



FY18 Annual Budget Submission

Introduction

The annual budget process provides an opportunity to assess NAU's operations and is a key element of the overall business planning process, in conjunction with the recently completed tuition setting process and the upcoming Operational and Financial Review process. Each component is a key operational decision point where strategic investments and reallocations are considered that support the strategic direction of NAU, and in turn, support our students, faculty, and staff.

Overview

NAU submits the FY18 Annual Budget that projects a change in net position of \$5.0 million. This net position increase reflects a financial statement view and includes an estimated \$13.7 million impact from GASB adjustments anticipated in FY18 for retirement and other post-employment benefits. On a cash, or annual budgeting view, the budget submitted is balanced. The monthly days cash on hand metric is expected to be 148 days based on the projected expenditure level for this upcoming year. This reflects a small change from the estimated FY17 monthly days cash on hand metric of 150 days. NAU plans to continue addressing critical capital projects, while also remaining committed to monitoring the impact this spending has on its balance sheet, and in turn, its credit ratings.

Revenue

NAU projects revenue in FY18 to increase 7.5% over its FY17 revenue budget. The distribution of revenue sources varies only slightly from the FY17 budgeted revenue sources. Net tuition and fees and state appropriations comprise over 60% of NAU's revenue sources and are the primary funding source for the instruction of an increasing enrollment base. The FY18 state appropriation in the form of one-time funding will enable NAU to invest in critical initiatives which will likely focus on critical infrastructure initiatives as it did in FY17. The list of specific investments from the \$3.2 million one-time state appropriation will be developed from the categories listed below prior to the August 1st 2017 submission due date required in the enacted state budget.

NAU also expects growth in its other revenue categories driven from increases in rates and enrollment growth, as in the case of Auxiliary revenues, and increases in lottery revenues dedicated to funding SPEED bond payments in the case of the Other Revenue category. Revenue from TRIF funding is projected to increase in accordance with the five-year plan and NAU expects to see increased revenue from grants and contracts revenue with its increased investments in the research enterprise and in philanthropic gift revenue with the launch of a new capital fundraising campaign on July 1st, 2017.

NAU's FY18 revenue budget also includes an estimate of \$.685 million in general purpose funds from Proposition 123 distributions. These funds were approved by voters in May 2016, and are distributed from land trust funds. While the funds were originally reported and anticipated to be unrestricted, current statute defines the distribution of land trust funds as restricted, but permits the Board of Regents to waive the restriction as appropriate. The request for such a waiver is included in the system materials to be considered in the adoption of the budget.

Enrollment

Enrollment assumptions are consistent with those noted during the tuition setting cycle. Those projections included an 814 FTE increase (+2.8%) for Fall 2017 with the majority of that growth coming from undergraduate students, 57% of the growth coming from resident students and 19% of the growth coming from online students. NAU continues to see the majority of its non-resident students come from WUE states and these students pay 1.5 times the resident tuition rate rather than a full non-resident rate. Using this FTE growth assumption in conjunction with the approved state appropriation and tuition and fees projection, NAU's funding on a per FTE basis will be flat compared to FY17. Removing the \$3.2M one-time funding appropriation, NAU's per student funding decreases .9% from this year to \$11,582, which is down approximately \$2,200 from 2008 levels and illustrates the importance that an ongoing commitment to a university funding model will have on NAU's future finances.

To support this projected enrollment growth, NAU's planned financial aid strategy will result in an increase in the projected scholarship allowance percentage of .3 percentage points from the budgeted FY17 amount. The overall strategy is similar to previous years with only slight modifications to the scholarship amounts. NAU's commitment to balancing student affordability and the predictability of a tuition pricing model is firmly rooted in the Pledge tuition program which will continue for this upcoming year. Combined with the significant amount of incremental tuition resources dedicated to financial aid as outlined during the tuition setting process, including need based aid, NAU remains dedicated to providing a number of accessible educational options to students and their families whether it is on the Flagstaff campus or through the renewed commitment to revitalize the long standing community college partnerships that NAU has developed with its 2NAU programs. The class fee review initiative that began last spring complements this philosophy and improves the transparency of student costs by transitioning from individual class fees dedicated to technology to the mandatory IT fee structure which can then be included in financial aid packages.

Major Initiatives/Strategic Investments

NAU's investments for FY18 align with the Enterprise Strategic Plan and will drive NAU's progress in several key 2025 metrics including enrollment growth, student success and retention to graduation, high demand degrees awarded and research expenditures. These areas targeted for investment in FY18 are consistent with the investments outlined during this spring's tuition setting process with specific investment amounts to be finalized in some cases after fall enrollment is known.

