

The General Assembly is the legitimate body to interpret student cost policy under the State Constitution. A policy would define averages, ranges, or the maximum level. Once it adopts its policy interpretation, the General Assembly should continue to delegate specific tuition and fee-setting responsibilities to the UNC Board of Governors and to the State Board of Community Colleges. The governing boards would have statutory authority to make detailed decisions about numerous classes and categories of student charges, based on their staffs providing analytical support, competitive and peer information, enrollment impact analyses, and recommendations based on the unique missions, "market" positions, and needs of each constituent institutions. The governing boards would recommend tuition rates within the policy framework.

For UNC, this recommendation could entail minor change of wording in Chapter 1244, Section 116-11. A possible revision to the statutory language would be:

"The Board shall set tuition and required fees at the institutions within policies for tuition and fees established by the General Assembly."

Suitable statutory language for the State Board of Community Colleges also can be considered.

The recommendation also may make it possible to change the **order and timing** of budget decisions, to determine tuition charges earlier in the process of balancing the higher education budgets. If this is possible, it would simplify institutional administration and family financial planning.

Proposed Tuition and Fee Policy

Recommendation 2: **The General Assembly should set an average limit for "student cost" for North Carolina undergraduates at 25 percent for UNC and 20 percent for NCCCS.**

Establishing an average upper limit for student cost would provide an interpretation of "as far as practicable." The basic policy would turn on a "percentage of cost of education" principle. Also, with a target ceiling for student cost, nothing precludes the General Assembly from periodically changing the ceiling or changing the actual level of tuition so that it is below the ceiling, in years when revenues and resources may permit.

"As far as practicable" can mean that North Carolina is "low" in relation to peers. Given the policy ranges and actual tuition levels common in peer and other states, 25 percent is suggested as a limit for average student cost that might meet a test of "as far as practicable" for UNC. Given the mission of the NCCCS institutions to serve North Carolinians with few personal resources, combined with its mandate to fill entry and mid-level workforce requirements, it is reasonable to establish an interpretation that is still lower for NCCCS, at 20 percent.

Currently, there is a practical obstacle to immediate adoption of a "student cost" policy that would cover **both** tuition and all fees. Given the configuration of fees in UNC institutions and exclusion of many fee-related costs from the current calculation of cost of education, it is only possible to establish a policy for the **tuition portion** of the student cost equation now.

Further analysis of the fees and formulation of new policies for fees is necessary before required fees can be made a component of a unified "student cost" policy.

Following are supporting recommendations on tuition and fees.

Cost of Education

Recommendation 3: **Direct the Board of Governors and the State Board of Community Colleges to refine official definitions of "cost of education."**

It may be useful to review current cost of education definitions compared with those of other states, to determine if any refinements would be appropriate, even without budget and funding model changes. If the funding models are changed as a result of other GPAC recommendations, especially for NCCCS, such a review might become necessary.

Phasing in Tuition and Fee Portions of Policy

Recommendation 4: **Establish UNC undergraduate resident tuition in the range of 16 to 19 percent of cost of education and incorporate fees into the 25 percent policy when it becomes possible to do so.**

Mandate the Board of Governors to determine specific rates for individual institutions or categories of institutions so that they fall within this range. The policy mandate would be systemwide and expressed in terms of averages—for tuition and cost of education. In application of the policy, specific tuition rates could be related to a single cost of education average or to the various cost of education figures of the different institutions.

As only the tuition portion of the student cost policy can be established now, using a range of 16 to 19 percent leaves leeway of six to nine percentage points for addition of a fee component, before the 25 percent limit would be reached. The tuition increase itself should be phased in over several years.

The Board of Governors fee study, to be reported in April, could take this analysis into consideration and begin to address the matter of how fees might be incorporated into an appropriate policy on the allowable range for "student costs." The General Assembly should work with the Board of Governors to make policy, definition, or funding pattern changes that would be necessary to achieve a full student cost policy, incorporating required fees, within a few years. For example, it might be determined that various activity fees can be included in the cost of education (requirements) but that debt service fees should remain excluded.

Funding the Expansion Budget Needs/High Priorities

Recommendation 5: **Continue the present practice of applying increased tuition revenues to UNC's expansion budget needs.**

North Carolina's practice has been to determine tuition requirements near the end of budget deliberations and to apply new tuition revenues to UNC's expansion budget. This process has left some ambiguity about how tuition revenues are applied, but the consultants understand that the General Assembly's intent has been to use tuition increases to close gaps between UNC's requirements and state funds available.

