



MEETING OF THE BOARD OF GOVERNORS
Task Force on Pricing, Flexibility, and Affordability

August 16, 2023 at 2:00 PM
Via Videoconference and PBS North Carolina Livestream
UNC System Office
Raleigh, North Carolina

AGENDA

- A-1. Approval of the Minutes of January 17, 2023.....Wendy Murphy
- A-2. Update on Self-Funded Student Health Insurance.....Andrew Kelly
- A-3. Debt Service Fee Policy, Practice, and Trends.....Jennifer Haygood and Andrew Kelly
- A-4. Adjourn

DRAFT MINUTES

January 17, 2023 at 4 p.m.
Via Videoconference and PBS North Carolina Livestream
UNC System Office
223 S. West Street, Suite 1800
Raleigh, North Carolina

This meeting of the Task Force on Pricing, Flexibility and Affordability was presided over by Chair Wendy Murphy. The following committee members, constituting a quorum, were also present in person or by phone: Art Pope, Carolyn Coward, David Powers, and Ray Palma. The following committee members were absent: Jimmy Clark and Michael Williford.

Staff members present included Dr. Andrew Kelly and others from the UNC System Office.

1. Call to Order and Approval of OPEN Session Minutes of December 16, 2022 (Item A-1)

The chair called the meeting to order at 4 p.m. on Tuesday, January 17, 2023, and called for a motion to approve the open session minutes of December 16, 2022.

MOTION: Resolved, that the Task Force on Pricing, Flexibility and Affordability approve the open session minutes of December 16, 2022, as distributed.

Motion: Art Pope

Motion carried

2. Consideration of Resolution on Student Health Insurance. (Item A-2)

Chair Wendy Murphy briefly reviewed the resolution and opened the floor for discussion and questions from the task force. Prior to the open discussion regarding the Student Health Insurance Resolution, task force member David Powers recused himself due to conflict of interest. Following, the task force took a vote on the Resolution on Student Health Insurance.

MOTION: Resolved, that the Task Force on Pricing, Flexibility and Affordability approve Item A-2.

Motion: Art Pope

Motion carried

There being no further business and without objection, the meeting adjourned at 4:08 p.m.

Wendy Murphy, Chair

AGENDA ITEM

A-2. Update on Student Health Insurance Resolution..... Andrew Kelly

Situation: In academic year 2022-23, the University of North Carolina Board of Governors’ Task Force on Pricing, Flexibility and Affordability received a briefing on the opportunity to improve the affordability and efficiency of student health insurance by moving to a self-funded plan. The task force recommended a resolution to the Committee on Budget and Finance that called on the University of North Carolina System Office to develop a proposed implementation plan and present it to the Board of Governors no later than its November 2023 meeting.

Background: Since 2010, the UNC System has required all students to have health insurance. The System has employed a “hard waiver” approach whereby students that cannot provide proof of reasonable coverage from an insurer are automatically enrolled in Student Blue, a fully insured plan offered through Blue Cross and Blue Shield of North Carolina. While access to quality health insurance is of critical importance to the student’s well-being and success, the cost of the student health insurance premium has increased substantially in recent years.

In 2022, the UNC System Office worked with external consultants to conduct an insurance billing feasibility analysis. The study’s recommendations included a suggestion that the System consider the benefits of moving to a self-funded student insurance plan as many other universities and systems across the country have done.

In January 2023, the task force recommended, and the Committee on Budget and Finance approved a resolution that called on the UNC System Office to develop a proposed implementation plan for such a plan and present it to the Board of Governors no later than its November 2023 meeting. After soliciting bids through a competitive RFP process, the System Office chose Arthur J. Gallagher & Company (Gallagher) to provide necessary expertise in drafting the proposed implementation plan.

Assessment: The task force will receive an update on the progress made to date in developing the proposed implementation plan for a self-funded student health insurance plan for the UNC System.

Action: This item is for information only.



