

North Carolina Student Aid Study Group

Policy Issue Brief

Improving the *Targeting, Predictability, and Simplicity*
of **North Carolina's State Grant Programs**

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INTRODUCTION

North Carolina has a strong state grant program, serving students in the public four-year, community college, and private nonprofit sectors through programs designed to meet the needs of different groups of students. With almost all of the aid allocated on the basis of students' financial circumstances and with tuition and fee prices among the lowest in the nation at public colleges and universities, North Carolina's policies serve its students well. However, strengthening the design of the state grant programs could increase their impact on college access and success.

By reducing the price of college, grant aid makes it easier for all students to pay the bills. But the goal is not only to make things easier—it is also to change students' behavior and choices. Dollars that motivate parents to buy their children cars while they are in college do not serve the state's interest in the same way as dollars that induce high school graduates to enroll in college or that make it possible for older adults to succeed in earning credentials that improve their labor market opportunities.

It is intuitively obvious that funding for students with very limited resources is more likely than funding for those who can manage to pay for college on their own to increase the number of students who earn degrees. A large body of research supports the idea that the outcomes of low-income students are most price sensitive.¹ Targeting aid to students with financial need is both equitable—narrowing the gaps in available opportunities—and efficient—maximizing the impact of state funding on educational attainment. But targeting is not just about who gets the aid; it is also about how the aid is structured. Educational attainment is the actual target of the state's programs and the incentives embodied in the programs can have a significant impact on the achievement of this goal. For example, provisions that discourage students from enrolling full time or taking courses over the summer can derail them.

Predictability and simplicity are also among the program characteristics that improve aid's effectiveness. If students do not know about the aid, have difficulty navigating the application process, or cannot make reasonable estimates in advance about how much aid they will receive, they will be less likely to prepare academically for college, to go through the process of applying to college and for the aid they need, to enroll in college, and to succeed in completing their programs.

1 Donald Heller (2001), *The Effects of Tuition Prices and Financial Aid on Enrollment in Higher Education: California and the Nation*. EdFund; Donald Heller (1997), "Student Price Response in Higher Education: An Update to Leslie and Brinkman." *Journal of Higher Education*, 68, no. 6: 624-659; William G. Bowen, Matthew M. Chingos, and Michael S. McPherson (2009), *Crossing the Finish Line: Completing College at America's Public Universities*. Princeton: Princeton University Press.

Because states have different goals for their state grant programs, different institutional structures, and different demographics, there is not one state grant program design that will be most effective everywhere. Moreover, weighing the many tradeoffs involved requires judgement calls on which there will be differences of opinion among people who share the same goals.

Should the state fill as much financial need as possible or keep the budget within strict limits? How simple can the allocation formula be without compromising the targeting of funds to students who need them most? What is the best way to balance the competition for resources across postsecondary sectors? Nonetheless, some states have made greater strides than others in developing state grant programs that are well targeted, predictable, and simple, and North Carolina can learn from these policies.

This paper begins by elaborating on the concepts of targeting, predictability, and simplicity and providing examples from a range of states of grant programs that are particularly strong or particularly weak in these areas. It then examines the North Carolina programs to highlight characteristics that strengthen or weaken the state's ability to meet its goals for educational attainment and suggests some areas for potential reform.

TARGETING

Well-targeted state grant programs:

- Focus aid on students with lower ability to pay, whose behavior and outcomes are most likely to be affected by the extra dollars;
- Allocate aid equitably, with differences in the aid amounts students receive based on appropriate differences in their circumstances;
- Minimize cliff effects, which create sharp differences in aid between students on one side or the other of an arbitrary line;
- Avoid deadlines and requirements that disproportionately harm disadvantaged students;
- Meet the needs of students of different ages and with different goals; and
- Ensure that state programs mesh with federal (and institutional) programs to maximize distributional equity and efficiency.

The central issue in the equitable and efficient targeting of grant aid is basing the allocation of funds on students' financial circumstances. North Carolina deserves credit for not following the lead of Arkansas, Georgia, Louisiana, South Carolina, and a number of other states in basing aid eligibility primarily on high school grades or test scores. But even within the realm of need-based aid, there is a wide range of allocation systems that lead to different distributions of aid.

Tennessee: Last-dollar programs

Although not generally thought of as state grant programs, programs like the Tennessee Promise, which covers tuition and fees at community colleges for students whose federal and other state grant aid does not do this, are a form of state grants. These “last-dollar” programs put a floor under the grant aid students at these institutions receive. The floor is the same regardless of income. Because lower-income students receive Pell Grants, they are least likely to receive Promise funding. This program and others like it counteract the progressivity of the Pell Grant program, promising all students similar amounts of grant aid regardless of their financial circumstances.

