

FY23 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 tuition setting process and 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.

As NAU moves to operationalizing the recently announced NAU 2025 Elevating Excellence Strategic Plan, NAU transitions operations from managing the significant impacts of the COVID-19 pandemic to one that looks to provide A Bold and Boundless Future for All rooted in a commitment to providing equitable post-secondary value.

Overview

NAU submits the FY23 Annual Budget that projects a net position increase of \$7.9M. This net position change reflects the projected financial statement view and is influenced by the remaining federal one-time HEERF (Higher Education Emergency Relief Funds) funding that complements NAU's other funding sources. On a cash, or annual budgeting view, the budget submitted is balanced. The monthly days cash on hand metric is expected to be 175 days based on the projected expenditure level for this upcoming year. This reflects a decrease from the anticipated FY22 monthly days cash on hand metric of 185 days and keeps NAU within the board approved financial liquidity range and well positioned in terms of financial liquidity. NAU remains committed to monitoring the impacts that both revenue and spending has on its balance sheet, and in turn, its credit ratings.

Revenue

NAU projects revenue in FY23 to decrease 5% over its FY22 revenue budget and decrease 10% compared to expected 2022 actual results. The largest driver of the year to year revenue decline is the reduction of HEERF revenue which for FY22 is estimated to be \$77M for both the student and institutional components. At the budgeted revenue level, the distribution of FY23 revenue sources varies from the FY22 sources in that the remaining one-time Federal HEERF funding expected for FY23 is anticipated to comprise only 2% of revenue as compared to 13% in the FY22 budget. HEERF funding of \$14M will extend to the upcoming year as the timing of technological investments planned to use institutional funds have been impacted this year by supply chain issues in addition to the recently announced MSI (Minority Serving Institution) allocation of \$4M being made at the end of the current year.

Net tuition and fees and state appropriations comprise approximately 56% of NAU's budgeted FY23 revenue sources and are the primary funding source for the instruction and support for NAU's students. A slight increase in net tuition and fees revenue is projected in FY23 compared to the FY22 projection while the FY23 state appropriation is projected to decrease as the removal of FY22 one time state appropriation funding is not completely offset by the New Economy

Initiative investment included in the Executive's fiscal year 2023 budget proposal. The FY23 budget numbers do reflect the continuation of the \$3.0 million appropriation which is considered a pass through appropriation to TGEN.

NAU expects its other revenue categories to see improvement in the upcoming fiscal year. Auxiliary revenue is projected to increase by 18% compared to the FY22 budget and by 6% over expected FY22 results with increased student demand for on campus university housing and more meal plans purchased as the primary drivers. Revenue from TRIF funding is expected to maintain levels reflected in the most recently adopted three year plan. NAU's revenue growth from grants and contracts revenue will increase slightly from ongoing sponsored project activity. Increased campus activities, including Road Scholar program activities, will drive a slight increase in the Other Revenue category from projected FY22 levels. Philanthropic gift revenue is expected to increase from FY22 levels as efforts to diversify the university's revenue stream continue to provide additional financial support for university operations. Further, NAU will continue to pursue external opportunities for incremental and sustainable funding to help support critical investments and help spur additional activity in conjunction with the NAU 2025 Elevating Excellence Strategic Plan.

As approved by the Board at its February 2018 meeting and important to note, NAU's FY23 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 through FY23 budgets.

Enrollment

Enrollment assumptions for this upcoming year have been updated from the tuition and fee setting process. The projections include a 473 FTE decrease for Fall 2022 as compared to the 858 decrease initially projected in March. The decrease projected for the upcoming year is primarily the result of smaller roll through of previous year's incoming cohorts. The projections for Fall 2022 incoming cohort reflect the second year of increased enrollment from the incoming first year cohort and the highest level of Resident accepts in institutional history. NAU, however, is expected to have fewer international and domestic non-resident undergraduate students this fall even as graduate enrollments are projected to increase compared to the prior year.

NAU's commitment to balancing student affordability with the predictability of a tuition pricing model has been rooted in the Pledge tuition program on the Flagstaff campus, which will continue for this upcoming year. 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. Tuition pricing and financial aid changes have been announced for Fall 2023 as strategies to support NAU's access mission.