Continuing this principle and practice is a reasonable way to continue to strengthen UNC institutions during a time of fiscal austerity. It recognizes that the General Assembly faces perhaps more urgent priorities for strengthening other elements of education and for addressing unmet needs in health and other social service priorities. Planned tuition revenue increases may be the only realistic source of funds for critical system enhancements for several years.

If the General Assembly appropriates increased tuition revenues to UNC's expansion budget, it can choose to designate allowable uses. Examples of critical needs that could be allowed are as follows:

- libraries
- faculty salary adjustments for competitiveness
- high-priority instructional or research facilities/equipment
- deferred major maintenance
- financial aid
- selective new program investments in agreed-upon high priority areas
- other special critical needs, upon justification by the institutions and recommendation of the Board of Governors.

Finally, the principles for tuition policy and revenues articulated here does not address directly the matter of capital appropriations for UNC. In separate analyses, GPAC recommendations may include major revisions to the budget process that would separate capital from operating appropriations. Also, GPAC studies did not include an analysis of the potential for augmented capital financing bond programs, on an ongoing basis, that would provide a new source of capital, other than the General Fund, for capital facilities needs in UNC and NCCCS.

Undergraduate Nonresident Tuition

Recommendation 6: **Increase undergraduate nonresident tuition to as much as 100 percent of cost of education but with consideration of peer practices.**

This is essentially continuation of present policy and does not require new statutory language. While it is desirable to use low tuition as a means of attracting highly qualified nonresident students whose presence in the mix enriches the experience of North Carolina students, fiscal constraints may make it reasonable to charge rates that approach 100 percent of cost, at least for a few years, or until fiscal conditions improve. Peer states also may be adopting similar policies currently, which would minimize competitive disadvantages to UNC.

The Board of Governors should have discretion to vary the percentage for research universities, comprehensive universities, and special institutions, as it deems necessary to meet specific institutional goals for a mixed student body. Logic and the market would dictate that the cost of attending institutions with high demand from nonresidents should be closer to full cost than the price at institutions whose quality enhancement goals would be served by greater proportions of out-of-state applicants. For example, tuition at UNC-CH and NCSU could be established at close to 100 percent of cost of education and tuition at comprehensive/other institutions set in a range of 75 to 85 percent of cost of education. In refining this policy, UNC should use new data for selected peers, as well as national data.

In addition, the Board of Governors should have the authority to enter into reciprocal tuition agreements with counterparts in border states and for designated institutions that attract significant numbers of students from those border states. Examples for special rates would be:

- South Carolina residents at Pembroke State University
- Georgia and Tennessee residents at Western Carolina University
- Virginia residents at Elizabeth City State University

For these institutions, attracting qualified other-state residents can help them achieve not only diversity but also better economies of scale.

Graduate Tuition

Recommendation 7: Mandate the Board of Governors to propose higher rates of tuition for graduate programs.

The General Assembly might consider the extent to which "as far as practicable" may be interpreted somewhat differently for advanced education programs than for general baccalaureate and first-time professional programs. Tuition for both resident and nonresident students for two categories of graduate programs (1) selected professional programs and (2) all other master's and doctoral programs could be higher than undergraduate tuition. The Board of Governors should provide specific analysis and proposals for graduate tuition rates.

Financial Aid

Recommendation 8: Mandate the Board of Governors to formulate specific recommendations for increased financial aid funding.

The General Assembly also could determine that "as far as practicable" must include a strategy to provide differing levels of subsidy to students with differing levels of financial need. This policy already is practice, with existing financial aid programs. A new policy formulation that increases both established tuition rates and available financial aid would change the relative distribution of scarce resources. It also would be consistent with recommendations for changes in state aid to students attending private colleges and universities.¹⁵

¹⁵Refer to issue paper "Public Support to Students in Private Colleges and Universities."

It is beyond the scope of this analysis to determine what specific financial aid increments would be required to avoid damaging access for students in low and lower middle income categories. For purposes of illustration, it is assumed in the Implications section below that need-based student financial aid is increased each year by a percentage equal to the percent increase in tuition. As the current base amounts may be low, this may be insufficient. A detailed analysis of the relationship between new targeted tuition levels and financial aid requirements should include assessment of the potential for increased federal financial aid, as well as increases to state-funded student aid.

