



FY 2020 Annual Budget

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 to ensure that they support the strategic direction of NAU, and in turn, support our students, faculty, and staff.

Overview

NAU submits the FY20 Annual Budget that projects a change in net position of \$6.5 million. This net position increase reflects a financial statement view and includes an estimated \$11.8 million impact from GASB adjustments anticipated in FY20 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 145 days based on the projected expenditure level for this upcoming year. This reflects an increase from the budgeted FY19 monthly days cash on hand metric of 142 days and keeps NAU within the board approved financial liquidity range. NAU will continue 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 FY20 to increase 1.0% over its FY19 revenue budget. The distribution of revenue sources varies only slightly from the FY19 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 FY20 state appropriations in the form of \$6.7 million for one-time operational funding and \$1.3 million in insurance technical adjustments offset the \$2.0 million in FY19 one time funding that is removed in the Executive's proposed budget. The FY20 budget numbers also reflect the \$3.0 million appropriation which is considered a pass through appropriation to TGEN.

NAU also expects growth from this year 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 a continuation of strong revenue growth from grants and contracts revenue, including higher levels of Facilities and Administrative recovery revenue, with the increased investments in the research enterprise. Philanthropic gift revenue is expected to benefit from the launch of a new fundraising campaign in FY20 and the increased efforts to diversify the university's revenue stream.

As approved by the Board at its February 2018 meeting, NAU's FY20 budget includes an estimate of \$0.7 million from Proposition 123 distributions, for use as general-purpose funds. This is the same level of Proposition 123 funding included in the FY18 and FY19 budgets.

Enrollment

Enrollment assumptions for this upcoming year are consistent with those noted during the tuition setting cycle and will position NAU to make positive progress towards the 2025 metrics for both undergraduate and graduate enrollment. Those projections included a 350 FTE increase (+1.2%) for Fall 2019 with 100% of the FTE projected growth for Fall 21 day census coming from on campus students. This will include increases in the enrollments at statewide campus sites where tuition rates are set for all students each year. 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. A targeted focus on select non-resident areas outside of the WUE states in addition to expanding international relationships in a wider number of countries is aimed at diversifying the traditional resident student revenue stream. NAU's efforts in these areas, as well as generating online enrollment growth, depend on relevant program offerings and having a strengthening reputation for both academic and research prominence.

Using this FTE growth assumption in conjunction with the Executive's proposed state appropriation and tuition and fees projection, NAU's educational funding on a per FTE basis increases slightly in FY20 with 70% of that educational funding provided from tuition and fees.

To support this projected enrollment growth, NAU's planned financial aid strategy will result in an increased scholarship allowance. As a percent of gross tuition and fee revenues, scholarship allowances are estimated to increase approximately one percent, from 37 percent to 38 percent of gross tuition from year to year. The overall strategy for this upcoming year continues to be similar to previous years, but with a renewed focus on effectively utilizing and leveraging financial aid resources to attract students, and to also improve the retention of students from the decreased retention rate experienced in Fall 2018.

NAU's commitment to balancing student affordability with the predictability of a tuition pricing model is rooted in the Pledge tuition program on the Flagstaff campus, which will continue for this upcoming year. Combined with the 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 who are increasingly first generation students across diverse ethnicities. The class fee review initiative that began three years ago complements this philosophy and improves the transparency of student costs by transitioning from individual class fees to specific mandatory fees or program fees for higher cost programs, with both types of fees automatically included in financial aid packaging.

Major Initiatives/Strategic Investments

NAU's investments for FY20 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 FY20 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.

Retention and Recruitment of Faculty and Staff: Investment in NAU's faculty and staff is a key university initiative for FY20. Our success is highly dependent on our continued ability to attract and retain high quality faculty and staff, and supporting this talent through strategic and meritorious adjustments is critical. To fund permanent, merit based salary adjustments and increasing health insurance costs, ongoing reviews of personnel resource allocations continue 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.

Programmatic investments in High Demand Degree Growth: NAU's planned investments include those for the continued build out of several programs to address Arizona's increasing need for workforce development in high demand fields such as health care, education and STEM. These program investments align with the new graduate and undergraduate program fees that were recently approved and include the continued development of Allied Health Care programs at the Phoenix Biomedical Campus as well as the build out of NAU's PhD programs ranging from Astronomy and Informatics to Education and Engineering programs. Investments of incremental general purpose funds are estimated at \$1.0 million.

Facility and Technology Infrastructure related costs: Continued investments in facilities are an ongoing part of the need and priority for NAU. NAU will dedicate the FY20 Capital Infrastructure Funding appropriation to the completion of the Science Annex renovation. Other projects will include those that continue to remediate classroom technology to the university standard, fire life safety projects, other deferred maintenance investments, as well as targeted campus facility updates in the union, auditorium and residence life projects. These investments are critical to support a safe environment for students, faculty and staff and are also important to recruiting and retaining students. NAU will see an increase in debt service costs in FY20 after realizing upfront benefits of debt refinancing in both FY18 and FY19. Investments of incremental general purpose funds are estimated at \$1.5 million.