Self-Funded Student Health Insurance: Mid-Project Update

August 16, 2023

Task Force on Pricing, Flexibility, and Affordability

Brief Background & Key Objectives

Timeline Overview

- Board Task Force Presentation by HBL Consultants (Dec 2022)
 - Key Recommendation: Explore Migration to Self-Funded Model
- **Gallagher Student Health**
Awarded RFP (May 2023)
 - Previous Clients: Duke University, U of Houston System, U of Wisconsin System
- Gallagher Student Health & UNC System Project Implementation (Jun – Oct 2023)
- Final Recommendations (Nov 2023)

Key Project Questions

- Is it ***financially feasible*** to move to self-funded student health insurance plan?
- Does UNC System have State ***regulatory clearance***?
- What would be the potential ***cost-savings***?
- What are the ***admin costs and initial outlays*** to migrate to a self-funded plan?
- What is the recommended ***governance structure***?
- Should the multiple insurance plan offerings be ***restructured or combined***?

Activities to Date

Stakeholder Engagement

- NC Dept of Insurance
- UNC Student Health Center Directors
- UNC Vice Chancellors of Student Affairs
- UNC Insurance Advisory Committee

Data & Financial Analyses

- 5-Yr Claims History
- 5-Yr Insurance Renewal
- Student Demographics
- High-Cost Claimant Review
- Provider Network Analysis
- Peer Benchmark Analysis
- Prescription Drug Carve-Out Analysis

External Market Scan

- Gallagher has issued RFP and is receiving bids for Third Party Admin & Stop-Loss
- Gallagher has issued and is receiving RFP bids for Stop-Loss Only

Preliminary Findings & Next Steps

Regulatory Clarity

- **Key Update:** NC Dept of Insurance has confirmed that a UNC System self-insured plan would ***not be subject to regulation*** by DOI

Preliminary Deliverables Due August/September

- **Aug-Sept 2023:** Gallagher Draft Report Deliverables and Recommendations due Including:
 - Benefits and Risks of Moving to Self-Funded
 - Self-Funded Financial Analysis, including Admin Costs
 - Governance and Oversight Structure
 - Plan Administrative & Operating Model
 - Plan Design, including Benefits and Cost Sharing
 - Project Plan and Implementation Next Steps

Initial analysis shows self-funding could be favorable, but a full assessment is forthcoming. Analysis notes that Medical Loss Ratio (MLR) of existing programs has gotten less favorable over time.

Next Steps

- **Oct 2023:** Gallagher Report Presented to UNC System and Task Force
- **Nov 2023:** Final Presentation to Board Committee on Budget and Finance

Questions



AGENDA ITEM

A-3. Debt Service Fee Policy, Practice, and Trends.....Jennifer Haygood and Andrew Kelly

- Situation:** The University of North Carolina Board of Governors’ Task Force on Pricing, Flexibility and Affordability evaluates policies and practices that impact student affordability across the University of North Carolina System. As part of that remit, the task force has examined policies governing the different components of the cost of attendance, including tuition pricing, student fees, housing and dining rates, and student health insurance. In this session, the task force will review the debt service fee and its implications for affordability.
- Background:** Section 1000.1.2 of the UNC Policy Manual, *Policy on Tuition Rates*, authorizes constituent institutions to charge fees “for the retirement of debt incurred for capital projects.” These fees are to be fixed by the Board of Governors at the time of borrowing, shall reflect the cost of servicing the debt at the coverage levels required by the Board in its authorization of the debt, and are to expire when the related debt is retired unless otherwise authorized. Currently, 14 of the constituent institutions charge a debt service fee, with fees ranging from ranges from \$147 to \$720 annually. On average, debt service fees make up approximately 15 percent of total mandatory fees.
- Assessment:** The Task Force on Pricing, Flexibility and Affordability will review current practice in charging debt service fees, trends in debt service fee rates and debt-financed capital projects, and key questions for the task force to consider.
- Action:** This item is for information only.