North Carolina Community College System

Recommendation 9: **Hold NCCCS resident tuition at approximately the current level, 19.6 percent of cost, raising it only when the cost of education rises.**

The policy proposed above suggests that NCCCS students should pay approximately 20 percent of cost of education. With recent increases, they already pay near this. Therefore, NCCCS tuition should be raised proportionately when the cost of education justifies an increase. Future increases should not be of the magnitude, in a single year, as recent increases were.

First, although NCCCS tuition is very low in comparison with the national average, it can be the General Assembly's interpretation of "as far as practicable" to allow the cost of attendance in community colleges to remain very low. This would seem to address NCCCS's important access goals. Second, GPAC recommendations, if implemented, suggest major changes in NCCCS's structure, programs, and funding model. It is reasonable to maintain approximately current tuition levels now and reevaluate after other major changes are implemented.

Recommendation 10: **Provide additional funding annually for additions to the NCCCS Scholarship Fund, as "challenge grant" funding.**

The object is to develop a means for rapidly augmenting the principal in this Fund so that it will have greater resources from which to award aid to a larger number of needy students. Under this proposal, state funds would be added to the Fund, when/if matched by non-state contributions obtained by the System.

IMPLICATIONS

Estimated Financial Implications of the Combined Recommendations

If all of the above recommendations were adopted, based on hypothetical dollar and percentage figures proposed, the financial implication would be increased tuition revenues. The following discussion is an illustration of financial impact that will require refinement as the General Assembly considers tuition policy recommendations.

Exhibit 14 below shows the assumptions--cost of education and tuition percent increase percentages--that are used in Exhibit 15 that follows. Exhibit 15 demonstrates hypothetical anticipated revenues that could be realized if undergraduate resident tuition were raised over several years until it represents 18 percent of the cost of education. The assumptions, as noted on Exhibit 15, are simplified because enrollments and cost of education are artificially held constant. The requirements per capita of \$7,502 used in this model is a composite number from the UNC Net Appropriations and Student Receipts Per Capita Schedule. Therefore, it is overestimated for undergraduates and lower-cost institutions but underestimated for graduates and higher-cost institutions.

EXHIBIT 14				
Summary of Financial Implications				
Assumptions for Percent Changes in Cost of Education and Tuition Rates				
Fiscal Year	Residents		Nonresidents	
	Tuition as Percent of Cost of Education			
	Undergraduates	Graduates	Undergraduates	Graduates
1993-94	12.0	15.0	84.0	86.4
1994-95	14.0	17.5	86.0	89.7
1995-96	16.0	20.0	88.0	93.0
1996-97	18.0	22.5	90.0	93.6
	Resulting Percent Increase in Tuition			
1993-94	20.5	50.6	2.2	5.1
1994-95	16.6	16.7	2.4	3.8
1995-96	14.3	14.2	2.3	3.7
1996-97	12.5	12.5	2.3	3.5

As Exhibit 15 shows, a cumulative net tuition revenue increase of \$85.8 million dollars would be available during this period, allowing for a modest contribution of approximately \$2.2 million per year to augment need-based financial aid programs. This simplified computation would need to be refined, for example, with projections of increases in enrollments (by two percent annually) in the cost of education (by four percent, based on the Higher Education Price Index); and in increased requirements for financial aid.

Additional UNC tuition revenues may be considered "savings" to North Carolina in that they represent significant cost avoidance, allowing the State to continue to invest selectively in strengthening UNC without diversion of additional General Fund resources. For NCCCS, there are no major immediate financial implications of these recommendations.

