



FY19 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 FY19 Annual Budget that projects a change in net position of \$5.8 million. This net position increase reflects a financial statement view and includes an estimated \$13.7 million impact from GASB adjustments anticipated in FY19 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 142 days based on the projected expenditure level for this upcoming year that account for capital projects including the Recital Hall and Science Annex projects. This reflects a change from the budgeted FY18 monthly days cash on hand metric of 148 days. NAU plans to address 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 FY19 to increase 5.8% over its FY18 revenue budget. The distribution of revenue sources varies only slightly from the FY18 budgeted revenue sources. Net tuition and fees and state appropriations comprise 60% of NAU's revenue sources and are the primary funding source for the instruction of an increasing enrollment base. The FY19 state appropriations in the form of \$1.6 million one-time operational funding and the \$4.5 million university infrastructure appropriation will provide funding for NAU to invest in the renovation of the Science Annex.

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 investment income in the case of the Other Revenue category. Revenue from TRIF funding is aligned with the revised five-year revenue projection 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 fundraising campaign in FY19.

As approved by the Board at its February 2018 meeting, NAU's FY19 budget includes an estimate of \$.685 million from Proposition 123 distributions, for use as general-purpose funds. This is the same level of Proposition 123 funding included in the FY18 budget.

Enrollment

Enrollment assumptions for this upcoming year are consistent with those noted during the tuition setting cycle and will keep NAU on track to hit the 2025 metrics for enrollment. Those projections included an 797 FTE increase (+2.7%) for Fall 2018 with the majority of that growth coming from undergraduate students, 60% of the growth coming from resident students and 25% 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 increases slightly with the one time appropriations after decreases in FY16, FY17 and FY18.

To support this projected enrollment growth, NAU's planned financial aid strategy will result in a slight increase in scholarship allowance. As a percent of gross tuition and fee revenues, scholarship allowances are estimated to increase approximately one percent, from 34 percent to 35 percent of gross tuition. 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 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 two years ago 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 or program fees for higher cost programs. Both mandatory fees and program fees can be included in financial aid packages.

Major Initiatives/Strategic Investments

NAU's investments for FY19 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 FY19 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 that will expand beyond first year retention to cover persistence to degree. The development of NAU's Honors College and this fall's opening of the Honors College Living and Learning Facility is an initiative that supports NAU's enrollment growth and the retention of high achieving students. Investments of incremental general purpose funds are estimated at \$3.0 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 at the Phoenix Biomedical Campus to the ongoing build out of NAU's most recently launched PhD programs in Astronomy and Informatics. Increased investments are planned in conjunction with new program fees in several of NAU's public health programs at both the graduate and undergraduate level. NAU's proposal to develop a College of Engineering reflects a commitment to developing a structure and increased focus to further build on the significant growth in engineering enrollment. Investments of incremental general purpose funds are estimated at \$1.4 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. NAU will continue to build upon the \$46.3 million in research expenditures achieved in FY17 as measured by the NSF Higher Education Research and Development survey with investments in several key hires and the accompanying start-up expenses in the areas of microbiology, informatics, astronomy, applied materials and health equities research. These efforts in conjunction with additional investments for graduate stipend adjustments to attract and retain graduate students also impact the quality and breadth of NAU's research programs. Investments of incremental general purpose funds are estimated at \$1.2 million.

Retention and Recruitment of Faculty and Staff: Investment 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 and increasing health insurance costs, ongoing reviews of resource allocations are made throughout the university to identify efficiencies that may then be reinvested in our faculty and staff. With one of the lowest faculty and staff per 100 student ratios among our ABOR peers, NAU has demonstrated its commitment to running an efficient, student centered enterprise. 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. NAU transitioned to a new online pricing model in 2018 where graduate and undergraduate students have one online rate based on credit hours regardless of residency. This aligned NAU with the online pricing practices of other institutions in Arizona and across the country. NAU will launch its seventh Personalized Learning degree program, and second master's program, in the high demand field of nursing in FY19. NAU also plans 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. NAU will invest \$6.1 million in FY19 state investments for capital infrastructure and operations in the Science Annex renovation. Other projects will include those that address classroom technology remediation, fire life safety, roofing, other deferred maintenance investments, as well as targeted campus facility updates in the union 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 an increase in debt service costs in FY19 after realizing upfront benefits of debt refinancing in FY18. Investments of incremental general purpose funds are estimated at \$4.3 million.