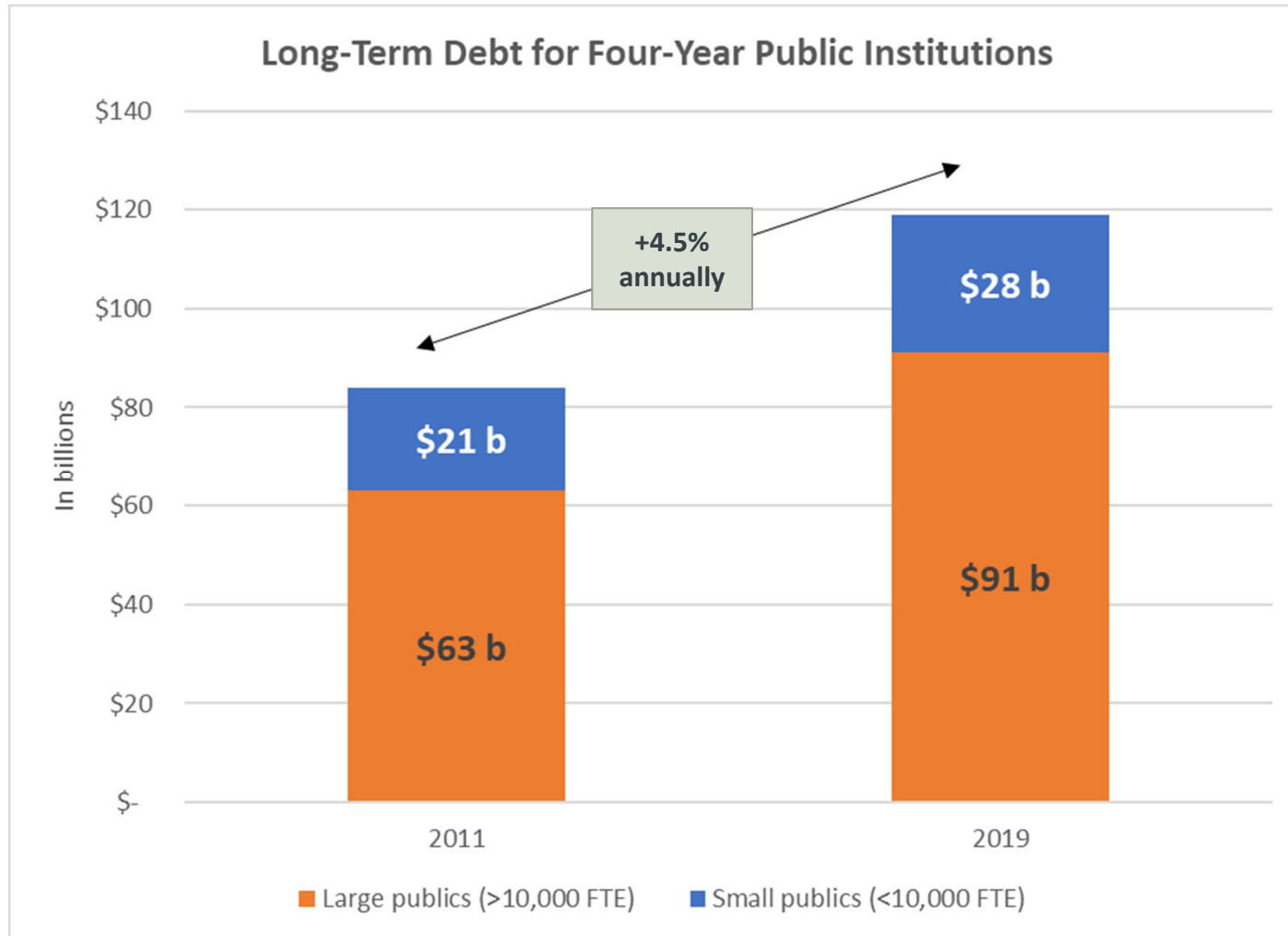


UNC SYSTEM DEBT SERVICE FEES

*Task Force on Pricing, Flexibility, and
Affordability*

August 16, 2023

The National Context



UNC System Debt Basics

- **How much debt* does the UNC System have?**
 - \$4.2 billion as of June 30, 2022
 - FY24 debt service = \$305 million
- **What does this debt support?**
 - “Non-appropriated” capital improvement projects, such as housing, dining, athletic, student union, student wellness facilities, etc.
- **Who approves debt issued on behalf of UNC institutions?**
 - Authorization of the project by the Board of Governors
 - Self-liquidating bill approved by legislature
 - Approval of the debt issuance by the Board of Governors
- **What revenue sources are typically used to service debt?**
 - Auxiliary revenues (i.e, housing, dining, parking), student fees (i.e., debt service, athletics, student health), gifts and investments, etc.

