

4-Year Tuition Plan

Recommendations for Changes to the Board of Governors' 4-Year Plan for Setting Tuition and Fees

In the first year of President Bowles' tenure, he recommended that the Board adopt a 4-year plan for tuition and fee increases that identified specific parameters to be followed by the campuses in proposing increases. The Board had adopted a tuition policy in 1998 that allowed campuses to propose "campus-initiated tuition increases" for consideration by the Board of Governors. The tuition receipts generated from the increases would remain on each campus to fund specific needs identified by the campuses and approved by the Board of Governors. Prior to the implementation of the tuition policy, increases in tuition had been determined solely by the General Assembly and tuition receipts had always been deposited into the State's General Fund and used in balancing the State's overall budget. In 2001, the General Assembly passed legislation confirming the Board policy that states that tuition revenues resulting from campus-initiated tuition increase would accrue to individual campus budgets and be used for the purposes approved by the Board.

Subsequent to the adoption of the tuition policy and before the adoption of the 4-year plan, tuition increased on average by a high of 24.7% (2002-03) and a low of 0%. In a system deeply committed to shared governance, discussions surrounding the increases were often contentious as the President and the Board of Governors did not approve or altered recommendations submitted after months of due process at a campus - a process that involved tuition and fee committees making recommendations for increases to the chancellor, the chancellor making recommendations to the local Board of Trustees, and the Board of Trustees voting on increases believing they would be accepted by the Board of Governors. The 4-year plan was designed to bring more structure and understanding to the process. With the adoption of the 4-year plan, the President and the Board of Governors entered into an unwritten compact with the campuses to modify their proposals only when absolutely necessary and the campuses committed to submitting proposals that met the ground rules established by the Board. In general, those rules required that proposals for increases in tuition and fees could not exceed 6.5% of the current tuition and fee rates, that at least 25% of the revenues generated from tuition increases would be committed to need-based financial aid, and that an additional 25% of the revenues generated from tuition increases would be committed to increases in faculty salaries until an institution's average faculty salary reached the 80th percentile of average faculty salaries of peer institutions. The 6.5% cap was to be reduced when increases in state appropriations exceeded the historic rate of appropriations increases (6%).

When it adopted the 4-year plan, the Board determined that it would need to review the components of that plan at the end four years and determine whether to continue, abandon, or alter the plan. In preparation for the Board's evaluation, President Bowles appointed a work group of campus personnel with various backgrounds to lend expertise in the evaluation. Those individuals are Harold Martin, Chancellor, North Carolina A&T State University; Steve Farmer, Associate Provost and Director of Undergraduate Admissions, UNC-Chapel Hill; Julie Rice Mallette, Director of the Office of Scholarships and Financial Aid, North Carolina State University; Charles Maimone, Vice Chancellor for Business Affairs, UNC Wilmington; Stan

Aeschleman, Provost and Executive Vice Chancellor, ASU; and Kwesi Aggrey, Provost and Vice Chancellor, NCCU. Alan Mabe, Ernie Murphrey, Ginger Burks, Jonathan Pruitt, and Jeff Davies provided assistance with the evaluation.

At its initial meeting, the work group concurred that the 4-year plan had been successful in bringing structure and common understanding to the tuition and fee setting process and agreed that the plan should be continued with possible adjustments. With input from the chancellors, the work group identified components of the plan to review in detail. The specific items considered by the work group are listed below.

