Exhibit 3

Information Item

MDRC Report on California's Performance Based Scholarship Study & National Demonstration

MDRC, a nonprofit, nonpartisan education and social policy research organization, will make an oral presentation on a study that it designed and implemented to learn what scholarship amounts and duration would make the most difference in persistence for low-income students pursuing education beyond high school. MDRC will also provide a summary of the study's findings.

Background

In 2009, the California Student Aid Commission's Cash for College program was selected to participate in MDRC's national, multi-state, multi-year scholarship demonstration to test whether performance-based aid programs could help answer questions not answered by studying strictly merit-based or need-based programs. Anchor funding was provided from the Bill & Melinda Gates Foundation and a consortium of other foundations including $2.9 million in scholarship funding for the California demonstration from College Futures Foundation, formerly College Access Foundation of California. Other states including Arizona, Florida, New Mexico, New York and Ohio participated in the national demonstration using a variation of program designs.

Exhibit 3.1 is an August 2013 Policy Brief *Performance-Based Scholarships: What Have We Learned?* published by MDRC. The policy brief describes the program design of each demonstration. The California demonstration gathered the largest sample size of about 5,000 low-income high school seniors, testing six different scholarship types over one term to 2 years in duration, and from $1,000 to $4,000 in amounts paid directly to students. Scholarships were portable and could be used at accredited post-secondary institutions across the country offering associates and bachelor degrees. The Cash for College program offered a good match for the research study because of its mission to serve low income and first generation students, and its use of random assignment in awarding scholarships--a gold standard in research and evaluation design. In late June findings from California's demonstration, *Providing More Cash for College: Interim Findings from the Performance Based Scholarship Demonstration in California* will be published.

In 2009 and 2010, statewide and specific regional coordinating organizations of the Cash for College program participated in the study including the Far North region, which serves Butte, Del Norte, Glenn, Humboldt, Lassen, Modoc, Plumas, Shasta, Siskiyou, Tehama, and Trinity Counties, and the Los Angeles region, in the first year, and the additional regions of Sacramento and Kern in the second year. The Los Angeles Area Chamber of Commerce Foundation served as primary intermediary for the California Demonstration and co-led the operation of the California demonstration. The California Student Aid Commission provided overall operational coordination and multi-year financial aid data matching of the students participating in the study.

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mdrc
BUILDING KNOWLEDGE TO IMPROVE SOCIAL POLICY

POLICY BRIEF

Performance-Based Scholarships: What Have We Learned?

INTERIM FINDINGS FROM THE PBS DEMONSTRATION

By Reshma Patel, Lashawn Richburg-Hayes, Elijah de la Campa, and Timothy Rudd

In today's economy, employers' demand for an educated workforce is steadily rising.[1] At the same time, however, state and federal budgets have seen significant cuts to postsecondary education.Policymakers, education leaders, and communities across the country recognize the need to improve college attendance and success, but are constrained by the current budgetary environment. Meanwhile students themselves face mounting college costs, and financial aid has not been able to keep pace.[2] This affects both college enrollment and persistence, and low-income students are especially disadvantaged.

Evidence suggests that financial aid as a whole (the combination of grants, scholarships, loans, work-study jobs, and other aid) is positively associated with students enrolling in college and staying there.[3] But there is relatively little evidence so far to show that scholarships, specifically, *cause* improved student retention and academic performance, even though they have played a prominent role in public and private support for higher education. A handful of studies have examined the effects of innovative financial aid structures.[4] Preeminent among these is MDRC's Opening Doors Demonstration in Louisiana, which found substantial improvements in full-time enrollment, persistence, credit accumulation, and grades for a form of financial aid called "performance-based scholarships." Since then, with anchor funding from the Bill and Melinda Gates Foundation and a consortium of other foundations, MDRC has worked in six states with over 12,000 students, eight institutions, and one intermediary to test several different scholarship designs and to address on a much larger scale and in a wide range of settings the question of whether this innovative form of financial aid can improve academic achievement in both the short and long term.

Employers' demand for an educated workforce is rising, but students face mounting college costs, and financial aid has not been able to keep pace.