**Debt as defined and reported in the FY 2022 Debt Capacity Study. Non-recourse debt and debt serviced by General Fund of the State are not included..*

Debt Service Fee

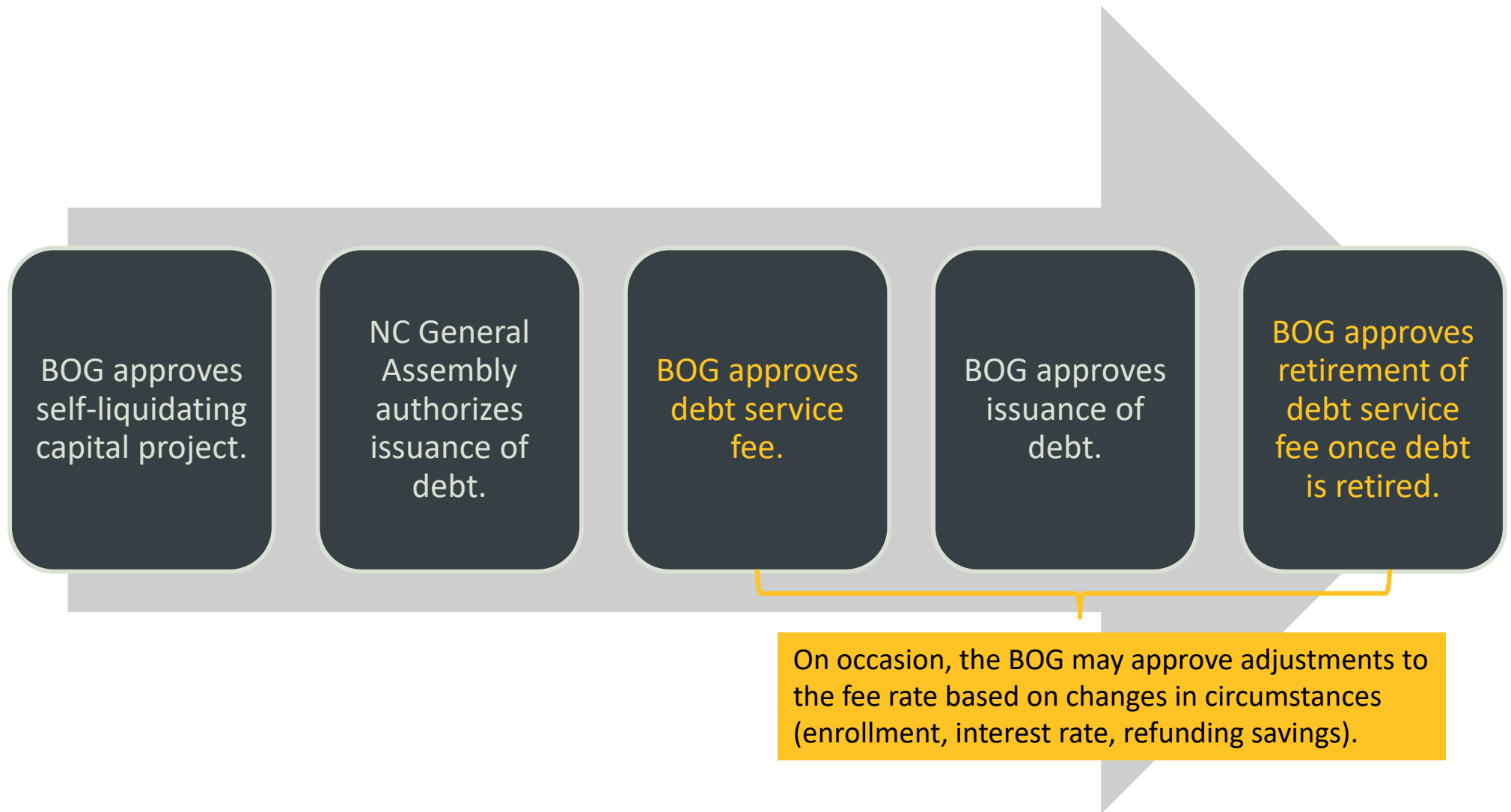
- **Debt service fee revenue supports:**
 - **Cost of principal and interest for self-liquidating capital projects approved by the Board of Governors and the General Assembly**
- **Debt service fees are approved through the annual tuition and fee-setting process but must be coordinated with the self-liquidating project approval process.**
- **Debt service fees are designed to be time limited and to be eliminated once the debt is retired.**
- **Debt service fees are only charged to students enrolled in face-to-face programs.**