Consider as an example a state in which community college tuition is \$5,000. Without any state grant program, a low-income student might get a \$5,000 Pell grant to cover tuition, while a higher-income student has to pay the full price. Now the state steps in with a last-dollar program and says that everybody will get free tuition—so the higher-income student gets a \$5,000 reduction, while the low-income student gets no extra funding, because his Pell Grant already covers tuition. This may sound like equality since each student winds up with no tuition expense. But the low-income student has more need and by the usual criteria should get more help. In a “first-dollar” program, the state would eliminate tuition for all students regardless of incomes; the low-income student could then use his Pell Grant to meet other expenses of college, including living expenses.

Vermont: Carefully-targeted programs

Vermont’s state grant program is based entirely on financial need. Grant amounts depend on financial circumstances, total cost of attendance, and intensity of enrollment. Vermont requires a Vermont Grant Application in addition to the FAFSA and relies on a complicated formula that requires information on business and farm ownership, home equity, noncustodial parents, and other resources not reported on the FAFSA. During 2018-19, grants for full-time students ranged from \$1,000 to \$12,200, depending on financial need. The state also allows institutions to use professional judgment to adjust the outcomes for many students. The state has determined that it is worth the added complication of requiring an additional application form and using an elaborate formula in order to carefully tailor aid to individual financial circumstances.

A 2012 study of Vermont aid revealed that expected family contributions (EFCs) and parent contributions (PCs) calculated under the state’s methodologies were higher than those calculated under the Federal Methodology (FM). Under FM, 46 percent of dependent students and 29 percent of independent students would have been eligible for state grants averaging \$2,200 and \$2,800, respectively. Under the Vermont formula, 42 percent of dependent and 28 percent of independent students were eligible, with average grants \$300 – \$400 (12

percent to 14 percent) lower.² Vermont’s program is not an entitlement program in the sense that funds are allocated on a first-come, first-served basis until they run out—a significant shortcoming for a program so focused on equitable distribution.

Texas: Tuition and fees versus total budgets

The TEXAS Grant is targeted to low-income students, although only a fraction of those eligible receive grants because of funding limitations. Institutions are required to cover the full tuition and fee price for TEXAS Grant recipients through a combination of this grant with federal, other state, institutional, or outside sources.³ In other words, students awarded TEXAS Grants receive similar amounts of aid, although their EFCs range from \$0 to over \$5,000. This approach is problematic, because it requires directing marginal aid funds to students with less financial need, instead of assisting the highest-need students with their non-tuition expenses. This is a less serious problem in the case of the Texas program, which is limited to students with relatively low EFCs (\$5,430 in 2017-18), than it would be for a program that extends higher up the income scale. But the principle is an important one. Because tuition and fees represent only about 20 percent of the total budget for the average community college student and 40 percent for the average public four-year college student,⁴ low-income students need additional funding to make financing college a realistic possibility.

Minnesota: Shared responsibility

Minnesota’s state grant program, which also allocates virtually all of its funds on the basis of financial circumstances, relies on a “shared responsibility” approach. Unlike programs that focus only on tuition and fees, this system addresses all of the expenses students face. Applicants are required to contribute 50 percent of their cost of attendance out of savings, earnings, loans, or other forms of aid. For dependent students, the remaining 50 percent is met by the combination of a specified fraction (currently 94 percent) of the parents’ contribution based on FM, Pell Grants, and state grants. For independent students, the remaining 50 percent is met by a combination of a specified fraction (currently 50 percent for independent students without dependents and 86 percent for independent students with dependents) of the FM student contribution from income and assets, Pell Grants, and state grants.⁵

- 2 Sandy Baum, Kathleen Little, Jennifer Ma, and Anne Sturtevant (2012), *Simplifying Student Aid: What It Would Mean for States*, College Board, <http://media.collegeboard.com/digitalServices/pdf/advocacy/homeorg/advocacy-state-simplification-report.pdf>.
- 3 Texas Higher Education Coordinating Board, *2017-18 Program Guidelines Toward EXcellence, Access, & Success Grant (TEXAS Grant)*, <http://www.thecb.state.tx.us/reports/PDF/9662.PDF?CFID=74447220&CFTOKEN=70140641>.
- 4 Jennifer Ma, Sandy Baum, Matea Pender, and CJ Libassi (2018), *Trends in College Pricing 2018*. The College Board.
- 5 Minnesota Office of Higher Education, “Minnesota State Grant,” <https://www.ohe.state.mn.us/mPg.cfm?pageID=138>. Accessed September 30, 2018.

Minnesota's design has some attractive features, as well as some vulnerabilities. It is appealing to think of paying for college as a partnership among the student, her family, and the state.