- Whether the 6.5% cap on annual increases in tuition and fee rates should be continued and whether the cap should continue to exclude debt service fees.
- Whether tuition rates for resident students should be required to remain within the bottom quarter of rates at public peer institutions and whether tuition rates for nonresident students should be required to remain below those of 75% of public peer institutions.
- Whether the quality of education provided by UNC institutions relative to peers can be measured and incorporated into the tuition-setting process.
- Whether more discretion in setting nonresident tuition rates should be allowed.
- Whether the plan should be changed to include variations for different institutions - a plan where one size does not fit all. It was proposed that some UNC institutions might be better served by a “high tuition, high aid” model whereas other UNC institutions might be better served by continuing the current “low tuition” model.
- Whether tuition rates or tuition caps should be the same for institutions with similar missions (Carnegie classifications).
- Whether revenue derived from the Educational and Technology Fee would be better deposited into trust funds, rather than comingled with general fund dollars that revert to the State at year end.
- Whether the role of students in setting tuition and fees could be more specifically defined since the role of students varies substantially from campus to campus.
- Whether charging tuition and fees by the student credit hour is preferable to the current FTE methodology and whether such a change could be implemented in the near future.
- Whether specific allocations of revenues generated from tuition increases should be continued, i.e., allocations for financial aid and faculty salaries.
- Whether the cap, if continued, should be applied separately to tuition and fees or applied to total tuition and fees with allocations among tuition and fees at campus discretion.
- Whether the moratorium on increases in special fees should be continued.
- Whether campuses should be granted the authority under some circumstances to set tuition and fees for graduate programs or, if not, at least to graduate programs that belong in the same “class” (i.e., in the same department or college). For example, the current practice requires that multiple master’s programs in the College of Business each seek separate authority for increasing tuition.

- Whether campuses should be granted the authority to establish application fees and service fees that are not applied to all students.
- Whether the five-year financial plans required with submissions are really necessary for the Board of Governors to assess the requested tuition and fee increases.

The work group reviewed each of these issues and makes the following recommendations for consideration by the President and the members of the Board of Governors. The group recommends that the plan be reviewed again in four years.

Whether the 6.5% cap on annual increases in tuition and fee rates should be continued and whether the cap should continue to exclude debt service fees.

Based on historic increases in annual state appropriations compared to historic increases in tuition and fees, the Board determined that under the 4-year plan campuses could submit proposals for annual increases in tuition and fees up to a maximum of 6.5%. This cap is reduced by 1% for every 1% increase in state appropriations above the historic rate of 6%. Therefore, if state appropriations for a campus increase by 7%, the tuition and fee cap for a campus is reduced to 5.5%.

After considerable deliberation, the work group recommends that the cap be continued at the 6.5% level but asks for consideration of two recommendations. First the cap on increases is reduced when the State is able to provide above average increases in appropriations but there is no capacity to increase the cap when the State provides below average increases in appropriations. The group recommends that when the State provides less than 6% historic increase in appropriations, the cap should be increased using the same methodology applied when it is reduced. This allows for a natural response during difficult economic times. The work group recommends, however, that the cap should never be allowed to go above 10%. Keeping the cap at the 10% should keep UNC campuses off the federal “watch list” of institutions that are increasing student charges at high rates.

The group is well aware that the 4-year plan provides a template to follow in setting tuition increases. In difficult economic times, reflected clearly in the current year and the 2010 legislative action allowing supplemental tuition increases up \$750, the President, the Board of Governors, or the General Assembly may deviate from the plan to ensure that sufficient resources are available within the University.

Maximum increases in fees have also been tied to the cap set within the 4-year plan. Since fees support activities not funded by the State, the ceiling on fee increases should not be tied to increases in State appropriations. It is recommended that tuition and fee increases be decoupled and that annual fee increases be held to a maximum of 6.5% without any provision for increasing or decreasing the cap on fee increases. Though the original 4-year plan allowed for maximum dollar increases associated with both tuition and fees to be applied to increase

either tuition or fees, in practice the President and the Board have not followed this concept. It is recommended that the plan be updated to reflect the decoupling of caps on tuition and fees.

The current 4-year plan provides that the cap on fees be applied to the four general fees (athletics, student activities, health services, educational and technology) and that it is not applied to increases in debt service fees. Debt service fees provide funds to finance construction that is planned and expedited through a separate process. Projects funded from debt service fees (such as student unions) are proposed when needed and should remain separate from an annual process that provides needed funds for continued operations. Each proposed capital project and the associated debt service fee is reviewed in detail by both the President and the Board from both a needs perspective and a financing perspective. The group recommends that the current application of the cap to the four general fees be continued and that debt services fees be considered independently.

Whether tuition rates for resident students should be required to remain within the bottom quarter of rates at public peer institutions and whether tuition rates for nonresident students should be required to remain below those of 75% of public peer institutions.