AN OVERVIEW OF PERFORMANCE-BASED SCHOLARSHIPS

Performance-based scholarships were designed by MDRC and colleges to help students overcome some of the financial obstacles they face in the postsecondary education system. These scholarships aim to help reduce the financial burdens on

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low-income college students while providing incentives for good academic progress. Students are generally paid at multiple points during the semester if they maintain a "C" average or better and earn a certain number of credits. By making additional financial aid conditional on students' meeting certain performance benchmarks, the programs seek to encourage students to focus on their studies, which should lead them to perform better in their classes in the short term. In the medium term they should progress through their degree requirements more quickly, which in the long term may then help them graduate or transfer to a four-year college. Finally, if the scholarship promotes academic success students could end up with better jobs and higher earnings.

By making additional financial aid conditional, performance-based scholarship programs seek to encourage students to focus on their studies.

Importantly, the scholarships are paid directly to students. They may use the money for any pressing need (for example, books, child care, or other financial obligations that might disrupt their studies). Students have complete discretion over how they use the funds, although most report using them to help with a range of essential expenses. The scholarships are paid in addition to Pell Grants — the main federal source of need-based aid — and other existing financial aid programs, including state and institutional grants. Students therefore have more money to cover academic and living expenses, and can potentially reduce their dependency on loans. Lastly, unlike merit-based aid, performance-based scholarships are paid to students based on their academic performance in the current term, regardless of what happened in previous terms. That is, eligibility for the scholarship is not based on evidence of prior performance such as high school grade point averages (GPAs).

All of the programs in the demonstration use a random assignment research design, the "gold standard" in program evaluation. After learning about the study and agreeing to participate, interested and eligible students were assigned at random to either a program group, eligible to earn performance-based scholarships, or a control group. This design creates two groups of students similar not only in the characteristics that can be measured — such as age and gender — but also in those more difficult to measure, such as tenacity and motivation. As a result, subsequent differences in outcomes (for example, credit accumulation) can be attributed with a high level of confidence to the Performance-Based Scholarship (PBS) program rather than to the types of students who enroll in it.

The demonstration seeks to answer several questions:

1. What is the impact of these scholarships on short-term academic outcomes, including the number of credits students attempt and the number of credits they complete?

2. What is the impact of these scholarships on longer-term academic outcomes, including persistence in school and attainment of degrees and certificates?

3. How does variation in the amount and duration of the scholarships affect academic outcomes?

4. For which types of students do the scholarships work best?

Exhibit 3.1

TABLE 1: Design of the Performance-Based Scholarships in Each State

	OPENING DOORS LOUISIANA	ARIZONA	CALIFORNIA	FLORIDA	NEW MEXICO	NEW YORK	OHIO
ELIGIBLE POPULATION	Age 18 to 34 Parent Family income below 200% of poverty level	Latino men Less than 45 credits earned EFC below 5,273[a]	Age 16 to 19 High school seniors applying for financial aid Below Cal Grant A/C Income Threshold[b]	Age 18+ In need of developmental math EFC below 5,273	Age 17 to 20 Freshmen Pell-eligible	Age 22 to 35 Live away from parents In need of developmental education Pell-eligible	Age 18+ Parent Zero EFC
MAXIMUM SCHOLARSHIP AMOUNT PER TERM	$1,000	$1,500	$333 (quarter institutions) or $500 (semester institutions) to $1,000[c]	$600	$1,000	$1,300	$600 (quarter institutions) or $900 (semester institutions)
SCHOLARSHIP DURATION	2 semesters	3 semesters	1 term to 2 years	3 semesters	4 semesters	2 full semesters and 1 summer semester[d]	2 semesters or 3 quarters
MAXIMUM SCHOLARSHIP AMOUNT	$2,000	$4,500	$1,000 to $4,000	$1,800	$4,000	$2,600 to $3,900	$1,800
ACADEMIC BENCHMARKS	Complete 6 or more credits with a "C" average or better	Part-time: 6 to 11 credits with "C" or better in each Full-time: 12 or more credits with "C" or better in each	Complete 6 or more credits with a "C" average or better	Complete a sequence of math courses with a "C" or better in each course	Complete 12 or more credits (1st semester) or 15 credits (subsequent semesters) with a "C" average or better	6 or more credits with "C" or better in each	Part-time: 6 to 11 credits with "C" or better in each Full-time: 12 or more credits with "C" or better in each
ADDITIONAL SERVICE CRITERIA	Meet with adviser	Meet with adviser, complete tutoring and workshop requirements	None	Complete tutoring requirements	Meet with adviser	None	None
SAMPLE SIZE	537[e]	1,028	4,921[f]	1,075	1,081	1,502	2,285