Minnesota's program makes this idea concrete. For dependent students, parents contribute according to ability to pay. Independent students similarly make a contribution that depends on their financial capacity. State grants are deployed in a way that fills the gap left from student, family, and federal government contributions.

Minnesota's system is carefully designed and systematic. But the parameters—like most incorporated in aid programs—are arbitrary. For example, the share of the budget for which students are responsible has increased over time under fiscal pressures.

The shared responsibility approach does a good job of meeting need equitably. But its coordination with the Pell Grant program raises questions. If Pell Grants increase, the state grants for which students are eligible will automatically decline, since it is the sum of the two that is embodied in the formula. The federal government's intention is clearly to supplement state aid, not replace it.

A virtue of the Minnesota system is that it builds in recognition that the expenses of college extend beyond tuition and fees. Programs that focus only on tuition and fees leave low-income students unable to meet their expenses without excessive work and/or loans, diminishing their success rates. Notably, in Minnesota's program the cost of attendance is based on tuition and fees plus a standard allowance for room and board, books and supplies, and miscellaneous expenditures. This is a significant issue for programs that focus on cost of attendance, since individual campuses have considerable discretion in setting these budgets. Differences in cost-of-living across the state certainly lead to differences in students' living expenses across institutions, but if state grant amounts are based on the student budgets set independently by campuses, the aid allocation can be distorted.

Variation in non-tuition budgets across North Carolina institutions illustrates the problem. In 2017-18, the budget for books and supplies was \$1,604 at UNC-Chapel Hill and \$1,501 at UNC-Pembroke, but it was \$400 at Fayetteville State and \$700 at Appalachian State. This budget was

\$1,760 at Central Carolina Community College and \$1,538 at Coastal Carolina Community College, compared with \$1,200 at Richmond and Wilkes Community Colleges.

UNC-Wilmington allows students living off campus only about two-thirds of the "other expenses" budget allowed on-campus students and NC State allows less than half. But at the Asheville and Greensboro campuses, other-expenses budgets are higher for off-campus than for on-campus students. There is also a wide range of approaches to setting budgets for

students living at home with parents. Many campuses in both the UNC and the community college systems use the same non-tuition budget as for off-campus students. But North Carolina State allows six times as much for other expenses for those living at home (to compensate for not providing any allowance for room and board), while Craven Community College allows only about three-quarters of the budget for students living in off-campus housing.⁶

Standardizing these budgets (with allowance for cost-of-living differences) for the purposes of determining grant aid that can meet non-tuition expenses is important for creating a system that is equitable across campuses.

California: Cliff effects and the tapering of awards

The Cal Grant program awards grants to students who have at least a specified amount of financial need according to Federal Methodology and who meet the income and asset levels set by the state. Awards are pro-rated for part-time enrollment, but otherwise students are either eligible or ineligible for the award offered to students at their type of institution. In other words, the grant is all-or-nothing, creating a steep cliff for students who just miss the cutoff, which will seem arbitrary and unfair.

Evaluating the merits of a program that offers the same award to students over a wide range of incomes is complicated by the relationship between state grants and federal grants. A state grant program that awards the same dollar amount to all Pell recipients is similar to increasing the maximum Pell Grant for its students. The sum of state and federal aid will decline, as EFC increases at the same rate the Pell Grant declines. However, if the state grant suddenly goes to \$0 for non-Pell recipients (or at any other given cutoff level), it will create a cliff. A dollar of extra EFC will result in a large decline in grant aid. Instead, the state grant should taper for students above the Pell cutoff.

A state grant program modeled after Pell, with grants declining as EFC rises the same way Pell does, will generate a steep slope, with total grant aid declining at twice the rate EFC declines. Table 1 illustrates these three different approaches.

6 NCES, College Navigator, <https://nces.ed.gov/collegenavigator/>. Accessed September 30, 2018.

Table 1: Sample state grant models

EFC	Pell	State Constant, then \$0	Total Award	State Constant, then Gradual Decline	Total	State Declines like Pell	Total
\$0	\$6,000	\$3,000	\$9,000	\$3,000	\$9,000	\$6,000	\$12,000
\$2,000	\$4,000	\$3,000	\$7,000	\$3,000	\$7,000	\$4,000	\$8,000
\$4,000	\$2,000	\$3,000	\$5,000	\$3,000	\$5,000	\$2,000	\$4,000
\$6,000	\$0	\$0	\$0	\$3,000	\$3,000	\$0	\$0
\$8,000	\$0	\$0	\$0	\$1,000	\$1,000	\$0	\$0
\$10,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0

These examples illustrate the importance of focusing on targeting, simplicity, and predictability in helping states confront the challenge of awarding student aid fairly and effectively. The following discussion highlights some additional dimensions of these challenges.