Debt Service Fee Policy

UNC Policy Manual Section 1000.1.2(II)(C)

- **Fees Related to the Retirement of Debt Incurred for Capital Projects.**
 - Fees generally applicable to all students that provide revenues for the retirement of debt shall be fixed by the Board of Governors at the time of the borrowing.
 - Indebtedness fees may not include components for operations and maintenance but shall reflect the cost of servicing the debt at the coverage levels required in Board resolutions and other documents authorizing the debt.
 - Any subsequent changes in fees require Board approval. Indebtedness fees expire when the related debt is retired unless otherwise authorized by the Board of Governors.

Required Approval Actions



Debt Service Fee Lifecycle: An Example

May 2008

- BOG approves UNCW's Student Recreation Center Expansion, which is estimated to cost \$35 million. The debt will be serviced through a debt service fee.

July 2008

- NC General Assembly authorizes the financing of UNCW's Student Recreation Center Expansion through self-liquidating indebtedness (S.L. 2008-204).

Feb. 2009

- BOG approves an increase of \$256 to UNCW's debt service fee effective Fall 2010 to support the Student Recreation Center Expansion.

Feb. 2010

- BOG approves issuance of \$35 million in debt for UNCW's Student Recreation Center Expansion.

Debt Service Fee Lifecycle: An Example (cont'd)

Feb. 2013

- BOG approves a reduction to UNCW's Debt Service fee due to more favorable interest rates and conservative enrollment estimates used in the original financial models. The Student Recreation Center Expansion debt service fee is reduced by \$40 to \$216 effective Fall 2013.

Feb. 2014

- BOG approves a reduction to UNCW's Debt Service fee due to more favorable interest rates and conservative enrollment estimates used in the original financial models. The Student Recreation Center Expansion debt service fee is reduced by \$15 to \$201 effective Fall 2014.

Sept. 2019

- BOG approves refinancing debt issued in 2010 for the Student Recreation Center Expansion to achieve debt service savings.

Feb. 2021

- BOG approves the reallocation of a portion of UNCW's debt service fee. Effective Fall 2021, the Student Recreation Center Expansion fee is reduced by \$52 to \$149 and a new \$52 fee is established for the Walton Dr. Student Village Rec Fields & Facilities, resulting in no net change in the overall debt service fee.

Fee is scheduled to expire in 2039.

2023-24 Debt Service Fee Rates



2023-24 Debt Service Fee-Supported Projects

Debt service fees support the cost of principal and interest for self-liquidating capital projects approved by the Board and the General Assembly.

ASU	Amount	Revenue (Est.)
Athletic Facilities	\$245.00	\$4,412,000
Student Recreation Center	90.00	1,621,000
Student Dining Facility	85.00	1,531,000
Student Union Addition	81.00	1,459,000
Leadership Annex	35.00	630,000
Infrastructure Improvements	14.00	252,000
Sanford Hall	84.00	1,513,000
Total	\$634.00	\$11,418,000
ECU	Amount	Revenue (Est.)
Athletic Facilities	\$ 70.00	\$1,330,000
Student Union Centers	375.00	7,125,000
Total	\$445.00	\$8,455,000

2023-24 Debt Service Fee-Supported Projects (cont.)