Programmatic investments in Athletics: NAU's investments for FY19 will include investments in its Athletics program with the implementation of a new Athletics Fee. An advisory committee of Athletics staff in conjunction with student representatives will make recommendations for annual investments in facilities and initiatives to increase student engagement with NAU Athletics. The committee will also review actual expenditures associated with this fee – increasing the transparency in our approach to funding Athletics. Investments of incremental general purpose funds are estimated at \$3.2 million.

Programmatic investments in Economic Policy Institute: NAU's investments for FY19 include a one-time state appropriation investment in the Alliance Bank Economic Policy Institute. This investment will support the institute's mission of rural economic development, financial literacy and entrepreneurialism and will build the foundation for future growth of the institute. Investments of incremental general purpose funds are estimated at \$0.5 million.

Expenses

As a result of these investments, NAU projects that operating expense will grow 5.7% over the FY18 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 throughout FY19. This includes reviewing requests to fill position vacancies to ensure that critical hires are made while restructuring services and priorities where appropriate to postpone requests when possible.

The increase estimated in the Other Operating Expense category for FY19 is the result of NAU's investments in technology improvements in its classrooms and information security, a strategic increase in coordinated marketing and outreach, and an operations investment in the university police department. Depreciation expense shows an increase as both the Recital Hall and Science Annex capital projects are scheduled to be completed in FY19. Overall debt service levels increase by approximately \$4.8 million in FY19 with the majority of that increase coming in the form of principle repayment rather than interest as a result of the university's refinancing efforts.

NAU must be a good steward of the resources made available to it whether it is through investments from the state or from students. NAU will continue to provide an efficient and student centered enterprise and will pursue a number of initiatives on that front this upcoming

year including a software maintenance contact review, a shared service initiative to increase administrative effectiveness and efficiencies, leveraging technology further to address document management and workflow and coordinating purchase payment discounts.

Summary

NAU's FY19 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 FY19 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 2019 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY
 UNIVERSITY BUDGET
 FY 2019 (WITH FY 2018 COMPARATIVE BUDGET DATA)
 (\$ millions)

	FY 2019 BUDGET	FY 2018 BUDGET	\$ VARIANCE BETWEEN FY 2018 AND FY 2019 BUDGET	% VARIANCE BETWEEN FY 2018 AND FY 2019 BUDGET
Revenues				
State General Fund Appropriation	106.3	102.7	3.6	3.5%
State Appropriation - Research Infrastructure	5.9	5.9	0.0	0.1%
Tuition and Fees	397.0	374.4	22.5	6.0%
less Scholarship Allowance	(139.7)	(127.7)	(12.0)	9.4%
Net Tuition and Fees	257.3	246.8	10.5	4.3%
Grants & Contracts - Research	57.0	51.5	5.5	10.7%
Financial Aid Grants (Primarily Federal Pell Grants)	47.0	43.0	4.0	9.3%
Private Gifts	22.4	18.9	3.5	18.6%
Technology & Research Initiative Fund (TRIF)	14.5	14.5	0.0	0.3%
Auxiliary Revenue	70.5	64.0	6.5	10.2%
Other Revenues	46.6	45.9	0.8	1.6%
Total Revenues	627.6	593.2	34.4	5.8%
Expenses				
Salaries & Wages	265.1	256.4	8.7	3.4%
Benefits	92.1	84.9	7.3	8.6%
All Other Operating	139.5	132.1	7.3	5.6%
Scholarships & Fellowships, Net of Scholarship Allowance	39.8	34.0	5.8	17.0%
Depreciation	43.6	39.2	4.4	11.2%
GASB Adjustments (68 & 45)	13.7	13.7	0.0	0.0%
Interest on Indebtedness	28.0	27.9	0.1	0.5%
Total Expenses	621.8	588.2	33.6	5.7%
Net Increase	5.8	5.0	0.8	

MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately 142 days at June 30, 2019.



ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS (\$ millions)

FY 2018 Base Budget	\$ 422.4
Changes in Incremental Funding	
Tuition and Fees - rate changes	7.9
Tuition and Fees—enrollment and mix shift	14.6
State Appropriation—FY18 one time funding removed	(3.2)
State Appropriation—FY19 one time funding added	1.6
State Appropriation—FY19 insurance adjustments	0.2
State Appropriation—FY19 university infrastructure funding	4.5
State Appropriation—FY19 one time funding for Econ Policy Institute	0.5
Other including investment income and Prop 123 waiver request	1.0
Net Change in Resources	\$ 27.1