Exhibit 15
Summary of Estimated Financial Implications
UNC Tuition Revenues

		STUDENT ENROLL	TUITION BASE YR	PROJECTED TUITION RATES				TUITION REV BASE YEAR (\$ in millions)	PROJECTED TUITION REVENUE (\$ in millions)			
		91-92	92-93	93-94	94-95	95-96	96-97	92-93	93-94	94-95	95-96	96-97
RESIDENT:	UNDERGRADUATE	106,889	\$747	\$900	\$1,050	\$1,200	\$1,350	\$79.85	\$96.20	\$112.23	\$128.27	\$144.30
	GRADUATE	17,885	\$747	\$1,125	\$1,313	\$1,500	\$1,688	\$13.36	\$20.12	\$23.48	\$26.83	\$30.19
NONRESIDENT:	UNDERGRADUATE	14,680	\$6,165	\$6,302	\$6,452	\$6,602	\$6,752	\$90.50	\$92.51	\$94.72	\$96.92	\$99.12
	GRADUATE	5,365	\$6,165	\$6,482	\$6,729	\$6,977	\$7,022	\$33.08	\$34.78	\$36.10	\$37.43	\$37.67
TOTAL TUITION REVENUE								\$216.78	\$243.61	\$266.53	\$289.44	\$311.28
LESS PRIOR YEAR TUITION REVENUE									(\$216.78)	(\$243.61)	(\$266.53)	(\$289.44)
ANNUAL TUITION REVENUES INCREMENT									\$26.83	\$22.92	\$22.91	\$21.84
LESS FINANCIAL AID INCREMENT									(\$2.21)	(\$2.15)	(\$2.15)	(\$2.16)
INCREASE IN NET TUITION REVENUES OVER PRIOR YEAR									\$24.61	\$20.78	\$20.76	\$19.67
INCREASE IN NET TUITION REVENUES OVER BASE YEAR FY1992-1993									\$24.61	\$45.39	\$66.15	\$85.82

Notes/Assumptions: 1. Cost of education is held constant at \$7,502 (FY 1992-1993)

2. Student enrollments are held constant (FY 1991-1992).

3. Tuition is increased beginning in FY 1993-1994 so that by FY 1996-1997, undergraduate resident tuition is 18 percent of the cost of education.

Tuition increases by year for each category of student are listed in Exhibit 14.

4. Need based financial aid (beginning at \$10.8 million for 1992-1993) is increased by the same percentage as the tuition increase in each year.

Sources:

1. Statistical Abstract of Higher Education in North Carolina 1991-1992

2. North Carolina General Assembly, Fiscal Research Division

Relationship to Other GPAC Studies

Recommendations in this analysis on tuition and fees are conceptually consistent with recommendations in the issue paper on "Public Support to Students in Private Higher Education." In both cases, recommendations aim at redirecting resources to where they are needed most. In the case of the UNC and NCCCS, the shift of financial obligation to students and families is far more limited than for private institutions, because of the constitutional provision.

Other sources of funds for system improvements can be found in system and program restructuring. That is, internal changes in how existing resources are used in UNC and NCCCS may fund some needed expansion and strengthening. These issues are addressed in detail in two separate issue papers on "Academic Program Planning – The University of North Carolina" and "Programs and Structure – The North Carolina Community College System."

APPENDIX A
TUITION POLICIES OF PEER, SREB AND WICHE STATES

State	Sample	No Policy	Formally Approved	Traditional Practice	Summary of Policy or Practice
Alabama	SREB	X			Individual institutions set rates based on expected enrollment and needed revenue. Alabama Commission recommends that non-resident tuition be at least twice the resident tuition and most institutions have adopted that recommendation.
Alaska	WICHE			X	Guided by charges at peer institutions in the West, current and expected state appropriations, and financial needs of the system.
Arizona	WICHE		X		Indexed to COE. Residents are charged 20.5% of the COE.
Arkansas	SREB	X			Board of Higher Education sets tuition and fee revenue expectations; institutions and local boards determine amount of tuition. There are no specific guidelines for setting tuition.
California	PS, WICHE		X		Increase indexed to a 3-year average of changes in the amount of state appropriations (refers to resident fees); only nonresidents pay tuition.
Colorado	WICHE		X		Maximum percent increase per year is determined by the Colorado Commission on Higher Education policy (1). Average tuition rate must be at least 25% of the COE but not more than 30%.
Florida	PS, SREB		X		Florida Board of Regents set resident tuition at 25% of COI; nonresidents pay 100% of cost.
Georgia	PS, SREB			X	Board of Regents sets tuition and fees at 25% of COI; Agreement between Board, legislature and Governor, non-residents 3 times resident charge.
Hawaii	WICHE		X		Access, financial aid availability, COE, charges at peer institutions, and differential tuition rates reflecting differing costs of education programs are considered when determining tuition.
Idaho	WICHE	X			

