

## EXECUTIVE SUMMARY

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**Item Name:** Annual Capital Plan for Northern Arizona University

Action Item

**Requested Action:** Northern Arizona University (NAU) asks the board to approve its Annual Capital Plan (ACP), as described in this executive summary. The ACP includes one new project, which is a third-party project, and no resubmitted projects. Excluding third-party projects, the ACP has no financial impact.

### Background/History of Previous Board Action

- Capital Improvement Plan FY 2025 – FY 2028 September 2023
- Campus Master Plan November 2023

### Prior Year Activity

- There were no major capital projects ongoing nor substantially completed within the last 12 months.
- Since there hasn't been any activity in the last 12 months, there aren't any details listed in Exhibit 1.

### Overview and Alignment with Enterprise and University Goals and Objectives

- The NAU ACP includes one new third-party project.
- NAU has developed the ACP to align with university's Campus Master Plan, and the system Enterprise and university strategic goals and objectives.
- The primary institutional priorities supported by the ACP include:
  - **Student Support Requirements:** New facilities that provide additional housing options that include student success programs support successful student recruitment, sense of belonging, retention and graduation. Residential campus facilities contribute to increasing and maintaining student retention rates as well as enhancing the student experience.
  - **Funding Sources & Financing Options:** Project funding and financing should be carefully considered for every individual project, to take advantage of windows

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of opportunity, to maximize the resources available with minimal impacts on tuition rates and to responsibly manage the assets of the University. Financial resources must be judiciously utilized to meet the highest institutional priorities and the University's financial strength and standing must be preserved. Constructing a privatized living facility enables the University to preserve its debt ratio and bonding capacity for academic and other facility needs.

### **Annual Capital Plan Projects**

- The following new project is proposed for ACP approval:
  - South Campus Housing Village (third-party)
- There are no resubmitted projects.
- Additional detail on project costs, financing, and scope can be found in the tables in Exhibits 2 and 3, and the individual Project Justification Reports attached at the end.

### **Fiscal Impact and Management**

- The NAU ACP, if fully implemented, will have no financial impact. NAU is working with a third-party developer to minimize the capital outlay by the University.
- There is no capital investment or bonded financial obligation to the University.
- **Debt Ratio Impact:** There is no impact to NAU's debt ratio.
- The tables in Exhibits 2 and 3 provide detail project financing, funding sources and debt ratio impact.

### **Other Projects**

- NAU anticipates no other third-party projects and no component unit projects that require board approval to be entered into in the next year. There is one commercial long-term lease that requires board approval, that has been sent separately as required by board policy.

### **Committee Review and Recommendation**

The University Governance and Operations Committee reviewed this item at its September 12, 2024, meeting and recommended forwarding the item to the board for approval.

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### **Statutory/Policy Requirements**

- Pursuant to ABOR Policy 7-102.B.2, each university shall submit an annual ACP for the upcoming 12-month period in accordance with the calendar and form approved by the executive director of the board.
- ACPs are reviewed by the University Governance and Operations Committee and approved by the board.
- Approval of the ACP authorizes the university to seek legislative review for debt-funded or third-party projects, if applicable. A university cannot proceed with financing or execute construction contracts for a project until the committee has reviewed and the board has approved the Individual Project and Financing phase.