The work group found that the requirements that tuition rates remain in the bottom quarter of public peer institutions (resident students) and below the top quarter of those same peer institutions (nonresident students) provides an appropriate benchmark for institutionalizing North Carolina's commitment to keep tuition for residents affordable while charging nonresident students a rate that is closer to the actual cost of education. The work group recommends that the requirements be continued. Discussions among members of the work group focused on whether or not the peers for each UNC campus were the most appropriate peers. As a result, the work group recommends a review of the current UNC peers for each campus.

Whether the quality of education provided by UNC institutions relative to peers can be measured and incorporated into the tuition-setting process.

The Board has recently begun to focus attention away from ensuring access to UNC for North Carolina residents to ensuring that each student who enters the University is successful. Campus-specific goals for freshmen-to-sophomore retention rates as well as four- and six-year graduation rates have been established to ensure that campus leadership are equally focused on improving student success. The Board also has directed that the President develop a methodology for linking student success to enrollment growth funding which will ensure that a campus does not grow unless progress is made in ensuring student success. When the peers are reviewed (as recommended previously), the success of students at peer institutions should be considered as a component of selecting revised peers.

Whether more discretion in setting nonresident tuition rates should be allowed.

The work group finds that campuses now have sufficient discretion in proposing tuition increases for nonresident students. Under the 4-year tuition plan, increases for nonresident students are not limited to the percentage cap that is applied to increases in resident tuition. Although the plan requires tuition rates for nonresident students to be set below those of 75% of peer institutions, the true limiting factor on nonresident tuition rates is what the market will bear.

Whether the plan should be changed to include variations for different institutions - a plan where one size does not fit all. Some UNC institutions may be better served by a high tuition, high aid model whereas other UNC institutions may be better served by a low tuition model.

In keeping with the constitutional mandate to keep tuition and fees as free of expense as practicable, the work group recommends that the university ensure that tuition increases for students are predictable and moderate by continuing to use the 4-year plan. Although the advantages of high tuition, high aid can be philosophically debated, the work group finds that the current educational model has served North Carolinians well for decades, enabling the finest public education system in the country.

Historically, in difficult economic times, tuition has increased beyond the level contemplated by the 4-year tuition. History will repeat itself again in 2010 as the supplemental tuition increases authorized by the General Assembly provide the funds needed to ensure a quality education for students. These larger than contemplated tuition increases will be required periodically out of necessity; therefore, keeping tuition increases within the bounds of the 4-year plan whenever possible is consistent with North Carolina's constitutional mandate.

Whether tuition rates or tuition caps should be the same for institutions with similar missions (Carnegie classifications).

The work group found merit in establishing similar tuition rates for institutions with similar missions. Comparisons of state appropriations/FTE should not be made without also a like comparison of funding generated by tuition. As an example, the funding needed to support NCA&T in a manner similar to ECU, UNCG, and UNCC should not all be provided solely by the State when NCA&T's tuition rates are significantly below those of the other three institutions. It is recommended that those institutions charging less than the average of similar UNC institutions be allowed to propose tuition increases in excess of the cap but below the 10% maximum until that institution reaches the average of its UNC peers.

Whether revenue derived from the Educational and Technology Fee could be deposited into trust funds, rather than comingled with general fund dollars that revert to the State at year end.

No one on the work group debated the advantages to be gained when revenues from educational and technology fees are deposited into trust funds – trust funds balances do not revert to the state at year end . This proposal is currently being addressed by the General Administration Finance Division with the Office of State Budget and Management.

Whether the role of students in setting tuition and fees could be more specifically defined – the role that students play varies substantially from campus to campus.

Student leaders have long criticized the differences in the approach that different campuses take in seeking student input into the tuition and fee setting processes. Student input is required by the Board of Governors' policy but the policy does not outline a specific method for seeking the required input. The work group recommends that General Administration work with the President of the Association of Student Governments and several Vice Chancellors for Student Affairs to recommend a best practice for consideration by President.

Whether charging tuition and fees by the student credit hour is preferable and able to be implemented in the near future.

Although charging by the student credit hour is peripheral to proposing a plan for increasing tuition and fees, the topic has long been debated in the University. Charging by the credit hour would both simplify tuition and facilitate the ability of students at one campus to take courses offered at another institution. The work group recommends that the President revisit this topic with the chancellors and select one or more of the campuses anxious to convert to student credit hour-based charges to pilot this initiative.