NOTES:

[a]The EFC (Expected Family Contribution) is the amount of money that a family is expected to be able to contribute to a student's education, as calculated according to federal guidelines. Students with an EFC of up to 5,273 during the 2010-2011 year were eligible for federal Pell grants.

[b]Cal Grant is a financial aid program funded by the state of California.The awards do not have to be paid back, but to qualify students must fall below certain income and asset ceilings.

[c]The study in California randomly assigned program group members to one of six scholarship types that varied in amount (from $1,000 total to $4,000 total) and duration (from one term to two years). Students could take the award to any degree-granting, accredited institution in the country, and payments were adjusted to reflect the institution type (quarter or semester).

[d]The study in New York randomly assigned program group members to one of two scholarship types. One type was offered over two semesters only; the other was offered over two semesters plus one summer semester.

[e]Although there were 1,019 study participants, only 537 participants from the first and second cohorts were analyzed in this brief, as Hurricane Katrina disrupted the follow-up period for the third and fourth cohorts.

[f]Although there were 5,160 study participants, undocumented immigrant students were excluded from the analysis because of data reliability concerns. Thus the analysis sample was 4,921 participants.

Table 1 outlines the eligibility criteria and design variations of the programs in the six states in the PBS Demonstration (Arizona, California, Florida, New Mexico, New York, and Ohio), as well as the original Opening Doors Louisiana evaluation. Each program targeted a different population of students and had a different scholarship design and incentive program, but all shared the goal of reducing the cost of college for low-income students while giving those students incentives to succeed. The demonstration is now over, but a few new students at each college continue to be offered scholarships as part of sustainability efforts supported by the Gates Foundation and the colleges themselves.

The program increased the number of credits students earned by the end of the first year.

SUMMARY OF INTERIM FINDINGS

The findings presented in this brief are based on one year of follow-up for all sites in the demonstration, two years of follow-up for the sites that launched their programs in 2008 or 2009 (California, New Mexico, New York, and Ohio), and three years of follow-up for the first of the sites to complete study recruitment (Ohio). The implementation phase of the PBS Demonstration has shown that this new form of financial aid is feasible to implement. The initial evaluation findings provide some evidence that performance-based scholarships can improve academic outcomes without unintended negative consequences (for example, students attempting fewer credits in order to keep their grades up).

Interim analyses also show that:[5]

- **The program can be implemented at a variety of institutions and with a diverse group of low-income student populations.** Institutions were able to put processes in place to monitor students' progress and pay them appropriately. Student survey responses showed that institutions were able to convey clear messages about the scholarships' requirements.[6] A few institutions even used the program to engage students in other services provided on campus, such as tutoring and advising.

- **Students in almost all of the program groups were more likely than those in the control groups to meet their scholarships' academic benchmarks in one or more semesters.** New York was the single exception. At most sites, students received a performance-based scholarship if they maintained "C" or better in a minimum number of credits. (In Florida, students received a scholarship for a "C" or better in a certain math course.) More students met their academic benchmarks when those benchmarks were more realistic and attainable. Across all sites, program group students received between 43 and 77 percent of the total amount available to them in the first year of the scholarship.

