

TITLE: Tuition and Mandatory Fee Recommendation for Academic Years 2023-24 and 2024-25

RECOMMENDATION: Staff recommends that the Finance Committee approve, and endorse to the full Council at their March 31, 2023, meeting, resident undergraduate tuition and mandatory fee ceilings for academic years 2023-24 and 2024-25 that equate to:

- A maximum base rate increase of no more than 5.0 percent over two years, and a maximum increase of no more than 3.0 percent in any one year, for public research and comprehensive universities.
- A maximum base rate increase of no more than \$7.00 per credit hour over two years, and a maximum increase of no more than \$4.00 per credit hour in any one year, for students attending KCTCS institutions.

It is further recommended that the public institutions be allowed to submit for Council review and approval:

- Nonresident undergraduate tuition and fee rates that comply with the Council's *Tuition and Mandatory Fees Policy*, or otherwise adhere to provisions of an existing Memorandum of Understanding between the Council and an institution.
- Market competitive tuition and fee rates for graduate and online courses.

PRESENTERS: Bill Payne, Vice President for Finance and Administration, CPE
Shaun McKiernan, Executive Director for Finance and Budget, CPE

BACKGROUND INFORMATION

Council staff used a collaborative process to develop its tuition and mandatory fee recommendation for academic years 2023-24 and 2024-25, which included sharing information and engaging in discussions with campus presidents, chief budget officers, and Council members. Based on feedback from multiple stakeholders and recognizing that many Kentucky students and families and the state's postsecondary institutions are coping with the effects of inflation, there is general sentiment that increases in resident undergraduate tuition and fees should be moderate in academic years 2023-24 and 2024-25 to support a necessary balance between the ability of students and families to pay for college and resources required for the institutions to maintain quality academic

programs, address cost increases, and support ongoing progress toward the state's 60x30 college attainment goal.

For this tuition-setting cycle, CPE staff and campus officials agreed that staff's recommendation should include tuition and fee ceilings for the next two academic years (i.e., 2023-24 and 2024-25). There is historical precedent for this approach. Three times over the past nine years the Council has adopted two-year ceilings, including academic years 2014-15 and 2015-16, 2018-19 and 2019-20, and 2021-22 and 2022-23. Using a two-year approach facilitates strategic planning and budgeting at the postsecondary institutions and makes college costs more predictable for students and families.

KEY ISSUES

Over the past four months, Council staff and campus officials identified and discussed several key issues that were relevant during the development of staff's tuition and fee recommendation, including: (a) the level of state support for campus operations; (b) a pending reduction in the state's pension subsidy; (c) relatively low tuition increases in recent years; (d) the impact of inflationary cost increases; (e) recent trends in college spending; (f) declining college going rates of Kentucky high school graduates; and (g) persistent decreases in student enrollment at nearly every public postsecondary institution. Each of these subjects is described in detail below.

State Funding

On April 13, 2022, the Kentucky General Assembly passed a state budget for fiscal years 2022-23 and 2023-24 that provided the first significant increase in state support for postsecondary institution operations in more than a decade. Although the enacted budget provided \$80 million new dollars to institutions in the first year of the biennium, there was no increase provided in the second year. Specifically, after deducting debt service and mandated program appropriations, the public postsecondary institutions, individually and in the aggregate, will receive the same level of adjusted net General Fund (or Formula Base) in 2023-24 that they received in 2022-23 (see Table 1).

Kentucky Public Postsecondary System Change in State Funds for Educating Students Between Fiscal Years 2022-23 and 2023-24				Table 1
<u>Funding Category</u>	<u>Fiscal 2022-23 General Fund</u>	<u>Fiscal 2023-24 General Fund</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Adjusted Net General Fund ¹	\$749,740,900	\$749,740,900	\$0	0.0%
Performance Fund	97,307,100	97,307,100	0	0.0%
Funds for Educating Students	\$847,048,000	\$847,048,000	\$0	0.0%

¹ The adjusted net General Fund appropriation (a.k.a., the Formula Base) is calculated by deducting debt service and mandated program funds from each institution's regular appropriation.

In addition, the amount appropriated to the Postsecondary Education Performance Fund, which ultimately is distributed among institutions in accordance with statutorily determined funding models (KRS 164.092), will remain unchanged at \$97,307,100 each year of the biennium. Finally, between 2022-23 and 2023-24, the amount of state funds available for educating students (i.e., the formula base plus performance funding) will remain unchanged at \$847,048,000 each year.

