

Tuition and Fees – Review of 2008 Process and Planning for 2009

In October 2006, the Board of Governors established a plan for establishing tuition and fee rate increases. The four-year plan, in conjunction with the Board's Tuition and Fees Policy, created a mechanism to ensure affordable and predictable rate increases for students attending the University of North Carolina. The Finance Division staff seeks the Board's guidance on any issues that members would like to review and discuss over the next several months in preparation for the FY 2009-10 tuition and fees process.

## **THE UNIVERSITY OF NORTH CAROLINA**

### **Tuition and Fee Increases – A Four-Year Plan**

The tuition policy of the Board of Governors, adopted in 1998 and revised in 2003 when the existing tuition and fee policies were combined, provides the framework for the Board's annual review and action on proposed increases in tuition and fees. This framework is used by the Board in fulfilling its responsibility under General Statute 116-11(7), which states in part that "*The Board (of Governors) shall set tuition and required fees at the institutions, not inconsistent with actions of the General Assembly.*" At the same time that the Board exercises its statutory authority, it wishes to do so in a way that provides affordability for students, flexibility for the constituent institutions, and predictability for both the students and the constituent institutions.

We propose that the Task Force on Tuition Policy consider for recommendation to the Board the following guidelines for campuses in considering increases in tuition and fees. If the Board approves the Task Force's recommendations, the recommendations would remain in effect for four years and at the end of four years would be evaluated by the Board.

One of the expectations of the Tuition Task Force is that combined tuition and fee rates for resident undergraduates remain *within the bottom quarter* of each campus' public peers, as approved by the Board of Governors. Combined rates for non-resident undergraduate students should remain *below the top quarter* of the same approved peer group. We support this recommendation.

We also propose that the maximum rate of annual increase for campus-initiated tuition and general fees (Athletics, Health Services, Student Activities, and Educational and Technology Fees) for undergraduate resident students should be 6.5%. This figure is the average annual increase in undergraduate resident tuition rates since 1972. The amount of the increase may be allocated among tuition and fees in a manner that most effectively provides revenues to meet campus needs.

Fees required for debt service are *in addition to* this maximum percentage increase, but funds required to operate facilities are included in the maximum. Debt service fees are not included in the 6.5% ceiling because the projects that are financed by the indebtedness that is repaid from these fees are evaluated on their individual merits through a separate process. For projects to be funded from debt service fees, the Board will consider both the impact on students from these charges and the ability of a campus to repay the debt.

Since the 2006 Higher Education Price Index (HEPI), which measures inflation in the cost of a college education, was 5%, it is hoped that the revenues generated under this plan, combined with ongoing efforts to control operating costs, will not only cover inflationary increases, but also will provide for consistent improvements in the quality of academic offerings.

All proposals for increasing tuition and fees must be accompanied by explicit plans for use of the increased funds. For the next four years, each plan must commit to set aside at least 25% of the new tuition revenues to be added to the campus pool of need-based financial aid. Additionally, at least 25% of the revenues must be used for increasing faculty salaries unless the average ranked faculty salary for a campus is at or above the 80<sup>th</sup> percentile of the average ranked faculty salary for that campus' peer institutions as approved by the Board of Governors. Any remaining revenues may be used to provide for improved library and counseling services, reductions in class size, increases in sections offered, enhancements in student services, and other purposes that improve the quality of the student's academic experience. Increases in student fees must be justified by an expenditure plan that shows how the additional revenues will directly benefit the fee-supported activity.

The Tuition Policy Task Force recognizes that while tuition and fee charges are necessary as a secondary source of funding, the General Assembly has the principal responsibility for funding the University. For years in which the General Assembly is able to provide sufficient increased revenues, the need for increases in tuition should not be as great as in years when the General Assembly is not able to provide these revenues. Recognizing that the capacity of the General Assembly to fund the University varies from year to year, the Task Force recommends the following adjustments to the maximum 6.5% campus-based tuition increase. These adjustments should begin in 2008-09 to allow the campuses time to incorporate them in their annual planning.