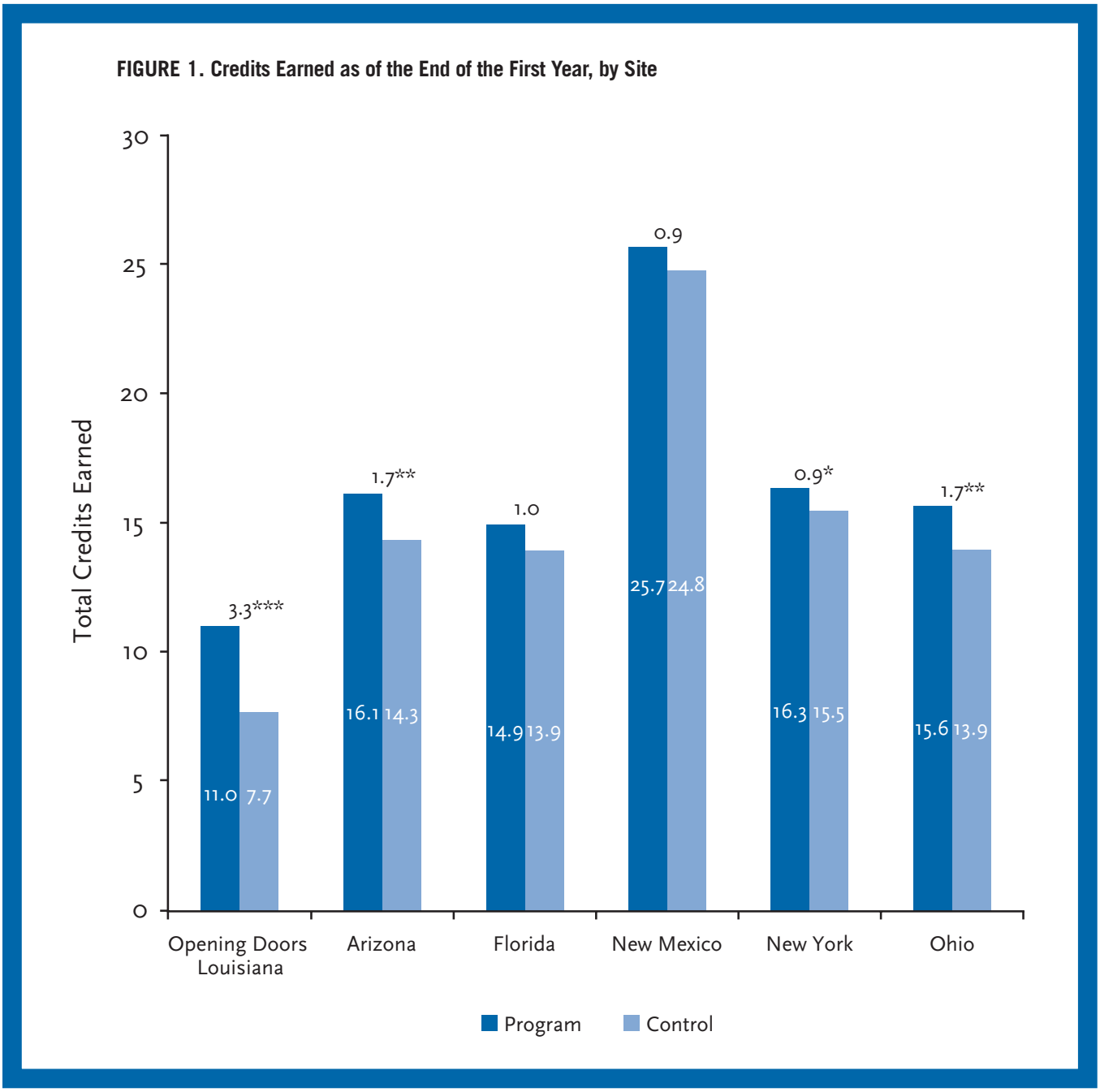
- **The program increased the number of credits students earned by the end of the first year.** At most of the sites, students in the program groups earned more credits by the end of the first year than students in the control groups. The exceptions were Florida and New Mexico, where the program and control groups were not significantly different. Figure 1 shows the impacts on credits earned by site. (Most courses in these settings were worth three or four credits.)

- **So far, the program does not appear to increase the proportion of students who stay in college.** That is, most of the programs have no statistically significant

Exhibit 3.1

impact on whether or not students return to college in the second year.