Pension Subsidy

Beginning with the 2012-13 tuition-setting cycle, and in every cycle since, CPE staff has explicitly considered the impact of required increases in retirement system contributions on postsecondary institution operating budgets. This approach was necessitated by large and frequently unfunded increases in Kentucky Employees Retirement System (KERS) employer-paid retirement contributions that were required by the state.

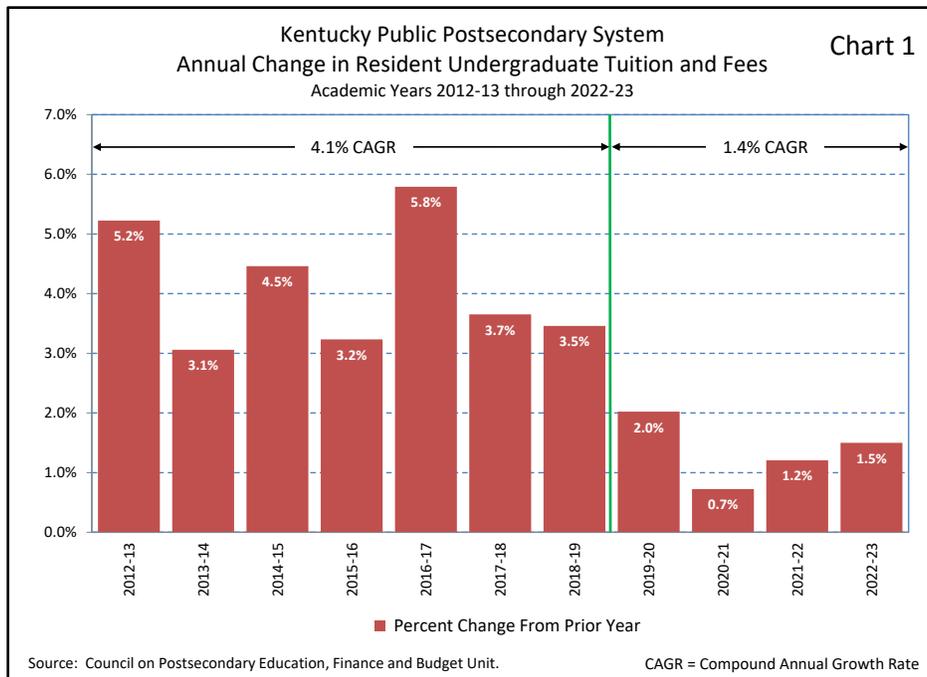
In fiscal year 2021-22, the General Assembly appropriated \$22.1 million in new funding to support the transition of comprehensive universities (except for NKU) and KCTCS to a level-dollar allocation method for determining KERS pension contributions. These funds were intended to cover 100 percent of the marginal cost increase in employer paid pension contributions in 2021-22, using projections based on an actual 2019-20 employer contribution base.

Kentucky Public Postsecondary Institutions Change in Kentucky Employee Retirement System Subsidy ¹ Between Fiscal Years 2022-23 and 2023-24					Table 2
<u>Institution</u>	<u>Fiscal 2022-23 General Fund</u>	<u>Fiscal 2023-24 General Fund</u>	<u>Dollar Change</u>	<u>Percent Change</u>	
UK	NA	NA	--	--	
UofL	NA	NA	--	--	
EKU	\$8,909,700	\$8,023,100	(\$886,600)	-10.0%	
KSU	558,200	503,400	(54,800)	-9.8%	
MoSU	4,913,000	4,411,800	(501,200)	-10.2%	
MuSU	3,270,900	2,929,600	(341,300)	-10.4%	
NKU	NA	NA	--	--	
WKU	3,592,500	3,237,200	(355,300)	-9.9%	
KCTCS	854,900	765,200	(89,700)	-10.5%	
Total	\$22,099,200	\$19,870,300	(\$2,228,900)	-10.1%	

House Bill 8 (2021, Regular Session), which established this pension subsidy, also included a schedule for reducing the subsidy by 50% over a five-year period (i.e., participating institutions would receive 10% less funding each year until the total subsidy reached \$11.0 M). While the reduction in subsidy funding was delayed by the legislature for one year, the \$22.1 million subsidy provided in 2022-23 will be reduced by 10%, or \$2.2 million, in 2023-24. The budgetary impact of this reduction is not inconsequential for participating institutions. As can be seen in Table 2, the reductions in pension subsidy range from a low of -\$89,700 at KCTCS to a high of -\$886,600 at EKU.

