



The University of North Carolina
POST OFFICE BOX 2688, CHAPEL HILL, NC 27515-2688

ERSKINE B. BOWLES, *President*

Telephone: (919) 962-1000 Fax (919) 843-9695
E-mail: ebowles@northcarolina.edu

Constituent Universities
Appalachian State
University

East Carolina
University

Elizabeth City
State University

Fayetteville State
University

North Carolina
Agricultural and
Technical State
University

North Carolina
Central University

North Carolina
State University
at Raleigh

University of
North Carolina
at Asheville

University of
North Carolina
at Chapel Hill

University of
North Carolina
at Charlotte

University of
North Carolina
at Greensboro

University of
North Carolina
at Pembroke

University of
North Carolina
at Wilmington

University of
North Carolina
School of the Arts

Western Carolina
University

Winston-Salem
State University

Constituent High School
North Carolina
School of Science
and Mathematics

An Equal Opportunity/
Affirmative Action Employer

MEMORANDUM

TO: Members of the Board of Governors

FROM: Erskine Bowles *EBB*

SUBJECT: Recommended Changes to the Four-Year Tuition Plan

DATE: September 7, 2010

As follow up to our workshop at the August Board of Governors' meeting, Chairman Gage has asked for my thoughts regarding changes to the four-year tuition plan. I have considered the recommendations of the work group that were presented at the workshop – some of them I would recommend that you consider and some of them I do not support. Although I do not agree with all of the recommendations, I appreciate the time and thought that went into developing them. I want you to know that I believe that the four-year plan has served the university well. It has by and large kept tuition in check and I would recommend that it be continued with very few modifications.

First, the work group recommended that the current relationship between appropriations and tuition increases work in reverse. In other words, if the increase in appropriations is lower than the average historic increase of 6%, the cap on tuition increases would be increased above 6.5%. I just flat out do not like this. I have always viewed the 6.5% cap as a ceiling, not a floor, and believe that the cap should continue to be viewed in this manner. We all recognize that in difficult economic times, as in the current year, the Board has the authority to vary from this ceiling and will exercise that authority if it is absolutely necessary. Tuition must always be a secondary source of funding, not the primary source. If we take the cap off then the easy thing to do is simply forget about expense control, forget about hammering the legislature for funding, and let's just take the easy way out and raise tuition. I cannot support that.

The work group recommended that, as in the current plan, debt service fee increases should not be included within the fee cap. I can support that with two caveats. Any time we increase debt service fees we must require prior to approval a financial plan from the chancellor as to what the increased operating cost will be and how that will be paid for along with the increased debt service. We must also see an analysis of similar space on the campus and how that space is utilized to be sure that the need for additional space is justified.

The work group further recommended that the caps on tuition and fees be decoupled. In the original four-year plan, dollars calculated under the cap for

fees could be combined and a campus could use all of the allowable dollars to increase either tuition or fees. After the first year, this practice ended and the dollars calculated under the tuition cap could only be used to increase tuition while dollars calculated under the fee cap could only be used to increase fees. I support the recommendation of the work group to decouple tuition and fees and continue that practice that we have followed since the first year.

The work group recommended that the new four-year plan continue the requirement that tuition rates for resident students remain in the bottom quarter of rates for public peer institutions and that rates for nonresidents remain below the top quarter of rates of peers. I agree with the in-state portion of this recommendation. Again, I think this requirement will not only act as a means to focus on expense reduction, third party gifts and State and federal appropriations to meet our needs but it will also help us meet our constitutional requirement to keep tuition as low as practicable. On out-of-state tuition I believe this should be a market driven decision as long as we maintain the quality of out-of-state students we are admitting and such students at least cover the cost of North Carolina providing them with a first rate education. I further believe that the Board should review the list of currently approved peer institutions for each campus and make modifications if needed to improve the list of peers for each campus.

The work group found that the current model for keeping tuition low is more appropriate than pursuing a high tuition, high financial aid model. All of you know that I am a low tuition guy and therefore I wholeheartedly agree with this recommendation.

The group recommended that similar institutions (ECU, NCA&T, UNCC, and UNCG as an example) have similar tuition rates and that institutions with low rates relative to their UNC counterparts be allowed to increase tuition at a rate that allows them to “catch up” with the other institutions. While I’m not opposed to some schools that have kept their tuition artificially low to “catch up,” I do not feel that circumstances on one campus are similar enough to require the same tuition just because two campuses have the same Carnegie classification. In a similar vein I would not oppose a campus being allowed to have a one-time “catch up” on fees if there were substantial reasons to support such. In both cases the “catch up” could be spread over several years to lessen the impact on students.