- **The scholarships work for a variety of different types of students, including at-risk groups that traditionally perform poorly.** They work for parents, for example, and students who are the first in their family to attend college. Subgroup analyses show that the program affected the number of



SOURCES: MDRC calculations using transcript data from Delgado Community College, Louisiana Technical College, Pima Community College, Hillsborough Community College, the University of New Mexico, Borough of Manhattan Community College, Hostos Community College, and the Ohio Board of Regents.
NOTES: A two-tailed t-test was applied to differences between research groups. Statistical significance levels are indicated as:
*** = 1 percent; ** = 5 percent; * = 10 percent.
Rounding may cause slight discrepancies in sums and differences.
Estimates are adjusted by research cohort and campus.
Only the first two cohorts are shown for Opening Doors Louisiana.

TABLE 2. Ohio Degree and Certificate Attainment During the First Three Years After Random Assignment

OUTCOME (%)	PROGRAM GROUP	CONTROL GROUP	DIFFERENCE	STANDARD ERROR
HIGHEST DEGREE OR CERTIFICATE EARNED AS OF END OF THIRD YEAR:[a]				
CERTIFICATE	6.5	6.0	0.5	1.0
ASSOCIATE'S	19.2	16.5	2.7*	1.6
BACHELOR'S	1.2	0.9	0.3	0.4
SAMPLE SIZE (TOTAL = 2,285)	1,359	926		
EARNED ANY DEGREE OR CERTIFICATE AS OF END OF:				
FIRST YEAR	9.5	8.5	1.1	1.2
SECOND YEAR	20.5	16.9	3.6**	1.7
THIRD YEAR	26.9	23.3	3.5*	1.8

SOURCE: MDRC calculations using Ohio Board of Regents degree data.
NOTES: A two-tailed t-test was applied to differences between the research groups. Statistical significance levels are indicated as: *** = 1 percent; ** = 5 percent; and * = 10 percent.
Rounding may cause slight discrepancies in sums and differences.
Estimates are adjusted by research cohort and campus.
[a]Categories listed are mutually exclusive.

credits earned by many groups of students, and also that it worked equally well across these groups. In other words, the program did not work better or worse for any particular type of student.

- **Some of the programs reduced educational debt.** In two of the three locations where detailed information on financial aid packages is available, the PBS Demonstration programs clearly reduced educational debt: by about $334 in the first year of the program in Ohio and $347 in the first year of the program in New Mexico.

- **In Ohio, performance-based scholarships increased the proportion of students earning a degree or certificate.** Ohio was the first site to finish recruitment, and it is therefore the site with the longest follow-up period. Table 2 shows how many students attained degrees or certificates in Ohio specifically. Two years after random assignment, 3.6 percentage points more students attained degrees in the program group than in the control group (a difference of 21 percent). The impact continues into the third year, when 3.5 percentage points more students attained degrees in the program group than in the control group (a difference of 15 percent). Over time it will be important to see if these effects found in Ohio are repeated at other sites.

The impacts on first-year credit accumulation shown here are toward the middle or higher end of the range of impacts found by other random assignment studies of financial incentives for postsecondary students.[7] And while the impacts are modest, the findings from Ohio also suggest that these incremental improvements could potentially improve graduation rates down the road. But the PBS Demonstration programs are no panacea: at every site and in every semester, many students failed to progress academically or dropped out of school altogether.

These are interim findings. In the future MDRC will evaluate for all of the sites whether the PBS Demonstration programs help students stay in school, accumulate more credits, and graduate.

PERFORMANCE-BASED SCHOLARSHIPS AND PELL GRANTS

Since performance-based scholarships seem to improve outcomes for students, some policymakers might ask whether it would be a good idea to tie federal financial aid payments such as Pell Grants more closely to achievement.

In some ways, the Pell Grant program is already tied to performance: students remain eligible for their Pell Grants by meeting satisfactory academic progress (SAP) requirements. The exact SAP criteria vary by institution, but in most cases this means maintaining a GPA of at least 2.0. But there are important differences between this standard and those used in performance-based scholarships. With Pell Grants, performance consequences come with a time lag: students who fail to meet SAP requirements may see their Pell eligibility revoked the following semester or academic year. Performance-based scholarships impose more immediate consequences: if students do not meet their benchmarks in a given term, they do not receive a payment. There is also great variation in the way institutions track and implement SAP. Some institutions are considerably more stringent than others.