Recent Tuition Increases

Another issue that CPE staff considered this tuition-setting cycle was the relatively low level of tuition and fee increases that Kentucky colleges and universities adopted over the past four years. As can be seen in Chart 1, in the seven years between 2012-13 and 2018-19, resident undergraduate tuition and fees at the state's public postsecondary institutions increased at an average annual rate of 4.1 percent per year; but in the four years since, tuition and fees for resident undergraduates grew at an average annual rate of 1.4 percent per year, or about one-third of the prior period's CAGR.



The difference in average growth rates between these two periods was heavily influenced by Council tuition and fee ceilings and reflected the priority of maintaining affordability for Kentucky students and families in the face of declining college going rates and persistent decreases in student enrollment.

Impact of Inflation

Another important factor this tuition-setting cycle was the impact of rising costs on campus operating budgets. In 2022, inflation measured using the Commonfund Institute's Higher Education Price Index (HEPI) registered 5.2%, its highest level in more than 20 years. Index cost factors exhibiting the largest increases that year were service employees (up 8.6%), supplies and materials (up 21.5%), and utilities (up 43.1%). To put this statistic in perspective, in no single year between 2008 and 2021 did growth in the HEPI exceed 3.0%. The compound annual growth rate in inflation over that time period was 2.3%.

Inflation is a key issue every tuition cycle because the cost of educating students goes up every year and, for the most part, those cost increases are recurring. Fixed and unavoidable cost increases are receiving heightened scrutiny this cycle due to the magnitude of the increase in 2022 and expectations that cost increases will be high in 2023, as well. Inflation is also a key consideration in tuition setting because the main sources of funding for educating students are state appropriations and tuition and fee revenue. Table 3 below, which calculates the projected tuition increase needed to cover cost increases for the upcoming academic year, illustrates this point. Assuming that

inflation increases by 3.1% (i.e., the five-year average HEPI), a 5.1% increase in tuition and fees would be required to cover the cost increases.

Kentucky Public Postsecondary System		Table 3
Projected Tuition Increase Needed to Cover Inflationary Costs Academic Year 2023-24		
Estimated Inflationary Cost Increase:		
Education and Related Spending (Fiscal 2021-22)		\$2,060,427,600
Assumed Inflation Rate (5-Year Average HEPI)		X 3.1%
Estimated Cost Increase		\$63,873,300
Projected Tuition Revenue (@ 1.0% Increase):		
Net Tuition and Fee Revenue (Fiscal 2021-22)		\$1,297,302,200
Apply 1.0% Rate Factor		X 1.0%
Projected Revenue Generated (@ 1.0%)		\$12,973,000
Tuition Increase Needed to Cover Costs:		
Estimated Cost Increase		\$63,873,300
Change in State Support (Decrease +)	+	2,228,900
Residual Cost Increase		\$66,102,200
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Projected Revenue Generated (@ 1.0%)		12,973,000
Tuition Increase Multiple		5.1

