Examining the Effectiveness of Race-Specific Funding Strategies in Higher Education

Final Report

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Introduction

Since 2017, Research for Action has conducted in-depth cross-state research on state higher education funding policies that address affordability, access, and success. This report describes findings from a recently completed two-year, three-state study examining the degree to which race-specific funding policies have advanced racial equity in higher education. Specifically, we explored whether and how iterations of race-specific state higher education funding policies in Minnesota, New Jersey, and North Carolina have leveraged more equitable higher education funding for Black, Latinx, and Indigenous students and the colleges and universities that have traditionally served them.

Racial inequity in higher education enrollment and attainment is well documented. There is a growing awareness of the disparities in funding between predominantly White institutions (PWIs) and those higher education institutions that traditionally serve racially minoritized individuals, in particular Black, Latinx, and Indigenous students. For example, recently the federal Departments of Education and Agriculture called on governors in sixteen states to address the over $12 billion disparity in funding between land-grant Historically Black Colleges and Universities (HBCUs) and their non-HBCU land grant counterparts.[1]

While many states have racial enrollment and attainment gaps, some states have made efforts to address them explicitly through their higher education funding programs. Specifically, states have leveraged two distinct and well-known higher education funding approaches—outcomes-based funding to institutions, and tuition discount/Promise programs for students—to address ongoing racial disparities in college access and success. Previous research[2] has examined the effectiveness of these funding strategies for advancing postsecondary attainment rates in general, but much less attention has been given to understanding how these policies are being used to address racial disparities in college access and success. RFA has been building a research base to inform the

[1] https://www.ed.gov/news/press-releases/secretaries-education-agriculture-call-governors-equitably-fund-land-grant-hbcus

[2] Ortagus, J. C., Kelchen, R., Rosinger, K., & Voorhees, N. (2020). Performance-based funding in American higher education: A systematic synthesis of the intended and unintended consequences. *Educational Evaluation and Policy Analysis*, *42*(4), 520-550; Swanson, E., Watson, A., & Ritter, G. W. (2020). Promises fulfilled? A systematic review of the impacts of college promise programs. *Improving research-based knowledge of college promise programs*, 33-68.

design and implementation of state higher education funding policies and programs that prioritize equity, and racial equity in particular.[3]

We designed the current study to explore three states that have prioritized racial equity in higher education funding strategies to understand the successes and systemic barriers related to race-explicit funding strategies and equity initiatives at the institutional level. Our examination of state funding strategies is guided by the following research questions:

Tuition-discounting programs (often called Promise programs) fund first- or last-dollar scholarships for students meeting certain eligibility criteria. These student-facing programs drive dollars directly to eligible students' tuition accounts upon enrollment or upfront. Depending on how these scholarships are designed, this can be an affordable method of driving up enrollment among certain populations within a state and can also be used to support retention and completion, which in turn supports those institutions that traditionally serve these students. Since Michigan's Kalamazoo Promise launched in 2005, many states, localities, and institutions have experimented with offering these programs.

Outcomes-based funding (OBF), sometimes referred to as student success or performance-based funding, links public higher education dollars to key student outcomes such as credit completion, retention, and graduation. These institution-facing programs are designed to support student success indirectly by driving dollars to institutions demonstrating improvement in student success. These dollars are awarded based on outputs or after the fact, and thus the funding received can help institutions support programming for future students. Some states have experimented with including equity metrics such as completions among specific student populations (e.g., Pell grant recipients, Black and/or Latinx students) in their funding formulas.

1. What funding strategies (policies, programs, formulas) are states using to advance equity for institutions and students, and how are they intended to reallocate resources?
2. How do institutional leaders, mainly from institutions serving large populations of minoritized students, perceive the impact of funding strategies (policies, programs, formulas)?
3. How are states' funding strategies shifting resources to institutions in need of resources? Specifically, how are race-explicit funding strategies redistributing resources to HBCUs, PBIs, MSIs, and other institutions serving large proportions of marginalized student groups, mainly Black, Latinx, and Indigenous students?

Methods

Our research team conducted a 50-state scan of state funding initiatives prioritizing Black, Latinx, and/or Indigenous students and/or historically underfunded institutions (e.g., Minority Serving Institutions [MSIs], HBCUs). The three study states, Minnesota, New Jersey, and North Carolina, were purposefully selected to allow for a robust, comparative examination of different types of funding strategies with the potential to improve equity in higher education outcomes and

[3] Research for Action. (n.d.) Outcomes-Based Funding Equity Toolkit. https://www.researchforaction.org/project/obf-equity-toolkit-2#overview/; Callahan, M. K., Meehan, K., & Hagood, S. (2021). *Designing Equitable Promise Programs: Research-based Considerations for State Policymakers.* Research for Action. https://www.researchforaction.org/wp-content/uploads/2021/07/RFA-DesigningEquitablePromisePrograms-final-002.pdf

reallocate resources to under-funded institutions and institutions serving Black, Latinx, and Indigenous students.

As shown in Table 1, one of the sampled states (New Jersey) includes explicit racial equity metrics and weights in their funding formulas at both the 2-year and 4-year levels. North Carolina revised its 4-year performance funding model in 2022 to include optional equity metrics and is one of three states with tuition-discounting programs. New Jersey and Minnesota have created income-based scholarship program packages. New Jersey's program reduces the cost of tuition and fees for the first two years at an in-state community college and the second two years at an in-state four-year university. Minnesota developed a first-dollar Promise program for American Indian students, as well as a broader last-dollar Promise program targeted for rollout in 2024-25.

Table 1: Overview of State Initiatives

State	Outcomes-Based Funding with Explicit Racial Equity Metrics		Tuition-Discounting Program			
Sector	2-year	4-year	2-year	4-year	First-dollar	Last-dollar
Minnesota				●	●[a]	●[b]
New Jersey	●	●	●	●		●
North Carolina		●		●	*	

[a] The American Indian Scholars Program is a first-dollar program.

[b] The North Star Promise program is a last-dollar program.

* We consider the NC Promise a first-dollar program recognizing that it is structured very differently than most first-dollar programs.

We conducted background interviews with state policymakers (n=13) to glean insights about how their respective states are directing state resources in service of equity in higher education. We also used policymaker interviews to inform institutional sampling. Institutional selection criteria were guided by each state's funding approach. In OBF states we wanted to amplify narratives at MSIs, HBCUs, Native American-serving non-tribal institutions (NASNTIs) and Hispanic-serving Institutions (HSIs), so we selected institutions with those designations. We also selected one PWI in each OBF state to understand whether and how the funding model incentivizes PWIs to change practices as they pertain to Black, Latinx, and Indigenous students. In Minnesota, we selected institutions with an American Indian population equal to or greater than the state average. In North Carolina, because the OBF formula is too new to see institutional impacts, we examined OBF only through the lens of policymakers, but gathered institution-level data on NC Promise from institutions that are currently participating in the program. All institutions included in this analysis are public four-year institutions.

Between September and December 2023, RFA completed interviews with twelve institutional leaders in Minnesota, New Jersey, and North Carolina. In February and March 2024, RFA conducted a second round of policymaker interviews in each of the three states to triangulate findings from institutional interviews and gather updated perspectives and insights. These 60-minute, semi-structured interviews with state policymakers and institutional leaders were audio-recorded, transcribed, and analyzed in Dedoose. This report describes each of the state cases as examples of higher education funding models for addressing racial disparities in completion, highlighting successes and challenges of the approach, presenting cross-state analyses, and offering recommendations for the field.