There are a few reasons to be cautious about drawing conclusions for Pell Grants from results on performance-based scholarships, however. First, the Pell Grant is far more generous than the performance-based scholarships studied here, and as such it is generally the foundation of a student's financial aid package. Performance-based scholarships are paid in addition to all other financial aid — both the program group and the control group in the PBS Demonstration received significant base levels of financial aid. This means that changing the disbursement criteria for Pell Grants could change students' behavior in quite different ways from the PBS Demonstration. The findings here should only be extrapolated to situations in which additional dollars are being expended on top of existing financial aid.[8]

There are a few reasons to be cautious about drawing conclusions for Pell Grants from results on performance-based scholarships.

Second, structuring Pell Grants more like performance-based scholarships could have a chilling effect on enrollment. The Pell Grant is generally paid all at once, near the beginning of the semester. Students often use it to pay for tuition and fees first, prior to other educational expenses. Performance-based scholarships, on the other hand, are paid in increments over the semester. On average, the performance-based scholarships in this study were structured to give students a quarter of their total award near the beginning of the semester. If Pell Grants were structured similarly, a student awarded a maximum Pell Grant would receive only $694 at the beginning of the semester.[9] At most colleges, this would not be sufficient to cover tuition and fees.[10] This could bar many low-income students from the higher education system altogether and create a lot of upheaval for colleges, which are unlikely to have other funds to assist students who need a stable source of aid.

FUNDERS AND PARTNERS OF THE PERFORMANCE-BASED SCHOLARSHIP DEMONSTRATION

The launch of the Performance-Based Scholarship Demonstration was made possible by the generous support of the Bill and Melinda Gates Foundation. The operation and research for the demonstration at various sites was enabled by support from:

- The Bill and Melinda Gates Foundation
- California Student Aid Commission
- The City University of New York: Borough of Manhattan Community College and Hostos Community College
- The College Access Foundation of California
- The Helios Education Foundation
- Hillsborough Community College
- Institute of Education Sciences, U.S. Department of Education
- The Joyce Foundation
- The Kresge Foundation
- Lorain County Community College
- The Los Angeles Chamber of Commerce
- New York City Center for Economic Opportunity
- The Ohio Department of Job and Family Services through the Ohio Board of Regents
- Open Society Foundations
- Owens Community College
- Pima Community College
- The Robin Hood Foundation
- Sinclair Community College
- UNCF
- University of New Mexico

PERFORMANCE-BASED SCHOLARSHIPS IN THE CONTEXT OF OTHER AID

Pell Grants are not the only source of scholarship aid available to students, of course. States and private donors together contribute more than $16.4 billion in scholarships to undergraduates.[11]

As a recent report by the Brookings Institution delineates, states whose main goal is to remove financial obstacles from the path of low-income students tend to rely on need-based aid programs with income eligibility criteria and minimal standards for academic achievement.[12] In contrast, states that strive to keep high-performing students in-state tend to have merit-based aid programs for students who did well in high school. But merit-based aid often rewards students who are very likely to succeed in college anyway.

Meanwhile private and employer grants are provided to students using criteria that may or may not include financial need, and some of them are administered somewhat haphazardly.[13] They often do not have a specific goal or, as with merit-based scholarships, they go to students who already have a high chance of academic success.

States and private donors able to experiment with performance-based aid programs could help answer questions about how performance-based scholarships might help them accomplish their goals and how they might affect students. Performance-based scholarships could help traditional scholarship programs maximize the amount of money they are able to offer, because students are offered the *opportunity* to earn

more scholarship dollars than they actually earn on average. But here too there could be tradeoffs if the dependable money from state or private programs often makes it possible for students to enroll who otherwise would not. Further experimentation would be necessary to understand the true effects.

NEXT STEPS FOR THE PBS DEMONSTRATION

MDRC will continue to collect and analyze data at each of the sites, to determine whether the scholarships continue to make an impact in future semesters. Supplementary figures and tables showing results for all program sites can be found online at www.mdrc.org. One site (Ohio) has shown modest impacts on graduation rates, but graduation results from the other sites in the demonstration have yet to be analyzed. MDRC continues to publish findings on each of the sites, and will also publish a synthesis report examining the long-term impacts across all six sites.