**Eligibility requirements:
Excluding part-time students and older students**

Some state requirements exclude students who would benefit from a college education and are likely to have difficulty covering the costs. For example, to qualify for the All Iowa Opportunity Scholarship, students must have graduated from high school within the last two years and must be continuously enrolled in college to renew the award.⁷ Part-time students are eligible for New York’s TAP awards only under very limited circumstances, including having earned 12 credits or more in each of two consecutive semesters.⁸

Many state grant programs serve only students who are recent high school graduates. The Georgia HOPE scholarship is available only within seven years of the time students graduate from high school.⁹ Students must begin using Michigan’s Tuition Incentive Program within four years of completing high school.¹⁰ To be eligible for the California Community College Cal Grant Transfer Entitlement, students must be under the age of 27.¹¹ The Texas state grant program requires that students enroll within 16 months of high school graduation or 12 months after earning an associate degree.¹²

7 Iowa College Student Aid Commission, “Iowa College Aid,” <https://www.iowacollegeaid.gov/content/all-iowa-opportunity-scholarship>; Accessed September 30, 2018.
 8 New York State Higher Education Services Corporation, “Part-time TAP,” <https://www.hesc.ny.gov/pay-for-college/apply-for-financial-aid/nys-tap/part-time-tap.html>. Accessed September 30, 2018.
 9 Georgia Student Finance Commission, HOPE and Zell Miller Scholarship Programs <https://www.gafutures.org/media/187610/faqs-hope-zm-scholarship-012918.pdf>. Accessed September 29, 2018.
 10 MI Student Aid, <https://www.michigan.gov/mistudentaid>. Accessed September 29, 2018.
 11 California Student Aid Commission, “Report on Transfer Entitlement Cal Grant Program,” <http://www.csac.ca.gov/sites/default/files/comm/sppc/20140918/exh2.pdf>. Accessed September 29, 2018.
 12 Texas Higher Education Coordinating Board, 2017-18 Program Guidelines Toward EXcellence, Access, & Success Grant (TEXAS Grant), <http://www.thecb.state.tx.us/reports/PDF/9662.PDF?CFID=74447220&CFTOKEN=70140641>. Accessed September 29, 2018.

Enrolling full-time in college immediately after high school increases the probability of completing a degree, so embedding into grant programs the expectation that students will follow this pattern may be constructive.¹³ But many students, particularly those with family and work responsibilities, will not be able to follow these paths and excluding them from aid programs is counterproductive. The current reality is that 30 percent of undergraduate students are over the age of 24 and 38 percent are enrolled part-time.¹⁴ In 2016–17, 20 percent of federal Pell Grant recipients were over the age of 30.¹⁵

The clear need for postsecondary opportunities for adults seeking better options in the labor market means that states should remove the age and timing requirements of their programs and include part-time students. A reasonable solution is to provide more funding for students who enroll in more credit hours each semester—but to provide pro-rated funding for part-time students or develop separate programs to serve returning students.

Creating incentives

As the Brookings Institution State Grant Aid Study Group argued in their 2012 report, *Beyond Need and Merit: Strengthening State Grant Programs*, incorporating incentives for academic progress into state grant programs is quite different from linking awards to high school GPA and/or test scores.¹⁶

Denying aid to students because of relatively weak high school performance closes the door on many students who have little prospect of earning a family living wage without a postsecondary credential. But the goal of state grant programs is not just to get students into college; it is also to support them in completing the programs in which they enroll. There is considerable evidence that providing extra funding for students who complete more than a specified number of credits in a timely manner motivates students to progress through their programs more rapidly.¹⁷

Despite this reality, many state programs follow the model of the Pell Grant program, defining full-time enrollment as a minimum of 12 credit hours per semester and failing to provide additional funding for students who enroll for more than 12 credit hours. Not surprisingly,

13 Robert Bozick and Stefanie DeLuca (2005), "Better Late than Never? Delayed Enrollment in the High School to College Transition." *Social Forces*, 84, no. 1: 531-554.

14 NCES (2017), *Digest of Education Statistics 2017*, Table 303.45.

15 U.S. Department of Education, 2016-17 Federal Pell Grant Program End-of-Year Report, Table 11A.

16 Sandy Baum et al (2012), *Beyond Need and Merit: Strengthening State Grant Programs*, Brookings Institution State Grant Aid Study Group, https://www.brookings.edu/wp-content/uploads/2016/06/0508_state_grant_chingos_whitehurst.pdf.