Research Growth: As noted in the university's recent OFR presentations, 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 capabilities and develop additional strategic strengths. NAU will continue to build upon the \$52.9 million in research expenditures achieved in FY18 as measured by the NSF Higher Education Research and Development

survey with investments in key hires in the areas of astronomy, seismology, applied materials science and engineering. These efforts, combined with investments in graduate stipends, attract and retain graduate students which in turn impacts the quality and breadth of NAU's research programs. NAU's targeted research investments build a foundation for research growth which also helps attract and retain students and faculty and have allowed the university to double its Facilities and Administrative Revenue over the past five years further supporting the research enterprise. Investments of incremental general purpose funds are estimated at \$0.8 million.

Programmatic investments in Counseling and Mental Health Services for Students: NAU's investments for FY20 will include the expansion of counseling and mental health services for students. Investments of incremental general purpose funds are estimated at \$1.1 million.

Programmatic investments in Sustainability Initiatives: NAU's investments for FY20 will include expansion of new sustainability initiatives on campus with the approved increase in the green fee. Investments of incremental general purpose funds are estimated at \$0.4 million.

Expenses

As a result of these investments, NAU projects that operating expense will grow 0.8% over the FY19 budgeted expense levels (including the GASB adjustments). A primary driver of this expenditure growth from FY19 will be personnel costs, as these expenditures comprise 60% of the university's operating costs and are budgeted to increase to serve an increased enrollment base and incorporate a merit based salary adjustment for faculty and staff. Similar to recent practice, NAU plans to moderate that impact by continuing a deliberate approach to hiring throughout FY20. This includes reviewing requests to fill position vacancies to ensure that critical hires are made while restructuring services and priorities, and to postpone requests when appropriate.

The estimated increase in the Other Operating Expense category for FY20 is the result of NAU's investments in technology improvements in classrooms, network capacity and information security, and an operations investment in the university facility services and police departments. Depreciation expense is projected to remain flat to FY19 at \$43.6 million as retirements offset the addition of the completed Science Annex renovation. Overall debt service levels increase by approximately \$4.5 million in FY20 with the majority of that increase coming in the form of principle repayment rather than interest expense as a result of the university's refinancing efforts.

NAU remains 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 during this upcoming year including software maintenance contract reviews, the implementation of a new administrative service delivery framework to increase administrative effectiveness and efficiencies, leveraging technology further to address document management and workflow and coordinating purchase payment discounts. The functional expense category most impacted by these activities is institutional support, which is an area where efficiencies can improve the operations of the entire university.

Summary

NAU's FY20 annual budget submission reflects its continued 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 FY20 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 2020 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY

UNIVERSITY BUDGET

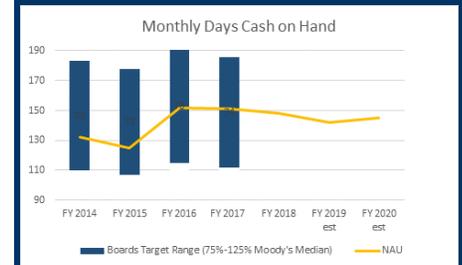
FY 2020 (WITH FY 2019 COMPARATIVE BUDGET DATA)

(\$ millions)

	FY 2020 BUDGET	FY 2019 BUDGET	\$ VARIANCE BETWEEN FY 2019 AND FY 2020 BUDGET	% VARIANCE BETWEEN FY 2019 AND FY 2020 BUDGET
Revenues				
State General Fund Appropriation	112.2	106.3	5.9	5.6%
State Appropriation - Research Infrastructure	5.9	5.9	0.0	0.0%
Tuition and Fees	404.1	397.0	7.1	1.8%
Less Scholarship Allowance	(154.0)	(139.7)	(14.3)	10.2%
Net Tuition and Fees	250.1	257.3	(7.2)	(2.8%)
Grants & Contracts - Research	68.0	57.0	11.0	19.3%
Financial Aid Grants (Primarily Federal Pell Grants)	48.0	47.0	1.0	2.1%
Private Gifts	20.0	22.4	(2.4)	(10.6%)
Technology & Research Initiative Fund (TRIF)	15.2	14.5	0.7	5.0%
Auxiliary Revenue	66.0	70.5	(4.5)	(6.4%)
Other Revenues	48.0	46.6	1.4	3.0%
Total Revenues	633.6	627.6	5.9	0.9%
Expenses				
Salaries & Wages	267.2	265.1	2.1	0.8%
Benefits	91.8	92.1	(0.3)	(0.4%)
All Other Operating	141.1	139.5	1.6	1.2%
Scholarships & Fellowships, Net of Scholarship Allowance	43.0	39.8	3.2	8.0%
Depreciation	43.6	43.6	0.0	0.0%
GASB Adjustments (68 & 45)	11.8	13.7	(1.9)	(13.9%)
Interest on Indebtedness	28.5	28.0	0.5	1.9%
Total Expenses	627.0	621.8	5.2	0.8%
Net Increase	6.5	5.8	0.7	

MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately 145 days at June 30, 2020.



ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS (\$ millions)

FY 2019 Base Budget	\$ 449.5
Changes in Incremental Funding	
Tuition and Fees - rate changes	\$6.5
Tuition and Fees—enrollment and mix shift	0.6
State Appropriation—FY19 one time funding removed	(2.1)
State Appropriation—FY20 one time funding added	6.7
State Appropriation—FY20 insurance adjustments	1.3
State Appropriation—FY20 university capital infrastructure funding	0.1
Other including investment income	3.5
Net Change in Resources	\$16.5
Allocation of Incremental Resources	
High Demand Degree Growth (Allied Health, PhD programs, STEM)	1.0
Research Enterprise Growth	0.8
Retention and Recruitment of Faculty and Staff including ERE	3.5
Facility and Technology Infrastructure	1.5
Mental Health Services Investment	1.1
Student Financial Aid	12.2
Sustainability Initiatives	0.4
Strategic Reallocations	(4.0)
Net Change in Budget Allocations	\$16.5
FY 2020 Base Budget	\$466.0

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

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 (*\$ thousands*)

	FY20 BUDGET	FY19 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 186,330.0	\$ 189,544.0	\$ (3,214.0)
Non Resident Tuition	143,117.6	132,846.0	10,271.6
Program Fees	4,608.0	4,248.5	359.5
Other Student Fees	0.0	0.0	-
Miscellaneous Revenues	3,125.0	2,750.0	375.0
Total University Revenues	\$ 337,180.6	\$ 329,388.5	\$ 7,792.1
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 16,987.0	\$ 18,534.8	\$ (1,547.8)
Regents Financial Aid Set Aside	33,000.0	33,000.0	-
Other Financial Aid	113,039.1	99,894.8	13,144.3
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	17,000.0	16,000.0	1,000.0
Total Retained for Local Uses	\$ 181,026.1	\$ 168,429.6	\$ 12,596.5
University Revenues Remitted to State (State Collections)	\$ 156,154.5	\$ 160,958.9	\$ (4,804.4)
Plus: State General Fund Appropriation	118,146.6	112,239.8	5,906.8
Total State Expenditure Authority	\$ 274,301.1	\$ 273,198.7	\$ 1,102.4

% CHANGES IN INCREMENTAL REVENUES

State General Funds 5%
Tuition 2%
Program, Other Student Fees and Misc. Revenue 10%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets (8%) Other Financial Aid 13%
Regents Financial Aid Set Aside 0%
Plant/Debt Service/COPS/Lease Purchase 6%

ANNUAL BUDGET

LOCAL COLLECTIONS

	FY20 BUDGET	FY19 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	2,400,000	-
Peer Mentoring and Retention	502,000	502,000	-
Performing Arts (including Music)	105,800	90,800	15,000
Registrar's Office Operations	0	123,000	(123,000)
School of Comm Student Radio, Cable and Forensics	27,200	27,200	-
Student Activities	90,400	254,000	(163,600)
Student Financial Aid Operations	337,300	337,300	-
Online and Educational Innovation and Partnerships Investment	11,578,700	10,610,000	968,700
Employee Benefit Contingency	50,000	50,000	-
Engineering Program Expansion	0	500,000	(500,000)
Operations: Collections	502,300	502,300	-
SUBTOTAL	\$ 16,398,500	\$ 16,201,400	\$ 197,100
AUXILIARY			
Intercollegiate Athletics	\$ 0	\$ 1,537,000	\$ (1,537,000)
Skydome	0	207,900	(207,900)
SUBTOTAL	\$ 0	\$ 1,744,900	\$ (1,744,900)
OPERATING FUNDS SUBTOTAL	\$ 16,398,500	\$ 17,946,300	\$ (1,547,800)

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 33,000,000	\$ 33,000,000	-
Other Financial Aid - Institutional Financial Aid	112,393,900	99,300,000	13,093,900

SUBTOTAL

\$ 145,393,900	\$ 132,300,000	\$ 13,093,900
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MINOR CAPITAL PROJECTS/PLANT FUNDS

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

17,000,000	16,000,000	1,000,000
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TOTAL LOCAL RETENTION FROM TUITION

\$ 179,792,400	\$ 167,246,300	\$ 12,546,100
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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	\$ 212,100	\$ 189,900	22,200
Physician Assistant Financial Aid Set Aside	210,700	196,000	14,700
Occupational Therapy Financial Aid Set Aside	206,400	192,500	13,900
Athletic Training Financial Aid Set Aside	16,000	16,400	(400)

SUBTOTAL

\$ 645,200	\$ 594,800	\$ 50,400
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TOTAL LOCAL RETENTION FROM PROGRAM FEES

\$ 1,233,700	\$ 1,183,300	\$ 50,400
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TOTAL LOCAL COLLECTIONS

\$ 181,026,100	\$ 168,429,600	\$ 12,596,500
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FY 2020 ANNUAL BUDGET