The programs at all of the colleges in the PBS Demonstration continue to offer scholarships to a small number of new students each semester. Other scholarship providers have also begun to explore the potential of performance-based scholarships elsewhere. To share the operational lessons of the PBS Demonstration, MDRC will release a technical assistance guide in 2014.

NOTES

1 Carnevale, Smith, and Strohl (2010).

2 College Board Advocacy and Policy Center (2012a).

3 St. John, Musoba, Simmons, and Chung (2002); Kane (2004); Dynarski (2000, 2003); Cornwell, Mustard, and Sridhar (2006).

4 Angrist, Lang, and Oreopoulos (2009); Richburg-Hayes et al. (2009).

5 Note that all impacts discussed here measure differences in the averages for all program and control group students (an intent-to-treat analysis), whether or not they attempted to earn any credits. That is, students who never registered are counted as having "0" credits in these measures, thus weighing down the averages.

6 A question to that effect asked on surveys in Arizona, California, Florida, and Ohio showed that most students in all four program groups were aware of the requirements. Similar data are not available for New Mexico and New York.

7 For example, a study of financial incentives for first year undergraduate students at the University of Amsterdam found no significant impacts on credit accumulation on average over the first year, or over the first three years of follow-up. See Leuven, Oosterbeek, and van der Klaauw (2005). A study at a Canadian university that tested financial incentives combined with academic support services found achievement gains by the end of the first year only for women who received both the incentive and the support services. See Angrist, Lang, and Oreopoulos (2009). And lastly, a study of need-based financial aid in Wisconsin (though not incentive-based) found small impacts on retention and modest impacts on credits earned (Goldrick-Rab, Harris, Kelchen, and Benson (2012)). The target groups in these studies are generally better prepared academically than those targeted in the PBS Demonstration sample, however. As a result, the academic performance for the control group in the PBS Demonstration sample may be lower, making impacts more likely.

8 An evaluation of MDRC's Aid Like A Paycheck intervention could provide insight into changes intended to make Pell Grants more responsive to performance. Aid Like A Paycheck disburses existing financial aid every other week during

the semester (like a paycheck), thus creating incentives for students to stay enrolled without additional funding. Only the amount of a Pell Grant in excess of tuition and fees is paid to students biweekly, thus removing the concern that students might be unable to cover those costs at the beginning of the semester. See Ware and Weissman (forthcoming).

9 Based on the maximum Pell Grant for the 2010-2011 aid year, $5,550. See FinAid (2013).

10 In 2010-2011, the median tuition and fees for all public institutions was $4,632. For all public four-year institutions it was $6,780, and for all public two-year institutions it was $2,537. These figures represent tuition and fees over a full year; each semester would cost roughly half that. See National Center for Education Statistics (2011).

11 College Board Advocacy and Policy Center (2012b).

12 Baum et al. (2012).

13 U.S. Department of Education (2011).

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Exhibit 3.1

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Performance-Based Scholarships:
What Have We Learned?

INTERIM FINDINGS FROM THE PBS DEMONSTRATION

By Reshma Patel, Lashawn Richburg-Hayes, Elijah de la Campa, and Timothy Rudd

In today's economy, employers' demand for an educated workforce is steadily rising. Policymakers, education leaders, and communities across the country recognize the need to improve college attendance and success, but are constrained by the current budgetary environment. Meanwhile students themselves face mounting college costs, and financial aid has not been able to keep pace. Performance-based scholarships aim to help reduce the financial burdens on low-income college students while providing incentives for good academic progress. Students are generally paid at multiple points during the semester if they earn a certain number of credits with a "C" average or better. MDRC is currently evaluating performance-based scholarship programs in six states. Interim results suggest that these programs do improve students' performance and increase the number of credits they earn, and in some states where data are available, they also appear to reduce student debt. In one location, the program also increased the proportion of students earning a degree. They work in a wide range of institutions and for a wide variety of students, including those normally at risk of performing poorly.