

Second, as presented in Exhibit 7, the number of North Carolinians entering medical school has nearly tripled since 1965. Also, between 1970 and 1986, the ratio of population to physicians declined from 978 to 537 per physician, a 45 percent decrease. The comparable decrease for the U.S. was 39 percent.⁶

It is not possible to determine the extent to which the Medical School Aid Program was the factor, or a major factor, in this increase in North Carolina's physicians, but it is reasonable to conclude that it helped, by encouraging private medical schools to enroll more North Carolina residents. During the same time, however, enrollments in the public medical schools also increased markedly--the number of North Carolinians entering their first year of a UNC medical school jumped 660 percent from FY 1966-67 to FY 1988-89.⁷

Along with the increase in medical students, there has been a substantial increase in the number of family practice residency positions (660 percent increase from 1973 to 1990), although it cannot be determined from residencies the extent to which practitioners actually remain in family practice. Research conducted by the North Carolina Area Health Education Centers Program indicates that residents of North Carolina are ultimately much more likely to set up practice in the State than are students from out-of-state. In summary, the State's medical practitioner resource base has grown significantly and other programs are in place to sustain the training of new doctors.

Finding 4: The process for adjusting or increasing private higher education appropriations is driven more by short-term budget availability and legislative relations than by policy.

The General Assembly has increased the level of per capita appropriations during years of budget excess and in response to legislative initiatives on the part of the private higher education institutions. This process has resulted in two current problems:

- Appropriations now have reached a level which the State may not be capable of funding in years of low economic growth. Already, in recent budget sessions, private institution students have received less funding than amounts authorized.
- Like tuition in the public institutions, appropriation levels are not determined by articulated policy or linked with any logical index. The current process is unpredictable and private colleges are vulnerable to the changing economic climate.

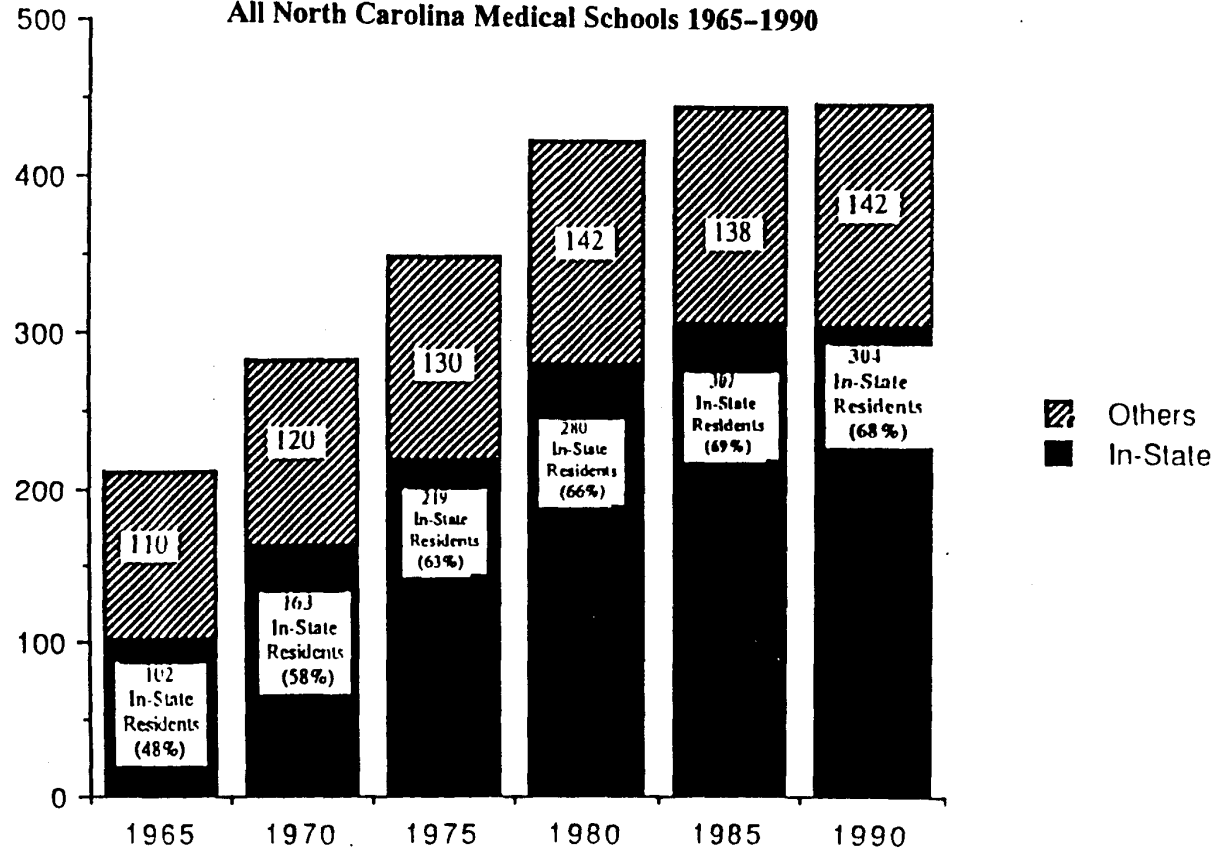
Finding 5: Accountability of independent higher education institutions to the State, by definition, must be limited, but even minimal accountability measures are not currently required.

