**THE UNIVERSITY OF NORTH CAROLINA**
**Tuition and Fee Increases – A Second 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.

In September of 2006, the Board approved a four-year plan that outlined guidelines for the campuses to follow in submitting annual proposals for increasing tuition and fees and the Board agreed to review those guidelines after four years. In August 2010, the Board reviewed recommendations from a working group for adjustments to the four-year plan and later reviewed responses from President Bowles to the working group's recommendations. At its October 2010 meeting, the Board debated possible adjustments. This proposed "Second Four-Year Plan" reflects those deliberations, and, if approved by the Board will provide guidance to the campuses for the next four years. At the end of the second four-year period, the plan would again be evaluated by the Board.

One of the requirements of the Board 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 be market driven and campuses are expected to submit rates that reflect the full cost of providing non-residents with a quality education. Nonresident students in the University must be quality students that contribute significantly to the overall educational experience of all students.

It is proposed 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 continue to be 6.5%. This figure is the average annual increase in undergraduate resident tuition rates from 1972 through 2006. Although the 2010 tuition increases raise the average tuition increases since 1972 to 6.6%, the recommendation is to continue with the 6.5% cap. The amount of the increase should be applied separately to tuition and fees, i.e., tuition may be increased a maximum of 6.5% and fees may be increased a maximum of 6.5%.

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 the total financial impact on students from these charges (both debt service and operating charges) and the ability of a campus to repay the debt as demonstrated through a financial analysis submitted by the campus when proposing the fee. The Board will also review the utilization of similar space on campus to determine that the additional space is needed.

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 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.

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 following adjustments are to be applied to the maximum 6.5% campus-based tuition increase.

- 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% (l % below 6.5%).

- 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 |

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

In the event that the General Assembly provides increased funding that results in the cap on tuition increases being reduced from 6.5% to $0 or, alternatively, to a level below the average of the most recent three years of the Higher Education Price Index (HEPI), the Board may allow or even encourage campuses to submit a minimum tuition increase to ensure that increases over time are affordable and predictable. The Board should consider whether such a minimum increase in tuition is encouraged at its September meeting to allow campuses time to include a discussion of a minimum tuition increase in the normal campus tuition setting process.

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 to the extent practicable 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.

Similarly, a campus that charges tuition or fees that differ significantly from those charged by similar institutions in the UNC system because the campus has held such rates at levels lower than those charged by similar UNC institutions may consider increasing tuition or fees beyond the cap to “catch up” to the rates charged by those similar institutions. In the event that a campus proposes to “catch up” through tuition or fee increases, the need for the increased funding must be fully justified and the campus should consider proposing that the increases be phased in over a multi-year period to lessen the impact of the increases on students.