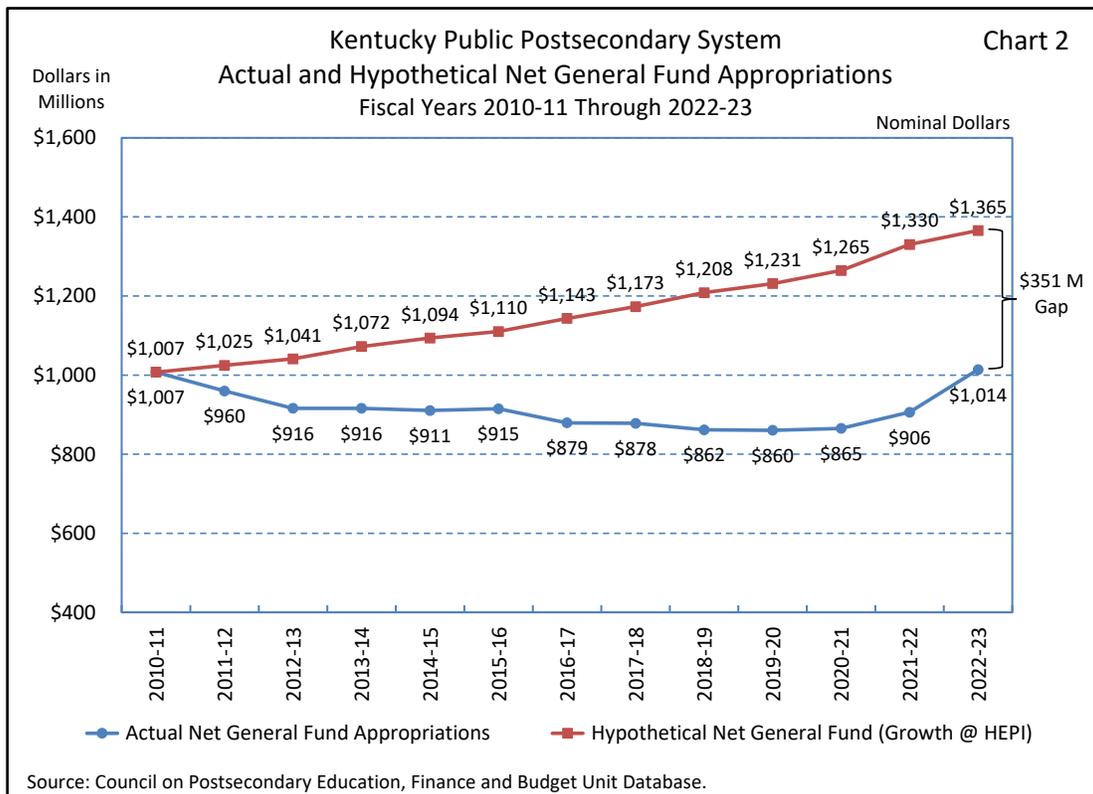
The importance of state General Fund support for maintaining affordability for students and families cannot be overstated, as was illustrated in the previous table. But that support should not be a one-time occurrence. An examination of the HEPI over the past 20 years reveals that higher education cost factors, and thus the composite regression index, increase every year and those costs are recurring. It requires sustained state support over an extended time horizon to achieve the multiple and sometimes competing goals of college affordability, access, and academic quality.

Unfortunately, as can be seen in Chart 2 below, for more than a decade, state support for campus operations in Kentucky has not kept pace with inflation. Chart 2 compares actual net General Fund appropriations for Kentucky public postsecondary institutions (represented by the blue line) to hypothetical net General Fund appropriations allowed to grow at the rate of HEPI inflation (represented by the red line) for fiscal years 2010-11 through 2022-23. This time frame is significant because by 2010-11 most states in the U.S. had begun reinvesting in higher education following the Great Recession.

As can be seen in Chart 2, between fiscal years 2010-11 and 2019-20, nominal net General Fund appropriations for Kentucky's public postsecondary system decreased seven out of nine years, falling from \$1.007 billion to \$860 million, respectively. Then,

between 2020-21 and 2022-23, Kentucky began reinvesting in higher education, a turn of events that is very much appreciated by the Council and postsecondary institutions.

Just this year, the postsecondary institutions received, in total, a level of net General Fund appropriations (i.e., total appropriation less debt service for capital projects) that exceeded the 2010-11 funding level (i.e., \$1.014 billion versus \$1.007 billion). However, had the level of state support increased at the rate of inflation, the campuses would have received \$1.365 billion in 2022-23, or \$351 million more in state appropriations.



