan Activity," College Savings Plans Network, March 2013, p. 3. Online at: *http://www.collegesavings.org/includes/pdfs/March%202013%20529%20Report%20Final.pdf*, last accessed 9/30/13.

[5] College Savings Plans Network 529 Report, note 2 above, p. 9.

[6] "State Tax Deductions for 529 Contributions," FinAid.org. Online at: *http://www.finaid.org/savings/state529deductions.phtml*, last accessed 9/30/13.

[7] "State Section 529 Plans," FinAid.org. Online at: *http://www.finaid.org/savings/state529plans.phtml*, last accessed 9/30/13.

[8] "History of 529 Plans," College Savings Plans Network. Online at: *http://www.collegesavings.org/history.aspx*, last accessed 9/30/13.

[9] "Trends in Student Aid 2012," The College Board, Washington, D.C., p. 32. Online at: *http://advocacy.collegeboard.org/sites/default/files/student-aid-2012-full-report.pdf*, last accessed 9/30/13.

[10] N.C. Second Extra Session Laws 1996-18 (House Bill 53), § 16.7.

[11] N.C. General Statute § 116-209.25.

[12] "NC 529 assets grow to record $1 billion," CFNC.org. Online at: *http://www.cfnc.org/static/pdf/nc529/pdf/NC529OneBillionRelease-FINAL.pdf*, last accessed 9/30/13.

[13] N.C. Session Law 2006-66 (Senate Bill 1741), § 24.12. Federal adjusted gross income must be less than the following amounts shown for the taxpayer's filing status: Married filing jointly/Qualifying Widow(er) – $100,000; Head of household – $80,000; Single –$60,000; and Married filing separately – $50,000.

[14] N.C. Session Law 2007-323 (House Bill 1473), §31.19. See note 13 above for thresholds.

[15] N.C. Session Law 2011-106 (Senate Bill 247).

[16] Richard Craver, "N.C. tax credit for 529 plans going away," *Winston-Salem Journal*, Winston-Salem, NC, November 20, 2013. Online at: *http://www.journalnow.com/news/local/article_144f9658-5249-11e3-a2e5-0019bb30f31a.html*, last accessed 12/30/2013.

[17] N.C. Session Law 2013-316 (House Bill 998), repealing N.C. General Statute § 105-134.6(d)(4).

[18] Richard Craver, note 16 above.

[19] *Ibid.*

[20] "North Carolina 529 Plan," State Employees' Credit Union. Online at: *https://www.ncsecu.org/depositaccounts/NC529.html*, last accessed 9/30/13.

[21] North Carolina's National College Savings Program Features, CFNC.org. Online at: *http://www.cfnc.org/site/nc529/main/overview.jsp*, last accessed 9/30/13. See also IRS Ruling, Part 7, Chapter 25, Section 44: Qualified Tuition Programs, October 1, 2005.

[22] "North Carolina's National College Savings Program: Program Description," CFNC.org, November 15, 2012, p. 29. *Online at: http://www.cfnc.org/static/pdf/savings/pdf/program2012.pdf*, last accessed 9/30/13.

[23] *Ibid.*, pp. 29-30.

[24] *Ibid.*, pp. 30-35.
[25] UNC Board of Governors, *2005 Board of Governors' Non-Budget Legislative Initiatives,* Approved by the UNC Board of Governors' Committee on Public Affairs, November 12, 2004, and by the full Board on January 14, 2005, p. S-2. Online at: *https://www.northcarolina.edu/bog/doc.php?code=bog&id=13676,* last accessed 9/30/13.

[26] "The Best and Worst 529 College-Savings Plans," *www.morningstar.com*, Chicago, IL, February, 10, 2006, p. 1.

[27] N.C. Session Law 2006-66 (Senate Bill 1741), § 24.12.

[28] "Morningstar Names Best 529 College Savings Plans for 2012," *www.morningstar.com*, Chicago, IL, October 15, 2012. Online at: *http://news.morningstar.com/articlenet/article.aspx?id=570349&part=1*, last accessed 9/30/13.

[29] Federal Receipts, Table 16.1 Estimates of Total Income Tax Expenditures for 2012-2018, The White House, Washington, DC, p. 245. Online at: *http://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/_assets/receipts.pdf*, last accessed 12/30/2013.

[30] Richard Craver, note 16 above.

[31] North Carolina Biennial Tax Expenditure Report 2011, N.C. Department of Revenue, p. 66. Online at: *http://www.dor.state.nc.us/publications/nc_tax_expenditure_report_11.pdf*, last accessed 9/30/13.

[32] "Compare 529 Plans by Feature," *SavingforCollege.com*. Online at: *http://www.savingforcollege.com/compare_529_plans/?plan_question_ids[]=438&page=compare_plan_questions*, last accessed 5/10/13.

[33] The factors that increase low income accessibility are adapted from the work of researchers at the Center for Social Development at the George Warren Brown School of Social Work at Washington University in St. Louis, Missouri. See (1) Margaret Clancy, Chang-Keun Han, Lisa Reyes Mason, and Michael Sherraden, "Inclusion in College Savings Plans: Participation and Saving in Maine's Matching Grant Program," Center for Social Development, Washington University, St. Louis, MO, April 2006; (2) Margaret Clancy, Peter Orszag, and Michael Sherraden, "College Savings Plans: A Platform for Inclusive Social Policy?," Center for Social Development, Washington University, St. Louis, MO, February 2004; (3) Margaret Clancy and Leslie Parrish, "Reforming 529 College Savings Plans to Better Reach Low-Income Families," Center for Social Development, Washington University, St. Louis, MO, March 2006; and, (4) Margaret Clancy and Michael Sherraden, "The Potential for Inclusion in 529 Savings Plans: Report on a Survey of States," Center for Social Development, Washington University, St. Louis, MO, December 2003.

[34] Terry Lassar, Margaret Clancy, and Sarah McClure, "Toward More Inclusive College Savings Plans: Sample State Legislation," Center for Social Development, Washington University, St. Louis, MO, January 2010, pp. 6-8.

[35] Data from University of North Carolina General Administration, 2013.

[36] Nicole Bullock, "Better 529 Plans Help Parents Pay For College," *Wall Street Journal*, New York, NY, March 20, 2007. Online at: *http://www.marketwatch.com/story/better-529-plans-help-parents-pay-for-college*, last accessed 9/30/13.

[37] As quoted in Kathy Chu, "529 Plans Becoming Top Savings Option," *USA Today,* McLean, VA, February 12, 2007, p. 1B.

Chapter Eight

State Financial Aid for Students in Private Colleges and Universities

North Carolina's package of student aid initiatives also includes programs that support students attending private colleges. Since 1971, the N.C. General Assembly has provided funds to North Carolina students attending private colleges and universities in the state.[1] Eligible students attending private institutions in North Carolina may receive financial assistance from a **N.C. Need-Based Scholarship**, which in 2011 replaced the Legislative Tuition Grant and the State Contractual Scholarship.

In 2011-12, the final year of the programs, the Legislative Tuition Grant disbursed $49,297,217 and the State Contractual Scholarship disbursed $40,311,233, a total of $89,608,450.[2] In the 2011-12 State budget, the legislature eliminated funding for the Legislative Tuition Grant for 2012-13, a recurring appropriation of $58,269,681.[3] The legislature also eliminated funding for the State Contractual Scholarship Program, a recurring appropriation of $45,896,963.[4] In total, the legislature eliminated $104,166,644 in recurring appropriations for these two programs. However, in the same budget, the legislature established funding for the N.C. Need-Based Scholarship, a recurring appropriation of $81,851,588.[5] In 2013-14 and 2014-15, the legislature increased appropriations for this program to $86,351,588.[6]

The N.C. Need-Based Scholarships are administered by the N.C. State Education Assistance Authority (NCSEAA).[7] In the 2012-13 and 2013-14 school years, they were available to state residents for a maximum of nine full-time semesters, unless the student is enrolled in an official five-year program.[8] As of the 2014-15 academic year, students could receive a need-based grant for only 10 full-time academic semesters or 12 full-time academic semesters in a five-year degree program, unless the student is granted a waiver from this limitation.

The N.C. Legislative Tuition Grant Program and the State Contractual Scholarship Fund, which previously provided tuition and financial assistance to eligible state residents attending private institutions, were repealed by the legislature in 2011.[9] The largest of these two programs, the **North Carolina Legislative Tuition Grant program** (originally created in 1975), provided $1,850 to each full-time *student* through a grant credited to the student's account.[10] These grants were not based on financial need.

According to Hope Williams, president of the 36-member N.C. Independent Colleges and Universities Association, "The Legislative Tuition Grant Program was provided for all North Carolina students under the same philosophy as the state subsidy, which is provided for all students, regardless of income, in the state university system."

The other program worked differently. The **State Contractual Scholarship Program** (originally created in 1971) allocated $1,350 to the *institution* for each North Carolina student enrolled full-time in undergraduate courses at each college.[11] The funds were paid directly to the college, not to the student, and disbursed as campus-based aid. Each school used the pool of money to award need-based scholarships to North Carolina residents in an amount determined by each school to meet as much student need as possible.

Table 8.1 State Disbursements to Private Colleges and Universities in North Carolina for the State Contractual Scholarship Program and Legislative Tuition Grants, 2011-12 (programs no longer exist)

	Private College or University	*City*	*State Contractual Scholarship ($)*	*Legislative Tuition Grant ($)*
1.	Barton College	Wilson	$ 1,011,441	$ 1,191,185
2.	Belmont Abbey College	Belmont	1,260,633	1,640,510
3.	Bennett College	Greensboro	252,069	342,850
4.	Brevard College	Brevard	362,277	479,797
5.	Cabarrus College of Health Sciences	Concord	303,864	321,205
6.	Campbell University	Buies Creek	4,136,119	4,318,542
7.	Catawba College	Salisbury	1,168,265	1,573,031
8.	Chowan University	Murfreesboro	671,044	885,903
9.	Davidson College	Davidson	458,098	640,590
10.	Duke University	Durham	1,125,103	1,417,390
11.	Elon University	Elon	1,420,334	1,947,348
12.	Gardner-Webb University	Boiling Springs	2,223,444	2,646,106
13.	Greensboro College	Greensboro	780,090	943,516
14.	Guilford College	Greensboro	1,756,111	2,253,286
15.	High Point University	High Point	1,247,405	1,489,961
16.	Johnson & Wales University*	Charlotte	829,583	1,097,216
17.	Johnson C. Smith University	Charlotte	823,541	941,718
18.	Lees-McRae College	Banner Elk	632,187	847,275
19.	Lenoir-Rhyne College	Hickory	1,335,160	1,756,940
20.	Livingstone College	Salisbury	805,375	1,104,767
21.	Louisburg College	Louisburg	575,223	756,790
22.	Mars Hill University	Mars Hill	961,948	1,183,032
23.	Meredith College	Raleigh	1,594,135	2,132,729
24.	Methodist University	Fayetteville	1,371,129	1,775,803
25.	Montreat College	Montreat	420,691	540,738
26.	Mount Olive College	Mount Olive	2,851,619	3,138,757
27.	North Carolina Wesleyan College	Rocky Mount	1,177,761	1,470,562
28.	Pfeiffer University	Misenheimer	794,788	985,824
29.	Queens University of Charlotte	Charlotte	1,168,265	1,546,975
30.	Saint Augustine's University	Raleigh	885,982	1,163,417
31.	Salem College	Winston-Salem	771,458	929,862
32.	Shaw University	Raleigh	1,611,688	2,122,348
33.	St. Andrews University	Laurinburg	218,369	284,408
34.	Wake Forest University	Winston-Salem	1,279,912	1,751,133
35.	Warren Wilson College	Swannanoa	170,348	231,354
36.	William Peace University	Raleigh	644,560	819,699
37.	Wingate University	Wingate	1,512,702	2,050,622
			$40,311,233	$49,297,217

Notes: 2011-12 is the final year in which funds were disbursed from the State Contractual Scholarship funds and the Legislative Tuition Grant funds.
* When Rhode Island-based Johnson and Wales University opened a campus in Charlotte, the legislature recognized the school's accreditation by the New England Association of Colleges and Schools. The NC Independent Colleges and Universities association does not include Johnson and Wales University as a member school.
Source: NC OpenBook, "Disbursements by State Fiscal Year of Award (Ending June 30)," Office of State Budget and Management, Raleigh, NC, 2011-12. Online at: *http://www.ncopenbook.gov/*, last accessed 12/29/2013.

Table 8.2 North Carolina Need-Based Scholarship by Institution, 2012-2013 Award Year

Institution	*Recipients*	*Dollars Awarded*
Barton College	744	2,593,668
Belmont Abbey College	879	1,686,070
Bennett College	233	893,258
Brevard College	264	1,097,990
Cabarrus College Of Health Science	217	640,625
Campbell University	2,025	6,958,688
Catawba College	771	2,675,373
Charlotte Mecklenburg Hospital Authority	86	148,125
Chowan University	524	1,962,967
Davidson College	135	607,200
Duke University	239	1,050,379
Elon University	354	1,572,302
Gardner Webb University	1,400	3,800,056
Greensboro College	471	1,449,970
Guilford College	1,139	2,250,837
High Point University	366	1,342,906
Johnson & Wales University	641	2,457,766
Johnson C. Smith University	771	2,422,051
Lees McRae College	401	1,177,279
Lenoir Rhyne University	892	3,618,500
Livingstone College	734	2,798,400
Louisburg College	485	1,800,933
Mars Hill College	786	2,838,137
Mercy Nursing School	34	60,375
Meredith College	803	3,349,101
Methodist University	788	2,700,800
Mid-Atlantic Christian University	90	328,317
Montreat College	351	859,250
Mount Olive College	2,079	2,903,131
NC Wesleyan College	1,009	1,996,100
Pfeiffer University	552	1,816,203
Queens University of Charlotte	686	2,151,587
Salem College	489	1,321,159
Shaw University	1,263	4,420,823
Southeastern Baptist Theological Seminary	57	174,850
St. Andrews University	167	624,900
St. Augustine's University	750	2,808,425
Wake Forest University	366	1,717,767
Warren Wilson College	109	452,967
William Peace University	554	1,873,403
Wingate University	964	4,277,471
TOTAL	25,668	$81,680,109

Through a third program, the **Private Medical School Aid Program**, the North Carolina General Assembly previously funded grants ($5,000 per year in 2009) to State residents attending medical school at two private medical schools - Duke University and Wake Forest University.[12] These grants also were repealed by the legislature in 2011.[13] In the 2011-12 State budget, the legislature eliminated funding for the Legislative Tuition Grant for 2011-12 and 2012-13, a recurring appropriation of $1,279,000.[14]

Sidebar 8.1 How Long Has Financial Aid Been a Concern in American Higher Education?

The story of financial aid in America begins in 1643. Rev. Thomas Weld, a trustee of Harvard College, had traveled to England on a fundraising mission. Carrying a 26-page progress report on the College to show to prospective donors, he hoped to convince donors that Harvard would help build a godly civilization in the wilderness of America. His most fruitful visit was with Ann Radcliffe, a wealthy widow and active philanthropist whose former husband had been a member of the British House of Lords and Lord Mayor of London. Her father had been the Master of the Merchant Taylors Guild, which endowed scholarships for poor students to attend Oxford University.

Weld's sales pitch was a success. With an initial gift of £100 (a sum equivalent to more than $300,000 today), she endowed a scholarship for the "yearly maintenance [of a] poor scholar." Radcliffe even agreed that Weld's son would be the first recipient of the scholarship. However, things quickly went awry when just a few months after getting his stipend, young Weld and a classmate were convicted of robbing two houses. The students publicly were thrashed and expelled from school.

With this inauspicious start, the scholarship began a roller coaster ride of difficulties. During this time, the Massachusetts legislature was the treasurer of Harvard College. In 1655, 11 years after the first beneficiary lost the scholarship, one house of the legislature attempted to turn the scholarship endowment over to the college administration to repair buildings on the campus. The effort at changing the designated purpose of the money was rebuffed by the other legislative chamber.

In 1713, the college administration convinced the legislature to hand over control of the funds. The administrators merged the scholarship endowment into the college's general fund, where the money was used occasionally to pay for scholarships during the next 180 years but was normally used for other purposes. Eventually though, in 1893, the scholarship was restored to its original status and a year later, the initial benefactor's name was added to Harvard's then newly chartered Radcliffe College for women.