At the end of the workshop, six recommendations were presented that are important but not as impactful as the other recommendations. I agree with all six and list them below.

- The role of students in setting tuition and fees should be more clearly defined. I will appoint a General Administration employee to work with representatives from the Association of Student Government and several Vice Chancellors for Student Affairs to present a “best practice” model for consideration by the campuses.

- Receipts from the Educational and Technology Fees should be deposited into Institutional Trust Funds. The Finance Division is already working on this. This will also require a legislative change.
- The moratorium on special fees should be continued. I completely concur.
- The Board should continue to set application fees. Again, I concur.
- Five-year financial plans should continue to be prepared for use in analyzing the need for fee increases. As I said in the workshop, every business does this.
- We should pilot charging tuition by the credit hour. I agree with this but believe we should pursue this only after the Board is fully informed on this alternative and has weighed in.

In summary, I recommend that tuition and fee increases for the next four years be guided by an updated four-year tuition plan. With the concurrence of Chairman Gage, we will update the current plan for consideration at the October Board meeting.

cc: President-elect Tom Ross
The Chancellors
UNC GAC

**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.

Current Tuition Plan Approved by the Board of Governors

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 80th 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 (see Attachment A). 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.

Current Tuition Plan Approved by the Board of Governors

- 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.

Current Tuition Plan Approved by the Board of Governors

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.

Baseline Level of Appropriation Support

General Administration will work with each campus to understand its basic needs for funding. This information will flow from our PACE (President's Advisory Committee on Efficiency and Effectiveness) study of each campus' operations and cost structure, as well as our efforts to determine the total revenue needed by each campus to offer the highest quality education of any of its peer institutions.

Clear examples of differentially funded campuses are Elizabeth City State University, UNC Asheville, and Winston-Salem State University. All three are relatively small universities and therefore have a relatively higher component of fixed costs than do larger institutions. However, UNC Asheville's appropriation per student is \$3,110 less than that of ECSU and \$1,738 less than that of WSSU. UNC Asheville charges higher tuition and fees to make up for some of this difference but, even with higher student charges, the total revenues available per student are lower than at the other two institutions.

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Campus	Student FTE	Appropriations/ FTE	Resident Tuition	Fees	Tuition + Fees (Col. 4+5)	Total Appro./FTE + Tuition + Fees (Col. 3+4+5)	Tuition + Fees / Total (Col. 6/7)
UNCA	3,280	\$ 9,055	\$2,172	\$1,638	\$3,810	\$12,865	30%
ECSU	2,556	12,165	1,490	1,273	2,763	14,928	19%
WSSU	6,065	10,793	1,651	1,457	3,108	13,901	22%

*Approved by the
Board of Governors
10/13/06*

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 to \$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.

University of North Carolina

Review of the Board of Governors' Four-Year Tuition Plan



The University of North Carolina

August 12, 2010

Constitutional Framework for Setting Tuition and Fees

"The General Assembly shall provide that the benefits of The University of North Carolina and other public institutions of higher education, as far as practicable, be extended to the people of the State free of expense."

– NC Constitution – Article IX, Section 9



The University of North Carolina

Legislative Framework for Setting Out-of-State Tuition and Fees

"The Board shall fix the tuition and fees, not inconsistent with actions of the General Assembly, at the institutions . . . in such amount or amounts as it may deem best, taking into consideration the nature of each institution and program of study and the cost of equipment and maintenance. . . ."

– G.S. 116-143

"The Board of Governors shall fix the tuition and required fees charged nonresidents. . . at rates higher than the rates charged residents. . . and comparable to the rates charged nonresident students by comparable public institutions nationwide. . . ."

– G.S. 116-144



The University of North Carolina

3

Legislative Framework for Setting Tuition and Fees

"Notwithstanding any provision in Chapter 116 of the General Statutes to the contrary, in addition to any tuition and fees set by the Board of Governors pursuant to G.S. 116-11(7), the Board of Trustees of the institution may recommend to the Board of Governors tuition and fees for program-specific and institution-specific needs at that institution without regard to whether an emergency situation exists and not inconsistent with the actions of the General Assembly. Any tuition and fees set pursuant to this subsection are appropriated for use by the institution. . . ."