Allocation of Incremental Resources

Enrollment Growth—Student Success	\$ 3.0
High Demand Degree Growth (Allied Health and PhD programs)	1.4
Research Enterprise Growth	1.2
Retention and Recruitment of Faculty and Staff including ERE	3.5
Online Education Investment	1.1
Facility and Technology Infrastructure	4.3
Athletics Program Investment	3.2
Economic Policy Institute Investment	0.5
Student Financial Aid	12.4
Strategic Reallocations	(3.5)

Net Change in Budget Allocations	\$ 27.1
FY 2019 Base Budget	\$ 449.5

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	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)

	FY19 BUDGET	FY18 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 189,544.0	\$ 175,015.0	\$ 14,529.0
Non Resident Tuition	132,846.0	129,272.0	3,574.0
Program Fees	4,248.5	4,224.0	24.5
Other Student Fees	0.0	0.0	-
Miscellaneous Revenues	2,750.0	2,550.0	200.0
Total University Revenues	\$ 329,388.5	\$ 311,061.0	\$ 18,327.5
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 18,534.8	\$ 17,988.5	\$ 546.3
Regents Financial Aid Set Aside	33,000.0	32,250.0	750.0
Other Financial Aid	99,894.8	87,891.4	12,003.4
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	16,000.0	14,500.0	1,500.0
Total Retained for Local Uses	\$ 168,429.6	\$ 153,629.9	\$ 14,799.7
University Revenues Remitted to State (State Collections)	\$ 160,958.9	\$ 157,431.1	\$ 3,527.8
Plus: State General Fund Appropriation	112,239.8	108,612.8	3,627.0
Total State Expenditure Authority	\$ 273,198.7	\$ 266,043.9	7,154.8

% CHANGES IN INCREMENTAL REVENUES

State General Funds 3%
 Tuition 6%
 Program, Other Student Fees and Misc. Revenue 3%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets 3% Other Financial Aid 14%
 Regents Financial Aid Set Aside 2%
 Plant/Debt Service/COPS/Lease Purchase 10%



ANNUAL BUDGET

LOCAL COLLECTIONS

	FY19 BUDGET	FY18 BUDGET	CHANGE
LOCAL COLLECTIONS FROM TUITION AND FEES			
OPERATING FUNDS FROM TUITION			
American Disabilities Act (ADA) Services	\$ 750,000	\$ 750,000	\$ -
Art Gallery	10,900	10,900	-
Child Care	43,900	43,900	-
Graduate Assistant Tuition Remission	2,400,000	2,300,000	100,000
Honors Forum	0	8,700	(8,700)
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	0	10,500	(10,500)
Student Activities	254,000	229,000	25,000
Student Financial Aid Operations	337,300	337,300	-
Online Education Investment	10,610,000	10,063,700	546,300
SUN (Student Union Network Entertainment)	0	55,800	(55,800)
Employee Benefit Contingency	50,000	100,000	(50,000)
Engineering Program Expansion	500,000	500,000	-
Operations: Collections	502,300	502,300	-
SUBTOTAL	\$ 16,201,400	\$ 15,655,100	\$ 546,300
AUXILIARY			
Intercollegiate Athletics	\$ 1,537,000	\$ 1,537,000	\$ -
Skydome	207,900	207,900	-
SUBTOTAL	\$ 1,744,900	\$ 1,744,900	\$ -
OPERATING FUNDS SUBTOTAL	\$ 17,946,300	\$ 17,400,000	\$ 546,300



ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 33,000,000	\$ 32,250,000	\$ 750,000
Other Financial Aid - Institutional Financial Aid	99,300,000	87,300,000	12,000,000

SUBTOTAL	\$ 132,300,000	\$ 119,550,000	\$ 12,750,000
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MINOR CAPITAL PROJECTS/PLANT FUNDS

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

	16,000,000	14,500,000	1,500,000
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TOTAL LOCAL RETENTION FROM TUITION	\$ 167,246,300	\$ 152,450,000	\$ 14,796,300
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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	\$ 189,900	\$ 224,600	(34,700)
Physician Assistant Financial Aid Set Aside	196,000	196,000	-
Occupational Therapy Financial Aid Set Aside	192,500	158,600	33,900
Athletic Training Financial Aid Set Aside	16,400	12,200	4,200

SUBTOTAL	\$ 594,800	\$ 591,400	\$ 3,400
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TOTAL LOCAL RETENTION FROM PROGRAM FEES	\$ 1,183,300	\$ 1,179,900	\$ 3,400
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TOTAL LOCAL COLLECTIONS	\$ 168,429,600	\$ 153,629,900	\$ 14,799,700
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