Source: Rupert Wilkinson, Aiding Students, Buying Students: Financial Aid in America, Vanderbilt University Press, Nashville, TN, 2005, pp. 1-3.

A fourth program, the **Certain Private Education Institutions (CPEI)** Grants, allocated financial aid to students enrolled in two Bible colleges - Mid-Atlantic Christian University in Elizabeth City (formerly Roanoke Bible College), and The College at Southeastern in the town of Wake Forest, near Raleigh (the undergraduate college of Southeastern Baptist Theological Seminary). These grants also were eliminated by the legislature in 2011.[15] When the program existed, students at these schools were eligible for the grants because the institutions were accredited by the Southern Association of Colleges and Schools, offered post-secondary degrees, and were not eligible for State aid under the Legislative Tuition Grant Program. In 2011-12, the last year of the grants, 163 students received $280,548.[16]

Table 8.3 State Grants to Students at Bible Colleges in N.C.

	Total State Appropriation	*Mid-Atlantic Christian University*		*The College at Southeastern*		*Total*	
		Number of Students	**Amount Disbursed**	**Number of Students**	**Amount Disbursed**	**Students**	**Amount**
2005-06	$420,000	38	$68,400	127	$228,600	165	$297,000
2006-07	420,000	37	72,150	124	241,800	161	313,950
2007-08	386,700	39	74,347	117	223,767	156	298,114
2008-09	321,900	45	82,557	129	231,258	174	313,815
2009-10	321,900	45	82,557	129	231,258	174	313,815
2010-11	321,900	58	103,830	101	180,146	159	283,976

Source: Annual Reports provided by the N.C. State Education Assistance Authority to the N.C. General Assembly's Joint Legislative Education Oversight Committee.

In 2011, the N.C. General Assembly created the **Forgivable Education Loans for Service (FELS) Program**. Funds from this program provide financial assistance to eligible students, including North Carolina residents attending private institutions in the state, who commit to work in the State in the high-need fields of nursing, teaching, medicine, or as an allied health professional. These loans are administered by the N.C. State Education Assistance Authority, and the loans may be forgiven based on the amount of time a borrower spends working in a qualified position. Generally, a loan for one academic year is forgiven after the borrower works full-time in that field in

North Carolina for one year. An advisory group determines which occupations will be included as qualified positions, based on employment shortages and enrollment projections.[17] FELS was formed by merging several work-contingent financial aid programs, a change discussed in more detail in the following chapter.

Endnotes

[1] N.C. Session Law 1971-344 (House Bill 780).

[2] NC OpenBook, "Disbursements by State Fiscal Year of Award (Ending June 30)," Office of State Budget and Management, Raleigh, NC, 2011-12. Online at: *http://www.ncopenbook.gov/*, last accessed 12/29/2013.

[3] "Report on the Continuation, Expansion and Capital Budgets," N.C. General Assembly Senate Appropriations Committee, Raleigh, NC, June 16, 2011, p. F-14.

[4] *Ibid.*, p. F-15.

[5] *Ibid.*

[6] "The Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets," N.C. General Assembly, Raleigh, NC, July 21, 2013, p. F-13.

[7] Program Rules are online at: *http://www.ncseaa.edu/pdf/Rules_NBS.pdf*, last accessed 12/29/2013.

[8] N.C. Session Law 2011-145 (House Bill 200), § 9.18(a), enacting N.C. General Statute § 116-280 to -283, "Need-Based Scholarships for Students Attending Private Institutions of Higher Education.

[9] N.C. Session Law 2011-145 (House Bill 200), § 9.18(c), repealing N.C. General Statute § 116-19 to -22.

[10] Program modified by N.C. Session Law 2001-424 (Senate Bill 1005), § 31.1. Later, the grant was reduced from $1,950 to $1,850 in the 2009-10 state budget.

[11] Program Rules online at: *http://www.ncseaa.edu/pdf/Rules_StateContractualScholarshipFund.pdf*, last accessed 12/19/2013. For historical changes in the program, see N.C. Session Law 2001-424 (Senate Bill 1005), § 31.1.

[12] N.C. Session Law 2009-451 (Senate Bill 202), § 9.15. The legislation repealed the law, N.C. General Statute § 116-21.5, that previously governed state aid to residents at private medical schools.

[13] N.C. Session Law 2011-145 (House Bill 200), § 9.14, repealing N.C. General Statute § 116-21.6.

[14] "Report on the Continuation, Expansion and Capital Budgets," N.C. General Assembly Senate Appropriations Committee, Raleigh, NC, June 16, 2011, p. F-15. Students funded under this program became eligible to apply for the Board of Governors Medical School Loan program.

[15] N.C. Session Law 2011-145 (House Bill 200), § 9.18(c), repealing N.C. General Statute § 116-43.5.

[16] North Carolina State Education Assistance Authority (NCSEAA), Annual Report 2012-2013, p. 9. Online at: *http://www.ncseaa.edu/pdf/2012-13_Annual_Report.pdf*, last accessed 10/1/13.

[17] N.C. Session Law 2011-74 (Senate Bill 137), An Act To Establish the Forgivable Education Loans for Service Program and the Forgivable Education Loans for Service Fund As Recommended by the Joint Select Committee on State-Funded Student Financial Aid.

Chapter Nine

N.C. Forgivable Education Loans for Service

Workforce contingent financial aid programs provide money for college in exchange for an individual's commitment to work in occupations or geographic regions that have workforce shortages. Most of the programs fall into one of two categories: (1) **loan forgiveness programs** that lend money to students for school that can be repaid with service in a specific occupation, and (2) **loan repayment programs** that reimburse people working in fields of need to repay student loans they received from other sources.

The first major federal government effort like this was the National Defense Student Loan Program for teachers that began in 1958, and the oldest North Carolina effort – the Health, Science, and Math Program – began in 1945.[1] It was repealed in 2011.[2] In the past, the State of North Carolina provided funding for as many as 16 workforce contingent financial aid programs simultaneously, awarding $27.6 million to 4,230 students in higher education institutions in 2005, for example.

A. Current Forgivable Loans for Vocational Service in North Carolina

1. The N.C. Forgivable Education Loans for Service Program

In testimony before the Joint Select Committee on State-Funded Student Financial Aid in 2010, the N.C. Center for Public Policy Research recommended the consolidation of workforce contingent financial aid programs into a single program. The Center said this would save taxpayers' money that was being spent on the extra administration of multiple loan programs. It would make it easier for parents and students to apply to one program than many separate programs.

In 2011, the N.C. General Assembly merged many of these workforce contingent financial aid programs into the new N.C. Forgivable Education Loans for Service (FELS) Program.[3] The

FELS statute included what had been 12 separate funds – (1) the Student Loan Program for Health, Science, and Mathematics Fund; (2) the Prospective Teachers Scholarship Loan Fund; (3) the Future Teachers of North Carolina Fund; (4) the Physical Education – Coaching Scholarship Loan Fund; (5) the Nurse Education Scholarship Loan Fund; (6) the Nursing Scholars Program Fund; (7) the Masters Nursing Scholars Program Fund; (8) the Graduate Nurse Scholarship Program for Faculty Production Fund; (9) the Board of Governors' Dental Scholarship Loan Fund; (10) the Board of Governors' Medical Scholarship Loan Fund; (11) the Optometry Scholarship Loan Fund; and (12) the Social Workers' Education Loan Fund.[4] As described below, other funds also were brought under the FELS program.

FELS provides "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."[5] In 2013-14, loans were available for teaching, allied health, nursing, and medicine.[6]

To be eligible for the FELS program, a student must be a North Carolina resident, agree to work in a qualified position after graduation, and meet certain grade point average standards. Undergraduate students can receive up to $3,000 per year during their freshmen and sophomore years, and up to $7,000 per year for their junior and senior years. Students in master's degree programs may receive up to $10,000 per year; doctoral degree students may receive up to $14,000. The law requires creation of an advisory group to make recommendations on future labor shortages and loan disbursements. In 2012-13, the advisory group included representatives from UNC General Administration, the N.C. Community College System, N.C. Independent Colleges and Universities, the N.C. Department of Commerce, the Department of Public Instruction, the Council for Allied Health in North Carolina, and the Cecil G. Sheps Center for Health Services Research at UNC.[7]

According to the rules of the FELS program, loan recipients must apply for loan forgiveness through employment in a qualifying position or repay the loan plus interest. Generally, the repayment period cannot exceed ten years, and one year of the loan amount is forgiven per year of full-time employment. Recipients must comply with additional requirements, including applicable registration and licensure within their profession. In the 2012-13 school year, there were 428 teaching applicants, 1,475 nursing applicants, 490 applicants in an allied health field, and 49 medical applicants for the FELS program.[8] In 2012-13, $16.7 million was awarded by the FELS program through 2,805 awards.[9]

2. The Principal Fellows Program

The **Principal Fellows Program** is a merit-based loan program created by the General Assembly in 1993 that provides $30,000 during the first year of a two-year program for students pursuing a Master of School Administration degree.[10] The amount available in the second year is tied to a percentage of the salary the person will earn as an assistant principal and varies by school district. Principal Fellows must attend one of 11 participating UNC institutions and must complete a full-time internship during their second year. Participants are required to participate in professional enhancement through their universities and through the Center for School Leadership Development based in Chapel Hill.

Each recipient must work as an administrator for a minimum of four years to repay the loan through service, or otherwise repay with interest. They must have had at least four years of teaching experience and must sign a promissory note saying they will pursue employment as a principal or school administrator in a public school in North Carolina. Expenditures in 2012-13 were $3.3 million on 116 participants.[11]

B. The History of North Carolina's Workforce Contingent Aid Programs

Historically, these programs have been loan forgiveness programs rather than loan repayment programs. In North Carolina, these programs were often labeled "scholarships" but were really state loans that carried a service repayment obligation. The State issued a loan to pay for a student's education in preparation for a specific career, such as teaching or nursing. The program participant then earned forgiveness of the loan by working in that career in North Carolina for a certain period of time. If the participant failed to complete the service obligation, the loan was required to be repaid with interest – usually set at 10 percent. Support of multiple workforce contingent aid programs is not uncommon among the states. The N.C. Forgivable Education Loans for Service (FELS) Program is the plan through which most funds are now disbursed to students who agree to work in high-need occupations. This section reviews the past separate programs.

1. General Programs

The **N.C. Student Loan Program for Health, Science, and Mathematics** was a need-based scholarship loan program for State residents accepted as full-time students in an accredited post-secondary program, either in-state or out-of-state, leading to a degree in specified health, science, or mathematics fields. It was administered by the N.C. State Education Assistance Authority (SEAA).[12]

The program provided a variety of loan amounts depending on the student's course of study. It provided up to $3,000 per year for two years if the student was pursuing an Associate Degree or was enrolled in a Certificate Program, or up to $5,000 per year for two years for a student pursuing a Baccalaureate Degree (plus up to $5,000 for a year spent in clinical training). It also provided up to $6,500 per year for two years for a Master's Program, or as much as $8,500 per year for four years for students pursuing Health Professional/Doctoral Programs. The loan was repayable through service at the rate of one year of service for each year of full-time scholarship assistance received. The maximum aggregate award was $58,000.

In 2011-12, the State spent almost $2.3 million on this program and served 274 students.[13] This program was repealed in 2011.[14]

2. Education-Related Programs

Teacher supply and demand is driven mostly by the need to replace teachers who leave the system, with increasing student population being a distant second driving factor.[15] Nationally, the "greening" and "graying" of our teacher corps is also an important trend. In 1987-88, the most common age of a teacher was 41. Twenty years later, the most common age was 55. When you look at the ages of teachers, there are now two peaks in the distribution – most teachers are either aged 24-28 or they are aged 54-60. In 1987-88, most teachers had 15 years of experience. Twenty years later, most teachers have one year of experience.[16]

In 2010-11, UNC's 15 teacher education programs produced 4,436 teachers, fewer than in 2009-10 (4,538).[17] UNC undergrads make up the largest portion of the teacher workforce (32 percent), followed by out-of-state undergraduates (23 percent), alternative entry (15 percent), in-state private colleges and universities (12 percent), unclassified (6 percent), out-of-state graduate students (6 percent), UNC graduate students (3 percent), Visiting International Fellows (1 percent), UNC licensure (1 percent), in-state private college and university graduate students (less than 1 percent), other licensure (less than 1 percent), and Teach for America (less than 1 percent).[18]

In 2009, UNC General Administration said the UNC System should produce about 54 percent of the State's teachers.[19] The UNC System has established a UNC Teacher Recruitment Initiative, and "[e]ach UNC institution has prepared a campus-based plan that is aligned to the overarching system recruitment plan and also aligned to the enrollment growth targets for their respective campus."[20]

The **N.C. Teaching Fellows Program** was a merit-based scholarship loan program administered by the nonprofit Public School Forum of North Carolina that provided loans to college students in North Carolina pursuing teaching careers. Students in the program participated in a number of enrichment experiences designed to enhance their academic and professional development. Participants who completed the program could repay the loan by teaching in a North Carolina public school for four years within seven years of graduating from the program.[21]

The Teaching Fellows Program provided up to $6,500 per year for four years to students pursuing degrees in the teaching profession. Before repeal, the program awarded 500 new loans per year, and the student must have attended one of 17 colleges or universities that participated in the program (12 were public universities). While the program was administered by the Public School Forum of North Carolina, the SEAA was responsible for the cash collection on these loans for participants who did not complete the program and for those who did not fulfill the service requirements.

The program sought to recruit prospective teachers with stellar academic qualifications, an approach often termed bringing the "best and brightest" into the profession. Teaching Fellows typically had Scholastic Aptitude Test (SAT) scores higher than 1,135 and ranked in the top seven percent of their high school graduating class.[22] In keeping with goals to recruit more males and minorities into the teaching profession, approximately 30 percent of the program awards went to males and 20 percent went to minorities.[23]

According to the Public School Forum, the nonprofit that managed the Teaching Fellows program, there were more than 10,799 students selected to be Teaching Fellows since 1986 when the program was established. In 2012-13, there were more than 4,443 graduates of the Teaching Fellows in public schools in 99 of the 100 North Carolina counties.