Support for Enrollment Growth and Student Success: To support NAU's continued growth in enrollment, investments in the instructional resources and student support services are the critical foundation for successful student learning outcomes. These investments include faculty resources that maintain our focus on student relationships in

addition to the adoption of the best practices and emerging technologies that support our university retention action plans. The development of NAU's Honors College is an initiative that will support NAU's enrollment growth and the retention of high achieving students. Investments of incremental general purpose funds are estimated at \$3.2 million.

Programmatic investments in High Demand Degree Growth: NAU's investments include planned investments in the continued build out of several programs that address increasing Arizona's workforce development needs in high demand fields such as health care and STEM. These programs range from Allied Health Care programs with the second cohort in the Master's in Athletic Training degree program at the Phoenix Biomedical Campus beginning this fall. Investments will also be made to build out NAU's PhD programs in Astronomy, Informatics and Bioengineering that broaden NAU's programs in the high degree STEM fields. Investments of incremental general purpose funds are estimated at \$1.5 million.

Research Growth: As noted in the university's OFR, NAU's initiative to reach the top 200 in Research Expenditures and meet the 2025 Enterprise metric for research expenditures involves recruiting established researchers who build upon the university's traditional research strengths and develop additional strategic strengths. This effort continues for this upcoming year with investments made in several key hires and the accompanying start-up expenses in the areas of microbiology, informatics, astronomy, and health equities research. These efforts in conjunction with the recent reorganization of the Office of Sponsored Projects and investments for graduate stipend adjustments to attract and retain graduate students will also impact the quality and breadth of NAU's research programs. Investments of incremental general purpose funds are estimated at \$2.5 million.

Retention and Recruitment of faculty and staff: Investments in NAU's faculty and staff is an important university initiative. Our success is highly dependent on our continued ability to attract and retain high quality faculty and staff and investing in this talent through strategic and meritorious adjustments is critical. To fund permanent salary adjustments, ongoing reviews of resource allocations are made throughout the university to identify efficiencies that may then be reinvested in our faculty and staff. Investments of incremental general purpose funds are estimated at \$3.5 million.

Online Education Investment: A key driver of NAU's future enrollment growth projections will come from the recruitment and retention of students in online programs. As outlined during the tuition setting process, NAU will transition to a new online pricing model in 2018 where graduate and undergraduate students will have one online rate based on credit hours regardless of residency. This aligns NAU with the online pricing practices of other institutions in Arizona and across the country. NAU will launch its sixth Personalized Learning degree program in the high demand field of computer information technology in FY18 with the addition of its first master's level competency based program. NAU also continues to drive growth in targeted online programs that will contribute to high demand degree and graduate enrollment metrics. Investments of incremental general purpose funds are estimated at \$1.1 million.

Facility and Technology Infrastructure related costs: Continued investments in facilities are an ongoing part of the need and priority for NAU. Projects will include those that address classroom technology remediation, fire life safety, roofing, other deferred maintenance investments, as well as targeted campus landscaping and residence life projects. These investments are critical to support a safe environment for students, faculty and staff and are also an important investment for recruiting and retaining students. NAU will see a slight decrease in debt service costs in FY18 due to the benefits of FY17 debt refinancing. Investments of incremental general purpose funds are estimated at \$2.5 million.

Expenses

As a result of these investments, NAU projects that operating expense will grow 7.3% over the FY17 budgeted expense levels (including the GASB adjustments). A primary driver of this growth will be personnel costs, as these expenditures comprise 60% of the university's operating costs and are budgeted to increase to serve a growing enrollment base. Similar to the most recent two years, NAU plans to moderate that impact by continuing a deliberate approach to hiring, reviewing hiring requests throughout FY18 to ensure that critical hires are made while restructuring services and priorities where appropriate to postpone hiring requests where possible.

The increase estimated in the Other Operating Expense category for FY18 is the result of NAU's investments in technology improvements in its classrooms, a strategic increase in coordinated marketing and outreach, and a series of strategic department moves to better utilize existing space across campus. Depreciation expense shows a slight decrease as the bulk of the university's most recent major building projects have entered into service over the past two years. Overall debt service levels decrease by approximately \$1.5 million in FY18 due to recent debt refinancing efforts. Targeting opportunities to reduce debt service is one example of NAU's efforts to utilize its resources efficiently and effectively and these efforts will continue to be prioritized this upcoming year.

Summary

NAU's FY18 annual budget submission reflects its strong commitment to the success of its students and the employees who work to support those students. When NAU students succeed, the State of Arizona realizes both short term and long term economic benefits. Maintaining a balanced budget for FY18 is a critical component to the fiscal health needed and operational structure required to reach the Enterprise metric targets set through 2025. The challenge to reach the Enterprise metric targets remains great, and NAU remains committed to working closely with the State of Arizona to develop the ongoing funding mechanisms that will support reaching these 2025 targets.



