

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

**BILL NUMBER:** HB 7

**SHORT TITLE:** Education Improvement Act

**SPONSOR(S):** Representative Alex Warner

**FISCAL IMPACT:** Expenditures: Increase (x) Decrease ( )  
Revenues: Increase ( ) Decrease ( )  
No Impact ( )  
No Estimate Available ( )

**FUNDS AFFECTED:** General Fund (x) Highway Fund ( ) Local Fund ( )  
Other Fund ( )

**BILL SUMMARY:** Adds new G.S. Ch. 116, Art. 18B entitled "Education Improvement Act of 1993," to provide monetary grants for tuition and fees to state residents to attend institutions of higher education in North Carolina. Sets out eligibility standards, including 2.5 high school grade point average on 4.0 scale in specified courses and SAT score of 750 or graduation in top 50% of high school class; sets out standards for continuing to receive grant while in college. Applicant for grant must be in financial need, as defined in bill (e.g. parent or guardian with one dependent child under 21 must have adjusted gross income of less than \$30,000). Creates Education Improvement Commission, with membership specified in bill, to inform students of availability of grant assistance and provide application forms and appeals of eligibility determinations. Amount of grant is full tuition and fees for student attending UNC constituent institution or community college; or average amount of tuition and fees charged by UNC constituent institutions, for student attending private junior or senior college. Adds new GS 116-209.25 to provide that State Education Assistance Authority must administer funding for these grants. Appropriates from General Fund to UNC Board of Governors \$10 million for 1993-94 and \$20 million for 1994-95 to implement act. Effective July 1, 1993, and applies to payments beginning for 1993-94 academic year.

**EFFECTIVE DATE:** July 1, 1993

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:** UNC Board of Governors  
(a) Constituent Institutions  
to  
Private Colleges  
Colleges  
(b) Related Programs: Aid  
Students Attending  
Department of Community

**FISCAL IMPACT**

	<u>FY 93-94</u>	<u>FY94-95</u>	<u>FY95-96</u>	<u>FY96-97</u>	<u>FY97-98</u>
<b>EXPENDITURES</b>					
<b>RECURRING</b>	\$13,340,000	\$23,120,000	\$32,610,000	\$41,750,000	\$46,350,000
<b>NON-RECURRING</b>					
<b>REVENUES/RECEIPTS</b>					
<b>RECURRING</b>					
<b>NON-RECURRING</b>					

**POSITIONS:** 3

**ASSUMPTIONS AND METHODOLOGY:**

I. Number of Eligible Students

A. UNC

1. Data on the number of students meeting the academic standards for eligibility is based on analysis of student records, including high school class rank and Scholastic Aptitude Test (SAT) scores.
2. These numbers are then applied to the projections of North Carolina high school graduates. Assume UNC's market share of North Carolina high school graduates will increase 1/4 of 1% annually.
3. The number of transfer students from the community colleges will increase 5% annually, and all will meet academic requirements.
4. Students would be eligible to receive the grants for 5 years or more.

B. Community Colleges

1. Based on the number of first-time freshmen, fall quarter, 1992, who graduated from high school within the last two years, 18% of high school graduates will attend a community college the same year, and 11% will attend one year after they graduate.
2. Assume 67% of these will meet academic requirements. This assumption is critical; the community college system has no data on high school grade point averages, class rank, or SAT scores.
3. Assume "to pursue an associate or baccalaureate degree" includes community college students in technical and vocational programs (including 1 year programs) as well as those students in college transfer programs who may not be seeking an associate degree, but expect to transfer to another institution to pursue a baccalaureate degree.

C. Private Colleges

1. Assume private colleges' market share of North Carolina high school graduates will return to approximately 9%, and that 98.5% of freshman graduated from high school the previous spring.
2. Assume one-third will meet both academic and financial need requirements. No central data is available on high school academic preparation of private college freshmen in North Carolina.
3. Students would be eligible to receive the grants for 5 years or more.
4. Assume the bill only anticipates payments to students attending a private college **in North Carolina**. This is not specified in the bill.