The state's 2011-12 expenditures on this program were almost $11.3 million and the program had 1,864 participants.[24] This program was repealed in 2011, with an effective date of July 1, 2015, so recipients selected for the 2011-12 year were the last class to receive four years of financial assistance.[25]

The **N.C. Millennium Teacher Scholarship Loan Program** was a need-based loan available to students at the three public universities that did not have an active Teaching Fellows program. Recipients had to be graduating high school seniors enrolling at Elizabeth City State University (which later accepted Teaching Fellows), Fayetteville State University, or Winston-Salem State University. The program was funded with proceeds from the State's Escheat Fund and provided assistance to 20 students on each of the three campuses.[26]

Applicants met specified academic criteria and had to have had at least $3,000 in financial need. The program provided loans of up to $6,500 each year. Recipients made a commitment to teach one year in North Carolina for each year they received aid. By fulfilling that commitment within ten years, they earned forgiveness on the loan, which otherwise had to be repaid with interest. Program expenditures for 2011-12 were $248,831 for 41 students.[27] On January 1, 2012, the program merged with Prospective Teachers Scholarship Loan, which is now part of the FELS program.[28]

The **Prospective Teachers Scholarship Loan** was a competitive, merit-based scholarship loan program available to students who entered the education profession. The program originated in 1957 and was originally managed by the N.C. Department of Public Instruction.[29]

The program's purpose was to train and retain more teachers in the State. A school official such as a high school guidance counselor or principal recommended students for this award. In 2011-12, expenditures for the program totaled almost $3.4 million and awards went to 1,085 students.[30] This program was repealed in 2011.[31]

The **Future Teachers of NC Scholarship-Loan Fund** was a program designed to train more teachers in math, science, special education, or English as a second language in North Carolina's public schools. The program originated in 2005 as a response to the State's teacher shortage in these particular fields.[32]

Recipients were state residents, college juniors or seniors, and enrolled full-time in a teaching program at a public university. Participants committed to teach in math, science, special education, or English as a second language for at least three years to receive loan forgiveness. The State spent $107,250 on 19 North Carolinians during 2010-11 on this program.[33] The 2009 General Assembly enacted a special provision in its budget phasing out this program after 2010-11.[34] The bill that established the Forgivable and Education Loans for Service (FELS) Program transferred all remaining assets and liabilities of this program to FELS.[35]

The **Physical Education – Coaching Scholarship Loan** was a merit-based program that provided aid to students pursuing degrees to become public school teachers who also desired to become coaches or assistant coaches. The program provided 25 scholarship loans per year of up to $4,000 to State residents who agreed to accept employment in rural or needy counties. The program was administered by the State Education Assistance Authority.[36]

Each year's loans had to be repaid through a year of service in the area of need. Through a "Coaching Fellows" initiative, the program was designed to provide resources and supplemental training for its participants, much in the same way as the Teaching and Principal Fellows programs. The program was closed to new recipients by the 2008 legislature.[37] The 2009-10 expenditures in the final year of the program were $12,000.[38] The bill that established the Forgivable and Education Loans for Service (FELS) Program transferred all remaining assets and liabilities of this program to FELS.[39]

The **Teacher Assistant Scholarship Fund** was a need-based grant for individuals employed as teacher's assistants who were seeking to become teachers. Recipients were not required to pay back the grant. The program was created by the legislature in 2001 and was originally limited to participants attending four-year institutions, but beginning in the fall of 2006, the program was expanded to include N.C. Community College students.[40]

Grants of up to $3,600 annually were available to State residents with financial need who were enrolled in programs leading to initial licensure as a teacher. The grants were available at public or private institutions in North Carolina. In 2011-12, the State spent almost $277,000 on this program and served 116 teacher assistants.[41] This program was repealed in 2011.[42]

The **Teacher Assistant Scholarship-Loan Program** allowed North Carolina residents who were working as full-time teacher assistants and attending a four-year college or community college to receive up to $3,500 per year to pursue teacher licensure. This program also provided up to $1,200 annually for those students seeking an early childhood associate degree or a two-year degree in "other skills" of use in the state's public schools. Applicants must have had at least one year's experience working as an assistant and be willing to maintain employment while in school. The program ended in 2006.[43]

The **Prospective Teacher Scholars Focused Growth Pilot Program** was an experimental, merit-based tuition reduction pilot program authorized by the legislature in 2002 to recruit out-of-state students as teachers.[44] It was funded by an $11 million annual State appropriation. Three UNC institutions could each allocate up to $178,380 of focused enrollment growth appropriations to pay for the scholarship-loans. Recipients were charged the lower in-state tuition rate. If a student elected not to meet the service obligations of the program, he/she had to pay the difference between in-state tuition and out-of-state tuition. Participants in the program attended Elizabeth City State

University, UNC-Pembroke, or Western Carolina University. Each institution was limited to 20 participants at a time.

By 2010, when the UNC Board of Governors phased out the program, citing challenging economic conditions, 23 scholars had graduated from the program and the tuition waiver cost for all three schools to that date was $2.1 million. Students were recruited from 18 other states.[45]

3. Health Care-Related Programs

Paralleling the shortage of teachers, the State also has a serious need for more nurses. By 2020, North Carolina is expected to need nearly 108,000 RNs. But based on a forecasting model used by the Federal Health Resources and Services Administration, North Carolina is projected to have about 76,000 available nurses – only 70 percent of the expected need.[46] The N.C. Center for Nursing projects that with the rapid expected growth of the older population and the slower expected growth in nursing enrollment, North Carolina is "very likely to be entering into a severe and prolonged nursing shortage."[47] North Carolina will be in better condition than the national average, but still in great need at a 19.4 percent shortage, or nearly 18,000 unfilled nursing positions by 2020.[48] For academic year 2005-06, North Carolina colleges and universities produced a total of 3,380 pre-licensure (not yet licensed to practice) registered nurse graduates. North Carolina will need roughly 2,400 more graduates annually in the field of health care, 2,000 of whom will need some post-secondary education or training.[49]

The **Nurse Education Scholarship Loan Program** was need-based aid and provided loans to students ranging from $2,000 to $5,000. The program was originally enacted in 1989 to increase the number of licensed practical nurses (LPNs) in the state. The program was available to nursing students at public universities, community colleges, and private colleges and universities in North Carolina.[50] Recipients were selected by an 11-member Nursing Scholars Commission. The maximum loan was $3,000 for Associate Degree or Licensed Practical Nurse students and $5,000 for students pursuing Baccalaureate Degrees.

State expenditures for this program totaled almost $1 million in 2011-12 for 469 participants.[51] This program was repealed in 2011.[52]

The **Nurse Scholars Program** for undergraduate students and the **Master's Nurse Scholars Program** for graduate students were merit-based loan programs that provided loans ranging up to $6,500, depending on the student's course of study and whether they attended school full- or part-time. Originally enacted in 1989 (undergraduate program) and 1991 (graduate program) to increase the number of registered nurses (RNs) in the State, the programs were available to nursing students at state universities and community colleges that prepare students for licensure as registered nurses.[53] Recipients were selected by the same Nursing Scholars Commission mentioned above. The maximum loan was $6,500 for Master's students; awards were given to students pursuing Associate, Baccalaureate, or Master's degrees.

The combined 2011-12 State expenditures on the programs were almost $4.4 million, of which almost $3.6 million was for 821 undergraduate participants and more than $844,000 for 165 graduate participants.[54] These programs were repealed in 2011.[55]

The **Nurse Educators of Tomorrow Scholarship Loan,** also known as the Graduate Nurse Scholarship Program for Faculty Production,[56] was a graduate school program aimed at increasing the number of instructors in the State's nursing programs. Awards ranged up to $15,000 per year. The program was enacted by the legislature in 2006 to address the State's shortage of nursing faculty.[57] According to the 2004 report by the N.C. Institute of Medicine, "The ability to expand the number of newly trained nurses is hampered by a lack of nursing faculty…." This lack of faculty was a contributing factor in the shortage of nurses because 9,700 fully qualified applicants were turned away from the doors of the State's nursing education programs in 2003.[58]

North Carolina spent more than $1.8 million on the program in 2011-12 for awards to 127 recipients.[59] The program was repealed in 2011.[60]

The **Board of Governors' Medical Scholarship-Loan Program** and the **Board of Governors' Dental Scholarship-Loan Program** were originally designed to encourage minorities to remain in-state to attend medical schools or the UNC-Chapel Hill Dental School. The medical program began in 1974, and the dental program began in 1978.[61]

Under the old programs, recipients were selected by the participating schools, and the program was administered by the UNC Board of Governors. Originally a need-based *grant* program, this became a *loan* program for students entering after July 1, 2005. The awards were limited to N.C. residents. Though the programs were designed to give minority and economically disadvantaged youth access to the medical and dental professions, eligibility for the programs was not based on race.

The maximum awards were $5,000 stipend per year plus tuition, mandatory fees, health insurance, and a portable computer. Recipients could repay each year of loans with a year of service in the State. Unlike the scholarship loans administered by the SEAA, unused funds for these two programs reverted to North Carolina's General Fund rather than being kept in a revolving fund to support future loans.

North Carolina's 2011-12 expenditures on the medical scholarship-loan program were $1.87 million for 71 participants and almost $905,000 for 23 students in the dental scholarship-loan program.[62] These programs were repealed in 2011.[63]

North Carolina also previously funded **Contract Programs in Medicine, Dentistry, and Optometry**, beginning in 1950.[64] Through a contract with the Southern Regional Education Board (SREB) based in Atlanta, Georgia, the State purchased slots for its residents to attend out-of-state institutions and pay the equivalent of North Carolina's in-state tuition rates to study medicine, dentistry, and optometry.[65] By obtaining one of the slots in the program, a student's tuition was reduced. The medical and dental parts of the program were products of the era of segregation and were designed to produce African American doctors and dentists. North Carolina maintained the optometry program, called the **N.C. Optometry Scholarship Loan Program,** primarily because there was no optometry school here.[66]

According to a report issued by the N.C. Fiscal Research Division in 2009, "the State has already begun the phase-out of 14 spaces at Meharry Medical College [in Nashville, TN]. The SREB contract with Meharry began in a time of segregation, before the establishment of the ECU medical school, and before the creation of the UNC Board of Governors medical and dental scholarships. The State spends $92,800 for four dental and two medical students at Meharry. The program will be completely phased-out by FY 2010-11.[67]

Since the State does not have an Optometry school, the UNC system has paid SREB to procure up to 84 spaces for North Carolina residents in the following schools: Southern College of Optometry [in Memphis, TN], University of Houston, Pennsylvania College of Optometry [in Elkins Park, PA], and the University of Alabama – Birmingham. In FY 2008-09, the State is paying $995,600 or $13,100 for each of the 76 students attending these schools. The State also assists 20 optometry students with $8,500 scholarship loans through the Health, Science, and Math program (HSM) administered by the State Education Assistance Authority.

This year, the UNC system is conforming the SREB program to the HSM program requirement that all students accepting state funds for these optometry slots must work in North Carolina after graduation or repay the scholarship funds.".[68]

In 2011, North Carolina spent $228,800 on awards for 16 recipients.[69] The bill that established the Forgivable Education Loans for Service (FELS) Program transferred all remaining assets and liabilities of this program to FELS.[70]

The **Social Worker Education Loan Fund** was a merit-based loan program that provided funds for students seeking to become social workers after earning the baccalaureate or Master's degree in social work. This program was created by the legislature in 1994. It was funded for one fiscal year only (1994-95) and had no recipients remaining as of September 2007. The program was operated by the N.C. Department of Health and Human Services and administered by the SEAA. The program was for State residents and was limited to accredited social work programs located in North Carolina. This program was repealed in 2011.[71]

The **Project H.E.A.L.T.H Scholarship Loan** was funded by a grant awarded by the U.S. Department of Labor as a part of a $24 million federal initiative. It was designed to help address North Carolina's shortage of registered nurses and other health care workers by increasing faculty at the community college level. It was administered by the North Carolina Department of Commerce's Commission on Workforce Development. Each recipient of aid from the program is required to teach for a designated period of time to repay the loan.

C. Measuring the Success of Workforce Contingent Aid Programs

A 2012 evaluation of the Teaching Fellows program found that:

> (1) the competitive scholarships provided through the Teaching Fellows program attract individuals with significantly higher academic credentials into North Carolina public schools; (2) Teaching Fellows teach in schools and classrooms with greater concentrations of both higher-achieving and lower-poverty students; (3) students of Teaching Fellows have significantly larger test score gains in elementary school math, middle grades math, and high school than the students of in-state prepared, out-of-state prepared, and alternative entry teachers, but the middle grades students taught by other teachers have larger test score gains in reading than students taught by Teaching Fellows; and (4) Teaching Fellows remained teaching in public schools at significantly higher rates than other teachers.[72]

The national 2004 report, *Workforce Contingent Financial Aid: How States Link Financial Aid to Employment* by the American Institutes for Research and the Lumina Foundation, was the first and the only comprehensive state-by-state study of the history, origins, and characteristics of such programs. While the authors identified 161 different programs in 43 states, they received data on student participation from only 100 programs. Those programs reported that 26,000 individuals received support in the 2001-02 academic year. Fifty of the 161 programs studied for the report provided data about the number of students who fulfilled their work commitment versus those who had to repay their loans. Students' financial need is not a consideration in most of the programs. Academic merit is the basis for a majority of programs, and most require state residency.[73]

The report found that approximately three-quarters of the state programs across the nation are loan forgiveness programs that provide financial aid to students while they are enrolled in school in exchange for a future workforce commitment. One quarter of the state programs are loan repayment programs that repay existing education debt in return for work in a specific field or geographic area. The loan repayment programs were unusual before the 1990s, but their numbers more than doubled between 1998 and 2002.

The study identified three advantages that loan repayment programs enjoy over loan forgiveness programs. First, the loan repayment programs offer lower risk for states because the participants must provide service concurrent with the expenditure of public funds. Second, they are easier and cheaper to administer because participants only have to be monitored as employees, not as students. Third, by enrolling people who already have degrees or certificates in the desired field, participants are not asked to make career choices prematurely in order to receive financial assistance. However, one disadvantage is that loan repayment programs are less likely to recruit new people into a field of workforce need since the people in such programs already have chosen that field.

The year after the American Institutes for Research study, the Congressional Research Service (CRS) confirmed that loan repayment programs have lower administrative costs. But, the CRS report also found that one of the federal loan repayment programs it evaluated was not effective at influencing where health care professionals chose to set up practices.[74]

The federal CRS study found that loan repayment program participants were more likely to complete their service obligations and continue to serve in the same area than participants in loan forgiveness programs. The report also said that loan forgiveness programs may be more effective as financial aid because they can provide opportunities for less affluent students who couldn't otherwise afford school. Additionally, the CRS said that loan forgiveness programs may be more attractive to the states than to the federal government because only residents of the lending state are typically eligible to participate in the programs. Also, they are more likely to remain within the state to complete their service obligation.

Given the dual trends of creating more workforce contingent aid programs and putting additional resources into these programs, evaluating their effectiveness will become more important in the future. The 2004 American Institutes for Research's review of such programs across the nation identified eight questions that can be used to evaluate the effectiveness of these programs, as follows:[75]

1. Do they help reduce workforce shortages?
2. How well do they help individuals cover educational expenses?
3. How many participants drop out of loan repayment programs before fulfilling their work obligation?
4. To what degree do students honor their commitments to loan forgiveness programs after graduation?
5. When students are required to declare majors and work intentions as early as high school or the freshman year of college, do they remain in their declared fields, and is it wise or practical to require such an early commitment?
6. Do they attract people who might not otherwise have entered the occupation or specialty?
7. Do they attract the best and brightest and most committed workers?
8. Is the effort required to track graduates of loan forgiveness programs cost-effective?

Evaluations of North Carolina's programs along these lines have been limited. A 13-month performance audit of all activities of the State Education Assistance Authority (SEAA) was released by the State Auditor in 2003. Four of the auditor's 14 recommendations have implications for evaluating the State's workforce contingent financial aid programs.[76]

The auditor found that the funding levels for the Health, Science, and Mathematics Program, Master's Nurse Scholars Program, Nurse Education Scholarship Loan Program, Nurse Scholars Program, Principal Fellows Program, and the Social Worker Education Loan Fund needed to be increased to keep pace with tuition increases for the UNC and Community College systems. The auditor found that the maximum award available under the Nurse Education Scholarship Loan Program was not enough to pay for full-time tuition at a North Carolina community college.

"The thought behind these programs is excellent: that students who need help to go to college can help the State upon graduation by working in critical fields," then-State Auditor Ralph Campbell said. "The benefit for taxpayers can be tremendous, but to be effective, the programs' maximum loan amounts need to be updated on a regular basis." The programs later had their maximum amounts increased by the legislature.

Another recommendation by the State Auditor dealt with the repayment pattern of the loans made by the six scholarship loan programs then administered by the SEAA. The 2003 audit showed that 93.9 percent of workforce contingent loans collected by the Authority are repaid, with 73.2 percent of funds repaid through service in the designated field.

In 2007-08, the Authority canceled more than $11.3 million of principal in state scholarship loan program indebtedness for borrowers repaying their debts by service in the state. The Authority also collected more than $4.7 million in principal and interest payments from borrowers who did not fulfill their vocational service obligations. 80 percent of the Authority's total scholarship loan collections were paid through the intended service in the field of shortage, while 20 percent of the loans were repaid because of non-fulfillment.

In March 2007, the SEAA provided data to the N.C. General Assembly on the six loan programs that it fully administered. The data show service repayment rates for the six programs ranging from 59 percent for the Prospective Teacher Scholarship Loan to 89 percent for the Principal Fellows Program.

Andrea Berger, a senior researcher at the American Institutes for Research and a co-author of the Lumina report, says, "No reliable evidence exists that these increasingly popular forms of student financial assistance actually address the problems that make them so appealing. Programs that link college loan repayment to a workforce obligation give the impression that they address two widespread economic problems – rising college prices and shortages in occupations such as teaching, nursing, and medicine, particularly in some remote or low-income areas. In conducting our research for this report, we were concerned to find how little study or follow-up has been done to determine whether these programs do a good, bad, or indifferent job of living up to their promise."[77]

Endnotes

[1] Harold Martin, "Presentation to Board of Governors Committee on Educational Planning," UNC General Administration, Chapel Hill, NC, September 2007, p. 1.