Making the Case for Prioritizing Racial Equity in Funding Strategies

As we examine the implementation of higher education funding initiatives prioritizing racial equity, it is important to understand how these mechanisms are theorized to work to evaluate whether they are operating as intended. We describe each of these strategies in turn in the next section.

Outcomes-based Funding – An Institution-facing, Back-end Funding Approach

OBF formulas with racial equity benchmarks are designed to address racial disparities in state postsecondary attainment by rewarding institutions for their efforts to recruit, enroll, retain, and graduate students from specific racial/ethnic backgrounds. The rationale for this approach is that the presence of these metrics in a funding formula will incentivize PWIs to change or bolster such practices. Earlier versions of these formulas without equity metrics incentivized public institutions to increase selectivity, creaming students who were likely to graduate on time to maximize and maintain the benefit of the formula while leaving behind students who have traditionally faced systemic barriers in postsecondary degree attainment and may require more support, including Black, Latinx, Indigenous, first-generation, and economically disadvantaged students. Concurrently, equity metrics were intended to ensure that HBCUs, MSIs, and other open access institutions that have always been serving these populations would “win” funding through the formula. Table 2 outlines the OBF models in each of our study states.

Table 2: Comparison of OBF Models in Study States

<table>
<tr><th colspan="2">New Jersey’s
Outcomes Based Assessment (OBA)</th><th colspan="2">North Carolina’s Performance-Weighted Enrollment Funding Model</th></tr>
<tr><td colspan="4">Structure and Composition of Funding</td></tr>
<tr><td colspan="2">100% of funding allocation = individual institutional base funding + OBA
[OBA 2022=8%; OBA 2023=11%; OBA 2024=17%][4]</td><td colspan="2">100% of funding allocation = 75% from core metrics + 25% from optional metrics selected for each 3-year performance cycle</td></tr>
<tr><td colspan="4">Performance Weighting Process</td></tr>
<tr><td colspan="2">Premiums for degree completions and headcount based on 3-year performance average</td><td colspan="2">Student credit hours weighted by annual performance on core and optional metrics in relation to baseline and nationally benchmarked stretch goals</td></tr>
<tr><td colspan="4">Racial Equity Metrics</td></tr>
<tr><td>Premiums for URM[5] degree completions</td><td>2.25-4.25</td><td>4-yr graduation rate for Targeted Students of Color subgroup</td><td>Optional Strategic Plan Metric</td></tr>
<tr><td>Graduated premiums for URM percent of undergraduate enrollment</td><td>0-25% = 2.25
25.1%-50% = 3.25
50%+ = 4.25</td><td></td><td></td></tr>
</table>

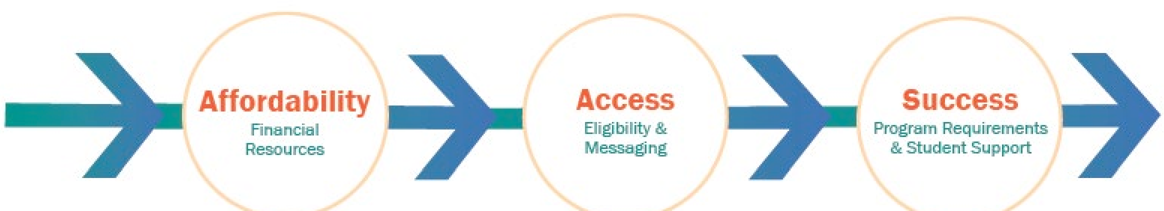
[4] Institutional base funding has tended to remain static from year to year; as new money is allocated each year to support higher education, the legislature has stipulated that it be allocated through the OBA.
[5] URM is an abbreviation for underrepresented minority students.

In theory, institutions would use additional funds awarded through the OBF formula to fund both academic and non-academic supports and/or programs that support student success and retention, which would in turn help the institution garner additional resources through the formula. However, these initiatives can be thwarted without due consideration for addressing inequities in institutional funding. As Elliott and colleagues note,[6] better-resourced institutions are often the winners under these formulas, despite the fact that under-resourced institutions such as HBCUs and MSIs are often better able to successfully support, retain, and graduate these students. Indeed, some research has suggested that these institutions often lose funding under OBF models.[7]

Tuition-discounting Initiatives – A Student-facing, Front-end Funding Approach

Student-facing initiatives like tuition discounts or Promise programs address the issue of access by making college more affordable; in this case states provide money to institutions to subsidize student tuition. These programs are motivated by the logic that many students avoid enrolling in higher education because of increasingly high costs and debt aversion. By reducing the cost of attendance for certain students, or students attending certain institutions, states can promote enrollment among prioritized populations. However, research suggests that states need to take additional measures to support equitable access, retention, and completion, particularly among populations that have been systematically disadvantaged and chronically underserved. RFA's framework for examining statewide College Promise programs (see Figure 1) identifies five program components that can influence the degree to which tuition-discounting programs can increase affordability, access, and success for students: financial resources, eligibility, messaging, program requirements, and student support.[8]

Figure 1: RFA's Framework for College Promise Programs



The first part of the framework addresses **Affordability**; that is, what financial resources are allocated through the program. Critical design differences include whether a program is first-, middle-, or last-dollar, as well as what the program covers. First-dollar scholarships award funds before other types of financial aid, middle-dollar scholarships are applied after other grants or scholarships are awarded, and last-dollar scholarships fill tuition gaps after all other forms of

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[6] Elliott, K.C., Haynes, L., & Jones, T. (2021). Re-imagining outcomes-based funding: Using metrics to foster higher education equity. *The Education Trust*. https://edtrust.org/wp-content/uploads/2014/09/Re-Imagining-Outcomes-Based-Funding_Mar-2021-1.pdf

[7] Hillman, N., & Corral, D. (2018). The equity implications of paying for performance in higher education. *American Behavioral Scientist*, 61(14), 1757-1772. doi:10.1177/0002764217744834

[8] Callahan, M. K., Kent, D.C., Meehan, K., & Shaw, K. (2019). Affordability, access, and success: A framework for examining statewide College Promise programs. *Research for Action*. https://www.researchforaction.org/wp-content/uploads/2021/07/RFA-CollegePromise-Nov19-final.pdf

financial aid are applied. While many programs cover tuition and sometimes mandatory fees, some programs provide additional resources to students, such as stipends to support the additional costs of college.

The second part of the framework, **Access**, focuses on eligibility considerations and how the program is advertised to the public. Many programs include eligibility requirements such as in-state residency and financial need, as well as requiring students to complete a FAFSA or alternative state-approved financial application form. Some programs also have restrictions about when a student must apply for the program. The messaging of the program is important to consider, especially as many Promise programs advertise as "free college" despite only covering certain costs. This confusion can lead to mistrust and deter students from applying for and benefiting from the programs.

The last component of the framework is **Success**, which considers factors that support or undermine students' persistence through the program to a credential. Many programs require students to maintain full-time enrollment and a minimum GPA to remain eligible for the program. Other programs require students to complete activities such as advising and/or coaching sessions. While these activities are often grounded in best practices for student retention, they can also serve as barriers for students. This part of the Framework also considers any additional supports provided to students as well as limitations in what the program covers.

Table 3 offers an analysis of each state's tuition-discounting initiative through the RFA Framework, highlighting the ways in which each program is designed for affordability, eligibility, messaging, and success. This analysis helps to clarify that while all three programs provide tuition and fee waivers for eligible students, the programs in New Jersey and Minnesota include eligibility criteria that limit access, North Carolina's program does not. Program messaging, another access factor, across the three programs is similar for all three states' programs. Notably, North Carolina's program requirements are narrow, restricting the program to students attending four designated universities.