ANNUAL BUDGET

FY 2018 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY
 UNIVERSITY BUDGET
 FY 2018 (WITH FY 2017 COMPARATIVE BUDGET DATA)
 (\$ millions)

	FY 2018 BUDGET	FY 2017 BUDGET	\$ VARIANCE BETWEEN FY 2017 AND FY 2018 BUDGET	% VARIANCE BETWEEN FY 2017 AND FY 2018 BUDGET
Revenues				
State General Fund Appropriation	102.7	102.1	0.6	0.6%
State Appropriation - Research Infrastructure	5.9	4.2	1.6	38.8%
Tuition and Fees	374.5	347.9	26.6	7.6%
less Scholarship Allowance	(127.7)	(117.5)	(10.2)	8.7%
Net Tuition and Fees	246.8	230.4	16.4	7.1%
Grants & Contracts - Research	51.5	48.0	3.5	7.3%
Financial Aid Grants (Primarily Federal Pell Grants)	43.0	43.0	0.0	0.0%
Private Gifts	18.9	15.8	3.1	19.6%
Technology & Research Initiative Fund (TRIF)	14.5	13.7	0.8	5.9%
Auxiliary Revenue	64.0	57.8	6.2	10.7%
Other Revenues	45.9	37.0	8.9	24.1%
Total Revenues	593.2	551.9	41.2	7.5%
Expenses				
Salaries & Wages	256.4	241.1	15.3	6.4%
Benefits	84.9	81.8	3.1	3.7%
All Other Operating	132.1	120.8	11.3	9.4%
Scholarships & Fellowships, Net of Scholarship Allowance	34.0	32.6	1.4	4.4%
Depreciation	39.2	37.5	1.7	4.5%
GASB Adjustments (68 & 45)	13.7	5.4	8.3	154%
Interest on Indebtedness	27.8	28.9	(1.1)	(3.8%)
Total Expenses	588.2	548.1	40.1	7.3%
Net Increase	5.0	3.9	1.1	

MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately 148 days at June 30, 2018.

ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS (\$ millions)

FY 2017 Base Budget	\$ 396.9
Changes in Incremental Funding	
Tuition and Fees - rate changes	4.8
Tuition and Fees—enrollment and mix shift	17.5
State Appropriation—FY17 one time funding removed	(4.0)
State Appropriation—FY18 one time funding added	3.2
State Appropriation—FY18 insurance adjustments	0.1
State Appropriation—FY18 Research Infrastructure debt service	1.6
State Appropriation—AFAT appropriation to university	1.3
Other including Prop 123 waiver request	0.9
Net Change in Resources	\$ 25.4

Allocation of Incremental Resources

Enrollment Growth—Student Success	\$ 3.2
High Demand Degree Growth (Allied Health and PhD programs)	1.5
Research Enterprise Growth	2.5
Retention and Recruitment of Faculty and Staff including ERE	3.5
Online Education Investment	1.1
Facility and Technology Infrastructure	2.5
Student Financial Aid	14.1
Strategic Reallocations	(3.0)
Net Change in Budget Allocations	\$ 25.4
FY 2018 Base Budget	\$ 422.3

Strategic Metric Addressed			
Student Educational Success & Learning	Educational	Discover New Knowledge	Impact Arizona
e.g., Fr retention, enrollment, grad rates, etc.	e.g., Bachelors degrees awarded, grad degrees, E&G, certifications and credentials	e.g., Research and development, licenses & options, inventions	e.g., Public service, degrees in high demand fields, etc
Note which metrics addressed in each quadrant for each line item			
X	X		X
	X	X	X
	X	X	X
X	X	X	
X	X		X
X	X	X	X
X	X		
X	X	X	X

1. General Purpose Funds include state general funds, tuition and fees, investment income, administrative service charge, facilities & administration revenue (indirect cost recovery). Excludes Restricted & Auxiliary Funds.

ANNUAL BUDGET

STATE EXPENDITURE AUTHORITY BY APPROPRIATION CAMPUS (\$ thousands)

	FY18 Budget	FY17 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 175,015.0	\$ 166,125.0	\$ 8,890.0
Non Resident Tuition	129,272.0	116,076.0	13,196.0
Program Fees	4,224.0	4,023.0	201.0
Other Student Fees	0.0	0.0	-
Miscellaneous Revenues	2,555.0	1,665.0	885.0
Total University Revenues	\$ 311,061.0	\$ 287,889.0	\$ 23,172.0
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 17,988.5	\$ 16,292.4	\$ 1,696.1
Regents Financial Aid Set Aside	32,250.0	30,250.0	2,000.0
Other Financial Aid	87,891.4	77,063.3	10,828.1
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	14,500.0	16,000.0	(1,500.0)
Total Retained for Local Uses	\$ 153,629.9	\$ 140,605.7	\$ 13,024.2
University Revenues Remitted to State (State Collections)	\$ 157,431.1	\$ 147,283.3	\$ 10,147.8
Plus: State General Fund Appropriation	108,612.8	106,317.0	2,295.8
Total State Expenditure Authority	\$ 266,043.9	\$ 253,600.3	12,443.6

