



## The University of North Carolina

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September 29, 2006

TO: Members of the Board of Governors

FROM: Erskine B. Bowles *EBB*

RE: Proposed Tuition Plan for next four years

As each of you know, the University and all its campuses and senior officers, as well as a special task force of the Board of Governors appointed by former Chairman Wilson, have been laboring over the past year on how the University should meet its constitutional and moral responsibility to keep tuition as low as practicable, while at the same time making absolutely certain that we have the appropriate resources to provide our students with the highest quality education. All of us are proud that so many of our campuses are today recognized as being among the "best values" in higher education in America. It also should make each of you who have been leaders of the University and our constituent campuses very proud that in its July 30 edition, the *New York Times* stated in its higher education review that "no state in America takes seriously keeping tuition as close to free as possible except North Carolina."

In 2005, the Board of Governors' special Task Force on Tuition Policy made some interim recommendations to the Board of Governors. The Board of Governors asked me to review those recommendations when I joined the University. The Task Force has proposed that any new tuition plan adopted by the Board stay in effect for a maximum of four years and then be reviewed. I agree with that. My focus in reviewing the Task Force's draft tuition plan for the University has been to make sure any tuition plan the Board approves fully reflects the following:

1. North Carolina is different from any other state, that we are in fact serious about keeping tuition and fees as low as possible;
2. In North Carolina, a historically very generous General Assembly has had and should continue to have the principal responsibility for funding the needs of the University;
3. In North Carolina, charges to students, though essential, have always been intended to be secondary sources of funding to State appropriations; and

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  
School of  
the Arts

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

Western Carolina  
University

Winston-Salem  
State University

4. The University must have adequate resources to provide its students a quality education.

Since the University's rebirth in 1972, it has had but four presidents. Under each of these presidents, tuition increases have varied widely from year-to-year, depending on the level of appropriations from the General Assembly. From the rebirth of the University in 1972 until the Board adopted a tuition policy in 1998, tuition rates were principally established by the General Assembly as a component of the State's budget. The tuition policy adopted in 1998 established a more proactive role for the Board of Governors in setting tuition rates. Every president has encouraged the General Assembly to meet as large a percentage of the University's needs as possible from appropriations. In good times and bad, under Republican and Democratic administrations, the General Assembly has tried to do this. Depending on economic conditions, the General Assembly has been able to appropriate more or less in specific years.

During the tenure of each University president, there has been a need for tuition to rise over time to finance the cost of a quality education. In North Carolina, we understand the critical importance of providing our citizens with an education that is as free from expense as practicable, but also one that will equip our students with the education and skills they will need to compete for and win good jobs and be good citizens of our State. These tuition increases have ranged from 0% to 19.0% during the presidency of Bill Friday, from 0% to 20.2% during the presidency of Dick Spangler, and from 0% to 24.7% during the presidency of Molly Broad. The average increases in tuition under our three former presidents were 3.4%, 7.7%, and 9.1%, while the average increases in appropriations per capita during each of their presidencies were 9.3%, 3.1%, and 3.3%, respectively. No president ever relished seeing tuition go up; however, it has been and surely will be a practical necessity during my presidency, depending on our ability to control costs and increase appropriations and other revenues.

Obviously, we are making every effort possible to provide the highest quality education while holding down our costs and the need for any tuition increase by:

1. Reducing our expenses and operating the University as efficiently and effectively as possible;
2. Increasing our revenues from the federal government and private sources; and
3. Most importantly, encouraging a very generous legislature to continue its historic support of the University, as it clearly did in the short session that ended in July of 2006.

As evidenced above, since 1972 there have been huge swings in tuition from year to year at our campuses. However, the average annual increase in tuition since our rebirth in 1972 has been 6.5%. The average annual increase in operating appropriations per FTE has been approximately 6.0%. I am recommending that, in general, as long as the legislature continues to increase our annual recurring operating appropriations per capita by 6.0%, that the campuses not raise their resident undergraduate tuition and fees, exclusive of fees for debt service, by more than 6.5%. For every 1% above 6.0% that the legislature increases appropriations, the allowable increase in campus-based tuition in the subsequent year would decrease by 1%. As an example, if the legislature were to increase our operating appropriations by 7%, then the maximum allowable increase in campus-based tuition would be 5.5% in the following year. While we have built in exceptions to this allowable maximum rate of increase in campus-based tuition for well-founded reasons, this would be our general approach.

The Higher Education Price Index (HEPI) has increased an average of 4.0% during the last five years. In fiscal 2005, the HEPI index increased by 5.0%. As a result, should all sources of revenue on each campus grow by approximately 6%, then those increased revenues would yield that campus approximately 1% - 2% of that increase—after inflation—to apply to quality improvements.

In addition, we have recommended that the Board have expectations of the following:

1. To keep in-state tuition on each campus in the bottom quarter of that campus' approved public peers and out-of-state tuition below the top quarter of that campus' public peers.
2. To cap tuition and fees on each campus that has a baseline level of state appropriations at no more than 30% of the total of tuition, fees, and appropriations/FTE; and
3. To request from the General Assembly the amount of funds needed to hold all students eligible to receive financial aid from the State's need-based financial aid program harmless from tuition and fee increases. Additionally, each campus will be required to set aside at least 25% of new tuition revenues to be added to the campus' pool of financial aid.
4. To request that the General Assembly fund over time the resources to compensate the faculty on each campus at the 80<sup>th</sup> percentile of its peers. At least 25% of any tuition increase would have to be applied to this goal until the goal is met.

The full draft of this proposed four-year tuition plan, with all its complexities, is attached hereto. I will be glad to meet and talk with any of you at your convenience.