[2] N.C. General Statute § 90-171.65, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 4(a).

[3] N.C. Session Law 2011-74 (Senate Bill 137), An Act To Establish the Forgivable Education Loans for Service Program and the Forgivable Education Loans for Service Fund As Recommended by the Joint Select Committee on State-Funded Student Financial Aid.

[4] Note that for the Future Teachers of North Carolina Fund, the Physical Education – Coaching Scholarship Loan Fund, and the Optometry Scholarship Loan Fund, N.C. Session Law 2011-74 (Senate Bill 137) just transferred assets and liabilities to FELS.

[5] N.C. General Statute § 116-209.45(a).

[6] Forgivable Education Loans for Service (FELS), Approved Education Programs 2013-14. Online at: *http://www.cfnc.org/static/pdf/home/sc/pdf/FELS_ApprovedPrograms.pdf*, last accessed 9/30/13.

[7] Bill Cox, Deputy Director, N.C. State Education Assistance Authority, "NC Forgivable Education Loans for Service," Wrightsville Beach, NC, April 2012, Slides 6-9. Online at: *http://www.ncasfaa.com/docs/conferences/2012/presentations/NCForgivableEducationLoansForService.pptx*, last accessed 12/18/13.

[8] *Ibid.*, Slides 12-20. The FELS Program Rules are online at *http://www.ncseaa.edu/pdf/Rules_FELS.pdf*, last accessed 12/18/13.

[9] North Carolina State Education Assistance Authority (NCSEAA), Annual Report 2012-2013, p. 10. Online at: *http://www.ncseaa.edu/pdf/2012-13_Annual_Report.pdf*, last accessed 10/1/13. Of the Forgivable Education Loans for Service (FELS) awards, 1,685 students received renewals of $545,894 for the Board of Governors' Dental Scholarship Loans; $1,405,843 for the Board of Governors' Medical Scholarship Loans; $1,524,322 for the Health, Science, and Mathematics Loans; $133,250 for the Millennium Teacher Scholarship Loans; $512,000 for the Nurse Education Scholarship Loans; $662,500 for the Nurse Educators of Tomorrow Scholarship Loans; $393,250 for the Masters Nurse Scholars Program; $2,048,568 for the Undergraduate Nurse Scholars Program; and $2,245,050 for the Prospective Teacher Scholarship Loan. All new awards are made through the FELS program.

[10] N.C. General Statute § 116-74.41 to 74.43.

[11] NCSEAA Annual Report 2012-2013, see note 9 above.

[12] The Health, Science, and Mathematics Loan program was created in 1945, and its administration was a responsibility of the former N.C. Board for Need-Based Student Loans. That Board was abolished by the legislature in Chapter 738, § 41 of the 1987 Session Laws, and its functions were transferred to the State Education Assistance Authority. The abolition was recommended by the N.C. Center for Public Policy Research in *Boards, Commissions, and Councils in the Executive Branch of North Carolina State Government*, North Carolina Center for Public Policy Research, Raleigh, NC, 1984, pp. 116 and 290.

[13] NCSEAA Annual Report 2012-2013, see note 9 above.

[14] N.C. General Statute § 90-171.65, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 4(a).

[15] *Ibid.*

[16] *Ibid.*, pp. 6-7 (citing R. Ingersoll, R. and L. Merrill, L., "Who's teaching our children?," *Educational Leadership: The Key to Changing the Teaching Profession,* Vol. 67, No. 8, ASCE (formerly the Association of Supervision and Curriculum Development), Alexandria, VA, May 2010, pp. 14-20).

[17] This decline is attributed to the recession and budget cuts on campuses. *Ibid.*, p. 8.

[18] Carolina Institute for Public Policy, Teacher Quality Research: Teacher Portals Effectiveness Analysis, Chapel Hill, NC, February 2012, Figure 1 p. 5

[19] "Teacher Preparation and Development," University of North Carolina, Chapel Hill, NC, June 14, 2009, pp. 4-5. Online at: *http://www.northcarolina.edu/reports/index.php?page=download&id=140&inline=1*, last accessed August 6, 2009.

[20] *Annual Report on Teacher Education*, UNC General Administration, Fall 2012.

[21] N.C. General Statute § 115C-363.22 to 115C-363.23A.

[22] 2013 Program Summary. Online at: *http://www.teachingfellows.org/userfiles/file/TfsummaryOnly2013WithLogo 10-7-13.pdf*, last accessed 12/18/13.

[23] Program Goals. Online at: *http://www.teachingfellows.org/theprogram/programgoals.cfm*, last accessed 9/30/13.

[24] *Statistical Abstract of Higher Education in North Carolina 2012-13*, Research Report 1-13, University of North Carolina, Chapel Hill, NC, August 2013, p. 205.

[25] N.C. General Statute §§ 115C-363.22 to 363.23A, repealed by N.C. Session Law 266-145 (Senate Bill 593), § 1.38.

[26] N.C. Session Law 2007-323 (House Bill 1473), § 9.3(c).

[27] NCSEAA Annual Report 2012-2013, see note 9 above.

[28] Bill Cox, note 7 above, Slide 5.

[29] N.C. General Statute § 116-209.33. The program was initially authorized by N.C. General Statute § 115C-468 to 471. The Scholarship Loan Fund for Prospective Teachers was recodified as N.C. General Statute § 116-209.33 by N.C. Session Law 2005-276, § 9.17(b).

[30] NCSEAA Annual Report 2012-2013, see note 9 above.

[31] N.C. General Statute §§ 116-209.33 to .34, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 7(a).

[32] N.C. General Statute § 116-209.38.

[33] North Carolina State Education Assistance Authority (NCSEAA), Annual Report 2011-12, p. 12.

[34] N.C. Session Law 2009-451 (Senate Bill 202), § 9.18.

[35] N.C. Session Law 2011-74 (Senate Bill 137), § 11.

[36] N.C. General Statute § 116-209.36, repealed by N.C. Session Law 2008-107 (House Bill 2436), §9.1

[37] *Ibid.*

[38] "Physical Education-Coaching Scholarship Loan (PEC) Annual Report," 2009-10 Academic Year. Online at: http://www.ncleg.net/documentsites/committees/JLEOC/Reports%20Received/2010%20Reports%20Received/Physical%20Education-Coaching%20Scholarship%20Loan-Final%20Report%2012-2010.pdf, last accessed 9/30/13.

[39] N.C. Session Law 2011-74 (Senate Bill 137), § 12.

[40] N.C. General Statute § 116-209.35. Created by N.C. Session Law 2001-424 (Senate Bill 1005), § 31.5(a).

[41] NCSEAA Annual Report 2012-2013, see note 9 above, p. 9.

[42] N.C. General Statute § 116-209.35, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 8.

[43] N.C. Session Law 2005-276 (S.B. 622), § 9.17.

[44] N.C. Session Law 2002-126 (Senate Bill 1115), § 9.9.

[45] 2010 Prospective Teacher Scholars Focused Growth Pilot Report to the Joint Legislative Education Oversight Committee, Raleigh, NC, June 11, 2012. Online at: *http://www.ncleg.net/documentsites/committees/JLEOC/Reports%20Received/Archives/2011%20Reports%20Received/Focused%20Growth%20Pilot%20Program%204-2011/Prospective%20Teacher%20Scholars%20Focus%20Growth%20Pilot%20Program.pdf*, last accessed 12/20/13. See also "Letter from Alan Mabe to Senator Tony Foriest and Representative Douglas Yongue," UNC General Administration, Chapel Hill, NC, Nov. 29, 2010. Online at: *http://www.ncleg.net/documentsites/committees/JLEOC/Reports%20Received/Archives/2011%20Reports%20Received/Focused%20Growth%20Pilot%20Program%204-2011/Prospective%20Teacher%20Scholars%20Focused%20Growth%20Pilot%20Program-Letter.pdf*, last accessed 12/20/13.

[46] Linda M. Lacey and Jennifer G. Nooney, *RN Supply and Demand Forecast for North Carolina: 2000-2020*, N.C. Center for Nursing, Raleigh, NC, Sept. 2006, pp. 1-2. Online at: www.ga.unc.edu/NCCN/research/quickfacts/Supply%20Demand%20Forecast%20QF.pdf.

[47] *Ibid.*

[48] *Ibid.*, p. 18.

[49] Calculation from *North Carolina Trends in Nursing Education: 2003-06,* N.C. Center for Nursing, Raleigh, NC, August 2007, pp. 35-36 and 46-47. Online at: http://www.ga.unc.edu/NCCN/research/Trends2007/final%20report%20schools%202007.pdf, last accessed on August 6, 2009, unavailable on January 27, 2010.

[50] N.C. General Statute § 90-171.65.

[51] NCSEAA Annual Report 2012-2013, see note 9 above.

[52] N.C. General Statute § 90-171.65, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 4(a).

[53] N.C. General Statute § 90-171.61.

[54] NCSEAA Annual Report 2012-2013, see note 9 above.

[55] N.C. General Statute §§ 90-171.60 to .62, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 3(a).

[56] See program rules. Online at: http://www.ncseaa.edu/pdf/Rules_NurseEducatorsOfTomorrowProgram.pdf, last accessed 12/19/13.

[57] N.C. General Statute § 90-171.65.

[58] "Task Force on the North Carolina Nursing Workforce Report," N.C. Institute of Medicine, Durham, NC, May 2004, p. ix. Online at: www.nciom.org/wp-content/uploads/2010/10/taskforcemembers1.pdf*.,* last accessed 9/30/13.
Carolina, p. 11.

[59] NCSEAA Annual Report 2012-2013, see note 9 above.

[60] N.C. General Statutes §§ 90-171.100 to .101, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 2(a).

[61] The University of North Carolina Policy Manual, 800.1.1, adopted November 16, 1973.

[62] NCSEAA Annual Report 2012-2013, see note 9 above.

[63] N.C. Session Law 2011-74 (Senate Bill 137), §5 Dental, § 6 Medical.

[64] According to the policies and procedures governing the N.C. Optometry Scholarship Loan Program, "The Program was established by The University of North Carolina to provide loans to qualified North Carolina students pursuing a doctorate of optometry degree who are committed to practicing optometry in North Carolina." Part I, .0101. Online at: http://www.ncseaa.edu/pdf/OSLP_Policies_Procedures.pdf, last accessed 12/19/2013.

[65] The University of North Carolina Policy Manual, 800.1.1.1[G], adopted March 15, 1996. See also Richard D. deShazo, Keydron K. Guinn, Wayne J. Riley, and William Winter, "Crooked Path Made Straight: The Rise and Fall of the Southern Governors' Plan to Educate Black Physicians," *The American Journal of Medicine*, Vol. 126, No. 7, Alliance for Academic Internal Medicine, Alexandria, VA, July 2013, pp. 572-77. Online at: http://download.journals.elsevierhealth.com/pdfs/journals/0002-9343/PIIS0002934313001812.pdf, last accessed 12/30/13.

[66] UNC Pembroke requested that the Board of Governors authorize an optometry program at that institution in 2005, but the request was rejected.

[67] The N.C. General Assembly directed the phase out. See the Joint Conference Committee Report on the Continuation, Expansion and Capital Budgets, House Bill 2436, Raleigh, NC, July 3, 2008, p. F-7.

[68] Fiscal Research Division, "UNC Tuition Options," Raleigh, NC, January 28, 2009, pp. 5-6.

[69] NCSEAA Annual Report 2012-2013, see note 9 above.

[70] N.C. Session Law 2011-74 (Senate Bill 137), § 13.

[71] N.C. General Statute § 116-209.30, repealed by N.C. Session Law 2011-74 (Senate Bill 137), § 9(a).

[72] Gary T. Henry, Kevin C. Bastian, and Adrienne A. Smith, "The North Carolina Teaching Fellows Program: A Comprehensive Evaluation," Education Policy Initiative at Carolina, UNC-CH, Chapel Hill, NC. Online at: *http:teachingfellows.org%2Fuserfiles%2Ffile%2FTeachingFellowsPolicyBrief-Fina*l, last accessed 1/26/14.

[73] Rita J. Kirshstein, Andrea R. Berger, Elana Benatar, and David Rhodes, *Workforce Contingent Financial Aid: How States Link Financial Aid to Employment*, Research Report: Lumina Foundation for Education, Indianapolis, Indiana, February 2004, pp. 1-65. The report was written and released by the American Institutes for Research in Washington, D.C. and funded by the Lumina Foundation.

[74] Gail McCallion, "Student Loan Forgiveness Programs," Congressional Research Service, Library of Congress, Washington, D.C., updated October 25, 2005, pp. 9-12. This report reverses the definitions for "loan forgiveness" and "loan repayment" otherwise used in this chapter. In the CRS report, loan forgiveness programs repay a student's loan after service begins, while service payment programs cover school costs in return for future service. For consistency, the text discussion of this CRS report utilizes the definitions set out at the beginning of the chapter.

[75] Press Release, "Do Popular Student Financial Aid Programs Meet Goals – Easing Workforce Shortages, High College Prices?," American Institutes for Research, Washington, DC, February 2004. Online at: *http://www.air.org/news/index.cfm?fa=viewContent&content_id=486*, last accessed 9/30/13.

[76] N.C. Office of the State Auditor, *Performance Audit of the North Carolina State Education Assistance Authority*, (Audit Number: PER-0203), Raleigh, NC, June 2003, p. 4.

[77] As quoted in Press Release, note 76 above, p. 2.

Chapter Ten

Financial Aid in North Carolina's Community Colleges

Financial aid programs often are designed for traditional college students who are financially dependent on their parents, live in a dormitory, and go directly from high school to college. Nevertheless, aid programs for community college students must address the reality that such students are older, supporting families, working or between jobs, and may have been out of school for several years. Community college students' financial aid needs can be greater than public university students. On average, they have fewer outside resources and less help from parents. Tuition and fees (even though lower than public universities) are a small part of their true total cost for attending school.[1]

Nationally, 46 percent of community college students receive some form of student financial aid and 31 percent receive federal grants or loans.[2] In 2012-13, North Carolina's community colleges enrolled 326,171 students in curriculum instruction courses, those classes that go toward a degree or credit.[3] The year before, 159,511 community college students in North Carolina received a total of $528,164,308 in need-based federal Pell Grants[4] – the baseline federal student aid program designed to help students with the most financial need.[5]

Community colleges offer the lowest cost path to post-secondary education or training in the State. Historically, N.C. community colleges have had the lowest tuition in the southeast. In 2013-14, North Carolina had the lowest average in-state tuition and fees ($2,242) for two-year public institutions among the southeastern states.[6]

However, just as with the other sectors of higher education, the true cost of attending a community college includes living expenses. Individual community colleges estimate the cost of attending a North Carolina community college full-time for nine months. Central Carolina

Community College (CCCC) for example, suggests that cost of attendance for an in-state student who has to provide their own housing is $15,506. Tuition and fees comprise only $2,396 of this cost. This calculation includes living expenses and assumes the student is taking at least 12 hours of courses.

Table 10.1: 2014-15 Nine Month Budget (From Central Carolina Comm. College)

	In-State		Out of State	
	Off Campus	W/Parents	Off Campus	W/Parents
Tuition and Fees	$2396	$2396	$8540	$8540
Books and Supplies	1550	1550	1550	1550
Room and Board	6358	1590	6358	1590
Transportation	1965	1965	1965	1965
Misc. and Personal	3237	3237	3237	3237
Total	15506	10738	21650	16882

Source: Central Carolina Community College,
http://www.cccc.edu/financialaid/cost/

Because tuition and fees represent such a small percentage of the total cost of attending community college, the student aid needs of community college students are often perceived as being less than those of students in other types of institutions. Consequently, student aid programs and issues geared toward community college students do not get as much attention from the public and policymakers as those geared toward students attending baccalaureate institutions. The result often is that aid programs are designed for traditional students who are financially dependent on their parents and who proceed directly from high school to college. In North Carolina, the reality is that community college students are more likely to be independent of their parents, working, and perhaps supporting a family.