We next present each state case in turn, describing their approaches aimed at addressing racial disparities in higher education through OBF and tuition-discounting initiatives, summarizing successes and challenges of each approach as noted by state policymakers and institutional leaders. Following these state summaries, we highlight cross-state themes, and conclude with next steps for subsequent research.

Table 3: RFA Framework Analysis of the Affordability, Access, and Success Components of State Promise Programs

Framework Components	State Programs				
	New Jersey		North Carolina	Minnesota	
	CCOG	GSG	NC Promise	AISP	North Star
Affordability – Financial Resources					
• Tuition only					
• Tuition and mandatory fees	•	•	•	•	•
• Tuition and fees+					
Access – Eligibility Criteria					
• Residency	•	•		• [b]	•
• Time of Application Restriction		• [a]		• [c]	
• Merit					
• Financial Need	•	•			•
• FAFSA	•*	•*			•*
Access - Messaging					
• Content of messaging	"Earn your degree debt free"		"Increased educational access, reduced student debt"	"First dollar and fee-free pathway"	"Tuition and fee-free pathway"
Success- Program Requirements					
• Full-time status required		•			
• Maintain college GPA >2.0					
• Additional student commitment					
• Limits to use of Financial Award	• [d]		• [e]		• [f]
• Additional financial or non-financial supports provided					

* Indicates programs that offer a state-designated financial aid application alternative to FAFSA.

[a] The Garden State Guarantee is only applicable for a student's third and fourth year at a public four-year institution.

[b] The AISP is available to Minnesota non-residents who are enrolled members or citizens of a Minnesota Tribal Nation.

[c] Students must have earned fewer than 180 college-level credits to be eligible.

[d] Students are expected to enroll at their in-county college; students enrolled at an out-of-county college will receive the in-district rate of tuition and fees for the county college at which the student is enrolled, "provided that the grant provided does not exceed the amount of tuition and fees actually charged to the student."

[e] NC Promise is only available at four UNC System institutions: Elizabeth City State University, Fayetteville State University, The University of North Carolina at Pembroke, and Western Carolina University.

[f] Students must be enrolled in a program of course of study that applies to a degree, diploma, or certificate.

New Jersey: A State with a Race-Explicit OBF and Race-Neutral Promise Program

New Jersey's funding model, the Outcomes-Based Allocation (OBA) for four-year public institutions, includes premiums for total undergraduate enrollment of low-income students (defined as having an adjusted gross income (AGI) of $65,000 or less, to align with their income-based Promise program), and underrepresented minority (URM)[9] students, who in the context of New Jersey are Black, Latinx, and Indigenous students, as well as degree completions among these populations. There is a fixed amount of money awarded each year through the formula, meaning that institutions compete with each other for formula funding in a zero-sum game. The current OBA formula places the most significant weight on completion metrics for URM students, with a graduated premium that varies between 2.25 and 4.25 depending on the percentage of URM students enrolled. The OBA was first administered in 2022 and represented 8% of operational funding institutions received. During each subsequent budget cycle, the legislature has allocated additional funds to support higher education, stipulating that it be allocated through the OBA; in 2024 the OBA represented 17% of the state funding that institutions received.

New Jersey also has a College Promise program composed of two statewide tuition-discounting initiatives for students with AGIs of $65,000 or less: one at the community college level and the other at the four-year level. The Community College Opportunity Grant (CCOG) provides funding for years 1 and 2 at a community college, and the Garden State Guarantee (GSG) supports the cost of attendance for years 3 and 4 of an in-state, public, four-year institution. In addition, the GSG reduces tuition and fees to $7,500 for students with AGIs between $65,001 and $80,000, and to $10,000 for students with AGIs between $80,001 and $100,000.

In the following section we outline key findings from our analysis of the effectiveness of the New Jersey approach to implementing race-explicit OBF concurrently with race-neutral Promise in supporting attainment for racially and ethnically minoritized students.

Strengths and Challenges of Race-Explicit OBF

Most institutional leaders agreed that the OBF formula, and specifically the racial equity elements, drives resources to under-resourced students and the institutions that serve them. Most respondents from the MSIs in our sample suggested that their institutions benefitted from the race-explicit metrics given their racially diverse student demographics; one explained that: "[Our institution] fares very well in the existing formula, because we're the most racially diverse, and ethnically diverse by percentage, [and] the largest of any of the public universities. So, the formula benefits our demographics." For example, NJCU experienced a $3.8 million increase in operational aid after the implementation of the race-explicit metrics and weights in the OBF formula. While not providing specific financial details, an institutional leader at the PWI expressed that "in terms of money, [the model] has been helpful to [the institution]." The respondent also noted that the formula's inclusion of allocations for the number of degrees to minority students and the number of minority students in terms of enrollment was a "big win for the institution."

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[9] It is important to note that several scholars highlight that the use of the term URM is inaccurate and problematic because it places the blame on socially marginalized people rather than the structures that have isolated them (Nwangwu, 2023). The research team acknowledges this sentiment and only uses this term when discussing the funding policy in New Jersey, because the term URM is commonly used in this context.

Racial equity metrics and weights signal the importance of equity to institutional leaders, despite policymakers' concerns that the percentage might be too small to motivate change. In our initial interviews, policymakers suggested that the OBA percentage, then 8%, might be too small to incentivize institutions to dramatically alter their approaches, although they also suggested that the perceived impact was likely to vary between institutions depending on their context and size:

> *It's hard to say that that motivates institutions to be inspired to close those gaps when for some of the schools, you're talking about the difference between two million dollars and four million dollars. So, is two million dollars enough to incentivize them to truly close those gaps? In some instances, it is more money. For a school like Montclair State, their OBA number is larger than they would've gotten otherwise. So, for some institutions, it could be an incentive, but we've had some internal discussions about how we measure that and get a better sense of whether this is truly having the impact we want it to have.*

On the contrary, most institutional leaders at our sample of public institutions in New Jersey praised the formula for having racial equity metrics and weights in the funding model to signal the importance of advancing equity in higher education across the state for all postsecondary institutions. Institutional respondents reported that it was an important statement asserting the primacy of equity as a state priority; one reported that: "I think one of the strengths is that it's forcing other institutions who are not [MSIs] to actually wake up and pay attention. That's good. When you make things explicit, when you make things tied to money, people tend to sit up and take notice, right?"

Institutional leaders at the PWI expressed interest in a formula that expanded the definition of equity. While noting that their institution has benefitted from the racial equity metrics included in the formula, respondents at our sample PWI shared that they believed a broader equity focus, rather than a race focus, would be preferable as it would reward them for serving the low-income communities that surround their campus.

The funding formula does not account for historical and structural inequities across institutions. While institutional leaders noted their appreciation for larger financial allocations, they raised the concern that the formula does not equalize base appropriations across institutions. Several institutional respondents noted the strong competition among the public four-year institutions in New Jersey, suggesting that the zero-sum structure of the formula means that better-resourced institutions will benefit more from this formula. Individuals from MSIs expressed frustration that they did not receive adequate support or acknowledgment for their long history of serving these students well, and that better-resourced institutions were able to capitalize on the formula to potentially draw these students away from their institution. One respondent explained that: "I think the formula, without addressing the base appropriation, creates this incentive where you're rewarding minority- and Hispanic-enrolling institutions, not ones that serve that population." State policymakers expressed frustration that the current funding model does not address historical underfunding of MSIs, though they did suggest that because MSIs serve higher enrollments of underserved populations, they would see benefits under the formula.