Major Initiatives/Strategic Investments

NAU's initiatives for FY23 focus on aligning expenditures to the projected revenue base while pursuing targeted investments that will propel and be guided by NAU's Elevating Excellence roadmap in the following seven areas:

- Academic Excellence
- Student Success
- Commitment to Indigenous Peoples

- Impactful Scholarship
- Mission-Drive and Diverse Faculty and Staff
- Community Engagement
- Sustainable Stewardship of Resources

Strategic Priority Investment Areas

Programmatic investments in the New Economy Initiative: 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 mental and physical health care programs – the primary focus of the New Economy Initiative investment at NAU. These program investments align with the continued development of Allied Health programs at the Phoenix BioScience Core including the final buildout of the Physician Assistant program cohort increase by ten students in fall 2022. Expansion of nursing programs at statewide locations including Yuma and expansion of the Doctoral program in Clinical Psychology align with the New Economy Initiative investment. Investments of incremental recurring general purpose funds are estimated at \$10.1 million.

Investments in NAU Faculty, Staff and Students: Investment in NAU's faculty, staff and students 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 review of resource allocations are made throughout the university to identify efficiencies that can 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. NAU has announced adjustments to salaries for teaching track faculty track and for the lowest student employment wage for FY23. The University Budget Advisory Board will review strategies and make a recommendation on how to achieve the goal of reaching a 10% increase for faculty and staff salaries over a three year time frame. Investments of incremental recurring general purpose funds are estimated at \$3.0 million.

Investments in Infrastructure and Technology: Investments in technology have been a primary focus of NAU's strategy to provide flexibility and accessibility to enhance the student experience and will continue for this upcoming year. NAUFlex was installed in classrooms on the Flagstaff campus as well as statewide sites during the pandemic and in combination with investments to expand and enhance WiFi on the Flagstaff campus continue to be an important investment for this upcoming year. These investments complement ongoing investments in facility fire life safety projects and other deferred maintenance projects that are critical to support a safe environment for students, faculty and staff and are also important to recruiting and retaining students. Investments of general purpose funds and one time funds are estimated at \$4.0 million.

Operational changes to impact expenditures

Personnel Costs: Salaries, wages and benefit costs are the largest university expenditure and a number of actions have been adopted that impact FY23. Implementation of the noted wage adjustments for teaching track faculty and students will complement the upcoming work toward working the goal to reach a 10% increase over three years for faculty and staff. Adjustments on the latter initiative will have a half year expense impact on the FY23 budget.

Operational budget expenditures across all departments: From contracts and leases that were renegotiated to reduce in operational expenditures from travel to training, all units across the university reviewed and identified opportunities to reduce non-personnel expenditures as a primary source of addressing the budget reductions in FY22. Moving into FY23, operational expenditures will increase in conjunction with increased campus activity levels. These increases will align with the anticipated student enrollment levels and will facilitate important residential campus student experiences that is important to student success and retention.

Expenses

NAU projects operating expenses will decrease 9% over the FY22 expense levels as one time expenditures supported by HEERF funds are removed from the expenditure base. A significant component in the expenditure base is personnel costs which comprise nearly 60% of the university's operating costs.

The estimated increase in the Other Operating Expense category for FY23 is the result of NAU's operational activities with travel activity continuing to increase from low levels during the pandemic, increased campus activity that drive a range of expenditures including utility usage, and higher costs associated with a range of goods and services including utilities and technology purchases. Depreciation expense is projected to increase to \$46.0 million as current capital projects such as the Student Athlete High Performance Center have been completed.

NAU remains a good steward of available resources whether it is through investments from the state, students or external philanthropic partners. NAU operates an efficient and student centered enterprise and will continue a number of initiatives on that front during the upcoming year including contract and lease reviews, targeted optimization reviews of the new administrative service delivery framework to increase specific activity effectiveness, and further leveraging technology to address document management and workflow. Additionally, the focus on strategic procurement priorities will be a key area of focus given issues with procurement supply chains.

Summary

NAU's FY23 annual budget submission reflects its continued commitment to the success of its students and the employees who work to support those students as well as the long term mission and viability of the institution. Maintaining a budget for FY23 that aligns revenue with expenditures is a critical component to the fiscal health needed and operational structure required to remain a viable institution over the long term that extends beyond 2023. NAU remains committed to working closely with the State of Arizona to identify funding that will support its long standing mission to serve Arizona through maximizing the opportunities that await in FY23.