Student aid programs designed for community college students often require a non-traditional approach. For example, many students do not qualify for some aid programs because they earn too much money to get help, but not enough to afford school. Kennon Briggs, former vice president for business and finance for the N.C. Community Colleges System, said, "Financial aid eligibility formulas do a disservice to the working poor. People who work make a little too much to get Pell Grants." The State's response to that assistance gap in the Pell Grant program was to tailor the eligibility requirements of two state-funded financial aid programs so that community college financial aid officers could use them to plug the gap.

Aid programs at community colleges often must respond to the changing employment situations of students. Stephen Scott, president of Wake Technical Community College, said, "Another hardship imposed by the financial aid structure is the stipulation that the income basis for qualification is calculated from the student's previous yearly income. This means that anyone who has lost employment or suffered an economic setback, such as a serious accident or expensive illness during the current fiscal year, will not qualify for federal aid if their previous yearly salary was above federal guidelines." Since community colleges often are called on to serve the needs of workers who have lost their jobs or may be seeking retraining, making an exception to this federal stipulation requires financial aid administrators to exercise professional judgment in estimating income for the newly jobless – a process that requires time and staff resources.

A. Special Financial Aid Programs for Community Colleges

There are a number of financial aid programs that are unique to community colleges. These programs are geared toward the particular needs of community college students – needs driven by the differing mission and demographic composition of students in the institutions. "When you talk about the world of community college financial aid, there has to be a real divide in how we are looked at from a policy perspective," said Briggs. Aid programs for community colleges must deal with the reality that students are more likely to be independent of their parents, working, and perhaps supporting a family. They must take into account that the institutions are often called on to retrain workers.

1. The N.C. Community College Grant, Targeted Financial Assistance, and Loan Program

The N.C. Community College Grant and Loan Program and Targeted Financial Assistance was enacted by the legislature in 1999 and replaced an older program called the N.C. Community College Scholarship Program. The three goals of the program are to provide need-based grants; to offer incentives for individuals to enroll in programs with high local demand from employers, but low student enrollment; and to offer short-term loans.[7]

The program is North Carolina's primary state-funded need-based grant source for community college students. It is designed to dovetail with federal Pell Grants to meet the needs of students who require assistance, but who do not qualify for the maximum aid from the Pell program. Beginning in 2008-09, financial aid administrators at community colleges tailored financial aid packages to student needs. They used combinations of four state-level programs – the N.C. Community College Grant, the N.C. Education Lottery Scholarship, the Education Access Rewards North Carolina (EARN) grant (repealed effective July 1, 2010),[8] and the N.C. Student Incentive Grant (eliminated in 2011).[9] – to fill in the gaps left by the Pell Grant program. The two programs remaining are need-based and have similar minimum academic requirements.

Currently, North Carolina residents attending community college are eligible to receive State financial aid from the N.C. Community College Grant and the Education Lottery Scholarship. Additionally, students who aged out of the State's foster care system or who were adopted after turning 12 years old are eligible for State funding to attend community college through the Child Welfare Post-secondary Support Program, also known as NC Reach.[10]

The N.C. Community College Grant is only available to students in the State's community colleges. The program is limited to North Carolina residents without baccalaureate degrees and is administered by the N.C. State Education Assistance Authority. In 2013-14, the amount of this grant ranged between $150 and $1,700, based on the student's application for a Pell Grant.[11]

The high employer demand/low student enrollment goal in the Targeted Financial Assistance program allows the State Board of Community Colleges to designate up to 10 percent of the program's annual appropriation from the legislature for grants to students in courses that are identified as offering training needed to fill high local workforce demands, but that have too few students enrolled. It also goes to students with disabilities referred by the N.C. Division of Vocational Rehabilitation. Local community colleges identify appropriate credit or non-credit courses for the initiative and select students who will receive the grants.

The short-term loan portion of the program is geared toward helping students who anticipate receiving federal educational tax credits to obtain cash to pay for tuition, books, and fees at the beginning of each community college term. The loan program is administered by each participating local community college. When students repay the loans on time, the collections are handled by the local institution. Colleges must report the names of students who default on loans to the N.C. Department of Revenue and to the community college system office. The state Revenue Department then manages collections on loans that are in default.

One recipient of a Community College Grant was Macon County resident Timothy Barnett. He was one of 930 workers who lost their jobs when Fruit of the Loom closed its textile plant in Rabun Gap, Georgia in 2006 and moved its operations overseas. Barnett, who lived just over the state line in Franklin, N.C., had been working at the plant more than eight years when he received a layoff notice. Facing an uncertain future, he decided to enroll in Southwestern Community College's electronics engineering technology program. That decision, he said, was driven in large part by his ability to obtain funding through the North Carolina Community College Grant and other assistance programs.

"It would have been very difficult, probably darn near impossible, to go back to school without that help," said Barnett, 53, who is married and has two college-age children. "My family was very accustomed to me bringing in money, and even though the funding just pays for my schooling, I'm not complaining. I get to keep collecting unemployment until my school career is done. Even though it is wonderful, it is only a small percentage of what I used to make. Every bit of money I receive helps me and my family to keep going."

The Community College Grant Program gets high marks in effectiveness from community college administrators interviewed for this report. They say that there is unmet need for student aid in community colleges and identify increased funding for this program as a way to help meet that need.

2. The N.C. Education Lottery Scholarships

Community colleges compete with the state's other higher education institutions for allocations from the Education Lottery Scholarships. The Lottery Scholarships were offered for the first time in FY 2007-08 and provided $13.7 million to 14,364 community college students that fiscal year. In 2011-12, the Lottery Scholarships provided $13.4 million to 15,354 community college recipients.[12]

3. Tuition Waivers

While not unique to the community college system, tuition waivers are tools that are used as forms of student aid more often in community colleges than in other types of higher education institutions. Waivers are grants of free or reduced tuition for groups, such as volunteer firefighters, that are identified by the legislature or the State Board of Community Colleges as needy or deserving of special access to college. The two main types of waivers are full-tuition waivers or a waiver of the non-resident portion of tuition so that the student pays in-state tuition.

The first groups in North Carolina to receive community college tuition waivers were emergency personnel. The groups authorized for waivers has grown in number over the years, with almost $55 million in tuition waived in 2008-09. According to a 2010 legislative review of the tuition waivers, the amount waived more than doubled between 1999-2000 and 2008-09. In the 2011 budget bill, the General Assembly repealed several of the tuition waivers previously authorized, including waivers for alcoholic rehabilitation center patients, clients in adults developmental programs, members of the N.C. State Defense Militia, and prison inmates.[13]

In 2013, there were 19 groups entitled to receive a tuition waiver from North Carolina community colleges. A provision in the 2013 State budget eliminated the senior citizen community college tuition waiver, which allowed community colleges to waive tuition and registration fees for up to six hours of for-credit courses and one non-credit course per semester for North Carolina residents aged 65 or older.[14] The community college system granted tuition waivers to 35,195 community college students in 2011-12, while the UNC system granted waivers to 510 that same year.[15]

Table 11.1 Groups Entitled to Tuition Waivers at N.C. Community Colleges, 2013

	Waiver Category	*Authorizing Statute*
1.	Basic Skills Programs	N.C. General Statute § 115D-5(b)(1)
2.	Fire Departments (Volunteer)	N.C. General Statute § 115D-5(b)(2)a.
3.	Fire Departments (Municipal, County, or State)	N.C. General Statute § 115D-5(b)(2)b.
4.	EMS or Rescue and Lifesaving Depts. (Volunteer)	N.C. General Statute § 115D-5(b)(2)c.
5.	EMS or Rescue and Lifesaving Depts. (Municipal, County, or State)	N.C. General Statute § 115D-5(b)(2)d.
6.	Law enforcement, fire, EMS, or Rescue and Lifesaving entities serving a lake authority created before July 1, 2012	N.C. General Statute § 115D-5(b)(2)d1.
7.	Radio Emergency Associated Communications Teams (REACT)	N.C. General Statute § 115D-5(b)(2)e.
8.	Law Enforcement Agencies	N.C. General Statute § 115D-5(b)(2)f.
9.	Division of Adult Correction and Section of Community Corrections employees	N.C. General Statute § 115D-5(b)(2)g.
10.	Division of Juvenile Justice employees	N.C. General Statute § 115D-5(b)(2)h.
11.	Eastern Band of Cherokee Indians law enforcement, fire, EMS, or Rescue and Lifesaving tribal government depts.	N.C. General Statute § 115D-5(b)(2)i.
12.	Customized Training Program Trainees	N.C. General Statute § 115D-5(b)(4)
13.	Elementary and secondary school employees (First Aid/CPR course)	N.C. General Statute § 115D-5(b)(10)
14.	High School Students (Career and College Promise)	N.C. General Statute § 115D-5(b)(12)
15.	Human Resources Development Program	N.C. General Statute § 115D-5(b)(13)

16.	Eligible Survivor	N.C. General Statute § 115B-2(a)(2)
17.	Eligible Spouse	N.C. General Statute § 115B-2(a)(3)
18.	Eligible Child	N.C. General Statute § 115B-2(a)(4)
19.	Ward of the State (17 to 23 years old)	N.C. General Statute § 115B-2(a)(5)
Source: N.C. Community College System, *Tuition Remission Data Initiative and Waiver Reference Guide,* June 5, 2012.		

4. Federal Student Loan Program

Not all of the community colleges in North Carolina participate in federal student loan programs. In 2009, the N.C. Center for Public Policy Research found that only 20 of North Carolina's 58 community colleges made federal loan programs available to their students. In 2010, we were invited to present our research to the legislature's Joint Select Study Committee on State-Funded Student Financial Aid. The Center recommended requiring all community colleges to participate. The 2010 legislature agreed and passed a law that required all 58 community colleges to make federal loan programs available to their students.[16] However in 2011, the legislature passed a bill that would allow all 58 community colleges to opt out of offering federal loans to their students.[17] On April 13, 2011, Governor Perdue vetoed the bill. The legislature then divided what had been a statewide bill into four local bills,[18] avoiding a gubernatorial veto. Those four local bills allowed a total of 26 community colleges to opt out of offering federal student loans. Not all chose opt out, and by December 2011, 40 community colleges

Sidebar 11.1 The Need-Based Teaching and Nursing Grant Program Funded for Only One Year

The Need-Based Teaching and Nursing Grant Program was a program funded by the legislature for only one year using non-recurring state funds. The legislature provided the community college system $500,000 for the year 2006-07. The 2006 budget conference report indicated that this was a start-up appropriation made with the intention that the program would be funded by the State lottery in subsequent years.[1] The program was intended to help the State address workforce shortages in the fields of teaching and nursing.

The Community College Teaching and Nursing Grant program provided $950 annual grants for full-time students and $750 grants for part-time students in teaching and nursing preparation courses. However, the program ended after one year, and more than 200 students who received the grants for one year of school did not receive funding for a second year.[1]

"We were able to serve quite a few students with that money," says Wanda White, director of financial aid and student success for the N.C. Community College System. "That really should have been a recurring appropriation."

had made federal loan programs available to their students.

During the 2012 legislative session, more local bills passed, allowing community colleges in 50 counties to opt out. On June 18, 2012 – more than one year after the Governor's original veto of House Bill 7 – the legislature overrode three of Governor Perdue's vetoes, one of which was the bill allowing all 58 community colleges to opt out of offering federal loans to their students.

As a result, as of June 2013, only 24 of the 58 institutions offered access to loan programs offered by the federal government.[19]

Table 11.2 Community Colleges Participating in Federal Direct Student Loan Program, June 2013

Community College	*Offers Federal Loans*	*Does Not Offer Federal Loans*
Alamance Community College Graham, Alamance County		No*
Asheville-Buncombe Technical Community College Asheville, Buncombe County	Yes	
Beaufort County Community College Washington, Beaufort County	Yes	
Bladen Community College Dublin, Bladen County		No*
Blue Ridge Community College Flat Rock, Henderson County	Yes	
Brunswick Community College Bolivia, Brunswick County		No*
Caldwell Community College Hudson, Caldwell County		No**
Cape Fear Community College Wilmington, New Hanover County	Yes	
Carteret Community College Morehead City, Carteret County		No**
Catawba Valley Community College Hickory, Catawba County	Yes	
Central Carolina Community College Sanford, Lee County		No*
Central Piedmont Community College*** Charlotte, Mecklenburg County	Yes	
Cleveland Community College Shelby, Cleveland County		No*
Coastal Carolina Community College Jacksonville, Onslow County	Yes	

College of The Albemarle Manteo, Dare County		No*
Craven Community College New Bern, Craven County	Yes	
Davidson Community College Thomasville, Davidson County	Yes	
Durham Technical Community College Durham, Durham County	Yes	
Edgecombe Community College Tarboro, Edgecombe County	Yes	
Fayetteville Technical Community College Fayetteville, Cumberland County	Yes	
Forsyth Technical Community College Winston-Salem, Forsyth County	Yes	
Gaston Technical Community College Dallas, Gaston County		No*
Guilford Technical Community College Jamestown, Guilford County	Yes	
Halifax Community College Weldon, Halifax County		No**
Haywood Technical Community College Clyde, Haywood County	Yes	
Isothermal Community College Spindale, Rutherford County		No**
James Sprunt Community College Kenansville, Duplin County		No*
Johnston Community College Smithfield, Johnston County	Yes	
Lenoir Community College Kinston, Lenoir County		No*
Martin Community College Williamston, Martin County		No*
Mayland Community College Spruce Pine, Mitchell County		No**
McDowell Technical Community College Marion, McDowell County		No**
Mitchell Community College Statesville, Iredell County		No*
Montgomery Community College Troy, Montgomery County		No*
Nash Community College Rocky Mount, Nash County	Yes	
Pamlico Community College Grantsboro, Pamlico County		No*
Piedmont Community College Roxboro, Person County		No**
Pitt Community College Winterville, Pitt County	Yes	
Randolph Community College Asheboro, Randolph County		No*
Richmond Community College		No*

Hamlet, Richmond County		
Roanoke-Chowan Community College Ahoskie, Hertford County		No*
Robeson Community College Pembroke, Robeson County		No**
Rockingham Community College Wentworth, Rockingham County		No*
Rowan-Cabarrus Community College Salisbury, Rowan County		No*
Sampson Community College Clinton, Sampson County		No*
Sandhills Community College Pinehurst, Moore County		No*
South Piedmont Community College Polkton, Union County		No*
Southeastern Community College Whiteville, Columbus County		No**
Southwestern Community College Sylva, Jackson County	Yes	
Stanly Community College Albemarle, Stanly County		No*
Surry Community College Dobson, Surry County		No*
Tri-County Community College Murphy, Cherokee County	Yes	
Vance-Granville Community College Henderson, Vance County		No**
Wake Technical Community College Raleigh, Wake County	Yes	
Wayne Community College Goldsboro, Wayne County	Yes	
Western Piedmont Community College Morganton, Burke County		No**
Wilkes Community College Wilkesboro, Wilkes County	Yes	
Wilson Community College Wilson, Wilson County	Yes	
Total	**24**	**35**

Source: N.C. Community College System Office

*Community college opted out of federal loan program through local board resolution or local opt out bill
**Community college opted out as of July 1, 2013
***Central Piedmont Community College opted out, effective 2014-15

According to an April 2011 report released by the Project on Student Debt in Berkeley, California, at that time 57 percent of North Carolina's community college students had no access to federal loans — ranking the worst nationally. The Project on Student Debt says, "Without access to affordable student loans, students who cannot afford school after available grants and scholarships are left between a rock and a hard place. They might borrow through other channels, such as private student loans or credit cards, which are more expensive, riskier, and lack the repayment options and protections of federal student loans. Alternatively, they might work longer hours to pay the bills or cut back on the number of classes they take each term – choices that research has consistently found to reduce students' chances of completing a degree or certificate."[20]

"Student loans provide access to students who may not otherwise qualify for financial aid," said Monty Hickman, the community college system's associate director for financial aid. "But participation is a tradeoff," added Kennon Briggs. The two explained that many North Carolina community colleges do not participate in federal student loan programs because they fear that a high default rate on the loans would put the schools at risk of losing access to Pell Grants and all other federal aid programs.