Institutions suggested that it was difficult to trace where dollars provided through the formula were being directed. One underlying motivation supporting OBF is that additional funds garnered through the formula will be directed to student success efforts. However, a respondent from a PWI suggested that this was impossible to assess: "That's a hard answer. I mean, for instance, let's say a typical family situation, a husband and wife making two incomes, it goes into a bank account, and then they pay the mortgage payment. Which of their salaries is paying that mortgage payment? Because it's a joint account." Indeed, one institutional respondent expressed confusion about whether they had received any funds through the formula, perhaps in part because institutional funding increases are absorbed readily. Hence, while in theory these additional funds would support initiatives aimed at improving academic success and retention among historically marginalized students, this institutional respondent suggests that it's impossible to know whether and how the funds are utilized. Indeed, institutional respondents at MSIs suggested that additional revenue from the formula was often directed to address operating shortfalls and other expenses, due to chronic underfunding.

Formula design, unfunded mandates, and competing initiatives can undermine the impact of OBF. Institutional respondents also highlighted other challenges associated with the formula, including the unpredictability of the model, which creates goal setting and budgeting constraints, as well as their perception that it does not accurately reflect the additional costs associated with supporting an "underprepared/underserved student to the finish line [compared to] someone who comes from a family where both parents went to college and the parents are making over $200,000 a year." They also noted that the impacts of OBF can be undermined by unfunded mandates like paying for the Garden State Guarantee and state-negotiated faculty contracts, which divert funding from student success initiatives. At its inception, the Garden State Guarantee was funded via OBF allocations; as a result, a portion and in some cases all of an institution's OBF allocations were going to fund the state's promise program. One respondent explained that: "When you're trying to beef up [student services] to get [students] academically across the line, that costs money. And if the money the state is providing is going to salaries and not those support services, how do you help those students get across the line?"

Tying OBF to enrollments among minoritized populations can make MSIs more vulnerable. By the time we reconnected with policymakers in spring 2024, there were some new results of the formula. Six schools saw a decline in their state OBA appropriations, primarily due to enrollment declines, and nearly all of those schools are MSIs. Policymakers attributed the enrollment declines to lingering effects of COVID-19 and suggested that minoritized populations are more sensitive to economic challenges created by the pandemic, which creates strain under a formula that hinges on enrollment of those populations. When asked if OBA allotments were driving institutional approaches to recruit and retain more historically marginalized students, policymakers responded that the formula was "not doing what it's designed to do because institutions are starving for cash."

Policymakers shared that there has been an outcry from MSIs, asking "why should we enroll students of color if we can't guarantee their success and we are faulted by dropouts?" Indeed, policymakers seemed clear that **the formula as currently designed is penalizing the institutions (and indirectly, the students) it is supposed to be helping**, and that there might have to be revisions to the formula to address this issue. There have reportedly been discussions about creating an MSI "set-aside" to provide additional operational funding to MSIs in the state, but there is some concern that it would be vulnerable in a time of austerity, such as a recession.

Strengths and Challenges of Race-Neutral Promise

As described above, New Jersey has a College Promise program comprised of tuition-discounting initiatives at the two- and four-year levels. Both the CCOG and GSG programs are last-dollar initiatives, leveraging federal Pell dollars and other scholarships where applicable before state dollars are tapped. While the CCOG permits part-time enrollment, the GSG requires full-time enrollment, which does not reflect the needs of part-time students. Although the program covers only tuition and fees, it is advertised as an opportunity to "earn your degree debt-free." [10]

RFA's framework helps to highlight that the program has significant eligibility requirements. Although the program is advertised to students as a "debt-free" path through college, the program only covers tuition and mandatory fees, rather than the full cost of attendance. In addition, while the program places only minimal requirements on students to maintain eligibility, it does not offer any additional supports to students to bolster retention.

Respondents suggested that the program addresses racial equity, despite being a race-neutral design. Although these programs are focused exclusively on students with financial need, institutional respondents suggested that they were also supporting racially minoritized students because "those with the lowest EFC [Expected Family Contribution] typically meet racial criteria."

The GSG has pushed four-year, open-access institutions to create their own tuition-discounting programs to cover the first two years for students with adjusted gross incomes [AGIs] of $65,000 or less for fear of losing their students to community college or four-year institutions. We heard again from institutional respondents at MSIs that competition with other institutions drove the creation of these programs. One respondent explained that:

> *A student might forgo [institution name] for somewhere else if they offer that program [and we didn't]… we did some kind of statistical analysis of how many students would fall into this category based on income in prior years and a budget was set to determine if we [could] establish a program.*

This institutional respondent indicated that while the GSG includes a third tier for those with AGIs between $80,001 and $100,000, the institution delayed matching that tier with their local program due to lack of funds: "We decided to forgo that for a year into next fall, because it is not real money in the sense that the [institutional match] is not donor-funded…it's more of an institutional discount, because it's just forgoing revenue." Some MSI respondents suggested that better-resourced institutions might be able to further discount tuition to attract racially minoritized students, suggesting that despite their strong reputation for serving communities of color well, MSIs still fear losing those students to better-resourced institutions, and expressed concerns about the long-term implications on their own services:

> *If other institutions can now [offer] a state-funded affordability initiative, [and I have to] compete with that, then you're forcing an institution that is already [so] distressed that it becomes increasingly tuition-reliant to discount itself. When I'm discounting, I'm waiving tuition revenue, which means I've got to balance my books somehow. So, the programmatic offerings are reduced, right? The student support services are reduced, and capital maintenance is ameliorated.*

[10] https://www.hesaa.org/pages/ccog.aspx

New Jersey's tuition-discounting programs fall short of covering the full cost of attendance for students facing systemic barriers, causing residential campuses to advise GSG students to commute. MSI respondents raised the concern that while these initiatives are attractive to students and may stimulate enrollment among students from low-income backgrounds, additional costs of college – e.g., health insurance, room and board, transportation, textbooks – are not covered. So, although these programs are advertised as offering a debt-free path through college, institutional respondents suggested that this was only the case for those who decide not to live on campus. Additionally, because most students in the $0-$65,000 AGI range also qualify for full Pell and the state's need-based Tuition Assistance Grant (TAG), there is not much outstanding tuition that needs to be covered through the GSG or local program. Instead:

> *[These students] are not seeing a change in what they're getting. And if they're living on campus, they're still taking loans and other things because [these initiatives are] not a resource for that. So I think we've moved out of the conversation of having tuition and fees being an issue for high-need students so much as we need more programs targeted to the resources they need, because they have a lot of greater issues outside of [tuition].*

Some institutions are actively encouraging these students to live at home rather than incur the additional costs associated with rooming on campus:

> *Now if we can convince them to not dorm, they're fine and they're okay commuting and living at home, but if we can't convince them to not dorm and the need is there, then that's kind of where we're seeing issues in these populations that are struggling.*

However, this institutional response suggests that because the GSG does not address the full cost of college, the program fails to make the four-year residential experience accessible to students. While community colleges are intentionally located throughout the state to facilitate accessibility, four-year public institutions might be located at a distance from a prospective student's residence, making commuting a challenge. One respondent added that "a lot of institutions are having issues filling their dorms" raising an additional financial concern that without adequate revenue from tuition or state funding, costs associated with maintaining the physical plant may become a burden.