APPENDIX A (Continued)
TUITION POLICIES OF PEER, SREB, AND WICHE STATES

State	Sample	No Policy	Formally Approved	Traditional Practice	Summary of Policy or Practice
Illinois	PS		X	X	Policy goal of Board that undergraduate tuition should not exceed 1/3 of cost of instruction. Community colleges cannot exceed 1/3 cost of instruction.
Indiana	PS	X			Individual colleges and universities set own tuition levels; usually pays about 1/3 of costs, state appropriations cover the other 2/3.
Kentucky	SREB				Council on Higher Education uses peer institution comparisons to set differential rates by type of institution based on percent of Kentucky's per capita personal income. Non-resident tuition is three times the resident tuition.
Louisiana	SREB				Individual boards use Board of Regents guidelines which are that resident tuition should comprise 25% of educational and general expenditures. Non-resident fees should be at SREB average.
Maryland	PS, SREB	X			Individual Board of Trustees sets tuition.
Michigan	PS	X			Institutions set own tuition levels.
Minnesota	WICHE		X		Legislative appropriation for instructional costs is expected to cover 67% of cost of instruction (COI). Remaining 33% of COI is expected to come from tuition and fees set by governing boards. However, governing boards are not limited by the legislature in determining tuition levels.
Mississippi	SREB				Board for Institutions of Higher Learning sets general tuition and athletic fee by level of institution. Non-resident fee should equal amount appropriated per student for education and general expenses.
Montana	WICHE	X			
Nevada	WICHE		X		Indexed to charges at peer institutions in the West. Higher Education Price Index, state appropriations and institutional needs.

APPENDIX A (Continued)
TUITION POLICIES OF PEER, SREB, AND WICHE STATES

State	Sample	No Policy	Formally Approved	Traditional Practice	Summary of Policy or Practice
New Mexico	WICHE	X			
North Carolina		X			
North Dakota	WICHE			X	In addition to state appropriations, legislature sets total income for institutions. Based upon estimated tuition revenue, the North Dakota University System normally sets tuition rates to generate the income level set by the legislature.
Ohio	PS	X			Institutions set own tuition levels; legislature has set percent cap on amount of increases for past several years.
Oklahoma	SREB	X			The state legislature sets limits on tuition increases. The Board of Regents uses institutional peer group comparisons to review both resident and non-resident tuition.
Oregon	WICHE			X	Based on tuition charges of peer institutions in the West and on institutional needs. Historically, resident undergraduate tuition has been 25% to 30% of the cost of instruction.
South Carolina	SREB	X			Individual institutions' Boards, but there are not statewide guidelines.
South Dakota	WICHE		X		Rate of tuition increase may not exceed prior year's Higher Education Price Index.
Tennessee	SREB				Individual boards using guidelines of the Higher Education Commission. Those guidelines recommend that resident tuition for undergraduates be set at 30-32% of cost of instruction; for graduate students at 50% higher than undergraduates. Non-resident rates should be 80-90% of cost of instruction.
Texas	PS, SREB		X		Set by legislative action at 25% of cost for senior public institutions. Institutions allowed to set tuition for graduate level programs (usually 2 times undergraduate tuition); non residents at 100% of COI.

APPENDIX A (Continued)
TUITION POLICIES OF PEER, SREB, AND WICHE STATES

State	Sample	No Policy	Formally Approved	Traditional Practice	Summary of Policy or Practice
Utah	WICHE		X		Indexed to COE and to charges at peer institutions nationally. Also based on the CPI and the availability of student financial aid.
Virginia	PS, SREB			X	Tries for 25% to 30% of cost; aggregate of percentage of revenues in relation to appropriation. Nonresidents pay 100% of costs. Institutions set own level.
Washington	WICHE		X		By statute, tuition at research universities is set at 33 1/3% of the cost of instruction and tuition at comprehensive universities and The Evergreen State College is set at 25% of the cost of instruction.
West Virginia	SREB	X			Set by each of the two governing boards. Although there are no specific policies. Each board reviews student tuition and fees relying on comparisons of peer group institutions in SREB and contiguous states. Fees set are dependent on budgetary need of institutions, level of state support, and fee levels of comparable institutions.
Wisconsin	PS			X	Set by Board of Regents approved by state legislature, no legal requirement but state legislature has practice of funding 65% of institutional costs and 35% from tuition.
Wyoming	WICHE	X			

COE = Cost of Education = operations, maintenance; usually excludes construction of facilities paid for by bonds, research, public service, medicine, dentistry, continuing education, some portion of libraries.

SREB= Southern Regional Education Board

PS= Peer State

WICHE= Western Interstate Commission for Higher Education

(1) Maximum percent increase must not exceed twice the HEPI

(2) Cost of instruction

(3) Refers to resident student fees, only non residents pay tuition

(4) Policy is being reviewed and exceptions for institutions to 40.5% and 41% guidelines are being made due to reduced appropriations

Sources: SREB, WICHE, Telephone survey of peer states, November 1992.

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