REGULAR CALENDAR ITEM: I.

MEETING DATE: May 11, 2023

SUBJECT: 2023-24 Binding Tuition and Fee Ranges

ITEM TYPE: Action

BACKGROUND

Since 2010, the Complete College Tennessee Act has required the Commission to make student fee and state appropriation recommendations concurrently. The FOCUS Act expanded THEC's authority on student fee levels, requiring that the Commission issue binding tuition and fee ranges each year. These ranges only apply to Tennessee resident, undergraduate students.

POLICY CONSIDERATIONS

In November 2022, the Commission approved a 0 to 3 percent guiding tuition range and tuition and fee range for 2023-24, in partnership with a combined operating and salary increase request of $150 million (informed by assumptions of 6.3 percent inflation and flat enrollment). This recommendation ensured that most institutions could maintain the same total revenue per full-time student as in 2022-23 while continuing to center affordability for Tennesseans in alignment with previous Commission actions.

State appropriations for formula units totaled $111.7 million for operating, inflationary, and partially funded salary increases. Given the difference between the Commission's appropriation request and the actual 2023-24 budget, THEC staff have identified three binding tuition range options:

Option #1: Set binding tuition and tuition and fee ranges with maximum increases of 5.5 percent

The Commission can expand the ranges to 0 to 5.5 percent to allow institutions the additional flexibility needed to fully recoup the unaccounted for $38 million needed for operating increases. This action would provide most institutions the opportunity to maintain inflation-adjusted revenue per FTE in 2023-24.

Option #2: Set binding tuition and tuition and fee ranges with maximum increases of 3.0 percent

The Commission can make binding the 0 to 3.0 percent ranges set in November. This action would cause all institutions to receive lower inflation-adjusted revenue per FTE in 2023-24, despite one of the largest state investments on record, requiring institutions to implement varying levels of cost reduction measures.

Option #3: Set binding tuition and tuition and fee ranges with maximum increases between 3.0 percent and 5.5 percent

The Commission can establish maximum increases between 3.0 and 5.5 percent for institutions, creating a middle-ground between fully recouping and fully forgoing the $38 million needed for operating increases. This would provide institutions the opportunity to maintain inflation-adjusted revenue per FTE in 2023-24 while requiring others to cut costs.

TENNESSEE'S TUITION AND FEE PROFILE

Tennessee's public higher education tuition and fee levels continue to be aligned with the average regional peer across member states of the Southern Regional Education Board. Over the last seven years, average annual tuition increases have been below 2.0 percent, while state appropriations have increased an average of 7.3 percent per year. The average annual full-time tuition and mandatory fees for 2022-23 is $9,923 at universities, $4,638 at community colleges, and $4,008 at the colleges of applied technology.

Tennessee's financial aid resources continue to be among the highest in the nation, according to the National Association of State Student Grant Aid Programs. In 2020-21, Tennessee had the ninth largest overall financial aid program and the sixth largest program per capita. The most recent federal data show that due to robust state investments in operating and financial aid, Tennessee's associate degree graduates have some of the lowest debt in the nation. Tennessee ranks ninth and 23rd in the nation for average net price (i.e., total cost of attendance less all financial aid) at two- and four-year colleges, respectively. Tennessee higher education is more affordable relative to other states when factoring in federal, state, and institutional financial aid.

BINDING TUITION AND FEE RANGES

On April 20, the 113th General Assembly passed the 2023-24 General Appropriations Act, including total funding to formula units of $111.7 million for operating and inflationary funding, and partial funding for a five percent salary increase. This is the second largest state investment made to the formula units, following last year's historic investment of $137 million.

However, the total funding amount trails the Commission approved request by $38 million. Unlike other state-funded entities, higher education salary increases rely on additional revenue to be generated by institutions through tuition increases, cost reductions, or a combination of the two. To make the salary increase whole and meet the same salary policy applied to all other state employees, institutions will need to fund a $46 million balance—much, but not all, of which may be met with remaining operating funds. However, with the critical influence of record high inflation, institutions may need flexibility to address the remaining financial needs. (See Attachment II for additional information.)

Increasing tuition revenue is the primary strategy for institutions to address funding gaps. When funding gaps remain, institutions may turn to varying cost reduction strategies that utilize close consideration of services and programs not tied to mission. Common ways institutions cut expenditures include hiring freezes and/or greater reliance on contingent faculty, reduction in student support services, non-personnel related operating reductions (e.g., reductions in institutionally funded scholarships and wrap-around retention and completion services), and deferment of needed capital investments. Ultimately, reductions require each institution to examine their strategic plan and recenter on essential costs.

Attachment I shows the 2023-24 maintenance and mandatory fee increase scenarios at maximum increases of 3.0, 4.25, and 5.5 percent for each university and community college, and for the TCAT system. A one percent increase in tuition would generate an estimated $16 million in additional revenue. To fully address the funding gap between the THEC request and the state budget, institutions would need 2.5 percent of additional tuition flexibility added to the previous range, resulting in a new range of 0 to 5.5 percent.

Each percentage point increase in tuition and fees results in an average annual increase of $99 for the universities, $46 for the community colleges, and $40 for the TCATs. Therefore, a 5.5 percent increase would result in an average tuition and fee level of $10,468 at the universities ($546 per full-pay student), $4,893 at the community colleges ($255 per full-pay student), and $4,228 at the TCATs ($220 per full-pay student). (See Attachment I for total change for each maximum increase by institution.)

Attachment II details the unfunded balances of the five percent salary increase at each university and community college, and for the TCAT system once operating increases and the state-funded portion of the salary increase are considered. Several institutions are unable to meet the minimum additional revenue necessary for the institutional portion of the five percent salary increase based on state funding alone.

SUMMARY

In November, the Commission approved a 0 to 3.0 percent increase in the tuition range and the tuition and fee range, in alignment with a state request of $150 million. The state provided a near historic increase of $111.7 million—with an implicit expectation that institutions fund the five percent salary policy balance on their own using remaining operating funds, tuition increases, or cost reductions. In addition, institutions continue to be burdened by the effects of record high inflation and uncertain enrollment projections, suggesting the need for additional flexibility in the tuition ranges. To allow institutions to meet the five percent salary increase and to provide the flexibility needed to fully maintain last year's total revenue per full-time student, the tuition and tuition and fee binding ranges would need to increase from the guiding range of 0 to 3.0 percent to an expanded range 0 to 5.5 percent.