- For any year in which the General Assembly provides a specific campus a recurring increase in operating appropriations/FTE that is in excess of 6%, the maximum allowed campus-based percentage tuition increase for that campus in the subsequent year will be reduced by the percentage increase in operating appropriations above 6% (6% is approximately the average annual increase in operating appropriations/FTE since 1972). For example, if the General Assembly provides a recurring increase of 7% in operating appropriations (1 % above 6%) for a particular UNC institution, the proposed campus-based tuition increase in the subsequent year could be no more than 5.5% (1 % below 6.5%).
- Tuition and fee rates and appropriations/FTE are interdependent as campuses attempt to ensure sufficient resources to meet academic needs of students. Current variations in the level of appropriations/FTE among similar UNC institutions are sometimes material. During the four-year period covered by this plan, the Board of Governors will seek recurring operating appropriations from the General Assembly to ensure that all constituent institutions have a baseline level of state support for operations. This baseline level of support, when combined with tuition receipts set aside for this purpose, would ensure that average faculty salaries on a campus are competitive with those of its approved peers. Any campus that meets or exceeds the baseline level of state support would have a goal of keeping tuition and fees at no more than 30% of the total of tuition, fees, and operating appropriations/FTE.

- It is important to understand that the ceilings on increases proposed in this plan apply to discrete sets of revenues. State appropriations and tuition receipts are the two major revenues within each institution's state budget account, yet they have very different impacts on campus budgets. In the following hypothetical example, if appropriations were to increase by 6% and tuition receipts were to increase by 6.5%, the overall budget would increase by 6.08%. The respective percentage increases for state appropriations and tuition (6% and 6.5%) should not be misunderstood and construed to be additive. If tuition and State appropriations increase by these percentages, and inflation, as measured by HEPI, remains steady at about 5%, the increases will provide campuses with modest new funding for quality maintenance and improvements.

UNC Campus	Original Budget	% Increase	Dollar Increase	New Budget
Appropriations	\$1,000,000	6.0%	\$60,000	\$1,060,000
Tuition	200,000	6.5%	13,000	213,000
Total Budget	1,200,000	6.08%	73,000	1,273,000

Likewise, if revenues from general fees increase by 6.5%, the increase impacts only the budgets of fee-supported activities.

To help mitigate the financial impact of tuition increases on students that are eligible to receive financial aid from the Board's need-based financial aid program, the Board of Governors will seek additional State funds for this purpose each year that this Plan is in effect. These funds, when appropriated, will be used to ensure that all North Carolina students that are eligible to receive our State need-based grants receive them, and that all such students are held harmless from the tuition and fee increases.

The framework outlined above will apply to all institutions within the UNC system. The Board of Governors, however, recognizes that across the University, institutions vary appreciably in their missions, their programs, the costs of those programs including the costs of faculty, federal funding for financial aid, and the ability to meet the financial need of their respective student bodies. Recognizing those distinctions, the Board may choose to consider these criteria when setting tuition for individual campuses. A campus with a significant unfunded need may submit a proposal that does not adhere to the agreed-upon guidelines. Such a proposal must demonstrate that tuition revenues are the only viable source of funds for addressing the need. The proposal must be accompanied by a description of the need, and a detailed plan and rationale for addressing it. If the Board determines that the need could only be addressed by an increase in tuition above the maximum allowable campus-based tuition increase, it could institute such an increase.

Finally, during the 2006-07 academic year, the Task Force recommends that General Administration review the financial aid processes and available resources on each campus to assess whether resources are sufficient to meet the financial aid needs of their students, including students from families with both low and moderate incomes. This review should result in a consistent methodology for calculating and presenting information on financial need of students for review by the Board of Governors. Another measure that should be reviewed and monitored is the increase or decrease over time in the indebtedness of students upon graduation. The review will identify opportunities for improving and simplifying the financial aid processes on each campus and ensuring that campus processes dovetail with the system used by the State Education Assistance Authority. If the review indicates that the financial aid available to students on a given campus is insufficient, the campus will prepare a plan for approval by General Administration for increasing financial aid and will execute the plan when it is approved. Financial aid administration is complex, and the ability of a campus to provide sufficient aid is as dependent upon external resources and factors as it is upon funds derived from campus-initiated tuition increases. All of these resources and factors should be taken into account in the development and assessment of a campus' financial aid plan.

It is recommended that the Tuition Policy Task Force adopt the proposed framework and conditions for campus-initiated tuition proposals.