17 See, e.g., Susan Dynarski and Judith Scott-Clayton (2013). "Financial Aid Policy: Lessons from Research." *The Future of Children*, vol. 23 no. 1, pp. 67-91, <https://muse.jhu.edu/article/508221>; MDRC, Performance-Based Scholarship Demonstration, <https://www.mdrc.org/project/performance-based-scholarship-demonstration#overview>; Judith Scott-Clayton (2011), "On Money and Motivation: A Quasi-Experimental Analysis of Financial Incentives for College Achievement." *Journal of Human Resources*, 46, no. 3:614-646.

many students enroll for 12 or 13 credit hours per term and take at least 10 semesters to complete the 120 credit hours required for most bachelor's degrees or at least five semesters to complete the 60 credit hours required for most associate degrees. According to the National Student Clearinghouse, based on a definition of 30 weeks as one year, students who completed bachelor's degrees in 2014–15 were enrolled for an average of 5.1 full-time academic years. Those who completed associate degrees were enrolled for an average of 3.3 years.¹⁸

States have devised a number of ways to encourage students to complete at least 15 credits hours per semester. For example, the University of Hawaii system claims that its public relations campaign "15 to Finish" has had a measurable impact on the number of students enrolling with the intensity required to graduate on time.¹⁹ But attaching dollars to the effort is likely to be more effective. In 2013, the Indiana state legislature created credit completion requirements for state financial aid. Students must complete 30 credit hours per year to maintain the maximum grant levels. Careful evaluation indicates significant positive impact on credit completion.²⁰

The Minnesota state grant program has long been structured around credit hours. Students must enroll for at least 15 credit hours to receive the maximum grant, with awards prorated according to the number of credit hours in which the student is enrolled.²¹

Programs that encourage students to take a concrete step—completing a certain number of credits—are likely to be more effective than those focusing on a more abstract goal, such as maintaining a minimum GPA (especially a relatively high GPA). Programs that only require a certain GPA may encourage students to take fewer courses or easier courses in order to earn higher grades—as has apparently been the case in Georgia.²²

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- 18 D. Shapiro, A. Dunder, P.K. Wakhungu, X. Yuan, A. Nathan, and Y. Hwang. (2016, September). *Time to Degree: A National View of the Time Enrolled and Elapsed for Associate and Bachelor's Degree Earners* (Signature Report No. 11). Herndon, VA: National Student Clearinghouse Research Center.
- 19 University of Hawaii, "15 to Finish," <http://15tofinish.com/data/>. Accessed September 30, 2018.
- 20 Takeshi Yanagiura and Nate Johnson (2017), *Indiana Financial Aid Reform: Initial Evaluation*, Postsecondary Analytics, <http://s10851.pcdn.co/wp-content/uploads/2010/10/Indiana-Financial-Aid-Reform-Evaluation-Postsecondary-Analytics.pdf>.
- 21 Minnesota Office of Higher Education, "Minnesota State Grant," <https://www.ohe.state.mn.us/mPg.cfm?pageID=138>. Accessed September 20, 2018.
- 22 John Charles Bradbury and Noel D. Campbell (2003), "Local Lobbying for State Grants: Evidence from Georgia's HOPE Scholarship." *Public Finance Review*, 31, no. 4: 367- 391; Christopher M. Cornwell, Kyung Hee Lee, and David B. Mustard (2005), "Student Responses to Merit Scholarship Retention Rules." *The Journal of Human Resources*, 40, no. 4: 895-917.

PREDICTABILITY

It should be possible for students to predict with reasonable accuracy how much support they will receive from state grant programs, instead of having to wait for their college acceptance and financial aid award letters to estimate how much it will cost them to enroll.

To improve predictability, programs should:

- Provide straightforward, easy-to-access information;
- Have simple formulas so tables can provide students with good estimates of the aid they will receive;
- Determine eligibility as early as possible so students can incorporate the information in their college planning; and
- Make eligibility for continuing awards clear and logical.

Early-commitment programs

The most direct way of letting students know about the assistance that will be available to them to finance college is to promise the aid years in advance. Early-commitment programs generally contract with middle school students, guaranteeing college financial aid in exchange for meeting specified academic and behavioral requirements.

Indiana. The Indiana 21st Century Scholars program is an early college promise program that enrolls students when they are in seventh or eighth grade. In high school, students participate in the Scholar Success Program and are connected to programs and resources to help them prepare for college and career success. Family income limits are based on eligibility for the free and reduced price lunch program, which serves children from families with incomes up to 185 percent of the poverty level. In 2018–19, the maximum income for a family of four is \$46,435.²³ The state recently implemented additional needs tests for students while they are in college.²⁴ The addition of this requirement was not expected to affect aid for many students, but it adds considerable complexity and uncertainty to the program.²⁵

23 Indiana Commission for Higher Education, State Financial Aid by Program. <https://www.in.gov/che/4498.htm>. Accessed September 29, 2018.