Whether specific allocations of revenues provided by increases in tuition should be continued, i.e., allocations for financial aid and faculty salaries.

Discussions among the members of the work group focused on whether or not to continue the requirement to set aside funds from tuition increases for need-based financial aid. During the current legislative session, the General Assembly mandated that at least 25% of funds from 2010-11 campus-initiated tuition increases be set aside for need-based financial aid. From time to time, the Board may opt to require other set asides.

Whether the cap, if continued, should be continued to be applied separately to tuition and fees as required by current practice.

This has been addressed in the first recommendation.

Whether the moratorium on increases in special fees should be continued.

Special fees are fees approved by the Board that are charged only to students participating in a specific program with significant expenses, e.g., students studying filmmaking at the UNC School of the Arts pay a \$750 fee that provides revenues specifically for the filmmaking program. The President has not recommended the creation of new special fees and has contemplated that the budgetary needs of all programs should be considered among the needs provided for by tuition increases levied on all students. This is in keeping with the concept of a single tuition structure for undergraduate students so that students do not make decisions about program of study based on cost. The President has also not considered increases in existing special fees. The work group supports this stance.

Whether campuses should be granted the authority under some circumstances to set tuition and fees for graduate programs or, if not, at least to graduate programs that belong in the same "class" (i.e., in the same department or college). For example, the current practice requires that multiple master's programs in the College of Business each seek separate authority for increasing tuition.

Although the current practice has been to seek separate authority for increasing tuition for individual graduate or professional programs, there is nothing in the 4-year plan or in the tuition policy that prevents a campus from seeking authority to increase tuition at the College level.

Whether campuses should be granted the authority to establish application fees and service fees that are not applied to all students.

Under current policy, the Board approves application fees but does not approve miscellaneous service charges. Application fees may be a "barrier to entry" for some potential students; therefore, the Board should continue to approve these fees to assure consistency with its policy agenda of providing access to the University for all eligible North Carolinians. It is important for the Board to understand that campuses often waive these fees for students that have difficulty paying them. Campuses are authorized to establish miscellaneous service charges, such as copying fees, without seeking Board approval. These service charges are not considered to be "policy issues" and campuses should continue to be authorized to set them.

Whether the five-year financial plans required with submissions are really necessary for the Board of Governors to assess the requested tuition and fee increases.

Although the preparation of the 5-year plans may be tedious from a campus perspective, the plans are used at General Administration to validate the rate for a specific fee requested by a campus. The requirement to prepare 5-year plans was instituted at a time when the levels of

fees were being challenged by external constituencies and the plans have served the University well in proving that a review of fees at the Board of Governors' level is a meaningful review.

Conclusion

The work group tasked with reviewing the 4-year plan for setting tuition and fees has found that the plan has provided meaningful structure and common understanding to a process that was previously unstructured. The process for setting tuition and fees is an important process at all levels in the University and the work group recommends that the Board consider continuing the 4-year plan with four possible changes. The plan would need to be reviewed again in four years.

- The group recommends that when the General Assembly is unable to provide the 6% historic increase in appropriations for a campus, the cap on tuition for that campus should be increased by reversing the methodology that is applied when it is reduced. This allows for a natural response during difficult economic times. The work group recommends, however, that increases in tuition should never be allowed to go above 10% unless State financial circumstances require the Board of Governors to suspend the 4-year plan to ensure that adequate resources are available to support the campuses.
- The group recommends that tuition and fee increases be decoupled and that annual fee increases be held to a maximum of 6.5% without any provision for increasing or decreasing the cap.
- The group recommends that those institutions charging less than the average of their UNC peers be allowed to propose tuition increases in excess of the cap but not in excess of the 10% maximum until that institution reaches the average of its UNC peers.
- The work group recommends that General Administration work with the President of the Association of Student Governments and several Vice Chancellors for Student Affairs to recommend a best practice for seeking student involvement in the tuition and fee setting process.

Although not changes to the 4-year plan, the work group makes two further recommendations. First, the group recommends that the current peers for each campus be reviewed and that changes be made if needed. Finally, the group recommends that the President revisit this topic with the chancellors and select one or more of the campuses anxious to convert to student credit hour-based charges to pilot this initiative.