ECSU (no debt service fees)		
FSU	Amount	Revenue (Est.)
Student Center Renovations	\$335.00	\$1,492,000
Total	\$335.00	\$1,492,000
NCA&T	Amount	Revenue (Est.)
Stadium	\$ 53.00	\$574,000
Student Health Center	85.00	921,000
Student Union	450.00	4,875,000
Total	\$588.00	\$6,370,000
NCCU	Amount	Revenue (Est.)
Walker Complex	\$120.00	\$824,000
Infrastructure Fee	100.00	687,000
New Student Center	350.00	2,404,000
Total	\$570.00	\$3,915,000

2023-24 Debt Service Fee-Supported Projects (cont.)

NC State	Amount	Revenue (Est.)
Derr Complex Facility (athletic facilities)	\$ 96.00	\$2,928,000
Student Center Expansion	260.00	7,930,000
Carmichael Complex - Expansion	27.50	839,000
Carmichael Complex - Addition and Renovation	92.50	2,821,000
Total	\$476.00	\$14,518,000
UNCA	Amount	Revenue (Est.)
Safety and Health Facility Expansion	\$ 90.00	\$245,000
Student Rec Center/Track Facility	27.00	73,000
Highsmith Renovations	277.00	753,000
Total	\$394.00	\$1,071,000

2023-24 Debt Service Fee-Supported Projects (cont.)

UNCG	Amount	Revenue (Est.)
Athletic Facilities/Student Health Ctr/ Student Rec Ctr/Elliott University Ctr	\$272.00	\$3,375,000
Student Center	435.00	5,397,000
Total	\$707.00	\$8,772,000
UNCP	Amount	Revenue (Est.)
Multipurpose Center	\$30.00	\$144,000
Health Services Center	87.00	418,000
Campus Recreation/Baseball and Softball Outdoor Complex	163.84	787,000
Total	\$280.84	\$1,349,000

2023-24 Debt Service Fee-Supported Projects (cont.)

UNC-CH	Amount	Revenue (Est.)
Rams Head Recreation Center	\$ 35.00	\$972,000
Student Dining	92.10	2,557,000
Recreation Center, Union, & IM Fields	19.75	548,000
Total	\$146.85	\$4,077,000
UNCC	Amount	Revenue (Est.)
Health Center	\$ 25.00	\$670,000
Student Union	163.00	4,365,000
Football Stadium	120.00	3,214,000
Infrastructure Improvements	250.00	6,695,000
University Recreation Center	162.00	4,338,000
Total	\$720.00	\$19,282,000