⁶*Medical Education and Medical Manpower in North Carolina*, North Carolina Area Health Education Centers Program, March 1990.

⁷*Ibid.*

EXHIBIT 7

State of North Carolina
In-State Residents as Entering Medical Students
All North Carolina Medical Schools 1965-1990



Source: Journal of the American Medical Association, "Medical Education in the United States"

Current accountability requirements for funds provided to private higher education are limited to provision of data on the number of FTE students enrolled and amounts of funds expended; the State does not attempt to assess the effectiveness or efficiency of how funds are spent. For lack of information, the principle of funding to students in private higher education remains vulnerable to criticisms, questions, and concerns. Examples of such concerns were expressed by interviewees for this study:

- Are all private colleges providing a reasonable quality of education? Do educational standards vary significantly among private institutions and as compared with public institutions? (The counterargument is made that quality varies in the public system also.)
- Do graduation rates vary significantly among private institutions? Do students complete degree programs in a reasonable length of time?
- Are program offerings relevant? Are they redundant? (Nearly every institution in the State, public and private, trains teachers.)
- Are State funds spent to increase the basic quality of education or on "extracurricular" or capital projects? Is the State helping private colleges finance "luxuries" (i.e., studies abroad) that public institutions cannot afford to provide to students?

With respect to the last point, a clarification may be helpful. It is true that state funds indirectly support institutions in that they make it possible for some students to attend private institutions; thus, state funds become one of the overall sources of student support and the institutional budget. However, in North Carolina, it also is true that the grants to students under the Contractual Scholarship and Legislative Tuition Grant Programs actually go to students. For each eligible student, the grant and/or scholarship appear as deductions on the student's invoice. In this sense, it is hard to sustain an argument that the funding is purely to the institution, such as for "luxuries."

Independent colleges and universities, by definition, cannot be bound by the same standards of control and reporting that are applied to public institutions. Nonetheless, more emphasis on accountability is consistent with the direction of several recent General Assembly initiatives. For example, the Information Exchange Program legislation (Senate Bill 1028), recently enacted by the General Assembly, represents a step toward assessing effectiveness of public schools by monitoring student progress in public colleges and universities. The legislation encourages private sector participation in the program.

Private higher education has responded favorably by taking steps to develop a systematic approach to tracking and compiling data. However, such reporting is challenging for the private institutions because individual institutions vary significantly in staff resources and automation capabilities.

Finding 6: Currently, the largest portion of state aid to students in private higher education is not in need-based programs.