## II. Growth Rates

- A. Projections of North Carolina high school graduates represent an integral part of these estimates, and these are attached.
- B. Community college transfers to UNC campuses are projected to grow by 5% annually. No other transfers are included in the estimates.
- C. UNC's market share of high school graduates is projected to grow by 1/4 of 1% annually.
- D. **There have been no further assumptions about this legislation's impact on the college-going rate; all estimates are based on current patterns. Any change due to the incentives in this bill could increase the cost of the bill in the short run. Such changes theoretically would be offset by enhanced revenue growth and lower costs for human services programs, but any estimates of these would be highly speculative.**

## III. Financial Need

### A. UNC

1. Data is based on a UNC survey of 1991 freshmen, with a 71% return rate. Of those meeting initial academic requirements, approximately 34% appeared to meet the income criteria. This means that 30.76% of first-time freshmen who completed high school within the prior two years met both academic and financial need requirements.
2. Assumes 50% of community college transfers to UNC campuses meet financial need criteria.

### B. Community Colleges

Assume 56% of academically eligible students will meet the financial need requirements. This means that 37.5% of first-time freshmen completing high school in the prior two years would be eligible. This is based on the ratio of community college students receiving Pell Grants (federally-funded need-based assistance) being somewhat higher than the ratio for UNC or the private colleges.

C. Private Colleges

The proportion of private college students receiving Pell Grants was approximately 2% higher than UNC students. Therefore, Fiscal Research assumed that one-third of all private college freshmen would meet both academic and financial need criteria.

IV. Retention/Continued Eligibility

A. Assume that financial need would not change the number of students eligible.

B. UNC

1. Assume "steady academic progress" after freshman year would require GPA of 1.6 or greater and completion of at least 24 credit hours.
2. Data from student data files indicates that 73.3% of those estimated to be academically and financially eligible for the program returned for the sophomore year having met the above criteria. This is 89% of the overall freshmen retention rate. For junior and senior years, 89% of the current retention rates was used. For the fifth year, Fiscal Research assumed 20% of the initial eligibles would return, based on the difference between four-year and five-year graduation rates.

D. Private Colleges

Retention rate estimates are based on the number in a class compared to the prior year's enrollment in the earlier class. Assumptions are 90% return rate for freshmen; 81% of sophomores return as juniors; 90% of juniors return as seniors; 10% of juniors will return for a fifth year.

V. Inflation

Assume a 5% annual increase in tuition and fees combined for both UNC and community colleges.

VI. Administration

We estimate administrative costs at \$250,000 annually, including 3 positions, printing, publicity and processing.

VII. Other

- A. Assume that other financial aid programs will not be affected by passage of this bill.
- B. A copy of annual projections by system is attached.

(see attached)

**SOURCES OF DATA:**

- 1. Statistical Abstract of Higher Education (various years)
- 2. N.C. Department of Community Colleges Data Base
- 3. UNC General Administration Student Records Data Base, Statistical Abstract Data Base
- 4. N.C. Association of Independent College and Universities
- 5. Unpublished data on college-going rates of N.C. high school graduates.
- 6. Estimates of N.C. high school graduates
- 7. Unpublished data from survey of UNC freshmen, fall, 1991.

**TECHNICAL CONSIDERATIONS:**

- 1. Bill does not specify that students attending private colleges have to attend a college in North Carolina.
- 2. Some financial aid programs offer full scholarships (Teaching Fellows, Nurse Scholars, etc.). The assistance in this bill might not be necessary for some students, even if they meet the financial need standards, which are based on family income.
- 3. Some definitions may need clarification. For example, does graduation from high school include those students who receive the adult high school diploma from a community college, or a GED? What constitutes "steady academic progress toward a degree"? These issues could be covered by the rule-making authority of the Commission, but they substantially affect the cost estimates.
- 4. There is currently no limit on the length of time a student is eligible for the grant, as long as he or she is continuously enrolled, making "steady academic progress," and taking at least 12 credit hours per semester or quarter.

**FISCAL RESEARCH DIVISION**  
**733-4910**

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**DATE:** March 10, 1993



**Signed Copy Located in the NCGA Principal Clerk's Offices**