New Jersey: Implementing Race-Explicit OBF in the context of a Race-Neutral Promise

The state's OBA formula, now representing 17% of the funding provided by the state to the public four-year institutions in 2024, contains weights for the enrollment and success of Black, Latinx, and Indigenous students as well as low-income students. We interviewed institutional leaders at one PWI and two MSI four-year institutions in the state to hear their perspectives on the impact of the racial metrics included in the formula. **We heard from those at both PWIs and MSIs that they appreciated that the state was "putting money where [their] mouth is" regarding supporting equitable access to higher education, and that these goals were aligned with institutional values**. Respondents from the PWI were grateful that there were equity factors beyond race considered in the formula, as their feeder communities are primarily lower-income and White. MSI respondents were grateful for the inclusion of race-specific metrics, as their institutions serve the communities of color in which they are located. However, while respondents at PWIs shared that the additional funding has supported their student success efforts, we heard from individuals at MSIs that they were not able to use formula funds to support student success initiatives directly because those funds were needed to address other budget shortfalls. In years when MSIs benefit from the formula, those additional funds do not adequately compensate for historical underfunding, and when enrollment declines result in OBA reductions, those institutions are penalized more than PWIs due to their student composition.

North Carolina: A State with Race-Explicit OBF and Race-Explicit Promise Programs

New Jersey is perhaps a cautionary tale of utilizing explicit race metrics in an OBF formula. We learn from New Jersey that including enrollment metrics among certain populations can make mission-driven institutions already serving these populations more vulnerable, particularly if historical underfunding has not been remedied. We also learn that the zero-sum structure of the formula serves to fuel competition between institutions, and that better-resourced institutions, typically PWIs, are the ones who tend to win.

A Promising Race-Explicit OBF Design in North Carolina

North Carolina' formula may hold some lessons for New Jersey: 100% of institutional funding flows through the formula, and 75% of that funding is allocated according to five core metrics.[11] Each institution must also select a metric based on institutional goals for each three-year cycle, aligned with the system's five-year strategic plan, which makes up the remaining 25% of funding. Strategic plan metrics are listed in Table 4.

Table 4: Strategic Plan Metrics in North Carolina's funding formula

Strategic Plan Metrics		No. of Institutions Selecting
Increase Access	• Adult Learner Enrollment	1
	• Military-affiliated Enrollment	2
	• Undergraduate enrollment of students from underserved counties	0
Make Progress on Equity Gaps	• Four-year graduation rate for Targeted Students of Color subgroup	2
	• Four-year graduation rate for Pell recipients	4
Increase Graduate Student Success	• Master's Degree efficiency	0
	• Doctoral Research Degree efficiency	0
Increase Critical Workforce	• Health Sciences and STEM degrees	1
	• Graduates who work in a public school in NC	1
Increase Research Productivity	• Sponsored Research and Licensing Income	1

[11] The five core metrics are: four-year graduation rate, undergraduate degrees per 100 FTEs, first-time student debt at graduation, transfer student debt at graduation, and education and related expenses per degree.

As shown in Table 4, the strategic plan metrics allow institutions to customize their focus areas and how success will be measured.

The metrics that focus on addressing equity gaps include both racial and socio-economic equity. Institutions can determine whether they will focus on students of color (four-year graduation rate for targeted students of color) and if so, which students of color will be an area of focus; the institutions that selected this metric in this funding cycle indicated that they are focused on increasing the four-year graduation rate among Hispanic/Latinx students. They can also decide to focus instead on four-year graduation rates for Pell students.

The North Carolina funding model does not result in a zero-sum game for institutions but does not benefit all institutions equally. Another important design detail is that individual institutional performance is measured in reference to the institution's baseline performance, rather than compared to other institutions. This key design element differs from many states, including New Jersey, that divide one sum of performance-based dollars among all institutions based on their outcomes. This way, institutions can be rewarded for their own year-to-year growth, irrespective of other institutions' growth.

It is still too early to evaluate the impact of this funding formula in North Carolina on the state's MSIs, although the first year of funding has not benefitted all institutions equally. The UNC System has five HBCUs: Elizabeth City State University, Fayetteville State University, NC A&T State University, NC Central University, and Winston-Salem State University, as well as one historically American Indian university: UNC Pembroke. Interestingly, none of these institutions selected the optional race equity metric in the 2023-24 funding cycle; however all but one institution saw funding increase through the formula. Elizabeth City State University lost funding because they did not make the progress they hoped to make on their selected metric, adult learner enrollment. The two PWIs that selected the optional race equity metric, Appalachian State University and The University of North Carolina at Charlotte, both earned funding increases through their efforts to increase the four-year graduation rate among Latinx students.

We next present key findings from our analysis of the effectiveness of North Carolina's approach to implementing race-explicit OBF concurrently with a unique race-explicit Promise in supporting access and attainment for racially and ethnically minoritized students.

A Unique Race-Explicit Promise Program in North Carolina

The NC Promise reduces per-semester tuition to $500 for in-state students and $2500 for out-of-state students at four public four-year institutions. Elizabeth City State University, The University of North Carolina at Pembroke, and Western Carolina University implemented the program starting in Fall 2018; Fayetteville State University joined in Fall 2022. Two of the institutions are HBCUs, another has a history of serving Indigenous students, and one serves a rural population. Though three of the four NC Promise institutions are minority-serving institutions, the NC Promise legislation and program description does not explicitly mention race or racial equity. According to policymakers, institutions were not explicitly chosen due to race equity goals, but due to alarming downward enrollment trends (see Table 5), as an effort by the state to support the colleges during a time of need. The Promise is advertised exclusively as a college affordability program. When probed about the exclusion of race in the initiative, an institutional leader at one participating HBCU insisted that race was never at the forefront of the initiative because the political climate in North Carolina does not create an environment that welcomes race-based initiatives.

> *DEI is under attack right now in North Carolina, and we know that our work in DEI is racial equity-focused. We're trying to create opportunities to support marginalized communities. And right now, in our legislative body, that's kind of being taken away*.

The program received a great deal of public critique, notably when the NAACP rallied at the North Carolina General Assembly in 2016.[12] Critics suggested that the policy would "cheapen" the degrees granted at HBCUs and challenge operations at the schools. Advocates of the policy predicted that it would bolster enrollment.

This public controversy was reportedly why Fayetteville State University, an HBCU and one of the oldest public schools in North Carolina, delayed participation. The previous chancellor refused to join the program during its first few years of implementation, however, the new chancellor felt that the tuition reduction was aligned with their mission of expanding access to the institution. An institutional respondent suggested that one reason for the initial refusal was that the program "felt like a devaluing of the education at our university," however, "affordability is critically important," so the ultimate decision to join was focused on the college's mission of student access.

As seen in Table 3, the program has none of the listed limits to eligibility and requires very little from students to remain eligible. At the same time, the program does not cover any additional costs of college beyond tuition and fees and does not offer additional supports to ensure their success. Nonetheless, provided that students are able to remain enrolled and complete, those students will graduate with less debt.

Strengths and Challenges of Race-Explicit Promise

NC Promise has bolstered enrollment at participating MSIs. The program was designed in part to support vulnerable MSIs at risk of closure due to low enrollment. At participating MSIs, enrollment has either increased or remained static despite the national decreasing trend, which has helped to financially stabilize institutions previously in distress. The one notable exception is Western Carolina University, a rural institution, which recently saw a decrease in enrollment.

HBCUs have also seen increased retention among students with financial need. A respondent from an HBCU indicated that students had struggled with the cost of attendance after their first years at the institution, a challenge that the Promise has addressed: "Before [NC Promise] was implemented we would get [students] in the door and they're able to find funding for that first semester or even the first year [but not their third or fourth year]. [So when] we talk about retention, this program has been beneficial to our students."