ANNUAL BUDGET

FY 2023 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY

UNIVERSITY BUDGET

FY 2023 (WITH FY 2022 COMPARATIVE BUDGET DATA)

(\$ millions)

Revenues

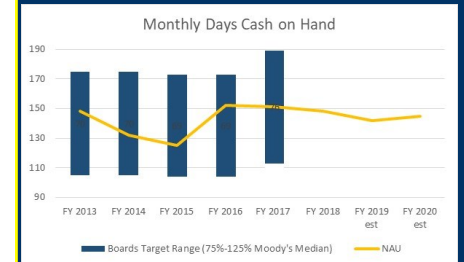
	FY 2023 BUDGET	FY 2022 BUDGET	\$ VARIANCE BETWEEN FY 2022 AND FY 2023 BUDGET	% VARIANCE BETWEEN FY 2022 AND FY 2023 BUDGET
State General Fund Appropriation w/ TGEN	126.3	109.5	16.8	15.3%
State Appropriation - Research Infrastructure	5.3	5.0	0.3	6.0%
State Appropriation - Arizona Teacher's Academy	6.7	4.8	6.7	39.6%
State Appropriation - Arizona Promise Program	1.6		1.6	100%
Tuition and Fees	377.4	376.4	1.0	0.3%
Less Scholarship Allowance	(171.2)	(164.4)	6.8	4.1%
Net Tuition and Fees	206.2	212.0	(5.8)	-2.7%
Grants & Contracts - Sponsored Projects	72.0	68.0	4.0	5.9%
HEERF 1/2/3 (Institutional component)	14.4	47.9	(33.5)	-70%
HEERF 1/2/3 (Student component)	0.0	39.4	(39.4)	-100%
Financial Aid Grants (Primarily Federal Pell Grants)	42.5	42.5	0	0%
Private Gifts	25.0	20.0	5.0	25%
Technology & Research Initiative Fund (TRIF)	17.7	16.0	1.7	10.6%
Auxiliary Revenue	69.0	58.5	10.5	17.9%
Other Revenues	31.0	27.5	3.5	12.7%
Total Revenues	617.7	651.3	34.6	-5.3%

Expenses

Salaries & Wages	270.0	263.0	7.0	2.7%
Benefits	90.0	92.0	(2.0)	-2.2%
All Other Operating	149.0	135.9	13.1	9.6%
Scholarships & Fellowships, Net of Scholarship Allowance*	35.0	41.7	(6.7)	-16.1%
Depreciation	46.0	47.5	(1.5)	-3.2%
GASB Adjustments (68 & 45)	0.0	0.0	0	0%
Interest on Indebtedness	19.8	20.7	(.9)	-4.3%
Total Expenses	609.8	637.3	(26.5)	-4.6%
Net Increase	7.9	14.0	(8.1)	-36.2%

MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately **175** days at June 30, 2023.



ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS (\$ millions)

FY 2022 Base Budget \$ 426.0

Changes in Incremental Funding

Tuition and Fees - rate changes	\$ 8.0
Tuition and Fees—enrollment and mix shift	(13.8)
State Appropriation—FY23 New Economy Initiative Executive Budget	10.1
State Appropriation—FY23 research infrastructure funding	.3
State Appropriation—FY23 university capital infrastructure funding	.1
State Appropriation— Remove FY22 One Time Appropriation	(12.2)
Other including investment income	1.5

Net Change in Resources \$(6.0)

Allocation of Incremental Resources

New Economy Investment—health professions (Net NEI change)	1.1
Technology and Facility Infrastructure	1.0
Faculty, Staff and Student Salary and Wage Investment	3.0
Student Financial Aid	3.0
Debt Service	(1.2)
Strategic Reallocations	(12.9)

Net Change in Budget Allocations \$(6.0)

FY 2023 Base Budget \$420.0

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

ANNUAL BUDGET

STATE EXPENDITURE AUTHORITY (\$ thousands)

	FY23 BUDGET	FY22 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 176,175.5	\$ 181,982.3	\$ (5,807.3)
Non Resident Tuition	126,694.0	125,035.2	1,658.8
Program Fees	5,925.0	5,848.4	76.6
Other Student Fees	0.0	0.0	0.0
Miscellaneous Revenues	6,935.0	4,935.0	2,000.0
Total University Revenues	\$ 315,729.0	\$ 317,800.9	\$ (2,071.9)
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 11,164.1	\$ 13,989.1	\$ (2,825.0)
Regents Financial Aid Set Aside	30,174.1	33,000.0	(2,825.9)
Other Financial Aid	128,793.5	124,628.5	4,165.0
Plant Funds	1,000.0	1,000.0	0.0
Debt Service/COPS/Lease Purchase	14,200.0	10,200.0	4,000.0
Total Retained for Local Uses	\$ 185,331.7	\$ 182,817.6	\$ 2,514.1
University Revenues Remitted to State (State Collections)	\$ 130,397.3	\$ 134,983.3	\$ (4,586.0)
Plus: State General Fund Appropriation	134,625.7	117,701.2	16,924.5
Total State Expenditure Authority	\$ 265,023.0	\$ 252,684.5	\$ 12,338.5