Of the total \$35 million in the two undergraduate programs, \$10.8 million is in the need-based Contractual Scholarship Program and approximately \$24.2 million is in the non need-based Legislative Tuition Grant Program. Several interviewees expressed the view that many private college students currently benefiting from state aid may be capable of paying the total amount of tuition and fees. As illustrated in Exhibit 3, less than a third of North Carolina students enrolled in private colleges and universities qualify for need-based financial aid. While it is necessary to recognize that ability to pay varies substantially among the other two-thirds, it is likely that a sizable percentage of enrolled students are capable of paying the full amount of tuition and fees required by their institution. If this is the case, then that portion of the funding that hypothetically supports students without financial need might be construed as funding to the institutions, not to students. Alternatively, it might be considered unnecessary.

Even the premise of funding to private institutions is not necessarily inappropriate. Rather, in an era of fiscal restraint, the question becomes whether the State could more effectively address its objectives for expanding access and educational attainment by providing financial support in a manner that directs that support to where it is needed most, that is, to students whose access truly depends on it.

RECOMMENDATIONS

Recommendation 1: Focus state aid to private higher education more directly on meeting objectives of improving the quality of education, extending its benefits, and encouraging economical use of the State's resources by (1) increasing emphasis on accountability and (2) shifting to student need-based aid.

The initial premise that it is reasonable and appropriate for the North Carolina to continue to support students in private higher education for the following reasons:

- Private colleges and universities have been, will, and should continue to be an integral part of the State's higher education delivery systems.
- Private colleges and universities provide needed capacity and meet the needs of a significant number of North Carolina residents (26,000 undergraduate and 5,000 first-professional and graduate students).
- State assistance promotes choice, diversity, access, and competition in higher education.

Our findings, however, indicate that the General Assembly can choose to use state aid to private colleges in ways that focus that support more directly on specific policy objectives for quality and access. We, therefore, recommend that the General Assembly redesign its programs of support to private higher education in the following specific ways aimed at improving focus and results.

Recommendation 2: Eliminate the Legislative Tuition Grant Program and redesign and expand the Contractual Scholarship Program, to provide only need-based aid.

An expanded and redesigned Contractual Scholarship Program should be aimed at filling the "gap" between the cost of attending college and financing available to students from other sources (including parental income, federal and institutional student aid programs, and private scholarships). Grants should be available to students from middle income, as well as low income families. If the model is to be "gap financing," to make the difference between a student being able to attend or not, then the program can be designed to increase the allowable maximum grant, as well as the overall average grant. The net effect might be fuller funding for a reduced number of students. However, in any case, individual awards to students should be capped so as not to exceed the amount of subsidy per student in public institutions.

This redesigned Contractual Scholarship Program would enable the State to assist students to attend the college of their choice and provide for diversity within the private sector. It would continue to provide a flow of public funds to private institutions, but it would not provide that support to students and families whose income levels are such that they do not need the assistance.

According to the survey conducted by the Pennsylvania Higher Education Assistance Agency (cited above), half the states provided only need-based aid to private higher education in FY 1991-92. Of the peers states for which data were available (eight of 11), three provided only need-based aid. If North Carolina implemented this recommendation, the State would be within national and peer state norms.

Recommendation 3: Establish accountability criteria to assure that minimal acceptable standards are in place and provide state funds only to institutions that meet established criteria.

The General Assembly has been interested in opportunities to focus greater attention on results rather than inputs. Within that general framework, it would be entirely consistent for the General Assembly to provide funding based on accountability measures (outputs), instead of funding private higher education institutions based on FTE students (inputs). Doing so would require selection of appropriate accountability performance measures and implementation of accountability reviews.

Possible Accountability Model. At present, minimum standards are provided by the SACS accreditation process. An alternative, for purposes of state aid programs, would be to make eligible for funding those institutions whose performance is equivalent to minimal standards in The University of North Carolina in, for example:

- Undergraduate admission requirements
- Basic baccalaureate degree requirements
- Completion rates

Additional indicators to be considered include:

- faculty qualifications
- adequacy of libraries and computer resources
- percentage of minority graduates
- percentage of graduates with degrees in critical skill areas
- success of remediation efforts.