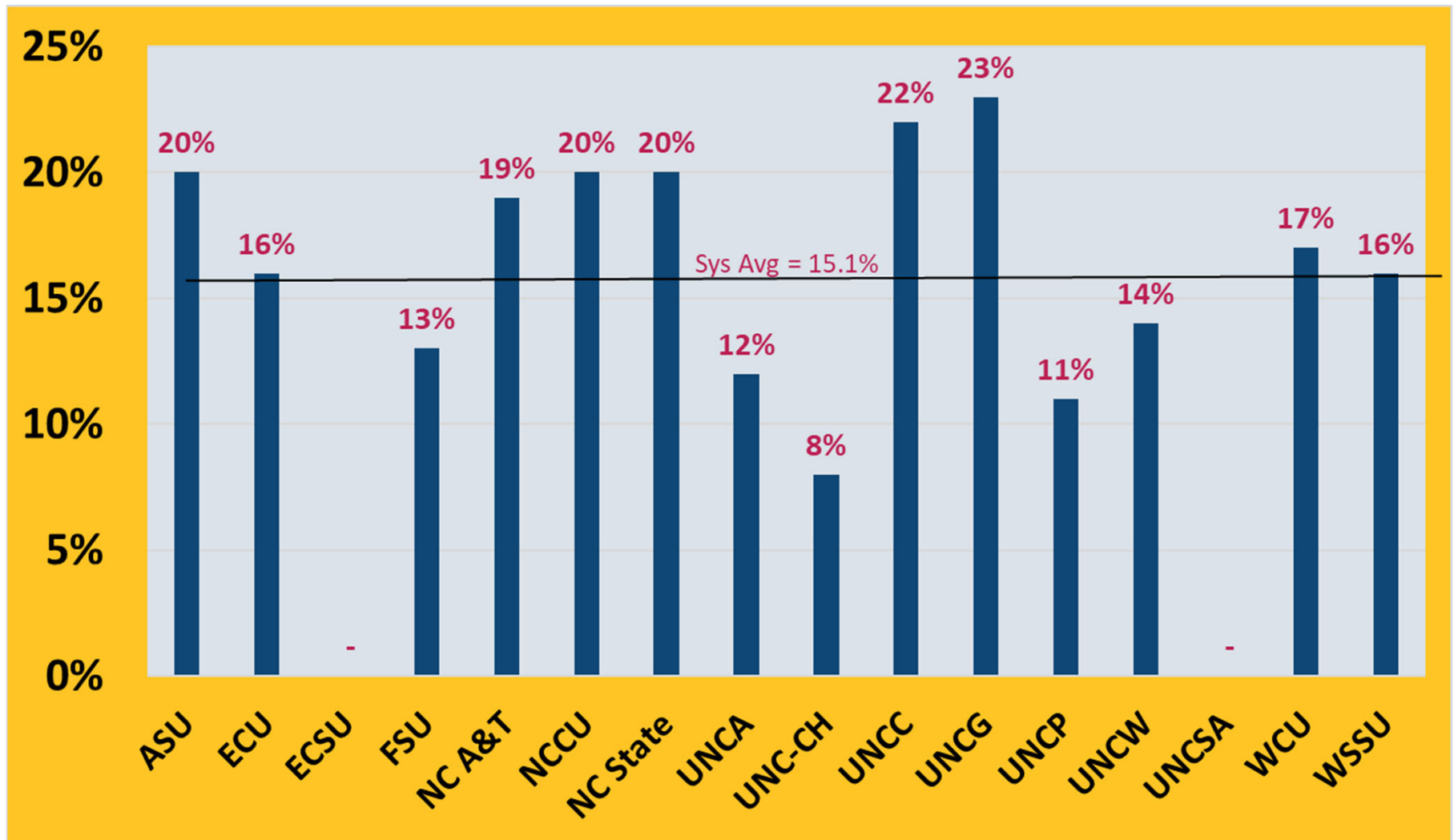
2023-24 Debt Service Fee-Supported Projects (cont.)

UNCW	Amount	Revenue (Est.)
University Union Building Expansion	\$175.00	\$2,170,000
Campus Rec Center Expansion	149.00	\$1,848,000
Walton Drive Student Village Rec Fields & Facilities	52.00	\$645,000
Total	\$376.00	\$4,663,000
UNCSA (no debt service fees)		

2023-24 Debt Service Fee-Supported Projects (cont.)