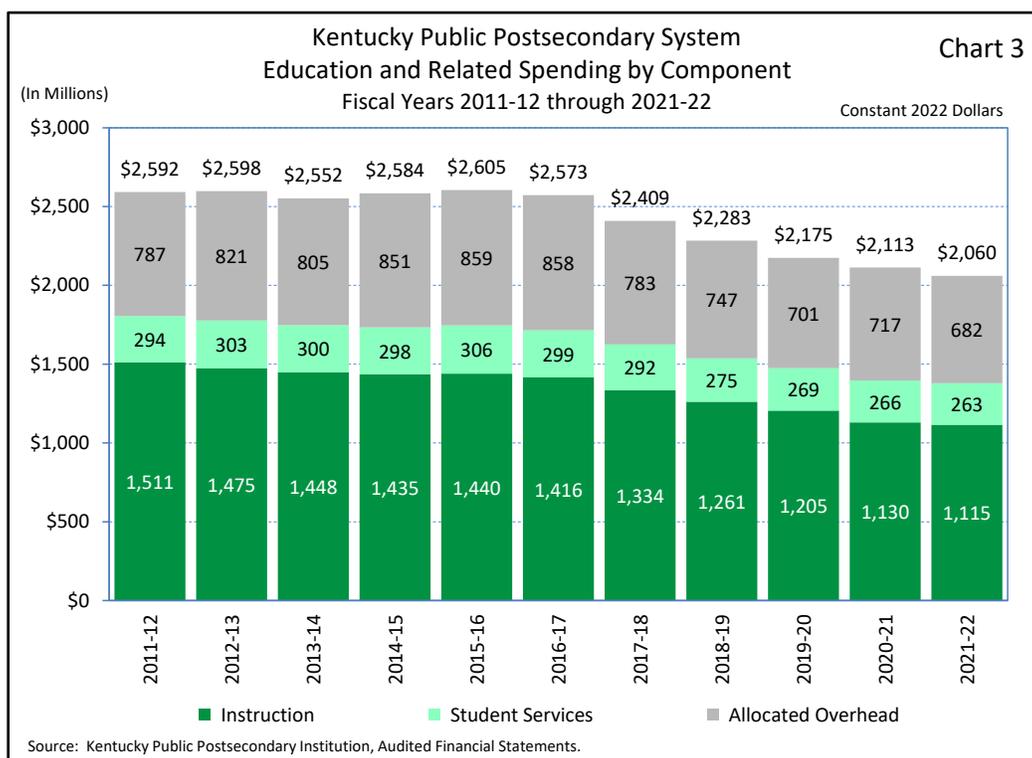
It is important to remind returning Council members and inform new ones that, despite stresses on campus budgets over the past decade, the Council has not allowed institutions to fully recover losses from state budget cuts or fully cover increased spending demands caused by inflation through higher tuition and fees. Rather, the funding gap has been addressed through campus cost savings and efficiencies.

College Spending

In recent years, the combination of relatively modest increases in tuition and fees and declining state support have taken a toll on campus operating budgets. An examination of trends in college spending at Kentucky’s public postsecondary institutions helps illustrate this point.

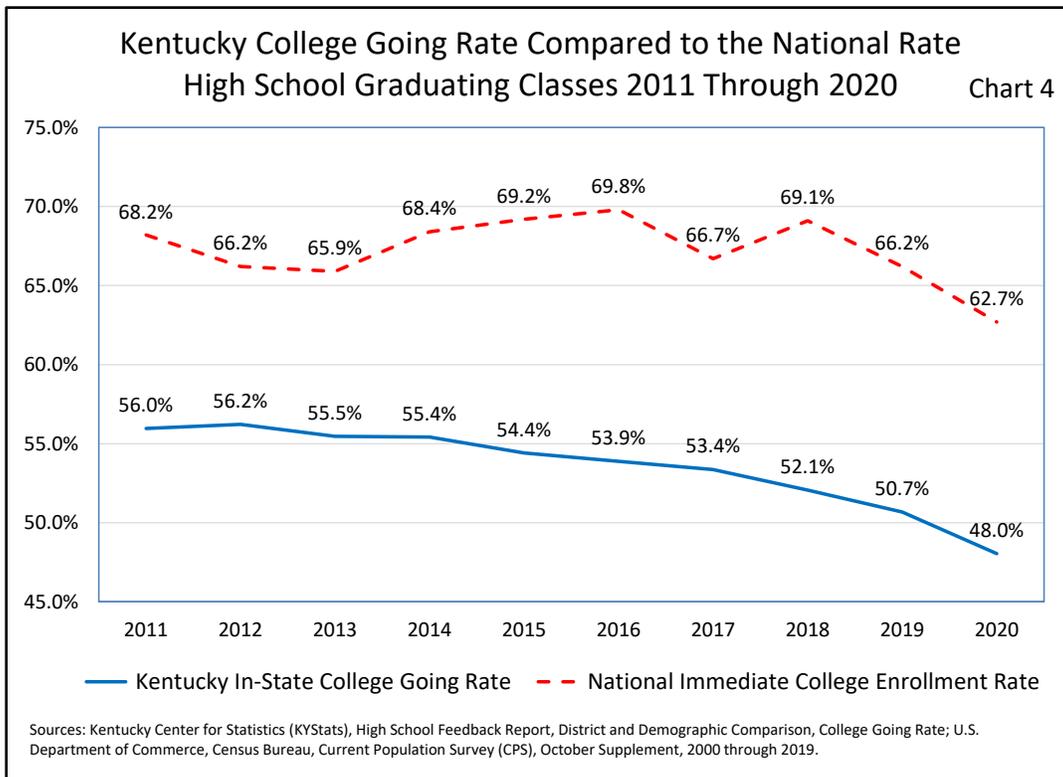
As can be seen in Chart 3, over the past decade, real spending to educate students at Kentucky public colleges and universities remained relatively flat for five years, but then declined. Specifically, between 2011-12 and 2015-16 real spending to educate students kept pace with inflation, but after 2015-16, it decreased six years in a row, falling from a high of \$2.605 billion that year to \$2.060 billion in 2021-22.