Institutions failing to meet the criteria to be established would be ineligible. That is, student wishing to attend those institutions would be ineligible for state support.

Our research indicated that several states are implementing outcome-based funding for their public education systems but our limited search did not uncover examples of states that are applying performance-based funding to private institutions. The identifiable state with the most aggressive public involvement in private higher education was Maryland which, as result of a massive increase in state aid, involves itself in program planning at the private institutions. In Maryland, to be eligible for state aid, independent colleges and universities must meet minimum standards governing faculty teaching, programs, libraries, physical plant, governance structure, administrative support, and counseling. Should the General Assembly determine that it wishes to adopt accountability-based funding, it may find additional state policies emerging, but it is likely that North Carolina would be in the forefront of this trend.

Recommendation 4: Eliminate the Medical Student Aid Program for the immediate future, but reevaluate after a period, to determine if medical professional needs are still being reasonably met.

The original objective of increasing the number of in-state medical students has been largely achieved during the past 20 years or more. The number of in-state medical students has tripled since 1965 and public medical school capacity has been increased.

While maintaining an adequate number of physicians in North Carolina may continue to be an objective, the degree of the problem appears to have diminished. At the same time, the General Assembly is faced with ranking many critical needs and making numerous difficult choices. Therefore, we recommend that the Medical Student Aid Program be eliminated and the funding diverted to other higher priority areas. If, after a few years, data reveal that there is a negative impact on the number of physicians serving the State, the program could be reinstated.

The General Assembly should continue the Board of Governor's Medical Scholarship Program which provides a \$5,000 annual stipend plus tuition and mandatory fees for economically disadvantaged minorities who have been accepted for admission to one of the State's four medical schools.

Recommendation 5: **Adopt a funding principle that links funding for students who attend private higher education institutions with funding levels that support students in the public university system.**

The State should design and adopt a methodology to systematically review and adjust the level of appropriations for the redesigned Contractual Scholarship Program. Consideration should be given to linking increases or decreases in per student appropriations or maximum awards to a specific factor, such as a percentage of the public institution student subsidy. With an outcome-based and student need-based funding model as the two fundamentals of funding, a per-student support level that relates by policy to changes in support levels to public higher education students would seem equitable. In addition, an articulated policy could assure private institutions that their investments in program quality will be rewarded by a reasonably predictable level of State support.

IMPLEMENTATION CONSIDERATIONS

Redesigned Contractual Scholarship Program for Undergraduate Aid

Methodology. If the General Assembly wished to change the level of total appropriations based on an assessment of true student need, it would be necessary to calculate the amount of funds to be appropriated on the basis of:

- Relative distribution of parental income and appropriate eligibility ranges;
- portion of tuition typically covered by other sources of assistance;
- a tuition grant formula, based on ability to pay.

Alternatively, the current appropriation amount can be used as a base, but eligibility criteria applied, which would have the effect of reducing appropriations, as is discussed below under Implications.

Development of Accountability Measures. State officials should work closely with both public and private higher education administrators to identify meaningful performance indicators and to provide for effective interpretation of the data. It is important that the indicators selected be few in number and relatively simple to collect and maintain. To the degree possible, data currently collected for other purposes (i.e., graduation rates reported under the Student Right to Know Act and performance measures tracked for the accreditation process) should be considered for use as the State's performance measures.

Undergraduate Enrollment and Institutional Impact. Assuming the a new student aid formula will provide a level of funding similar to the current average state support to middle income students, it can be anticipated that student enrollment at private colleges will not change substantially. Neither students nor private institutions will be negatively affected by the recommended actions.

Staffing and Administration. Financial implications for the State include the need to allocate modest resources for initial assessment and development activities and to provide for long-range administration of the program. It is assumed that resources devoted to administering existing student aid programs may be reallocated to the new program, thereby minimizing financial impact. Presumably, the North Carolina Higher Education Assistance Authority would administer the Program.