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**EXHIBIT 1**

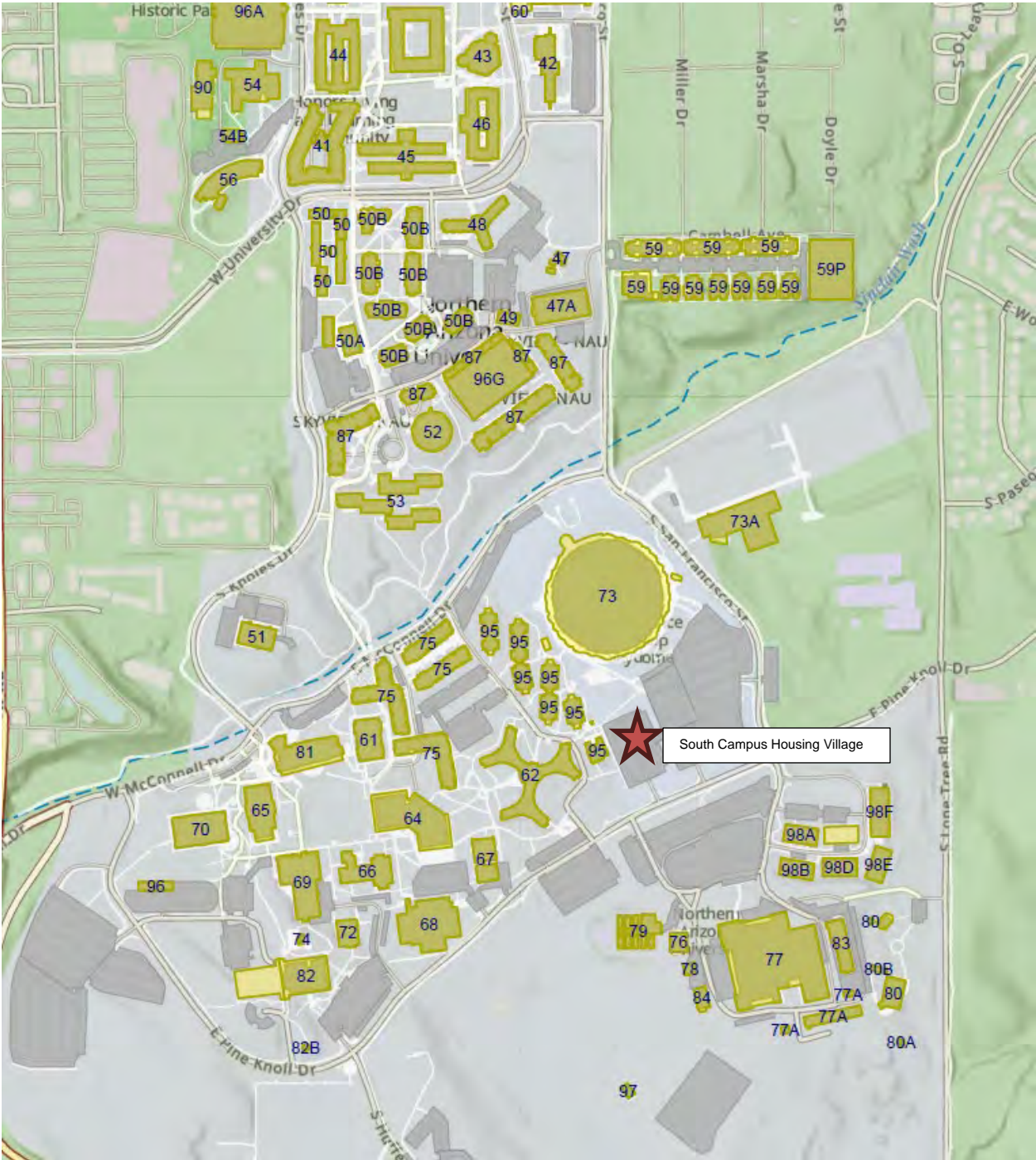
Northern Arizona University Capital Project Status Report							
Project Name	Square Footage	Total Budget	Direct Construction Budget	Percent Work Complete	Percent to Gift Target	Date last Board Approval	Original / Revised Occupancy Date
<b>Ongoing University Projects</b>							
N/A							
<b>Ongoing Third-Party Projects</b>							
N/A							
<b>Substantially Completed University Projects</b>							
N/A							
<b>Substantially Completed Third-Party Projects</b>							
N/A							





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**EXHIBIT 4**



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**EXHIBIT 5**  
**Debt Capacity Report**  
 Fiscal Year 2024 Unaudited

**PURPOSE**

To demonstrate Northern Arizona University’s ability to finance additional capital investment through debt instruments and to fund the related debt service (principal and interest).

**PROJECTED DEBT CAPACITY**

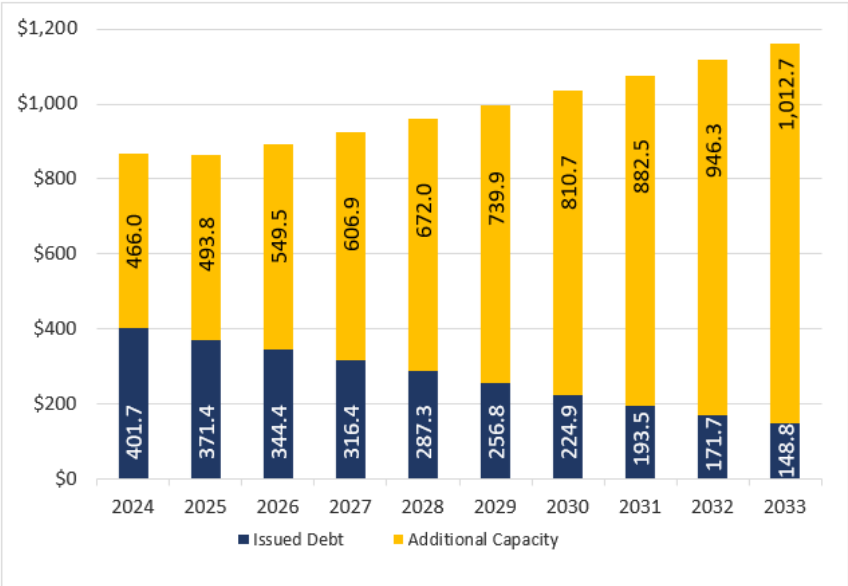
**Maximum Projected Debt Service to Total Expenditures**

**Excluding/Including SPEED debt**

**4.4% / 5.8%**

Currently outstanding (issued) debt at the end of FY 2024 is \$401.7 million. Outstanding debt in FY 2025 is projected to be \$371.4 million. The maximum projected debt ratio is 4.4 percent in FY 2026. The 4.4 percent ratio is within the range used by bond rating firms to confirm an institution’s creditworthiness and is below the 8 percent statutory debt limit. Maximum total annual debt service of \$32.7 million will occur in FY 2030 at 3.9 percent.