NC Promise has helped strengthen the reputation of previously struggling institutions. Despite the earlier controversy regarding participation, HBCUs reported that there has been no backlash; rather there has been significant internal support to move forward with participation.

> *Before this opportunity was implemented, [the institution] was in a downward... [We] had been experiencing a decline in enrollment. And the view of the institution wasn't highly*

[12] https://www.cbs17.com/news/nc-naacp-holds-rally-to-protest-tuition-bill-that-would-cheapen-schools/

popular if I [am being] honest. [The institution] had been in the news for financial issues. They had some viability stuff happening as it relates to fraud and clearing reporting. And so there was a lot of talk [about] closing the institution. There was this desire to not only [reform] leadership but to look at how to reform services and supports for the institution. And I think NC Promise was another opportunity, if you will, to kind of rebrand the institution and increase enrollment.

Policymakers suggested that the program may be experienced as a "bait and switch" by students and families who are unaware of the full cost of attendance. Supporters of the program cheer the fact that it dramatically reduces tuition, with one explaining that: "We know about college debt and we know what that does particularly for students of color. And so if, again, we want to be and we are an access school, what's the best way really to show that to our community? Affordable tuition. That's the way you do it." However, policymakers suggested that because the additional costs of college are not included, students are surprised when they receive a bill for more than $500.

NC Promise can create an additional burden on participating institutions to fund the additional capacity needed to support the influx of new students. NC Promise allocates funding directly to institutions to cover the difference in lost tuition revenue but there is no allocation to cover expenses associated with enrollment increases. During our conversation with an institutional leader at a participating HBCU, the respondent spoke about some of the financial challenges associated with their growing student body.

Resources and support have been an issue. Parenting students [need] daycare accessibility. Access to food and healthcare has been an issue. How do we support our new population of students? We need a housing facility; we need a bigger dining hall. We need support for our library, and how are we going to get faculty to teach these additional classes when they are already overwhelmed with what they have?

One HBCU received external funding to offset some of the concerns related to housing and student support challenges, but the funding was extremely limited and/or has been depleted. Having spent external funds, the institution is now tasked with securing additional funding to sustain building maintenance and address the needs of its growing student body.

A tuition-only subsidy may be insufficient to make enrollment in four-year institutions accessible to students facing systemic and economic barriers. With the discounted tuition from NC Promise, Western Carolina University estimates an average per-semester cost, including charges associated with room and board and additional fees, of about $8,000.[13] In contrast, the per-semester cost of attendance at the nearest community college, Southwestern Community College, is $1,360. Perhaps this is why community college leaders in the state reported that they have felt no impact of the program on their enrollment. A quick comparison of enrollment data over the last few years between the NC Promise schools and their neighboring community colleges detects no clear discernable trend, but future research should examine whether increased enrollments at NC

[13] https://www.wcu.edu/apply/undergraduate-admissions/costs-and-aid/ncpromise-faq.aspx

Promise schools reflect "new" students or if the program is displacing students from the two-year sector (see Table 5).

Table 5: Institutional Enrollment Trends at NC Promise Institutions and their Nearest Neighboring Community College

Full-time Equivalent Fall Enrollment	Fayetteville State University	Fayetteville Technical Community College	University of North Carolina at Pembroke	Robeson Community College	Elizabeth City State University	College of The Albemarle	Western Carolina University	Southwestern Community College
AY 2022	5,346	5,919	5,897	1,002	1,899	1,221	9,967	1,093
AY 2021	5,156	5,604	6,477	1,096	1,818	1,303	10,226	1,257
AY 2020	5,318	6,311	6,580	1,138	1,790	1,378	10,651	1,186
AY 2019	5,269	7,122	6,387	1,151	1,631	1,406	10,685	1,259
AY 2018	5,189	6,868	5,995	1,064	1,530	1,522	10,257	1,342
AY 2017	5,098	6,943	5,304	1,183	1,281	1,423	9,670	1,388
AY 2016	5,191	6,623	5,334	1,146	1,267	1,341	9,431	1,383

Source: Integrated Postsecondary Education Data System, National Center for Education Statistics. Retrieved 2024.
Note: Color-coding indicates pairs of neighboring NC Promise institutions and community colleges; Pre-NC Promise enrollments are shaded in grey.

With minimal eligibility requirements, NC Promise attracts a significant number of out-of-state students. Higher education is the second largest general fund budget category in North Carolina.[14] From the state perspective, the program is very expensive since the state is matching the discounted tuition dollars, rather than using the more traditional last dollar promise model. While this program does help students attend school at a lower tuition rate, there are a few challenges in practice. Namely, since out-of-state students also get a tuition discount, the state is funding out-of-state college tuition. Several of the NC Promise schools are close to state borders, making this a desirable option for students from those neighboring states. For example, the average cost of tuition and fees at Norfolk State University (VA), an HBCU just an hour from Elizabeth City State University, is approximately $9,700; an out-of-state student will pay just $2,500 in tuition and fees at ECSU. Additionally, because out-of-state tuition has increased while in-state tuition has remained static, state funding to support non-residents has increased as a result of the program. If this trend continues, state policymaker support for the program may begin to wane.

North Carolina: A Promising Race-Explicit OBF and a Unique Race-Explicit Promise

It is too early to know how North Carolina's new OBF formula will ultimately impact the MSIs and HBCUs in the state, but those participating in the NC Promise have seen their enrollment and retention rates increase. The racial equity metrics in the OBF formula have the potential to provide additional institutional aid to support NC Promise institutions in maintaining their services as their

[14] National Association of State Budget Officers. (2021). State expenditure report: Fiscal years 2019-2021. NASBO.

enrollments grow, however, if these MSIs continue to select different optional metrics they may not benefit from this formula as intended. There are lingering questions about sustainability of the program, particularly given the potential political sensitivity of supporting MSIs in the current North Carolina climate. Respondents suggested that the program is vulnerable to legislative turnover, particularly in light of the increasing spending devoted to out-of-state students.

Minnesota: A State with Race-Explicit and Race-Neutral Promise Programs

Minnesota has two tuition-discounting initiatives: the American Indian Scholars Program (AISP) and the North Star Promise, launching in 2024-25. The AISP, established in 2023, is a first-dollar program that covers tuition and fees for eligible Indigenous students. The RFA Framework helps to illustrate that the program has minimal eligibility requirements, which promotes access; being a first-dollar program also increases affordability because it allows students to stack additional aid on top of the award. Many students eligible for the program will also qualify for Pell grants, as well as additional grants available to Minnesota's Indigenous students, such as the Native American Promise Tuition program, available to students at any of the four University of Minnesota campuses, and the American Indian Tuition Waiver, available to students at the University of Minnesota Morris campus.