In 2013, any institution will lose access to federal direct loans if the institution's student loan default rate for three years reaches 25 percent or more for the two-year calculation or 30 percent or more for the three-year calculation, or exceeds 40 percent in one year. Under these circumstances, institutions also will lose eligibility to participate in Pell Grant programs.[21] According to the U.S. Department of Education, "Defaulted federal student loans cost taxpayers money. Cohort default rate sanctions and benefits provide an incentive to schools to work with their borrowers to reduce default."[22]

There are consequences from default for the student borrowers as well. According to the U.S. Department of Education's sample default management plan,

> at the time of default, outstanding interest is capitalized and collection fees may be added, resulting in a loan balance that is higher than the amount borrowed. Defaulted loans are reported to credit bureaus, causing borrowers to sustain long-term damage to their credit rating. Defaulters may also face difficulty in securing mortgages or car loans, may have their wages garnished, and their federal income tax refunds and other federal payments seized. Until the default is resolved, collection efforts continue and the defaulter will be ineligible for additional federal student aid.[23]

These risks, however, are mitigated because "[w]ith a minimal amount of time, effort, and expense, schools can play a critical role in helping borrowers avoid the damaging consequences of default…. Effective, easy-to-implement tools that reduce defaults, promote student and school success, help preserve the integrity of the loan programs, and reduce costs to taxpayers are available to schools."

In 2012, the U.S. Department of Education released the first official three-year federal loan default rate: 13.4 percent nationally for fiscal year 2009.[24] It has increased to 14.7 percent for fiscal year 2010.[25] For-profit institutions had a default rate of 21.8 percent, the highest rate; public institutions had a rate of 13 percent, and private institutions were 8.2 percent.

The Institute for College Access & Success in Oakland, CA, finding that the new data confirm troubling student loan default problems, said, "More than 600,000 federal student loan borrowers who entered repayment in 2010 defaulted on their loans by 2012, new federal data show."[26]

For schools with 30 or more borrowers entering repayment, the school's cohort default rate is the percentage of a school's borrowers who enter repayment during that fiscal year and default. For schools with 29 or fewer borrowers entering repayment during a fiscal year, the cohort default rate is an "average rate" based on borrowers entering repayment over a three-year period.[27]

In 2010, 27 of the 58 community colleges in North Carolina had a total of 1,635 students in default, almost double the number in 2009. The default rates increased at 22 of the 27 community colleges. All but three had default rates more than 10 percent, seven had default rates more than 20 percent, and four had default rates more than 30 percent. Those with default rates more than 30 percent with 30 or more borrowers are required to establish a default prevention task force to prepare a default plan to submit to the federal Department of Education for review.[28]

For many of the community colleges, the perceived risk of the sanction outweighs the potential benefits of offering the loans. During a discussion about federal student loans at Bladen

Community College in Dublin, North Carolina, which does not offer these loans to students, administrators said that many rural community colleges have opted out of offering the loans because of the specific student body they serve. Barry Priest, associate vice president for Student Services, explained that "community college financial aid offices in North Carolina are so lean that you have to have a solid default management program. And even with that it's not guaranteed that you can keep your default rate down." Ann Russell, dean of Evening Programs and Distance Education, added that Bladen Community College offered the federal loans several years ago and then was out of the program for 14 years. When the school offered the loans again in 2010 as required, the default rate went up 10 percent. Jeff Kornegay, vice president for Instruction and Student Services, explained "we can help our students pay for college in other ways." The administrators listed foundation and privately-funded scholarships, in addition to the Pell grants and financial aid refunds that many of their students receive, as examples. "We don't want to put our students further in debt," Kornegay said.

Other community colleges appreciate the benefits of access to these federal loans. "I feel that community colleges do need to participate in federal loan programs," says Vickie Call, financial aid director of Wilkes Community College. "But, we obviously do not want the default rate to affect us, causing us to lose access to the federal financial aid programs."

"There are ways in which more community colleges could offer federal loans to students," says Wanda White. "But they will have to develop default management initiatives on their campuses."

Most colleges with federal loan programs have default management initiatives – programs that educate students on how to manage, defer, and repay student loans. U.S. Department of Education guidelines require that institutions provide entrance and exit counseling for students, and suggest financial literacy training for borrowers, counseling for those most at-risk for default, and many other campus-based tools to ensure lower default rates.

The North Carolina agency responsible for managing most student aid is willing to help community colleges solve this problem with defaulting borrowers. "The State Education Assistance Authority will be happy to serve as a resource for our community colleges in North Carolina in developing default management programs for campuses to use," says Steve Brooks, former director of the Authority. "We have good experience in the area as a guarantor of federal loans, and I believe that we can offer solid advice and support under current law."

The U.S. Department of Education's sample default management plan is a good place to start for community colleges that would like to offer access to federal student loans and want to be proactive in establishing default management initiatives. With support locally from the N.C. State Education Assistance Authority, community colleges across North Carolina could be able to provide access to these loans in a way that protects students, the institutions, and taxpayers from the risks of default.

Table 11.3: FY 2011 3-Year Official Cohort Default Rates by State

State	Institutions	Students in Default	Students in Repayment	Default Rate
New Mexico (highest)	30	4321	20734	20.8
North Dakota (lowest)	24	887	14319	6.1
North Carolina	124	9942	79900	12.4
South Carolina	76	7634	55608	13.7
Virginia	117	9945	98926	10
Tennessee	127	11588	84415	13.7
National Average				13.7

Source: U.S. Department of Education, official default rates, July 2014.

(Note: Institution specific default rates for NC schools are available in the appendix. Data may be dated due to information availability).

5. **The North Carolina Community College Child Care Grant**

The North Carolina Community College Child Care Grant is a need-based program funded by the legislature that provides child care services to benefit community college students who are also parents. The services are locally controlled and managed by individual institutions. To be eligible, students must enroll at least half-time in a community college curriculum program and make satisfactory academic progress. Funds in the program are either made as payments to local child care vendors or are used to reimburse students who paid child care expenses, depending on how the local college structures its program.

The goals are to increase access to a college education for parents with young children and to increase the chances of completing a community college degree. Wanda White, director of Financial Aid and Student Success for the community college system, said, "If there is money for child care programs, students will not have to pay for day care while attending school. If day care funding is provided, students will graduate sooner, enter the workforce sooner, and the number of people on public assistance will decrease."

One recipient of the Child Care Grant was Sarah Haldeman, age 27. The Sanford resident was a newly-divorced single mom when she decided to enroll in Sandhills Community College. "I had a seven-year-old and an eight-year-old," Haldeman said. "I had been an assistant manager for Dollar Tree and had done retail for awhile. With the hours working retail, I couldn't find anyone to watch the kids. Plus, I needed insurance and a way to pay for college for my two kids. The motivation for going back to school involved a lot of financial reasons, plus I wanted more time with them and to give them and myself a better future."

Haldeman enrolled in Sandhills' early childhood development program in fall 2004. A year later, she switched to elementary education because she saw more job opportunities in that field. She received her associate's degree in December 2007 with a grade point average of 3.94. She was admitted to Fayetteville State University for the spring 2008 semester, and she planned to work towards a bachelor's degree in elementary education.

In 2011-12, the child care grant program received $1.4 million in state appropriations and served 786 students, with an average grant of $1,799 per student.[29] The average cost for child care in North Carolina ranges from $7,774 to $9,185 per year, according to Smart Start.

6. Tuition Payment Plans

A handful of community colleges across North Carolina offer tuition payment plans. Asheville-Buncombe Technical Community College, Catawba Valley Community College, and Craven Community College are examples of colleges that offer the plans. The plans allow students to pay for tuition and fees in monthly installments rather than all at once at the beginning of the semester. Typically, for a fee, the students are allowed to have the college make a monthly draft from a bank account or credit card of an agreed amount. While not usually classified as a financial aid program, the plans can serve as a low-cost financing option than can help a student minimize debt or avoid obtaining a student loan. The plans do require more staff time in college business offices and can be a financial liability to the institution if not managed properly.

Some administrators say the benefits outweigh the extra effort required to operate the programs. "The payment plan has worked very well for our college, and our students have been very receptive of it," says Garrett Hinshaw, president of Catawba Valley Community College. "It has given a student who may not be eligible for financial aid a method to pay for tuition without using a student loan or a credit card. It has also helped students who have applied late for financial aid have a method of paying for tuition until financial aid eligibility is determined. I would definitely recommend that any community college consider implementing this."

Sidebar 11.2. The Dreamkeepers and Angel Fund Emergency Financial Aid Programs

The Dreamkeepers and Angel Fund Emergency Financial Aid programs were a national pilot project that offered emergency funds to community college students facing financial crises that could force them to drop out of school. The programs were managed locally, but were administered by two national organizations – the American Indian College Fund and Scholarship America. The programs were funded from 2005 through 2007 by a grant from the Lumina Foundation for Education of Indianapolis, Indiana.

The project functioned at 37 community and tribal colleges across the country. Three of those 37 – Durham Technical Community College, Martin Community College, and Wayne Community College – were North Carolina community colleges that participated in Lumina's Dreamkeepers project. The three North Carolina colleges were chosen because they enroll large numbers of African American and low-income students, groups that historically have low college completion rates. Colleges in the project were allowed to design their emergency aid program to offer grants and/or loans in a manner that best met the needs of their students. The colleges also had to provide data for the project's evaluation, effectively administer the program, and raise matching funds.

The three goals of the national project were "to support the development of an infrastructure to offer emergency financial aid at the participating colleges; to learn whether and to what extent emergency assistance helps students stay enrolled in college; and to promote the long-term sustainability of an emergency aid program at the participating colleges." The project was evaluated by MDRC (formerly Manpower Demonstration Research Corporation) of New York City and Oakland, California, a nonprofit, nonpartisan social policy research organization.

MDRC's final report on the project was released in May 2008. Its key findings were:

- In their first two years, the Dreamkeepers and Angel Fund programs awarded more than $845,000 in emergency financial aid to more than 2,400 students. Students at the Dreamkeepers colleges most frequently asked for help with housing expenses, followed by transportation and books. Students at the Tribal Colleges and Universities most often needed funds for transportation and also frequently requested help with child care, housing, and utilities.
- The Dreamkeepers and Angel Fund programs set general parameters but gave the colleges the freedom to customize their programs. As such, their designs varied considerably. Most colleges awarded grants; a few offered loans. Some colleges required detailed applications, reviewed by senior administrators or a small committee; others empowered one individual or frontline staff to make aid decisions.

- Dreamkeepers aid recipients were more likely than other students at their colleges to be older students, parents, first-year students, enrolled full-time, enrolled in vocational study, and recipients of financial aid. They also were more likely to take and complete more credits. At some Dreamkeepers colleges, women and African-American students were more likely than other demographic groups to receive emergency assistance.

- Both student aid recipients and administrators said that the emergency aid helped students remain in college, and the data showed that aid recipients re-enrolled at rates roughly comparable to the average on their campuses. Aid recipients also may have benefited by becoming better connected to on- and off-campus supportive services.

- Nearly all the colleges met or exceeded the grantor's requirement to raise matching funds for their program during the first two years. The Angel Fund colleges, however, tended to have limited fundraising capacities. They remain concerned about meeting their fundraising requirement over the remaining years of the program. [Colleges had to raise matching funds to continue receiving money from the grantor.]

For colleges interested in starting similar programs, this report suggests several key challenges to address: (1) defining what constitutes a financial emergency, (2) building a flexible administrative structure that safeguards funds yet quickly responds to student needs, (3) ensuring that all eligible students are aware of the program and have equal opportunities to access funds, (4) finding sources of funding, (6) working with technical assistance providers, and (7) using data to evaluate programs.

Since community colleges serve a disproportionate share of working poor students, unanticipated financial setbacks such as a car repair bill or a medical expense can negatively impact a student's ability to complete a program of study. Kennon Briggs said, "We've heard lots and lots of testimonies from students with financial aid packages that if something changes – their car breaks down, and they get a $500-$1,000 repair bill, or if it means they have to choose between groceries and school – they stop-out of school."

Vickie Call agrees that emergency financial aid can make a difference. "We have had several students enrolled here that have lost their jobs due to plant closings. The unemployment that they are drawing may, and often does, run out before they can finish their degree and graduate.

Sometimes they may only need two or three months of help, and then they will graduate. Emergency funds would help these students graduate and give them hope of getting a new job and starting a new career."

Martin Community College, one of the three N.C. Community Colleges in the national pilot study, found the program they established so valuable that they continue to operate a short-term loan program for students, funded by the Martin County Chamber of Commerce, an emergency loan fund, and trustees.

Ann Britt, president of Martin Community College says, "Most community college students just do not have much money, especially in a rural area like Martin County. In fact, it is a real challenge for community college students to have enough money to get by from day to day. So, when something unexpected happens, students find that they must use their school money for [items] other than school expenses – like repairing a vehicle so they can commute to school. Then, when students are unable to pay school bills, they simply drop out. The college's Dreamkeepers program makes the difference when students are faced with the choice of being forced out of school because of financial emergencies or staying in school to fulfill their dream of a college education."

Zavier (J.J.) Mosley was a full-time student at Martin Community College. He studied electrical and electronics technology. His life got "off track" after high school. He worked on campus as a work-study student and served as a Supplemental Instruction Student Leader to help his fellow students stay on track. He also served as the college's student government president. In 2009, he had to choose between having electricity in his home and dropping out of school. A $268 award from the Dreamkeepers emergency aid program paid directly to the utility company kept him on track to complete his degree.

"Community Colleges open doors to help you get on track," said Mosley. "Dreamkeepers' extra help made that possible for me."

Barbara Matthewson was another Dreamkeepers recipient at Martin Community College. In the spring of 2009, she was in her final semester of coursework for her applied science degree in office systems technology when she learned that her doctor would no longer see her and approve refills of her prescription medication because of outstanding bills. "I needed that medication so I could function," she says.

The Dreamkeepers program paid $500 toward her outstanding medical bills, making it possible for her to continue on medication and complete her degree. She said, "I couldn't have stayed in school without that help."

George Taylor was another Martin Community College student who credits the Dreamkeepers program with keeping him in school. He too was in his final semester of coursework for his degree when an unexpected expense threatened his ability to stay in school. In his case, it was a broken windshield on his car. The car would not pass a state safety inspection, he couldn't afford to get a ticket for driving illegally, and public transportation was unavailable in rural Martin County. The Dreamkeepers program paid $260 directly to a local garage to fix his windshield. As a result, he completed his associate's degree in web technologies in the spring of 2009.

In each of these cases, the college's ability to help a student with an emergency expense protected the State's prior investment of public funds in the individual's education. Martin Community College's annual budget for the emergency aid program is $25,000. The college enrolls more than 900 students per year.

"Our data indicate that Dreamkeepers program recipients are staying in school and being successful," said President Britt. "The Dreamkeepers program has been a much-needed emergency fund to help keep alive the dream of a college education for students facing unexpected emergencies."

B. Staffing of Community College Financial Aid Offices

Financial aid offices at each institution are located in the Student Services divisions. Liz Solazzo, the financial aid director at Alamance Community College stated there is a need for more staff in financial aid offices. She said, "[The legislature should] fund more staffing positions to offer retention efforts and individual counseling for students who need the extra help understanding the process. So many students struggle, and we don't have the time to give personal service due to the increasing numbers of students who receive financial aid."

The law governing financial assistance for N.C. community college students requires that each college have at least one financial aid counselor to inform students about federal programs and funds and "to actively encourage students to utilize" such funds.[30]

Endnotes

[1] Some material contained in this chapter was previously published as: Sam Watts, "Financial Aid for Community College Students," *North Carolina Insight*, Volume 22, No. 4/Vol. 23, No. 1, North Carolina Center for Public Policy Research, Raleigh, NC, May 2008, pp. 183-206.

[2] "2013 Community College Fast Facts," American Association of Community Colleges, Washington, DC. Online at: *http://www.aacc.nche.edu/AboutCC/Documents/2013facts_fold_revised.pdf*, last accessed 1/4/14.

[3] 2012-13 Annual Statistical Report, N.C. Community College System, Raleigh, NC, Table 1 – Student Enrollment by College. Online at: *http://www.nccommunitycolleges.edu/Statistical_Reports/collegeYear2012-2013/docs/Table%201%20Student%20Enrollment%20by%20College.pdf*,last accessed 1/4/14.