These data support the premise that declining state support coupled with Council tuition and fee ceilings have required Kentucky institutions to become more efficient. As previously mentioned, state appropriations and tuition and fees are the main sources of revenue available for educating students. Given the lack of state investment in higher education for much of the decade and given low tuition increases in recent years, the downward trend in college spending is not surprising. In fact, it is to be expected.



College Going Rates

The trend in college going rates among Kentucky high school graduates was added to the list of key issues for the 2023-24 tuition cycle. Maintaining or increasing the college participation rate is an important determinant in maintaining enrollment and helping the state meet its 60 percent college attainment goal by the year 2030. Unfortunately, in recent years, college-going rates in Kentucky have been trending in the wrong direction.



As can be seen in Chart 4, Kentucky’s in-state college going rate (represented by the blue line) has declined steadily over the past decade. After peaking at 56.2% for the high-school graduating class of 2012, the state’s college participation rate decreased eight years in a row to a low of 48.0% in 2020, resulting in a loss of more than 8 percentage points during this period. While the COVID-19 pandemic likely contributed to the 2.7 percentage point decrease between 2019 and 2020, that one-year change represents the continuation of a longer-term trend of declining rates.

To a degree, the decline in Kentucky college going rates mirrors a broader trend that occurred at the national level during this period. As can be seen in Chart 4, the national immediate college enrollment rate (represented by the red line) decreased from 68.2 percent in 2011 to 62.7 percent in 2020, a 5.5 percentage point decline. However, as clearly shown in the chart, in any given year, Kentucky’s college-going rate was well below the national average rate. In fact, it lagged the national average rate by somewhere between 10 to 17 percentage points every year during this decade.

Maintaining affordability for Kentucky students and families is an obvious strategy for trying to bolster college going rates and it is one that the Council and postsecondary institutions have pursued through the adoption of relatively modest tuition and fee ceilings (i.e., 1.4% CAGR over the past four years) and relatively generous provision of student financial aid, respectively.

Enrollment Trends

The direction and magnitude of changes in postsecondary institution enrollment have been key considerations in the tuition-setting process every year for at least the past four years. This is because the trend in student enrollment at most Kentucky colleges and universities over the past decade has been downward, but it is also because the Council adopted a resolution directing staff and campus officials to adopt strategies to halt and hopefully reverse the decline.

Specifically, on March 3, 2021, the Council’s Executive Committee, operating under delegation of authority from the full Council, adopted a resolution, expressing concern about the potential effects of enrollment decline on the ability of the postsecondary system to meet the state’s 60X30 attainment goal. The resolution charged CPE staff and campus leaders to implement bold actions and strategies to mitigate the near-term enrollment effects of COVID-19 and stem the tide of declining enrollment. One strategy for encouraging increased enrollment is maintaining affordability for students and families.

Unfortunately, as can be seen in Table 4, Kentucky comprehensive universities and KCTCS institutions have continued to experience steady enrollment declines. Between fall semesters 2013 and 2022, full-time equivalent (FTE) student enrollment decreased by 9,290 FTE students, or 15.6 percent, in the comprehensive university sector and fell by 11,314 FTE students, or 21.8 percent, in the two-year college sector. FTE student enrollment at the research universities increased by 4.1 percent during this period. As can be seen in Table 4, full-time equivalent student enrollment decreased by 18,708 students or about 12 percent for the system.