Medical School Aid Program

Presumably the funding reduction will have minimal impact on the two private medical schools, in that the amounts received account for a small portion of their overall operating budgets. In addition, the impact on students will be minimal because public medical education capacity has increased significantly during the past 20 years and because only a small percentage of the funding was designated for student financial aid in the first place.

Indexing Private Higher Education Support to Public Support Levels

Under the present system, funding to private higher education is considered separately from appropriations to UNC. Under a funding policy that ties support to students attending private colleges to levels of subsidy provided per FTE in the public university, the General Assembly would consider funding level decisions jointly for both the private and public systems.

Relationship of Recommendations to Tuition and Fee Recommendations for UNC

The changes proposed here would be more equitable and would be more likely to be received as such by private higher education institutions and the families they currently serve if the changes were coupled with changes in the structure of UNC tuition and fees. Those recommendations are addressed separately in the issue paper "Tuition and Fees – The University of North Carolina and the North Carolina Community College System."

IMPLICATIONS

Financial implications or potential savings to the State are estimated as follows.

Redesigned Contractual Scholarship Program for Undergraduate Aid

At current levels of individual student awards, it is estimated that adoption of the recommendations above could result in three alternative appropriations levels: \$18 million; \$26.2 million; or \$35 million (the current level). The low end of this range reflects the current average level of state support, but only to students with financial need. The mid-level estimate assumes maintenance of assistance at the current level (only the amount of the legislative tuition grants) for an additional one-third of the private college enrollments. The high end of the range assumes funding for two-thirds of the students enrolled but increasing the awards per student, to maintain the current dollar level of appropriations.

Therefore, the General Assembly has three alternatives that would result in savings of \$0; \$8.8 million; or \$16.8 million. The calculations are shown as Exhibit 8.

Elimination of Medical Student Aid Program

This Program would need to be phased out gradually by maintaining commitments to students currently enrolled in the private medical schools. Assuming that students receiving the aid are evenly distributed across the four years, eliminating the Program will result in savings of approximately \$.7 million in the first year; \$1.4 million in the second year; \$2.1 million in the third year; and \$2.8 million in the fourth year and years thereafter.

EXHIBIT 8

Redesign of Contractual Scholarship Program Potential Cost Savings – Assumptions and Calculations

The General Assembly eliminates Legislative Tuition Grant Program and redesigns the Contractual Scholarship Program as a single need-based undergraduate aid program.

Alternative 1: Minimum Appropriation/Maximum Savings. The minimum appropriated amount equals the FY 1991–92 level of assistance provided to 7,922 students who qualified for need-based grants under the present Contractual Scholarship Program. These students account for approximately 30 percent (assume one-third) of all undergraduate students currently attending private institutions.

\$10,781,842	=	Total FY 1991–92 Contractual Scholarship allocation (7,922 students x \$1,361 average grant)
7,351,616	=	Portion of the total FY 1991–92 Legislative Tuition Grant allocation that went to students with financial need (7,922 students x \$928 average grant)
Total Approp	=	\$18,133,458
Total Savings	=	\$16,781,723

Alternative 2: Mid-Level Appropriation/Mid-Level Savings. An additional one-third of all undergraduate students attending private institutions will be classified as "middle income" and the General Assembly will appropriate funds at the average level of assistance provided to these students in FY 1991–92. The remaining one-third of students currently receiving support will not qualify for support.

\$ 8,036,480	=	Total FY 1991–92 Legislative Tuition Grant allocation for "middle-income" students (8,660 students x \$928 average grant)
Total Approp	=	\$26,169,938
Total Savings	=	\$ 8,745,243

Alternative 3: Equivalent Appropriation/No Savings. Student distribution is the same as for Alternative 2; however, the General Assembly will determine to hold the overall appropriation amount constant and use the excess funds to increase the amount of awards available to the two-thirds of students that qualify on the basis of need. As before, one-third of students will not qualify for support.

\$34,915,181	=	Total combined FY 1991–1992 allocation for both current programs, but redistributed among two-thirds of current recipients. Average grant amount increases. (17,334 students x \$2,014)
Total Approp	=	\$34,915,181
Total Savings	=	\$0

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