Table 6: Minnesota's Tuition-Discounting Programs Available to Indigenous Students

Program	American Indian Scholars Program	Native American Promise Tuition	American Indian Tuition Waiver (UMN Morris)
Eligibility Criteria			
MN Resident	●		●
MN Non-Resident	If enrolled in MN Tribal Nation		●
American Indian Tribe	●		●
Canadian First Nation	●		●
Minnesota Tribal Nation	●	●	
Alaskan Native Village			●
Descendent of an eligible Tribal Nation			●
Income Cap		$125,000 family income	
First Year or Transfer		●	
Funding Structure			
First Dollar	●		
Last Dollar		●	●
What it Covers			
Tuition	●	●	●
Fees	●		

However, the program is challenged when it comes to messaging; there are several tuition discounts available to Indigenous students, all with similar names but different eligibility criteria and benefits (see Table 6). State respondents suggested that there have been recent movements in the state to better support Indigenous students at public institutions because there are currently Indigenous individuals in positions of higher education leadership. However, without clear messaging and local support, students and families may be easily confused about the options; one respondent explained that: "I don't think that they're sitting there worrying about it, but I don't necessarily think they know exactly what the components of [the programs] are." We heard from institutional respondents that there is **existing skepticism among Indigenous populations about whether these programs are real and trustworthy**; this trust is likely to further erode without additional clear communication.

The next section summarizes our findings from our analysis of Minnesota's race-explicit Promise program and its potential to increase access for traditionally underserved students.

Strengths and Challenges of Race-Explicit Promise

Implementation has been delayed due to confusion among institutions. Although slated to launch in Fall 2023, the AISP had not been implemented at any of the sampled institutions when RFA conducted our institutional interviews during that semester. Some institutional leaders reported that they had not fully implemented because they were still working through internal administrative logistics; others expressed reservations about implementing a program that had not been advertised by the state.

> *Where I'm dragging my feet a little bit and where I'm a little more cautious is because I would figure that if the State of Minnesota is going to offer this American Indian Scholars Program, why [isn't] the state marketing it? Why are they not out there pushing this in everybody's face? That's not happening. So, because that's not happening, that's kind of where my hesitation is. Is this really going to become a reality or is this going to get pushed back again.*

The complications of tribal membership and federal recognition compound confusion between the programs. Additional areas of concern for the AISP are the terms of eligibility and the nuance of Indigenous identity; the program provides tuition and fee-free pathways to all non-degreed members and/or citizens of a federally recognized American Indian or member of the Canadian First Nation, no matter their age. Participants from institutions emphasized that it can be difficult to identify who qualifies due to complications of tribal membership and federal recognition; for example, not all tribes are recognized under law. In addition, policymakers and institutional respondents informed us that many Indigenous students identify on federal surveys as "mixed-race" and would therefore be deemed ineligible for the scholarship unless they are registered under a federally recognized tribe. In response, the Minnesota Office of Higher Education has created a new system for collecting racial/ethnic data to be more inclusive of Indigenous student identities and their tribal information to better understand and track student demographics and needs.

Eligibility requirements for the AISP exclude some Indigenous students. The AISP provides tuition and fee-free pathways to all non-degreed members and/or citizens of a federally recognized American Indian or Canadian First Nation, no matter their age. However, some Indigenous students would not be eligible due to the varying requirements for tribal membership. Perhaps one of the most contentious requirements for tribal membership is blood quantum, which determines the amount of Native American blood an individual has. An institutional respondent highlighted the complex nature of the blood quantum rule as it relates to tribal membership:

> *In Minnesota, we have [Red Lake Nation] what's called a closed reservation; they never signed any treaties at all with the state government. They're 100% sovereign. Their blood quantum does not count or cannot be counted with any other tribe. So, if we have a Red Lake band member who has children with somebody from White Earth or somebody from Leech Lake, that Red Lake blood does not count toward that blood quantum. And so, from a parent, you only get half. So, if we have a parent that's a quarter already, that child's not eligible for enrollment in either tribe.*

Additionally, tribal membership may be insufficient if the tribe is not one that is federally recognized. This requirement leads to some other students being ineligible:

> *We have a whole complication with the Metis [tribe], which means mixed. It's a distinct group that is mostly Ojibwa and French. Canada has given them something close to First Nation status, but not First Nation status. And we know that there were several Metis students who came to the boarding school that operated on our campus site, but right now they're not covered under the tuition waiver. So, there are lots of complications on that.*

In this way, the program may only benefit individuals who are already eligible and/or receiving support through other scholarships because of their federally recognized Indigenous status.

State policymakers struggle with the administration of multiple programs serving similar populations. They are planning to respond by creating a suggested "order of operations" for financial aid offices at institutions in implementing each scholarship. Since each program has different eligibility requirements, the goal of the state higher education office is making sure that the scholarships are leveraged to maximize the benefit to students. For example, the AISP is a tuition waiver for students, but a student may also be eligible for the Minnesota Indian Scholarship Program, which would provide an extra $4,000 to support the cost of attendance. While it is commendable that the state is advancing these initiatives to support this underserved and underrepresented population, there are clearly challenges in implementing numerous programs simultaneously.

Minnesota: Early Findings on Nascent Race-Explicit Promise and Race-Neutral Promise Programs

Because the rollout of the AISP was delayed by the state, many institutions were also slow to respond and market the program. As a result, it is too early to know how the AISP is influencing enrollment among Indigenous students. The program has the potential to attract Indigenous students away from those institutions that typically serve them to larger, better-resourced institutions that may grow the infrastructure to support and retain them. It is also too soon to tell what the impact of the North Star Promise will be, although it has the potential to provide additional resources to Indigenous students to meet their additional college costs and support their retention and completion. We heard from policymakers that there have been reactions from Minnesota's private institutions and neighboring states in response to the North Star Promise. In-state private institutions that are not included in the program are mobilizing by "trying to create private programs that will match the North Star Promise as well as advocating to be included in the North Star Promise. We're seeing some legislative action." Additionally, we heard from policymakers that bordering states have also had reactions to the new scholarship programs, particularly the North Star Promise. Minnesota residents reportedly tend to go out-of-state for college if they are able to afford it, so making in-state schools more accessible may be a concern for surrounding states including Iowa and North and South Dakota. Wisconsin has reportedly created a similar program to remain competitive. Policymakers shared that there are still outstanding concerns related to the reciprocity agreements between states and whether those will remain in effect once the new program launches. Additionally, Minnesota private institutions are strategizing on how to remain competitive.

Unintended Consequences and Policy Implications

Policy is typically created to address a particular issue, but policy is never implemented in a vacuum. RFA's research uncovered several ways in which these policies interact with other state policies and additional implications they might have on states, institutions, and students.

The Intersection of OBF and Promise Policies

New Jersey is an example of a state pursuing both an institution-facing and student-facing approach to increasing access to students and supporting the institutions that serve them. However, because the state has not allocated adequate funding to address historical inequity in institutional funding between PWIs and MSIs, these initiatives place disproportionate strain on MSIs. While on the surface, including equity metrics in the funding formula appears likely to benefit MSIs, this year's allocation is evidence that tying funding to enrollment among URM students makes MSIs more vulnerable when enrollments drop among those populations. Similarly, the Promise program as currently designed challenges four-year MSIs to create scholarship programs to compete with the CCOG lest they risk losing enrollment to other public four-year institutions in the state which have the resources to create those programs. We heard from institutional respondents that budget considerations played a large part in shaping the design and timing of these programs, and concerns about losing student enrollment to other, better-resourced institutions that can afford to discount tuition to attract students. These two initiatives, while aimed at supporting historically marginalized students and the institutions that serve them, may not be currently designed to advance that goal, and may instead burden MSIs with additional costs without providing adequate support.

The Implications of Promise Programs and OBF on Neighboring Institutions

While more research is needed, it is important to consider how the development of tuition-discounting programs at four-year institutions may impact local community colleges. Community colleges remain the most affordable college option and typically receive the fewest state dollars. Although the Promise programs in the study states offer tuition and fee waivers at four-year institutions, they do not cover any additional costs of attendance; this is perhaps why they have not been perceived as a threat by the local community colleges. States should consider the impact on community college enrollments when designing programs that provide additional supports that may further reduce the cost of attendance, to ensure that community college enrollments will not be affected.