Kentucky Public Postsecondary Sectors				Table 4	
Change in Full-Time Equivalent Student Enrollment					
Between Fall Semesters 2013 and 2022					
Sector	Fall 2013 FTE Students	Fall 2022 FTE Students	Number Change	Percent Change	
Research	46,349	48,245	1,896	4.1%	
Comprehensives	59,597	50,307	(9,290)	-15.6%	
KCTCS	51,866	40,552	(11,314)	-21.8%	
System Total	157,812	139,104	(18,708)	-11.9%	

While maintaining affordability is still a high priority for Council staff and campus officials, the lack of sustained state support for campus operations over the past decade combined with several years of modest tuition and fee increases has resulted in real

declines in college spending, which if left unchecked, could lead to increased reliance on adjunct faculty, fewer sections of courses being taught, larger class sizes, and a diminished level of academic quality. For this reason, staff is recommending tuition ceilings in the moderate range for academic years 2023-24 and 2024-25 to achieve an appropriate balance between the resource needs of the institutions and affordability for students and families.

STAFF RECOMMENDATION

For the current tuition-setting cycle, staff recommends that the Council adopt two-year ceilings that will limit increases in resident undergraduate tuition and mandatory fees at Kentucky colleges and universities to predetermined amounts over the next two years.

Specifically, staff recommends that the Finance Committee approve, and endorse to the full Council, resident undergraduate tuition and mandatory fee ceilings for academic years 2023-24 and 2024-25 that equate to:

- A maximum base rate increase of no more than 5.0 percent over two years, and a maximum increase of no more than 3.0 percent in any one year, for public research and comprehensive universities.
- A maximum base rate increase of no more than \$7.00 per credit hour over two years, and a maximum increase of no more than \$4.00 per credit hour in any one year, for students attending KCTCS institutions.

In addition to proposing resident undergraduate rate ceilings for the next two years, staff recommends that the public institutions be allowed to submit for Council review and approval:

- Nonresident undergraduate tuition and fee rates that comply with the Council's *Tuition and Mandatory Fees Policy*, or otherwise adhere to provisions of an existing Memorandum of Understanding between the Council and an institution.

Finally, it is recommended that the public postsecondary institutions be allowed to submit for Council review and approval:

- Market competitive tuition and fee rates for graduate and online courses, as approved by their respective governing boards.

The paragraphs below contain four tables that show current-year base rates and the maximum allowable base rates for the universities and KCTCS for academic years 2023-24 and 2024-25. As a reminder, base rates are defined as total tuition and fee charges, minus any Special Use Fees or Asset Preservation Fees previously approved

by the Council, and minus an existing agency bond fee at KCTCS (i.e., BuildSmart Investment for Kentucky Competitiveness Fee). Council staff deduct these fees from total tuition and fees before applying a percent increase parameter, which keeps the fees at a fixed amount each year until they expire.

Kentucky Public Universities				Table 5
Maximum Base Rate Increase for Resident Undergraduate Students				
Academic Year 2023-24				
<u>Institution</u>	<u>Current 2022-23 Base Rates</u>	<u>Maximum 2023-24 Base Rates</u>	<u>One-Year Dollar Change</u>	<u>One-Year Percent Change</u>
UK	\$12,859	\$13,245	\$386	3.00%
UofL	12,324	12,694	370	3.00%
EKU	9,544	9,830	286	3.00%
KSU	8,654	8,914	260	3.00%
MoSU	9,308	9,587	279	3.00%
MuSU	9,432	9,715	283	3.00%
NKU	10,208	10,514	306	3.00%
WKU	10,912	11,239	327	3.00%

Note: Base rates do not include Special Use or Asset Preservation Fees approved previously by the Council, or a BuildSmart agency bond fee at KCTCS.

Table 5 shows the current-year base rate, maximum allowable base rate for academic year 2023-24, and one-year dollar and percent changes compared to the current-year base rate for each public university, using the recommended “no more than 3.0 percent in any one year” maximum increase parameter.

See Attachment A for detail regarding the maximum allowable total tuition and fee charges in 2023-24 for resident undergraduate students at each public university.

Table 6 shows the current-year base rate, maximum allowable base rate for academic year 2024-25, and two-year dollar and percent changes compared to the current-year base rate for each public university, using the recommended “no more than 5.0 percent over two years” maximum increase parameter.

Kentucky Public Universities				Table 6
Maximum Base Rate Increase for Resident Undergraduate Students				
Academic Year 2024-25				
<u>Institution</u>	<u>Current 2022-23 Base Rates</u>	<u>Maximum 2024-25 Base Rates</u>	<u>Two-Year Dollar Change</u>	<u>Two-Year Percent Change</u>
UK	\$12,859	\$13,502	\$643	5.00%
UofL	12,324	12,940	616	5.00%
EKU	9,544	10,021	477	5.00%
KSU	8,654	9,087	433	5.00%
MoSU	9,308	9,773	465	5.00%
MuSU	9,432	9,904	472	5.00%
NKU	10,208	10,718	510	5.00%
WKU	10,912	11,458	546	5.00%

Note: Base rates do not include Special Use or Asset Preservation Fees approved previously by the Council, or a BuildSmart agency bond fee at KCTCS.