– 116-40.22 (c)



The University of North Carolina

4

Tuition Policy

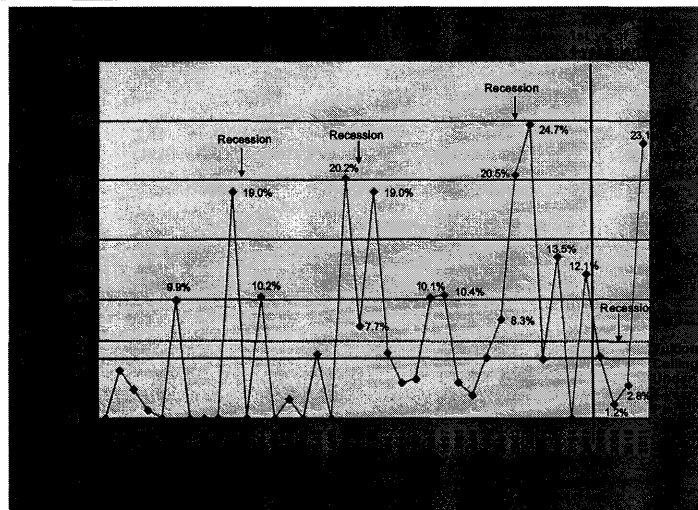
- In 1998, as directed by the General Assembly, the Board adopted a tuition policy. Prior to the adoption of this policy:
 - Tuition had been set by the General Assembly as the State's budget was developed.
 - Tuition increases were erratic (0% increase to 20% increase in the '90s).
 - "Low tuition" was undefined.



The University of North Carolina

5

Historical % Increases in UNC Average UG Resident Tuition



The University of North Carolina

6

Tuition Policy

- **UNC should maintain its historic commitment to low resident tuition:**
 - Board should play same role in setting tuition as in setting fees
 - Action on tuition and fees should occur earlier than in past practice
 - Process for setting tuition and fees should be inclusive and comprehensive
 - Criteria for Board action spelled out



The University of North Carolina

7

Justification and Criteria for Campus-Initiated Requests

- **Program quality**
- **Access for North Carolina residents**
- **Financial aid availability**
- **Affordability**
- **Relationship to program cost**
- **Peer comparison**
- **Uses of incremental tuition and fee revenue**
- **Commitment to cost management and increased productivity**



The University of North Carolina

8

Tuition and Fees - Four-Year Plan

(continued)

- 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 not exceed 6.5%.
- Fees required for debt service are in addition to the maximum percentage increase, but funds required to operate facilities are included in the maximum.
- All proposals for increasing tuition and fees should be accompanied by explicit plans for the use of the increased funds.
- The Board requires campuses to set aside at least 25% of new tuition revenues to be added to the campus' pool of need-based financial aid. For 2010-11, the required set aside was 50%.



The University of North Carolina

11

Tuition and Fees - Four-Year Plan

(continued)

- In 2006 and 2007, at least 25% of tuition revenues were required to help bring faculty salaries to the 80th percentile of an institution's public peers.
- Remaining tuition revenues are used to improve the quality of the student's academic experience.
- Combined tuition and fee rates for resident undergraduates shall remain within the bottom quarter of each campus' public peers, as approved by the Board of Governors.
- Combined rates for nonresident undergraduate students shall remain below the top quarter of the same approved peer group.



The University of North Carolina

12

BOG's 4-year Tuition Plan

■ Since 2006:

- Tuition has been set in accordance with the 4-year tuition plan.
- Campuses continue to have the benefit of retaining tuition receipts to improve academic quality.
- Until the most recent tuition increases, students have had predictability and affordability.
- Campuses also have predictability.
- Under the tuition plan, average increases were 5.1% (2007-08), 1.2% (2008-09), 2.8% (2009-10), and 23.1% (2010-11).

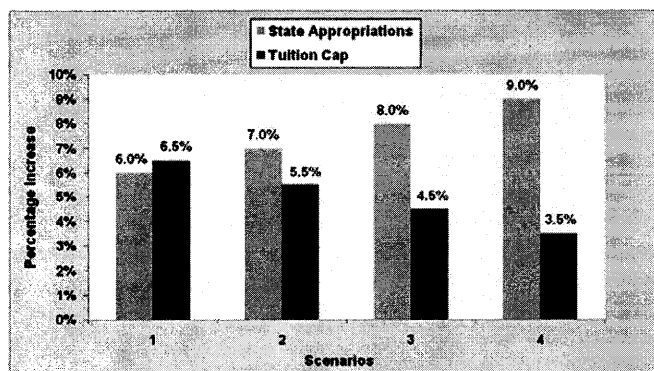


The University of North Carolina

9

Tuition and Fees - Four-Year Plan

If a campus receives a recurring appropriation in operations per/FTE that is greater than 6%, then the maximum allowed campus-based tuition increase in the subsequent year for that campus will be reduced by the percentage increase in operating appropriations above 6%.