As evidenced in New Jersey, outcomes-based funding formulas designed as a zero-sum model where all institutions compete for one pot of money only recognize an institution's success as relative to gains made by other public institutions that vary greatly in resources and student population. This model disadvantages open-access and historically underfunded institutions, such as MSIs and HBCUs. The North Carolina OBF model has attempted to address this challenge through creating optional metrics that align with individual institutional goals, thereby recognizing each institution's unique mission, while evaluating institutions against their own baseline performance.

The Implications of Promise Programs on Neighboring States

State higher education funding initiatives can impact not only the institutions within a state, but relationships with surrounding states. For example, because NC Promise is not limited to in-state residents, participating institutions are experiencing increased out-of-state enrollments of students from adjacent states. Previously, these students might not have considered NC institutions because of costly out-of-state tuition rates, however, the cost of attendance through NC Promise is now lower than that of some in-state schools. This has implications for North Carolina's higher education budget because the state is subsidizing these enrollments at a higher out-of-state tuition cost than that of their own students. Neighboring states may also have concerns, as they are losing their students to North Carolina institutions. Similarly, Minnesota is offering tuition discounts for non-resident Indigenous students through the American Indian Scholars Program, as well as making the North Star Promise available to all Minnesota residents. Because historically many of Minnesota's students enrolled in out-of-state institutions, neighboring states seem concerned that the North Star Promise will depress their enrollments. It is too early to know what the impact of these programs will be on enrollments from residents and non-residents, but we have learned that some states are already creating similar Promise programs to mitigate the impact on their enrollments.

Conclusions and Next Steps

While higher education researchers and policymakers often focus their attention on equity at the student level, it is critically important to consider how initiatives can address inequity at the institutional level. Institutions that disproportionately serve students of color or minoritized students are dramatically underfunded. Based on our examination of New Jersey, North Carolina, and Minnesota, we see that there is still much work to be done to effectively and efficiently fund institutions educating these populations. While state initiatives such as OBF and tuition discounts are common, we found that state funding rarely focused on providing resources directed to other student supports such as academic advising, mentoring, or coaching through these two avenues.

Several state initiatives identified in this report are still too nascent to observe their impact; it will be critical for the field to follow the implementation of initiatives in North Carolina and Minnesota. The results of the first round of institutional allocations with the revised OBF formula in North Carolina indicate that MSIs did not select the optional equity metrics, and instead targeted other student populations, such as military-affiliated learners. All but one MSI benefited financially from this first round of funding. Two PWIs did select the equity metric and gained funding as a result. It will be interesting to see how institutions adjust their selection of optional metrics in the next performance cycle. It will also be important to see whether the American Indian Scholars Program motivates Indigenous students to enroll in institutions that have traditionally served them, or larger, better-resourced institutions that may lack the infrastructure to support their belonging and academic needs. Researchers should also pay attention to how the AISP and North Star Promise interact together to motivate enrollments among low-income and Indigenous students in the state, and how neighboring states continue to respond. Lastly, in the wake of decreased OBA allocations to MSIs in New Jersey, it will be interesting to see if there is greater traction for a conversation about addressing chronic underfunding of MSIs.

Recommendations

Several recommendations emerge from this work. As states and institutions continue to iterate on funding policies designed to improve access and reduce racialized completion disparities in higher education, we encourage policymakers to:

- **Consider the ecosystem of institution- and student-facing funding programs when designing OBF and Promise/ tuition-discounting initiatives.** Funding that is additive rather than zero-sum and/or overlapping has greater potential for improving outcomes. Given MSIs' sensitivity to enrollment declines and the chronic underfunding that makes it harder to weather those declines, policymakers might consider building hold harmless clauses into OBF formulas with racial equity metrics, specifically for MSIs.
- **Consider the full ecosystem of postsecondary institutions when designing initiatives.** Funding initiatives designed to support specific institutions and students in the higher education ecosystem (e.g., two-year and four-year; HBCUs and MSIs; urban and rural; public and private) are likely to have implications for the entire system. As evidenced in this study, these initiatives can also have implications for institutions in neighboring states.
- **Support additional costs of college in Promise programs.** Programs should be designed to support the full cost of attendance. These initiatives have limited capacity for advancing equity for students and institutions affected by systemic barriers, including structural racism and economic disadvantage, if they only fund tuition.
- **Fund basic needs support.** Expanded funding or complementary programs that focus on funding basic needs will be essential to promote student success. State policymakers are encouraged to consider allocating institutional funds sufficient to subsidize the full cost of attendance to students.
- **Conduct needs assessments to ensure that initiatives are addressing pertinent needs.** While policymakers and institutional leaders often have insights into the needs of the communities served by these programs, seeking opportunities to learn from individuals who will be using these programs will help to align services and avoid redundancies, as well as gleaning buy-in and support from those communities.

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Research for Action (RFA) is a Philadelphia-based nonprofit education research organization. RFA conducts research, evaluations, and technical assistance to improve educational opportunities and outcomes for all learners across their lifespans. Because systemic racism is a key driver of inequitable educational outcomes across many communities, we prioritize anti-racist research methodologies, community engagement, and strategic partnerships to advance racial and social justice in the education system.

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Appendix A: State Background Profiles

Table 1: Breakdown of State Higher Education Funding for Sampled States Compared to U.S. Average, 2022

State	State and Local Funding	Total Tuition Revenue	Total FTE Enrollment	Funding Source: Percent of Tax Appropriations	% spent on Public Financial Aid	% Spent on Other Financial Aid	State Aid per FTE	4-year Per-Student Tuition Revenue
U.S.	NA	NA	NA	84.2%	8.6%	2.1%	$990 (9.7%)	$10,090
NC	$5.2 billion	$1.9 billion	393,699	93.9%	2.9%	4.4%	$380 (3.5%)	$7,182
NJ	$2.9 billion	$2.1 billion	244,422	87.5%	13.5%	4.8%	$1,620 (16%)	$11,867
MN	$1.8 billion	$1.6 billion	166,960	99.7%	7.8%	4.1%	$849 (9.1%)	$13,054

Source: State Higher Education Finance. SHEF. (2023, May 16). https://shef.sheeo.org/

Appendix B: Institutional Background Profiles

Table 1: Institutional Demographics and Characteristics, Fall 2022

Institution	American Indian/ Native American	Black or African American	Hispanic/ Latino	Two or More Races	Total Enrollment	Institution Designation	Institution Type
Minnesota							
University of Minnesota Morris	13%	3%	6%	18%	1,068	NASNTI	4-year
Bemidji State University	3%	3%	3%	5%	4,023	PWI	4-year
New Jersey							
William Paterson University	0%	19%	34%	3%	9,070	HSI MSI	4-year
Rowan University	0%	11%	13%	4%	19,535	PWI	4-year
New Jersey City University	0%	21%	47%	3%	6,539	HSI MSI	4-year
North Carolina							
Elizabeth City State University	1%	69%	4%	6%	2,149	HBCU	4-year
Fayetteville State University	1%	61%	10%	7%	6,787	HBCU	4-year
The University of North Carolina at Pembroke	13%	28%	11%	7%	7,666	NASNTI	4-year

Sources: Integrated Postsecondary Education Data System, National Center for Education Statistics. Retrieved 2024; Rutgers Center for Minority Serving Institutions. (2022). List of Minority Serving Institutions. Rutgers Graduate School of Education.