Currently outstanding (issued) debt declines from \$401.7 million in FY 2024 to \$148.8 million by FY 2033 as debt is retired. Additional debt capacity represents debt that can be issued in any given year based on the statutory 8 percent debt ratio maximum.



**FUTURE PROJECTS**

As noted in this ACP, no debt financed projects are currently planned.



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**CREDIT RATINGS**

Positive rating factors cited by agencies include NAU’s presence as a large, comprehensive university; multiple years of growth in wealth, liquidity, and enrollment; good operating reserves; and a healthy history of monthly days cash on hand. Offsetting factors include strong enrollment competition, high maximum annual debt service compared to agency medians and narrow reserves relative to debt.

Fiscal Year	Moody's		Standard & Poor's	
	Rating	Outlook	Rating	Outlook
2017	A1	Stable	A+	Stable
2018	A1	Stable	A+	Stable
2019	A1	Stable	A+	Stable
2020	A1	Stable	A+	Negative
2021	A1	Stable	A+	Stable
2022	A1	Stable	A+	Stable
2023	A1	Stable	A+	Stable
2024	A1	Stable	A+	Stable

**RATIO OF DEBT SERVICE TOTAL EXPENSES**

Annual debt service on system revenue bonds and COPs is projected to increase from \$29.4 million in FY 2024 to a maximum of \$32.7 million in FY 2030. The ratio of debt service to total expenses is expected to reach a maximum in FY 2026 at 4.4 percent. SPEED (Stimulus Plan for Economic and Educational Development) bonds are funded up to 80 percent by state lottery revenues, with the balance funded by the University. SPEED debt service is excluded from the statutory debt ratio, but if SPEED debt service of \$9.9 million is included, the highest projected debt ratio increases to 5.8 percent in FY 2026.



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### **Northern Arizona University Annual Capital Plan – Project Justification Report South Campus Housing Village – Public Private Partnership**

#### **Background/History of Previous Board Action**

- Capital Improvement Plan FY 2025 – FY 2028 September 2023

#### **Project Justification/Description/Scope**

- The need for quality and affordable campus housing to handle the current demand for upper-division students, makes housing expansions and modernization strategies essential. As outlined in NAU's Campus Master plan, the vision for the South Campus Housing Village is to establish a new residential community of approximately 500 students. The driver to complete the new South Campus Housing Village is to reduce the current demand for upper-division students wanting to live in high-quality on-campus housing.
- This project will build three new housing buildings with approximately 500 new beds in total where parking lot P66A currently stands. The new housing buildings will incorporate active lounges to support student experiences, passive lounges for studying, and shared kitchens to encourage community and student services. The building massing will create courtyards that offer students outdoor social areas. The housing community should support connectivity between the courtyards, not create socially isolated spaces. In addition, the exterior gathering and social environments should be coordinated with social spaces on the lower levels of the buildings.
- NAU will partner with a private developer to advance this project. Specific project details are to be determined as both parties engage in due diligence.
- This project is part of the phase one projects of the recently completed Master Plan.

#### **Project Delivery Method and Process**

- NAU will contract with American Campus Communities (ACC) for development and management of this third-party project.
- ACC is a leading developer and manager of student housing that has developed and managed multiple residential housing projects for NAU including Hilltop Townhomes, the Suites, Skyview, and Honors Living & Learning Community.

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### **Project Status and Schedule**

- It is anticipated the project will begin design in calendar year 2025 and construction in 2026 to support occupancy for the fall 2028 term.

### **Project Cost**

- All project costs will be paid by the developer. The project cost is yet to be determined.

### **Fiscal Impact and Financing Plan**

- The construction project will be funded through a ground lease agreement. The ground lease agreement between the University and ACC will facilitate the ability of ACC to finance the project. The University retains ownership of the project site.
- Approval to enter into a long-term ground lease will be brought to ABOR for approval in a separate Board Action Item at a future meeting.
- **Debt Ratio Impact:** There is no impact.

### **Occupancy Plan**

- The South Campus Housing Village will be a residential facility for students, to be managed by ACC.

### **Statutory/Policy Requirements**

- ABOR Policy 7-102 requires all major capital projects with an estimated total project cost of \$10 million or more to be included in the Annual Capital Plan, including new construction, renovation, infrastructure, information technology, and third-party projects.