The University of North Carolina

10

Review of 4-Year Tuition Plan

- In preparation for the Board's review of the 4-year tuition plan, President Bowles appointed a work group to review the plan and consider changes that may be needed.
 - Chancellor Harold Martin, NCA&T
 - Provost Stan Aeschleman, ASU
 - Provost Kwesi Aggrey, NCCU
 - Associate Provost Steve Farmer, UNC-CH
 - Vice Chancellor Charles Maimone, UNCW
 - Director of Financial Aid Julie Rice Mallette, NCSU



The University of North Carolina

13

Committee Recommendations

Should the 6.5% cap on tuition and fee increases be continued?

Continue the current cap with two changes:

- Allow campuses the ability to propose tuition increases in excess of 6.5% when the increase in State appropriations is less than 6%.
- Decouple the caps on tuition and fees.

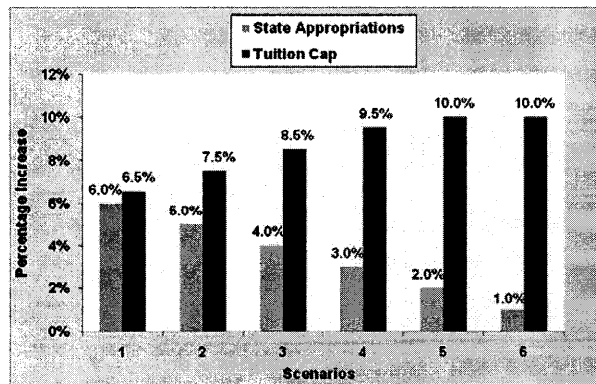


The University of North Carolina

14

Recommendation #1

Allow campuses the ability to propose tuition increases in excess of 6.5% when the increase in State appropriations is less than 6%.



The University of North Carolina

15

Recommendation #2

■ Decouple the caps on tuition and fees.

- There is a natural relationship between tuition and state appropriations that does not exist between fees and state appropriations. In fact, increases in State appropriations may result in the need to increase fees.
- As an example, if an increase in state appropriations provides for an across-the-board salary increase for State-funded employees, those same salary increases are required to be paid to employees of fee-supported activities.



The University of North Carolina

16

Issues and Recommendations

Should tuition rates for resident students remain in the bottom quarter of tuition rates of public peer institutions? Should tuition rates for nonresident students remain below the top quarter of those of public peer institutions?

The work group concluded that these benchmarks are reasonable. However, the group recommended that the University revisit the current list of peers for each institution to determine if the peers remain appropriate.



The University of North Carolina

17

Issues and Recommendations

Is there a way to incorporate “quality relative to peers” into the tuition setting process?

The work group concluded that this is happening. The Board is focused on student success as opposed to access and tuition revenues are a source of funds for achieving student success.

A review of peers would further take into consideration the “quality” of peer institutions.



The University of North Carolina

18

Issues and Recommendations

Is there a need for increased discretion for campuses in setting non-resident tuition rates?

The work group finds that the 4-year tuition plan has provided campuses with the discretion needed.



The University of North Carolina

19

Issues and Recommendations

Should there be different tuition models available for different campuses to follow in setting tuition? As an example, would some campuses be served better by a "high tuition, high aid" model?

The members of the work group find that the current 4-year tuition plan is consistent with the constitutional requirement that "the benefits of the University of North Carolina ..., as far as practicable, be extended to the people of the State free of expense."



The University of North Carolina

20

Issues and Recommendations

Should similar institutions have similar tuition rates?

The work group found merit in having similar tuition rates at similar institutions and thought that institutions charging a low rate relative to its UNC peers should be given a catch-up opportunity.



The University of North Carolina

21

Other Recommendations of the Work Group

- The role of students in setting tuition and fees should be more clearly defined.
- Receipts from Educational and Technology Fees should be deposited into Trust Funds.
- The moratorium on increases in special fees should be continued.



The University of North Carolina

22

Other Recommendations of the Work Group

- The Board should continue to set application fees.
- Five-year financial plans should continue to be prepared for use by the President in recommending fee increases.
- The President and Chancellors should revisit charging by the student credit hour and select a pilot campus.



The University of North Carolina

23