See Attachment A for detail regarding the maximum allowable total tuition and fee charges in 2024-25 for resident undergraduate students at each public university.

Kentucky Community and Technical College System				Table 7
Maximum Base Rate Increase for Resident Students				
Academic Year 2023-24				
<u>Institution</u>	<u>Current 2022-23 Base Rates</u>	<u>Maximum 2023-24 Base Rates</u>	<u>One-Year Dollar Change</u>	<u>One-Year Percent Change</u>
KCTCS (per credit hour)	\$182.00	\$186.00	\$4.00	2.20%
KCTCS (per credit hour x 30)	\$5,460	\$5,580	\$120	2.20%

Note: Base rates do not include Special Use or Asset Preservation Fees approved previously by the Council, or a BuildSmart agency bond fee at KCTCS.

Table 7 shows the current-year base rate, maximum allowable base rate for academic year 2023-24, and one-year dollar and percent changes compared to the current-year base rate for KCTCS institutions, using the recommended “no more than \$4.00 per credit hour in any one year” maximum increase parameter.

See Attachment A for detail regarding the maximum allowable total tuition and fee charges in academic year 2023-24 for resident students attending KCTCS.

Table 8 shows the current-year base rate, maximum allowable base rate for academic year 2024-25, and two-year dollar and percent changes compared to the current-year base rate for each KCTCS institution, using the recommended “no more than \$7.00 per credit hour over two years” maximum increase parameter.

Kentucky Community and Technical College System Maximum Base Rate Increase for Resident Students Academic Year 2024-25				Table 8
Institution	Current 2022-23 Base Rates	Maximum 2024-25 Base Rates	Two-Year Dollar Change	Two-Year Percent Change
KCTCS (per credit hour)	\$182.00	\$189.00	\$7.00	3.85%
KCTCS (per credit hour x 30)	\$5,460	\$5,670	\$210	3.85%
Note: Base rates do not include Special Use or Asset Preservation Fees approved previously by the Council, or a BuildSmart agency bond fee at KCTCS.				

See Attachment A for detail regarding the maximum allowable total tuition and fee charges in academic year 2024-25 for resident students attending KCTCS.

Staff’s recommendations and the maximum base rates shown above that stem from those recommendations are consistent with the objectives of the Council’s *Tuition and Mandatory Fee Policy*, including funding adequacy, shared benefits and responsibility, affordability and access, attracting and importing talent, and effective use of resources.

If CPE staff’s recommended parameters for academic years 2023-24 and 2024-25 are endorsed by the Finance Committee and approved by the full Council, and if governing boards at every university and KCTCS were to adopt the maximum allowable increases, the average annual increase in resident undergraduate base rates over the next two years will be 2.5 percent per year at Kentucky public research and comprehensive universities and 1.9 percent per year at KCTCS institutions.

Because Special Use Fees, Asset Preservation Fees, and a KCTCS BuildSmart Fee are backed out of base rates before applying the percent increase parameters, the average effective rates of increase in total tuition and fee charges will be lower (i.e., a

maximum of 2.4 percent per year at public universities; and a maximum of 1.8 percent per year at KCTCS institutions).

INSTITUTION RATE PROPOSALS

It is anticipated that most postsecondary institutions will submit their proposed 2023-24 tuition and fee rates for review and approval at the June 6 meeting of the Finance Committee. CPE staff will recommend approval of resident undergraduate tuition and fees that comply with Council approved ceilings, nonresident undergraduate rates that comply with the Council's *2023-24 Tuition and Mandatory Fee Policy* or otherwise adhere to a previously approved Memorandum of Understanding, and market competitive rates for graduate and online courses.

Several institutions have informed staff that they will not bring their tuition and fee proposals for Finance Committee endorsement at the June 6 meeting and may have difficulty bringing them for the June 9 Council meeting. They have asked staff if the Council can provide an accommodation, either through scheduling a special called Council meeting to approve their rates, or by having the Council delegate authority to the Finance Committee or CPE staff to approve their rates.