% CHANGES IN INCREMENTAL REVENUES

State General Funds 14.4%
 Tuition -1.4%
 Program, Other Student Fees and Misc. Revenue 19.3%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets -20.2% Other Financial Aid 3.3%
 Regents Financial Aid Set Aside -8.6%
 Plant/Debt Service/COPS/Lease Purchase 0%

ANNUAL BUDGET

LOCAL COLLECTIONS

	FY23 BUDGET	FY22 BUDGET	CHANGE
LOCAL COLLECTIONS FROM TUITION AND FEES			
OPERATING FUNDS FROM TUITION			
Child Care	43,900	43,900	0
Graduate Assistant Tuition Remission	2,400,000	2,400,000	0
College of Arts and Letters Support	93,360	93,400	(40)
School of Communications Support. Radio, Cable, Forensics	2,750	2,800	(50)
Online and Educational Innovation and Partnerships Investment	7,396,800	10,261,700	(2,864,900)
Employee Benefit Contingency	50,000	50,000	0
Operations: Collections	502,300	502,300	0
 SUBTOTAL	 \$ 10,489,110	 \$ 13,354,100	 \$ (2,864,990)
 <u>AUXILIARY</u>			
	\$ 0	\$ 0	\$ 0
	0	0	0
SUBTOTAL	\$ 0	\$ 0	\$ 0
OPERATING FUNDS SUBTOTAL	\$ 10,489,110	\$ 13,354,100	\$ (2,864,990)

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 30,174,100	\$ 33,000,000	\$ (2,825,900)
Other Financial Aid - Institutional Financial Aid	127,964,102	123,808,500	4,155,602

SUBTOTAL	\$ 158,138,202	\$ 123,808,500	\$ 1,329,702
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MINOR CAPITAL PROJECTS/PLANT FUNDS

\$ 1,000,000	\$ 1,000,000	\$ 0
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DEBT SERVICE

14,200,000	10,200,000	4,000,000
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TOTAL LOCAL RETENTION FROM TUITION	\$ 183,827,312	\$ 181,362,600	\$ 2,464,712
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LOCAL COLLECTIONS FROM PROGRAM FEES

DESIGNATED OPERATING FUNDS

Doctorate of Physical Therapy (DPT) Program Fee	\$ 187,000	\$ 187,000	\$ 0
Physician Assistant (PA) Program Fee	312,800	312,800	0
Occupational Therapy (OT) Program Fee	92,200	92,200	0
Athletic Training (AT) Program Fee	43,000	43,000	0
Clinical PsyD Program	40,000	0	40,000

FINANCIAL AID

Physical Therapy Financial Aid Set Aside	\$ 232,600	\$ 232,000	\$ 600
Physician Assistant Financial Aid Set Aside	284,200	285,000	(800)
Occupational Therapy Financial Aid Set Aside	204,700	204,000	700
Athletic Training Financial Aid Set Aside	15,300	12,000	3,300
Doctor of Clinical Psychology Financial Aid Set Aside	92,600	87,000	5,600
SUBTOTAL	\$ 829,400	\$ 820,000	9,400

TOTAL LOCAL RETENTION FROM PROGRAM FEES	\$ 1,504,400	\$ 1,455,000	\$ 49,400
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TOTAL LOCAL COLLECTIONS	\$ 185,331,712	\$ 182,817,600	\$ 2,514,112
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ANNUAL BUDGET

FY 2023 LOCAL BUDGETS WITH DEFICITS OF \$100,000 OR MORE

	FY21 ACTUAL	FY22 PROJECTED	FY23 ESTIMATED	FY23 ESTIMATED	FY23 PROJECTED
	ENDING	ENDING	REVENUES AND	EXPENDITURES	ENDING
	<u>SURPLUS/(DEFICIT)</u>	<u>SURPLUS/(DEFICIT)</u>	<u>TRANSFERS IN</u>	<u>AND TRANSFERS OUT</u>	<u>SURPLUS/(DEFICIT)</u>
	\$	\$	\$	\$	\$