% CHANGES IN INCREMENTAL REVENUES

State General Funds 2%
Tuition 8%
Program, Other Student Fees and Misc. Revenue 19%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets 10% Other Financial Aid 14%
Regents Financial Aid Set Aside 7%
Plant/Debt Service/COPS/Lease Purchase (9%)

ANNUAL BUDGET

LOCAL COLLECTIONS

	<u>FY18 BUDGET</u>	<u>FY17 BUDGET</u>	<u>CHANGE</u>
LOCAL COLLECTIONS FROM TUITION AND FEES			
OPERATING FUNDS FROM TUITION			
American Disabilities Act (ADA) Services	\$ 750,000	\$ 690,000	\$ 60,000
Art Gallery	10,900	10,900	-
Child Care	43,900	43,900	-
Graduate Assistant Tuition Remission	2,300,000	2,300,000	-
Honors Forum	8,700	8,700	-
NAU Yuma Activity Program	-	19,900	(19,900)
Peer Mentoring and Retention	502,000	502,000	-
Performing Arts—Music	58,900	58,900	-
Performing Arts Series	31,900	31,900	-
Registrar’s Office Operations	123,000	123,000	-
School of Comm Student Ratio, Cable and Forensics	27,200	27,200	-
Special Events	10,500	10,500	-
Student Activities	229,000	229,000	-
Student Financial Aid Operations	337,300	337,300	-
Online Education Investment	10,063,700	8,907,700	1,156,000
SUN (Student Union Network Entertainment)	55,800	55,800	-
Employee Benefit Contingency	100,000	100,000	-
Engineering Program Expansion	500,000	-	500,000
Operations: Collections	502,300	502,300	-
SUBTOTAL	\$ 15,655,100	\$ 13,959,000	\$ 1,696,100
<u>AUXILIARY</u>			
Intercollegiate Athletics	\$ 1,537,000	\$ 1,537,000	\$ -
Skydome	207,900	207,900	-
SUBTOTAL	\$ 1,744,900	\$ 1,744,900	\$ -
OPERATING FUNDS SUBTOTAL	\$ 17,400,000	\$ 15,703,900	\$ 1,696,100

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 32,250,000	\$ 30,250,000	\$ 2,000,000
Other Financial Aid - Institutional Financial Aid	87,300,000	76,500,000	10,800,000

SUBTOTAL	<u>\$ 119,550,000</u>	<u>\$ 106,750,000</u>	<u>\$ 12,800,000</u>
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MINOR CAPITAL PROJECTS/PLANT FUNDS

	\$ 1,000,000	\$ 1,000,000	\$ -
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DEBT SERVICE

	14,500,000	16,000,000	(1,500,000)
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TOTAL LOCAL RETENTION FROM TUITION	<u>\$ 152,450,000</u>	<u>\$ 139,453,900</u>	<u>\$ 12,996,100</u>
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LOCAL COLLECTIONS FROM PROGRAM FEES

DESIGNATED OPERATING FUNDS

Doctorate of Physical Therapy (DPT) Program Fee	\$ 458,500	\$ 458,500	\$ -
Physician Assistant (PA) Program Fee	75,000	75,000	-
Occupational Therapy (OT) Program Fee	45,000	45,000	-
Athletic Training (AT) Program Fee	10,000	10,000	-

FINANCIAL AID

Physical Therapy Financial Aid Set Aside	\$ 224,600	\$ 217,300	7,300
Physician Assistant Financial Aid Set Aside	196,000	187,200	8,800
Occupational Therapy Financial Aid Set Aside	158,600	152,500	6,100
Athletic Training Financial Aid Set Aside	12,200	6,300	5,900

SUBTOTAL	<u>\$ 591,400</u>	<u>\$ 563,300</u>	<u>\$ 28,100</u>
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TOTAL LOCAL RETENTION FROM PROGRAM FEES	<u>\$ 1,179,900</u>	<u>\$ 1,151,800</u>	<u>\$ 28,100</u>
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TOTAL LOCAL COLLECTIONS	<u>\$ 153,629,900</u>	<u>\$ 140,605,700</u>	<u>\$ 13,024,200</u>
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