[4] Statistical Abstract of Higher Education in North Carolina 2012-13, UNC General Administration, Chapel Hill, NC, August 2013, Table 65, p. 205. Online at: http://www.northcarolina.edu/stat_abstract/index.php?pg=dl&id=s14267&inline=1&return_url=%2Fstat_abstract%2Findex.php%3Fpg%3Dvb%26node_id%3Dtoc_s14266, last accessed 9/30/13.

[5] 20 U.S.C. § 1070a. The Pell Grant was named for former U.S. Senator Claiborne Pell (D-Rhode Island) and originally instituted in 1965. The program provides means-tested subsidies directly to students enrolled in college.

[6] "In-State Tuition and Fees by State, 2013-14, and Five-Year Percentage Changes," Annual Survey of Colleges, The College Board, New York, NY. Online at: *http://trends.collegeboard.org/college-pricing/figures-tables/in-state-tuition-fees-state-2013-14-and-5-year-percentage-changes,* last accessed 1/26/14.

[7] N.C. General Statute § 115D-40.1.

[8] N.C. Session Law 2009-451 (House Bill 202), § 9.2(e).

[9] "Report on the Continuation, Expansion and Capital Budgets to the Senate Appropriations Committee," May 31, 2011, p. F-14. Online at: *http://www.ncleg.net/sessions/2011/budget/2011/MoneyReport-5-31-11.pdf*, last accessed 9/24/13.

[10] "Student Financial Aid for North Carolinians 2012," College Foundation of North Carolina, Raleigh, NC, pp. 17-18. Online at*: http://www.cfnc.org/static/pdf/paying/pubs/pdf/FANC.pdf* , last accessed 9/30/13.

[11] Online at: https://www.cfnc.org/Gateway?command=GetBasedProgramDetail&note=no&type=7&vocType=-1&vocational=no&id=24, last accessed 1/4/2014.

[12] Statistical Abstract of Higher Education in North Carolina, note 4 above, p. 205.

[13] N.C. Session Law 2011-145 (House Bill 200), § 8.12

[14] N.C. Session Law 2013-360 (Senate Bill 402), § 10.6

[15] Statistical Abstract of Higher Education in North Carolina, note 4 above, pp. 206.

[16] N.C. Session Law 2010-31 (Senate Bill 897), § 8.5(b), codified as N.C. General Statute §115D-40.1.

[17] N.C. Session Law 2012-31 (House Bill 7).

[18] N.C. Session Law 2011-48 (House Bill 15), N.C. Session Law 2011-155 (House Bill 58), N.C. Session Law 2011-178 (House Bill 134), and N.C. Session Law 2011-154 (House Bill 541).

[19] Data provided by the N.C. Community College System.

[20] *Still Denied: How Community Colleges Shortchange Students by Not Offering Federal Loans*, Project on Student Debt, Issue Brief, Berkeley, CA, April 2011, p. 1. Online at: http://projectonstudentdebt.org/files/pub/still_denied.pdf, last accessed 1/4/14.

[21] 20 U.S.C. § 1085

[22] *Ibid*., p. 2.4-1.

[23] U.S. Department of Education, "Default Prevention and Management: A Plan for Student and School Success," Washington, DC. Online at: http://www.ifap.ed.gov/dpcletters/attachments/GEN0514Attach.pdf, last accessed 1/7/2014.

[24] On October 28, 2009, the U.S. Department of Education published in the Federal Register the regulations enacted by the Higher Education Opportunity Act of 2009 that govern the calculation of default rates. Under the new provisions, an institution's default rate is calculated as the percentage of borrowers who default before the end of the second fiscal year following the fiscal year in which the borrowers entered repayment. This extends the length of time in which a student can default from two to three years.

"A 3-year cohort default rate is the percentage of a school's borrowers who enter repayment on certain Federal Family Education Loan (FFEL) Program or William D. Ford Federal Direct Loan (Direct Loan) Program loans during a particular federal fiscal year (FY), October 1 to September 30, and default or meet other specified conditions prior to the end of the second following fiscal year." For more information, see the Cohort Default Rate Guide, online at: http://ifap.ed.gov/DefaultManagement/guide/attachments/CDRGuideCh2Pt1CDRCalculation.pdf, last accessed 1/4/2014.

[25] U.S. Department of Education, Official 3-Year Cohort Default Rate Search for Postsecondary Schools, Fiscal Year 2010, September 23, 2013. Online at: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html, last accessed 1/4/14.

[26] Press Release, "New Data Confirm Troubling Student Loan Default Problems," The Institute for College Access & Success (TICAS), Oakland, CA, September 30, 2013. Online at: http://www.ticas.org/files/pub//CDR_2013_NR_.pdf, last accessed 1/4/14.

[27] Federal Student Aid, *Cohort Default Rate Guide*, U.S. Department of Education, Washington, DC, September 2013, p. 2.1-1. Online at: http://ifap.ed.gov/DefaultManagement/guide/attachments/CDRGuideCh2PtCDR Calculation.pdf, last accessed 1/6/14.

[28] Online at: http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html, last accessed 1/7/2014. Go to download for schools with a FY 2010 official 3-year cohort default rate that is equal to or greater than 30 percent.

[29] Statistical Abstract of Higher Education in North Carolina, note 4 above, Table 65, p. 206.

[30] N.C. General Statute § 115D-40.1(d).

Chapter Eleven

In Closing

The need to develop a financial aid policy in North Carolina began with a recommendation by the Board of Higher Education in 1968 and a systematic analysis by a legislative study commission in 1970. That study commission identified nine policy questions the State needed to answer and made seven recommendations to address those questions. The system that has evolved flows from each of those recommendations.

The North Carolina Legislative Study Commission on Student Financial Aid recommended the following in 1970:

(1) A comprehensive State-administered and State-supported system of student financial aid should be available to North Carolina students attending both public and private post-high school educational institutions in North Carolina.

(2) A State program of student financial assistance should make aid available to North Carolina students attending approved post-high school institutions, public and private, through the baccalaureate level.

(3) A State student aid program should include aid to students attending accredited proprietary institutions in North Carolina.

(4) A comprehensive system of student aid should be administered by a centralized agency, which makes awards directly to North Carolina students.

(5) A State-supported system of student financial aid should seek to eliminate aid gaps among institutions and compensate for differences in institutional resources that exist.

(6) A State-supported system of student financial assistance should make aid available only on the basis of need.

(7) A State program of student financial assistance should take into consideration variations in costs between different types of institutions; provided, however, that aid to a North Carolina student attending a North Carolina private institution should not exceed the true cost that would have been paid by the State (aid and tuition subsidy) if he/she had elected to attend a comparable public institution in the State.

In the intervening 40 years, North Carolina, along with the nation, has created a complex matrix of programs to address the need to assist in funding higher education aspirations. Student aid administrators agree that the system is complex, but point out that from the perspective of students and their families, the intricacy of the system is less important than the coverage it provides. "From the outside, I suspect it looks like a patchwork quilt of programs," said former NCSEAA director Steve Brooks. "But, in fact, I think they dovetail pretty well and in the end form a blanket that you can put over somebody and keep him warm."

In recent years there have been significant changes in financial aid, its uses, and the types of students who need it. For example:

- The balance of responsibility between the federal government and the states for providing need-based aid shifted. In terms of dollars, both federal and state grant aid is increasing, but the relative share of federal aid is increasing, while the state share is remaining relatively stable.
- Tuition and fee increases have dramatically increased the cost of higher education, both nationally and in North Carolina, thereby requiring more aid for each student with financial need.
- North Carolina has utilized forgivable education loans for service in response to our severe workforce shortages in teaching, nursing, biotechnology, and other fields. These programs are designed to address these shortages by providing money for

college in exchange for an individual's commitment to work in occupations or regions that need more employees in these fields.

- Public awareness of the debt burdens of students has increased. This became especially true as the number and type of individuals pursuing higher education changed as a result of the Great Recession.

Ensuring Cost Is Not a Barrier to a College Education

Since the first financial aid scholarship in 1643 for a needy student in America, the cost of higher education has long been identified as one barrier to participation. There are other factors that impact whether a student has a chance to go to college, including academic preparation, race, gender, where they live, and family attitudes toward education, among others. But, it is financial aid that opens the doorway into college each year for students who otherwise would be blocked by lack of funds from entering.

There is a compelling public interest in increasing the proportion of students who attain a college degree. The U.S. Bureau of Labor Statistics estimates that about 20.5 million jobs will be added to the economy between 2010 and 2020, and growth will be faster in jobs that require post-secondary education. According to Georgetown University's Center on Education and the Workforce by 2020, 66 percent of the workforce nationally will require post-secondary education, and 61 percent of the workforce in North Carolina will require training beyond high school. The economy of the future demands a workforce with more education.

North Carolina has made progress in increasing college-going rates, with the number of high school graduates directly entering college now slightly exceeding the national average. The estimated rate for high school students immediately enrolling in college following graduation is 64 percent in North Carolina, compared to 62.8 percent nationally. However, a student from a low-income family in North Carolina is still almost 30 percent less likely to go to college than his or her peers. To make further gains in the overall college-going rate, the State will need to step up its efforts to educate low-income residents.

The goals of attaining a more educated workforce, maintaining tuition and fee levels that meet the State constitutional mandate, increasing college-going rates, and making financial aid available all intersect in North Carolina. Increasing the percentage of the State's population with a college degree has become a strategic imperative for policymakers.

Setting Goals for North Carolina's Financial Aid Policy

Financial aid is an institutional process that can lead to greater accessibility to a college education and affordability for students and families receiving assistance. North Carolina's financial aid system also can be used to meet state-level policy goals. Potential goals include:

- Increase access to post-secondary education, of all types, at a time when higher education is increasingly important in today's economy to earn a living wage.
- Improve North Carolina's college-going and completion rates, and focus special attention on helping students have adequate aid to complete the degrees they desire and need for gainful employment.
- Increase access to higher education for groups with historically low college-going rates such as first generation students, some minorities, students from low-income families, veterans, and students from more rural areas.
- Improve the knowledge and availability of, and access to, efforts that encourage and support thoughtful planning for college and higher education.
- Improve the measures used by the UNC System and the Community Colleges System to evaluate success or failure in meeting goals of college participation, completion, and preparation for a career path leading to a living wage.

- Effectively utilize need-based and merit-based aid to meet North Carolina's goals of increasing access to higher education while maintaining and building high-quality institutions of higher education.
- Use financial aid policy to help North Carolina's public and private colleges and universities and community colleges meet critical workforce shortages.
- Minimize the debt burden placed on students to increase the likelihood of completing a college education and being able to meet long-term financial obligations.
- Ensure stability and financial sustainability for student financial aid programs by aligning North Carolina's tuition policy and financial aid policy to work together to meet our higher education goals.

The North Carolina Constitution mandates that "the General Assembly shall provide that the benefits of the University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense." This provision historically has been interpreted as a directive to other policymakers – such as the President of the UNC System, the UNC Board of Governors, the Community Colleges System President, the State Board of Community Colleges, the Governor, and the N.C. General Assembly to keep tuition and fees low at public universities. However, keeping college affordable goes beyond just limiting tuition and fees. "A poor kid can't go to school even if tuition is free," said Brooks. "Low tuition might be a good thing, but it's not a sufficient thing."

The goal of making college affordable in North Carolina is best served when the State holds the line on tuition and fees and provides adequate financial aid. Providing opportunity for qualified students who are willing to work hard is the benchmark for success in the State's efforts to craft a coherent financial aid policy. The guiding principle for these efforts was stated simply in the 1947 report from the President's Commission on Higher Education, which read, "It is the responsibility of the community at the local, state, and national levels to guarantee that financial barriers do not prevent any able and otherwise qualified young person from receiving the opportunity for higher education."

It is our hope at the Center that this book serve as a guide and reminder of the importance of a strong and thoughtful Financial Aid Policy, one that serves all the citizens of North Carolina.

Appendices

Table 1: State 529 Plans: Assets and Number of Accounts, June 30, 2013

	Program Name	*Assets*	*Rank by Assets*	*Number of Open Accounts*	*Rank by Number of Open Accounts*
1.	Alabama Prepaid Affordable College Tuition (PACT) Program	$245,154,494	77	32,791	64
2.	Alabama CollegeCounts 529 Fund - Advisor	$851,524,754	55	48,049	56
3.	Alabama CollegeCounts 529 Fund - Direct	$158,209,807	87	11,379	85
4.	University of Alaska College Savings Plan	$342,566,446	65	28,875	67
5.	Alaska - T. Rowe Price College Savings Plan	$1,559,383,190	35	70,085	47
6.	Alaska - John Hancock Freedom 529	$3,514,889,805	14	160,018	19
7.	The Fidelity Arizona College Savings Plan	$230,157,918	78	20,396	77
8.	Arizona Ivy Funds InvestEd 529 Plan	$467,219,149	61	41,274	60
9.	Arizona Family College Savings Program	$71,919,113	99	3,388	104
10.	Arkansas iShares 529 Plan	$178,578,534	83	5,329	99
11.	Arkansas GIFT College Investing Plan	$259,050,001	75	20,922	75
12.	California - ScholarShare College Savings Plan	$5,046,488,568	9	245,427	9
13.	Colorado - Stable Value Plus College Savings Plan	$57,895,000	103	5,658	98
14.	Colorado - Smart Choice College Savings Plan	$26,297,000	104	7,393	96
15.	Colorado - CollegeInvest Direct Portfolio College Savings Plan	$1,790,973,889	28	98,986	34
16.	Colorado - Scholars Choice® College Savings Program	$3,100,893,765	18	200,044	14
17.	Connecticut Higher Education Trust	$1,941,207,009	26	87,933	38
18.	Connecticut - CHET Advisor	$172,516,865	84	11,518	84

19. Delaware College Investing Plan	$555,683,272	59	22,405	71
20. DC College Savings Plan	$270,764,144	73	15,063	80
21. Florida's Stanley G. Tate Prepaid College Program	$9,821,372,301	3	559,345	3
22. Florida College Investment Plan	$309,131,935	68	34,984	63
23. Georgia - Path2College 529 Plan	$1,348,025,400	40	111,623	32
24. HI529 – Hawaii's College Savings Program	$58,651,920	102	4,168	103
25. IDeal - Idaho College Savings Program	$262,084,788	74	22,836	70
26. Illinois - Bright Directions	$1,263,014,677	44	77,116	42
27. Illinois - Bright Start Advisor	$1,630,187,852	33	78,807	41
28. Illinois - Bright Start Direct	$2,636,377,544	19	130,353	25
29. College Illinois 529 Prepaid Tuition Program	$1,079,042,254	50	48,207	55
30. Indiana - CollegeChoice 529 Direct Savings Plan	$956,346,759	52	92,217	37
31. Indiana - CollegeChoice Advisor 529 Savings Plan	$1,316,455,357	42	141,440	24
32. Indiana - CollegeChoice CD	$6,928,197	105	1,306	106
33. College Savings Iowa	$3,333,936,752	16	201,586	13
34. Iowa Advisor 529 Plan	$159,929,392	86	39,741	62
35. Kansas - Learning Quest Direct	$1,621,402,015	34	73,736	44
36. Kansas - Learning Quest Advisor	$218,480,158	80	16,843	79
37. Kansas - Schwab 529 College Savings Plan	$1,956,048,321	25	82,672	39
38. Kentucky Education Savings Plan Trust	$152,521,126	90	11,536	83
39. Kentucky's Affordable Prepaid Tuition	$114,600,000	93	5,757	97
40. Louisiana Student Tuition Assistance & Revenue Trust	$464,292,303	62	46,602	57
41. Maine - NextGen College Investing Plan	$6,875,937,044	7	251,232	8
42. Maryland College Investment Plan	$3,207,836,546	17	183,309	16
43. Maryland Prepaid College Trust	$767,522,732	56	32,741	65