24 21st Century Scholars, *Understanding the New College Financial Means Test for 21st Century Scholars*, <https://www.mvsc.k12.in.us/userfiles/355/my%20files/21st%20century%20financial%20means%20test.pdf?id=4167>. Accessed September 29, 2018.

25 Sarah Pingel (2016), *State Financial Aid: Applying redesign principles through state engagement*, Education Commission of the States, https://www.ecs.org/wp-content/uploads/State_Financial_Aid-_Applying_redesign_principles_through_state_engagement.pdf.

Oklahoma. Oklahoma’s Promise program enrolls eight, ninth, and tenth graders from families with annual incomes up to \$55,000. To receive benefits, the students’ family incomes cannot exceed \$100,000 while they are in college. Students must also meet high school curriculum and GPA requirements. Oklahoma’s Promise pays tuition at public colleges and universities for the actual number of credit hours students take, so the award amount differs by both institution and enrollment intensity. In 2007, the legislature created a dedicated funding process for allowing Oklahoma’s Promise to be funded from the state’s General Revenue Fund each year to ensure that the program will be fully supported by a stable source of revenue.²⁶

Washington. Washington state’s College Bound Scholarship program covers tuition, fees, and a small book allowance. Students apply in seventh or eighth grade. To enroll, students must be from families whose incomes qualify them for the free and reduced price lunch program. To receive funding, they must meet the requirements of the contract and have family income below 65 percent of the state median during the senior year of high school.²⁷

Because they are limited to students from low-income families and are last-dollar programs, filling in the gaps left by federal and state need-based aid, early-commitment programs generally do not require large amounts of additional state funds. But evaluating the effectiveness of these programs is challenging because the students who sign up for them are likely to be more motivated than similar students who do not choose to participate. Studies of the programs have shown positive results for students who meet the terms of their contracts and apply for college financial aid, but results for the entire population of participants are less encouraging.²⁸

Look-up tables

Aid does not have to be promised early in order to be predictable. Simple look-up tables that show students and families how much aid they are likely to receive can go a long way in promoting planning and preparation for college. The big advantage of a look-up table over a complex formula is that it enables parents and students to easily estimate the aid they will receive. These tables should be in terms of income, not EFC, since EFC is not a meaningful concept to most people. They should include both state and federal grant aid and, where possible, institutional grant aid.

26 Oklahoma State Regents for Higher Education, *Oklahoma’s Promise*, <https://www.okhighered.org/okpromise/seniors-faq.shtml>. Accessed September 29, 2018.

27 Washington Student Achievement Council, *College Bound*, <https://www.wsac.wa.gov/college-bound>. Accessed September 29, 2018.

28 Saul Schwartz (2008), “Early Commitment of Student Financial Aid: Perhaps a Modest Improvement,” in *The Effectiveness of Student Aid Policies What the Research Tells Us*, Sandy Baum, Michael McPherson, and Patricia Steele, eds. New York: The College Board.

Creating these tables is not as simple as it sounds. Financial aid depends on income, other financial characteristics, family size, number of siblings in college, and dependency status. But a simple formula makes the task much easier.

Economic cycles

Both tuition prices and state grant funding levels are sensitive to the vicissitudes of state budgets, which are under particular strain during economic downturns. These cycles are a major problem for students and families planning for college because they make changes in both sticker prices and financial aid difficult to predict. States frequently resort to arbitrarily cutting off funding to students who fail to apply by an unannounced deadline. Planning ahead for these problems should make it possible for the state to mitigate this problem. The state should develop a plan for a rainy day fund and potential equitable strategies for cutting programs in the face of budget deficits.

SIMPLICITY

Complexity interferes with decision making and effective action in many areas of life. The growing body of knowledge from the field of behavioral economics reveals the types of steps people take to avoid dealing with complex decisions. Financial aid policies are no exception.²⁹

To avoid undue complexity, state grant programs should:

- Allow as many students as possible to receive their aid through one state program, rather than multiple programs;
- Make the application and award processes as simple as possible; and
- Make the eligibility formula as simple as possible.

Multiple programs with varying eligibility requirements and complicated rules and regulations are confusing. Students are less likely to apply for aid and to enroll in college if they have to overcome complexity.³⁰

29 Ben Castleman, Saul Schwartz, and Sandy Baum (eds) (2015), *Decision Making for Student Success: Behavioral Insights to Improve College Access and Persistence*. New York: Routledge.