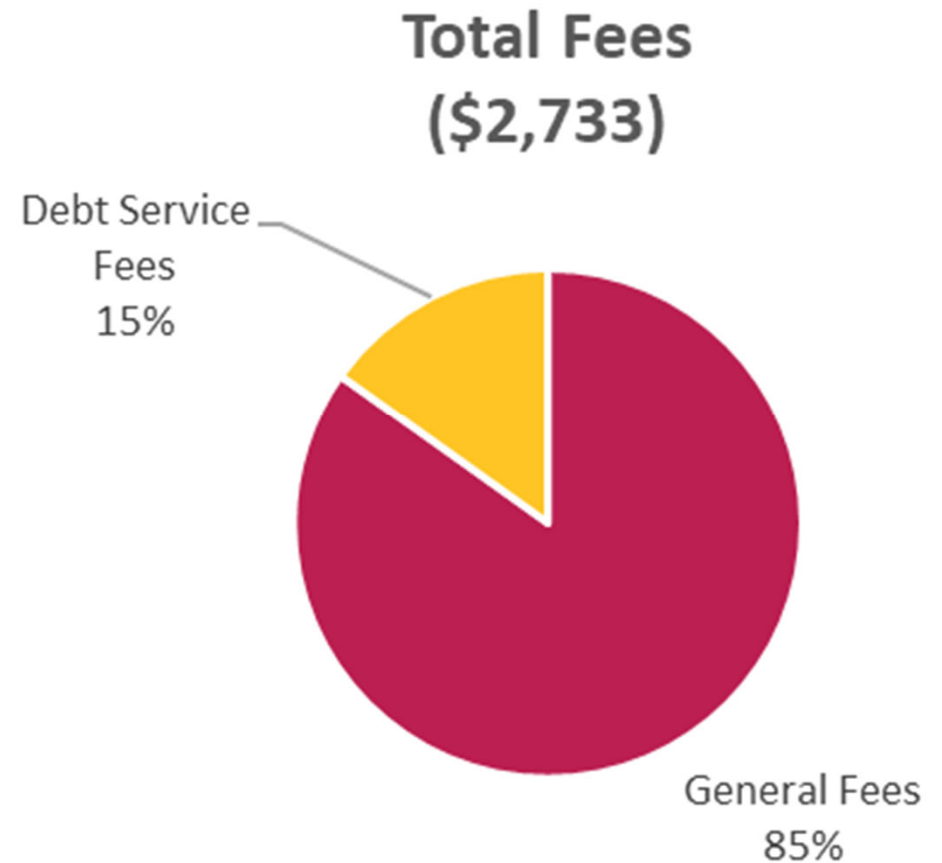
WCU	Amount	Revenue (Est.)
Athletic Facilities	\$ 96.00	\$833,000
University Center	24.00	208,000
Student Recreation Center	154.00	1,337,000
Dining Facilities	113.00	981,000
Brown Building Project	136.00	1,181,000
Total	\$523.00	\$4,540,000
WSSU	Amount	Revenue (Est.)
Civitan Park Project	\$ 91.00	\$387,000
North Campus Acquisitions/ Improvements	127.00	540,000
Restore the Core	139.00	591,000
Student Activities Center	66.00	281,000
Total	\$423.00	\$1,799,000

Debt Service vs Total Fees



Debt Service vs Total Fees

	Debt Service Fee	Total Fees	%
ASU	\$ 634	\$ 3,138	20%
ECU	445	2,718	16%
ECSU	-	2,391	-
FSU	335	2,524	13%
NC A&T	588	3,085	19%
NCCU	570	2,814	20%
NC State	476	2,360	20%
UNCA	394	3,170	12%
UNC-CH	147	1,732	8%
UNCC	720	3,211	22%
UNCG	707	3,045	23%
UNCP	281	2,570	11%
UNCW	376	2,770	14%
UNCSA	-	2,509	-
WCU	523	3,052	17%
WSSU	423	2,642	16%
Sys Avg	\$ 414	\$ 2,733	15.1%



Historical Changes

- The average debt service fee has held steady at \$414 over the last eight years.
- Four institutions have increased the fee since FY17. Five have decreased, and seven have no change.
- Increases have been driven by new or expanded projects. Decreases have been driven by debt retirements.
- Total revenues from debt service fees have also remained unchanged over the last eight years due to relatively stable enrollment, although individual institutions have seen large increases or decreases.
 - Increasing Revenues: ASU, NC A&T, NCCU, and UNCP
 - Decreasing Revenues: ECU, UNCA, UNC-CH, UNCG, and WSSU

3% Mandatory Fee Cap

General Statute §116-143.10

- **The cumulative total increase in mandatory undergraduate student fees may not exceed 3% per academic year for any institution.**
 - This policy applies to the total of all mandatory fees (Athletics, Campus Security, Education & Technology, Student Activities, Student Health, and Debt Service).
 - Individual fees may exceed 3% as long as the total increase does not exceed the cap.
 - The debt service fee must be reduced due to the retirement of debt obligations. The Board of Governors has generally not allowed this reduction to be used as a credit against the 3% cap.

Questions for Consideration

- Does the inclusion of the debt service fee under the statutory cap on fee increases (3%) preclude campuses from borrowing for critical needs, particularly small campuses and those with low debt service fees currently?
- How does the inclusion of the debt service fee in the calculation of the 3% cap affect incentives to reduce debt service fees?
- How could current policy and process for approving self-liquidating projects and reviewing debt-service fees be improved?
- Do current policies and processes promote student affordability and fiscal stewardship? How should trends in enrollment affect policy and practice?

THANK YOU

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