44. Massachusetts U.Fund College Investing Plan	$4,181,743,838	10	148,174	22
45. Massachusetts U.Plan Prepaid Tuition Program	$83,228,895	97	10,720	90
46. Michigan Education Trust (MET)	$1,277,262,873	43	45,820	58
47. Michigan Education Savings Program	$3,357,274,685	15	202,908	12
48. Michigan 529 Advisor Plan	$220,500,939	79	22,075	72
49. Minnesota College Savings Plan	$1,029,989,831	51	59,518	51
50. Mississippi Affordable College Savings	$157,594,490	88	10,348	91
51. Mississippi Prepaid Affordable College Tuition Program (MPACT)	$294,086,646	71	21,272	74
52. MOST - Missouri's 529 College Savings Plan	$1,892,084,705	27	124,934	28
53. Missouri's 529 Advisor Plan	$187,240,808	82	14,894	81
54. Montana Family Education Savings Program - Bank Plan	$120,620,421	92	7,839	95
55. Montana Family Education Savings Program- Investment Plan	$106,971,912	95	8,968	92
56. Nebraska Educational Savings Plan Trust - Direct	$1,441,074,336	37	64,182	50
57. Nebraska Educational Savings Plan Trust - Advisor	$749,076,321	57	59,475	52
58. Nebraska - TD Ameritrade 529 College Savings Plan	$595,043,205	58	29,416	66
59. Nebraska - State Farm 529 Plan	$300,147,019	70	52,005	54
60. Nevada Prepaid Tuition Program	$162,654,869	85	10,872	88
61. Nevada - Putnam 529 for America	$302,780,137	69	16,859	78
62. Nevada - SSgA Upromise 529 Plan	$1,084,540,178	49	153,837	21
63. Nevada - The Vanguard 529 Plan	$8,184,016,334	5	230,323	10
64. Nevada - USAA College Savings Plan	$1,690,797,798	32	178,657	17
65. New Hampshire - UNIQUE College Investing Plan	$8,296,507,136	4	369,084	4
66. New Hampshire - Fidelity Advisor 529 Plan	$3,793,422,457	12	199,700	15
67. New Jersey - Franklin Templeton 529	$2,504,315,210	21	168,585	18

68. New Jersey - NJ BEST 529 College Savings Plans	$1,187,802,700	47	52,764	53
69. New Mexico - The Education Plan	$399,760,224	63	20,398	76
70. New Mexico – Scholar's Edge	$1,725,782,852	31	129,249	26
71. New York's 529 College Savings Program Direct Plan	$13,217,334,749	2	614,561	2
72. New York's 529 College Savings Program Advisor Plan	$2,571,582,137	20	146,781	23
73. North Carolina's National College Savings Program	$1,226,007,321	46	118,753	31
74. North Dakota - College SAVE	$340,644,061	66	22,031	73
75. Ohio – College Advantage 529 Savings Plan (direct)	$3,703,114,554	13	292,125	7
76. Ohio – Black Rock College Advantage 529 (advisor)	$4,140,970,231	11	352,887	5
77. Oklahoma College Savings Plan	$547,209,194	60	41,538	59
78. Oklahoma Dream 529	$70,360,590	100	5,316	100
79. Oregon College Savings Plan	$907,377,419	54	70,657	46
80. Oregon - MFS 529 Savings Plan	$914,974,810	53	68,375	49
81. Pennsylvania 529 Investment Plan	$1,340,535,630	41	75,402	43
82. Pennsylvania Guaranteed Savings Plan	$1,506,345,694	36	99,264	33
83. Rhode Island – CollegeBound*fund*	$7,446,767,879	6	341,045	6
84. South Carolina Tuition Prepaid Program	$111,501,575	94	4,620	102
85. South Carolina Future Scholars	$1,753,137,065	29	97,866	35
86. South Dakota – College Access 529 Plan	$1,096,707,636	48	40,030	61
87. TNStars College Savings 529 Program	$6,714,700	106	2,530	105
88. Tennessee BEST Prepaid Plan	$87,861,394	96	8,674	93
89. Texas College Savings Plan	$257,069,284	76	23,258	69
90. Texas - LoneStar 529 Plan	$154,760,867	89	73,667	45
91. Texas Guaranteed Tuition Plan	$1,246,387,438	45	79,564	40
92. Texas Tuition Promise Fund	$370,364,502	64	23,563	68
93. Utah Educational Savings Plan Trust	$5,843,144,107	8	218,950	11

94. Vermont Higher Education Investment Plan	$201,877,223	81	13,029	82
95. Virginia inVEST	$2,306,259,583	22	157,121	20
96. Virginia - CollegeWealth	$63,402,710	101	11,079	86
97. Virginia - CollegeAmerica	$38,988,151,558	1	2,059,356	1
98. Virginia prePAID	$2,146,268,021	24	68,637	48
99. Washington Guaranteed Education Tuition	$2,270,537,990	23	125,753	27
100. West Virginia - The Hartford SMART529	$1,399,103,691	39	96,500	36
101. West Virginia - SMART529 Select	$337,627,646	67	10,724	89
102. West Virginia - SMART529 WV Direct	$145,751,447	91	11,024	87
103. West Virginia - Prepaid Tuition Plan	$78,580,219	98	5,135	101
104. Wisconsin EdVest	$1,728,956,351	30	123,559	29
105. Wisconsin Tomorrow's Scholar	$1,413,931,094	38	122,837	30
Total	$205,946,274,844		11,432,475	

* Note: Comparisons of accounts data collected prior to 2009 cannot be compared to this data due to a change in the data collection methodology.

Source: College Savings Plans Network, 529 Plan Data, June 30, 2013. Online at: *http://www.collegesavings.org/includes/pdfs/June%202013.pdf*, last accessed 9/30/13.

Table 2: Federal Student Loan Three-Year Default Rates for N.C. Post-Secondary Education Institutions, FY 2010

	N.C. Community Colleges	*City*	*Number of Students in Default*	*Number of Students in Repayment*	*2010 Default Rate %*	*2009 Default Rate %*
1.	College of the Albemarle	Elizabeth City	1	1	100.0	0.0
2.	Western Piedmont Community College	Morganton	73	196	37.2	14.0
3.	Southeastern Community College	Whiteville	66	204	32.3	15.7
4.	Martin Community College	Williamston	5	16	31.2	14.8
5.	Halifax Community College	Weldon	42	141	29.7	13.3
6.	Wilkes Community College	Wilkesboro	42	149	28.1	14.1
7.	Edgecombe Community College	Tarboro	60	224	26.7	19.8
8.	Fayetteville Technical Community College	Fayetteville	408	1,528	26.7	17.8
9.	Guilford Technical Community College	Jamestown	262	1,005	26.0	19.0
10.	Caldwell Community College and Technical Institute	Hudson	95	412	23.0	11.7
11.	Blue Ridge Community College	Flat Rock	8	40	20.0	17.3
12.	Southwestern Community College	Sylva	19	103	18.4	7.8
13.	Davidson County Community College	Lexington	24	134	17.9	25.2
14.	Cape Fear Community College	Wilmington	113	658	17.1	10.2
15.	Surry Community College	Dobson	12	73	16.4	6.2
16.	Pitt Community College	Winterville	116	714	16.2	12.8
17.	Johnston Community College	Smithfield	28	184	15.2	7.8
18.	Wake Technical Community College	Raleigh	146	1,030	14.1	11.6
19.	Asheville-Buncombe Technical Community College	Asheville	41	298	13.7	11.7

20.	Lenoir Community College	Kinston	3	22	13.6	3.0
21.	James Sprunt Community College	Kenansville	10	75	13.3	8.4
22.	Carteret Community College	Morehead City	15	120	12.5	13.7
23.	Catawba Valley Community College	Hickory	25	206	12.1	8.2
24.	Gaston College	Dallas	3	27	11.1	10.4
25.	Craven Community College	New Bern	8	15	6.9	12.9
26.	Wayne Community College	Goldsboro	6	101	5.9	12.9
27.	Sandhills Community College	Pinehurst	4	78	5.1	9.4
28.	Roanoke-Chowan Community College	Ahoskie	0	1	0.0	20.0
29.	Beaufort County Community College	Washington	0	46	0.0	8.0
30.	Rockingham Community College	Wentworth	0	2	0.0	0.0
31.	Wilson Technical Community College	Wilson	0	1	0.0	0.0
32.	Vance-Granville Community College	Henderson	0	1	0.0	0.0
33.	Haywood Community College	Clyde	0	1	0.0	0.0
34.	Alamance Community College	Graham	0	0	0.0	0.0
35.	Bladen Community College	Dublin	0	0	0.0	0.0
36.	Brunswick Community College	Supply	0	0	0.0	0.0
37.	Central Carolina Community College	Sanford	0	0	0.0	0.0
38.	Central Piedmont Community College	Charlotte	0	0	0.0	0.0
39.	Cleveland Community College	Shelby	0	0	0.0	0.0
40.	Coastal Carolina Community College	Jacksonville	0	0	0.0	0.0
41.	Durham Technical Community College	Durham	0	0	0.0	0.0
42.	Forsyth Technical Community College	Winston-Salem	0	0	0.0	0.0
43.	Isothermal Community College	Spindale	0	0	0.0	0.0

44.	Mayland Community College	Spruce Pine	0	0	0.0	0.0
45.	McDowell Technical Community College	Marion	0	0	0.0	0.0
46.	Mitchell Community College	Statesville	0	0	0.0	0.0
47.	Montgomery Community College	Troy	0	0	0.0	0.0
48.	Nash Community College	Rocky Mount	0	0	0.0	0.0
49.	Pamlico Community College	Grantsboro	0	0	0.0	0.0
50.	Piedmont Community College	Roxboro	0	0	0.0	0.0
51.	Randolph Community College	Asheboro	0	0	0.0	0.0
52.	Richmond Community College	Hamlet	0	0	0.0	0.0
53.	Robeson Community College	Lumberton	0	0	0.0	0.0
54.	Rowan-Cabarrus Community College	Salisbury	0	0	0.0	0.0
55.	Sampson Community College	Clinton	0	0	0.0	0.0
56.	South Piedmont Community College	Polkton	0	0	0.0	0.0
57.	Stanly Community College	Albemarle	0	0	0.0	0.0
58.	Tri-County Community College	Murphy	0	0	0.0	0.0
	Total		**1,635**	**7,806**		

	UNC Institutions	*City*	*Number of Students in Default*	*Number of Students in Repayment*	*2010 Default Rate %*	*2009 Default Rate %*
1.	Elizabeth City State University	Elizabeth City	161	726	22.1	16.8
2.	Fayetteville State University	Fayetteville	290	1,695	17.2	17.4
3.	N.C. Central University	Durham	375	2,205	17.0	14.9
4.	N.C. A & T State University	Greensboro	423	2,515	16.8	13.5
5.	Winston-Salem State University	Winston-Salem	237	1,452	16.3	12.1
6.	UNC-Pembroke	Pembroke	175	1,530	11.4	6.2

7.	Western Carolina University	Cullowhee	160	1,763	9.0	6.0
8.	UNC- School of the Arts	Winston-Salem	14	177	7.9	6.4
9.	UNC-Greensboro	Greensboro	233	3,462	6.7	3.9
10.	UNC-Asheville	Asheville	39	598	6.5	5.6
11.	UNC-Charlotte	Charlotte	236	4,229	5.5	2.8
12.	UNC-Wilmington	Wilmington	124	2,262	5.4	4.5
13.	East Carolina University	Greenville	211	4,518	4.6	3.2
14.	N.C. State University	Raleigh	131	3,638	3.6	3.2
15.	Appalachian State University	Boone	97	2,622	3.6	3.0
16.	UNC-Chapel Hill	Chapel Hill	57	3,503	1.6	0.8
	Total		**2,963**	**36,895**		

	Other Private N.C. Colleges, Universities, and Schools	*City*	*Number of Students in Default*	*Number of Students in Repayment*	*2010 Default Rate %*	*2009 Default Rate %*
1.	Livingstone College	Salisbury	133	410	32.4	28.0
2.	Saint Augustine’s College	Raleigh	145	473	30.6	29.4
3.	Louisburg College	Louisburg	109	379	28.7	24.7
4.	Johnson C. Smith University	Charlotte	109	462	23.5	24.4
5.	North Carolina Wesleyan College	Rocky Mount	114	519	21.9	17.4
6.	Chowan University	Murfreesboro	77	393	19.5	16.4
7.	Shaw University	Raleigh	183	964	18.9	30.2
8.	Mars Hill College	Mars Hill	64	387	16.5	11.7
9.	Belmont Abbey College	Belmont	63	430	14.6	9.7
10.	High Point University	High Point	110	779	14.1	11.2
11.	Bennett College	Greensboro	27	193	13.9	14.8
12.	Greensboro College	Greensboro	53	409	12.9	14.5
13.	Methodist University	Fayetteville	78	624	12.5	12.2
14.	Lees-McRae College	Banner Elk	35	281	12.4	10.3
15.	Guilford College	Greensboro	79	777	10.0	11.0
16.	Montreat College	Montreat	49	486	10.0	8.6
17.	Gardner-Webb University	Boiling Springs	99	1,045	9.4	10.0
18.	Barton College	Wilson	35	381	9.1	13.1
19.	Mount Olive College	Mount Olive	81	1,017	7.9	4.8
20.	Warren Wilson College	Swannanoa	20	256	7.8	2.2
21.	Catawba College	Salisbury	26	337	7.7	7.9
22.	Lenoir-Rhyne College	Hickory	33	431	7.6	7.1
23.	Brevard College	Brevard	13	180	7.2	11.1
24.	Queens University of Charlotte	Charlotte	40	557	7.1	7.6

25.	Salem College	Winston-Salem	18	266	6.7	7.0
26.	Pfeiffer University	Misenheimer	36	600	6.0	7.0
27.	Wingate University	Wingate	27	483	5.5	6.6
28.	William Peace University	Raleigh	12	216	5.5	6.0
29.	Campbell University	Buies Creek	56	1,143	4.8	3.4
30.	Meredith College	Raleigh	26	589	4.4	3.0
31.	Cabarrus College of Health Sciences	Concord	3	126	2.3	3.4
32.	Davidson College	Davidson	3	129	2.3	2.2
33.	Elon University	Elon	14	827	1.6	1.7
34.	Wake Forest University	Winston-Salem	15	1,055	1.4	1.4
35.	Duke University	Durham	19	1,899	1.0	1.0
36.	St. Andrews Presbyterian College	Laurinburg	NA	NA	NA	1.6
	Total		**2,004**	**19,503**		

Source: U.S. Department of Education, Official 3-Year Cohort Default Rate Search for Post-secondary Schools, Fiscal Year 2010, September 23, 2013. Database online at: *http://www2.ed.gov/offices/OSFAP/defaultmanagement/cdr.html*, last accessed 1/6/2014.

Note: The 2010 default rates represent the percentage of borrowers at each school who began loan repayments in 2010, and who defaulted in 2010, 2011, or 2012. Federal Student Aid, *Cohort Default Rate Guide*, U.S. Department of Education, Washington, DC, September 2013, p. 2.1-4. Online at: *http://ifap.ed.gov/DefaultManagement/guide/attachments/ CDRGuideCh2Pt1CDRCalculation.pdf*, last accessed 1/6/14.

Additional Resources

Annual Report, 2013-2014, North Carolina State Education Assistance Authority. Available at http://www.ncseaa.edu/pdf/2013-14_Annual_Report.pdf.

College Foundation of North Carolina (CFNC), https://www.cfnc.org/index.jsp.

Federal Student Aid, U.S. Department of Education, https://studentaid.ed.gov/types.

Free Application for Federal Student Aid (FAFSA), U.S. Department of Education, https://fafsa.ed.gov/.

Pell Grant Program, U.S. Department of Education, http://www2.ed.gov/programs/fpg/index.html.

Statistical Abstract of Higher Education in North Carolina 2013-14, University of North Carolina. Available at http://www.northcarolina.edu/apps/stat_abstract/index.php?pg=dl&id=s16627&format=pdf&inline=1.

Trends in Student Aid 2014, The College Board. Available at https://secure-media.collegeboard.org/digitalServices/misc/trends/2014-trends-student-aid-report-final.pdf.

Acknowledgements

The N.C. Center for Public Policy Research thanks Ran Coble, former director at the Center, and Sam Watts, former public policy analyst, for their extensive work and commitment to this report on financial aid and tuition policy. The Center is grateful to the numerous individuals who reviewed, commented on, and provided feedback for working drafts. Major funding for this effort is provided by the Lumina Foundation for Education, with additional funding from the N.C. GlaxoSmithKline Foundation, the Cannon Foundation, the James G. Hanes Memorial Fund, the Citi Foundation, the Hillsdale Fund, the Belk Foundation, and the Mary Duke Biddle Foundation.