30 Susan Dynarski and Judith E. Scott-Clayton (2006), "The Cost of Complexity in Federal Student Aid: Lessons from Optimal Tax Theory and Behavioral Economics." *National Tax Journal*, 59, no. 2: 319-356; Eric P. Bettinger, Bridget Terry Long, Philip Oreopoulos, and Lisa Sanbonmatsu. (2012), "The Role of Application Assistance and Information in College Decisions: Results from the H&R Block FAFSA Experiment." *Quarterly Journal of Economics*, 127(3):1205-1242.

Reading about state grant programs on the websites designed to explain them can be startling. For example, to be eligible for awards in their initial year of study, students at four-year institutions in Texas must meet a list of basic requirements plus at least one of the requirements in at least 2 of the following 4 areas:³¹

Area	Requirement(s)
Advanced Academic Program	12 hours of college credit (dual credit or AP courses), complete the Distinguished Achievement Program (DAP), or complete the International Baccalaureate Program (IB).
TSI Readiness	Meet the Texas Success Initiatives (TSI) assessment thresholds or qualify for an exemption.
Class Standing	Graduate in the top one-third of the HS graduating class or have a B average.
Advanced Math	Complete at least one math course beyond Algebra II as determined by the Texas Education Agency (TEA). Complete at least one advanced career and technical course, as determined by TEA.

Communication

Requirements like these may be almost impossible to communicate in a manner that will be clear to students and families. But good information can counteract some of the complexities of the financial aid system.³² If families throughout the state are aware of the grant program, understand how to access it, and can make reasonable estimates of the funding they will receive, they can plan and act accordingly.

There is considerable variation across states in the transparency of their state grant websites. A student who Googles “Minnesota state grant” is quickly directed to a well-designed website (<https://www.ohe.state.mn.us/mPg.cfm?pageID=138>) that explains clearly the available grant programs, the application process, the eligibility requirements, and how awards are determined. The website for the New York State TAP Grant (<https://www.hesc.ny.gov/pay-for-college/apply-for-financial-aid/nys-tap.html>) is another example of a clear and easy-to-navigate site.

Googling “North Carolina state grant” is more frustrating. The first hit is not for a state agency, and once the College Foundation of North Carolina comes up, there are a number of choices to make before reaching the relevant information, which is less complete than Minnesota’s.

31 Texas Higher Education Coordinating Board, “College for All Texans,” <http://www.collegeforalltexans.com/assssspps/financialaid/tofa2.cfm?ID=458>. Accessed September 30, 2018.

32 For evidence on knowledge of financial aid and the impact of information, see The Institute for College Access and Success (2008), “Paving the Way: How Financial Aid Awareness Affects College Access and Success.” http://projectonstudentdebt.org/fckfiles/Paving_the_Way.pdf.

North Carolina could strengthen the effectiveness of its grant programs by improving communication strategies to make programs, application processes, and eligibility seem simpler.

Students could be provided with personalized estimates of their aid eligibility far in advance. Simple standardized award letters from institutions in the state would make it easier for students to compare their financing options when they are choosing where to enroll.

EVALUATING NORTH CAROLINA'S STATE GRANT PROGRAMS

Important aspects of North Carolina's state grant programs are consistent with basic principles of equitable and efficient aid. The funds are allocated on the basis of financial circumstances; programs include part-time students who are enrolled at least half time and those who are not recent high school graduates. The programs do not use deadlines to exclude students.

However, a number of other characteristics raise questions.

Multiple programs

Simplicity requires minimizing the number of programs with different eligibility requirements and allocation formulas. It is appropriate to ask why there are separate programs for students enrolled in different types of institutions. A single program with an allocation formula modeled after the current University of North Carolina Need-Based Grant Program would continue to provide larger grants to students enrolled at UNC than to those attending community colleges. As long as cost of attendance plays a role, it may not be necessary to keep these programs separate.

Although the North Carolina Community College regulations specify that funding is allowed only for tuition, required fees, books and supplies, and a travel allowance—not for the full cost of attendance incorporated in the UNC program—this restriction may not play an active role. However, the program would be more effective without this limitation. Living expenses create the same burdens for community colleges students as for UNC students in similar financial circumstances with similar living arrangements.

Even if separate programs are deemed appropriate for the different sectors, the fact that individual students now receive their state grants from two different programs creates unnecessary complexity and lack of transparency. It should be possible to merge the lottery

funding with the other community college and UNC programs for students while maintaining the politically expedient separation of the funding streams. The idea that the Education Lottery Scholarship (ELS) provides community college students with EFCs of \$5,000 or less a floor of \$3,997 on grant aid and the Community College Grant (CCG) provides those same students a floor of \$4,680 is quite confusing. Students should not have to divide the floor into two components.

Level total grant aid for students with a wide range of EFCs

The NC state grant programs are well targeted in the sense that only students with low and moderate incomes receive grant aid. However, the current structures of the ELS and CCG programs counteract some of the carefully designed progressivity of the Pell Grant program.

The distribution of ELS does not really make a difference in the final grant totals students receive, because of the way in which the CCG and UNC Need-Based Grant (UNCNGBG) programs build on ELS. CCG promises students with EFCs of \$5,000 or lower a foundation of \$4,680 in grant aid. Some of the lowest-income students receive more than this amount from the Pell Grant program, and therefore receive no state grant support. For students with a range of incomes, from those receiving \$4,680 in Pell Grants (income of about \$37,000 for a family of four) to those with EFCs equal to \$5,000 (income of about \$60,000 for a family of four), total grant aid is the same. The difference is just in the breakdown between federal and state grant aid.

The UNCNBG formula, which attempts to meet documented student need, is a more logical approach, even if it is linked to a percentage of total cost of attendance, leaving gaps for all students.

Another simple approach to a better-targeted system would preserve the progressivity of the Pell Grant system, rather than counteracting it. As noted above, awarding the same state grant to all Pell Grant recipients would be comparable to increasing the maximum Pell Grant. The state grant would then taper off for students with EFCs too high to qualify for Pell.

Determining EFC

The FM formula for determining ability to pay has significant limitations. It accounts for some forms of income and assets but not others, ignores non-custodial parents, accounts for the spacing of children in a questionable way, and has a number of other shortcomings. But it is the formula the federal government uses and introducing an alternative should be done cautiously. UNC-Chapel Hill, like many private colleges, relies on the College Board's CSS Profile, which computes an alternative EFC. The Institutional Methodology (IM) underlying

that EFC is a better measure of ability to pay than the FM EFC and it is quite reasonable for institutions that award grant aid to students with incomes far above the level that would qualify for Pell Grants to use this alternative methodology. However, other UNC campuses do not require this additional form, so an alternative EFC (even if it is based on IM) adds mystery and complexity.

It would be helpful to know how the outcomes of the UNCNBG EFC formula and the FM formula differ and consider eliminating the former if it does not have a significant and equitable impact on aid awards.

Incentives for completion

It would be constructive to review existing state grant programs with an eye to strengthening incentives for timely program completion.

Students should receive more funding if they enroll for and complete more credit hours each term. Defining full time as 12 credit hours per semester and denying additional funding to students who take more course discourages on-time completion.

The timing of courses should not affect grant funding. Students who enroll for summer courses should receive the same funding they would if they took those courses during the fall or spring terms.

The state might consider awarding bonus funds to students who successfully complete at least 15 credit hours each term or at least 30 credit hours each year.

Information

As noted, the North Carolina student aid website is not as simple or easy to navigate as those of some other states. In addition to simplifying the grant programs, improving the website would make the system clearer to students and easier for them to navigate.

A single net price calculator should inform students how much they can expect to pay at different institutions within the UNC and community college systems. The calculator should be accessible and easy to use.

Provisions for stability in economic downturns

The cyclical nature of state budgets creates major problems for higher education because of the impact on both state appropriations and funding for state grant programs. A recession

reduces state tax revenues, leading to pressures for budget cuts in state grant programs at just the same time that students' and families' financial need rises. A well-thought-out approach to making necessary adjustments to state grant programs can minimize the probability of resorting to arbitrary cuts in aid and changes in application deadlines when funding is scarce and enrollments are up.

Coordination with other sources of aid

As currently structured, the NC state grant programs rely on Pell Grants as the foundation of their funding. If Pell Grants increase, state grants decline unless the target thresholds are raised. Instead of supplementing the income-based federal aid system, the state programs apply federal funding to different goals.

In addition to rethinking this approach, the state should examine the relationship between state grants and institutional grants at public institutions. How do differences in the aid funds available on different campuses affect the equity of financial aid and net prices across public institutions in the state? Debates about "tuition set aside" programs should be part of this review. It is not really possible to determine which institutional expenditures are funded out of state appropriations and which are funded out of tuition revenues. It makes more sense to think of institutional grant aid as closely related to the state grant programs.

CONCLUSION

North Carolina has a number of options for improving the targeting, predictability, and simplicity of its state grant programs. These include consolidating programs, ensuring that students with lower resource levels receive more grant aid than those with greater ability to pay, and strengthening communication efforts.

It is also important to think broadly about how the state grant programs can contribute to student success. There is growing evidence that college success depends on academic and social support systems, not just price. Incorporating advising and supports into aid programs may be more constructive than adding a small amount to grant levels. Providing emergency aid funds to help students when unforeseen events interfere with their lives may also be an effective strategy. Implementing pilot programs in these and other areas and gathering rigorous evidence about their effectiveness should supplement efforts to strengthen the basic structure of the state grant programs.

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