

FY24 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 resource allocations are considered to ensure that they support the strategic direction of NAU, and in turn, support our students, faculty, and staff.

As NAU continues to operationalize, *NAU 2025 Elevating Excellence*, NAU remains guided by our bold vision: To be the nation's preeminent engine of opportunity, vehicle of economic mobility, and driver of social impact by delivering equitable post-secondary value in Arizona and beyond. Resources to invest in faculty and staff and the related physical and technological infrastructure will influence NAU's success in delivering upon that vision and mission and provides a framework for the FY24 budget.

Overview

NAU submits the FY24 Annual Budget that projects a net position increase of \$8.5M. 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 FY23 monthly days cash on hand metric of 188 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 FY24 to increase 7% over its FY23 revenue budget and a less than 1% increase compared to expected 2023 actual results. The largest driver of the year-to-year revenue increase is higher net tuition and fee revenue resulting from increased enrollment.

Net tuition and fees and state appropriations comprise approximately 56% of NAU's budgeted FY24 revenue sources and are the primary funding source for the instruction and support for NAU's students. An increase in net tuition and fees revenue is projected in FY24 compared to the FY23 projection while the FY23 state appropriation is projected to decrease due to removal of FY23 one time state appropriation funding of \$26 million. The FY24 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 14% compared to the FY23 budget and by 4% over

expected FY23 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 approximately 9% from the FY23 budget reflective of growth in sponsored project activity. Increased campus activities, including Road Scholar program activities, along with increased investment income associated with higher interest rates will drive an increase in the Other Revenue category from projected FY23 levels. Private/philanthropic gift revenue is expected to remain flat from FY23 levels as efforts are continued to diversify the university's revenue stream. Further, NAU will continue to pursue external opportunities for incremental and sustainable funding to further build upon this year's 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 FY24 budgets.

Enrollment

Enrollment assumptions for this upcoming year reflect an expected increase in enrollment, reversing a multi-year trend of enrollment decline. The projections include a 682 FTE increase for Fall 2023, which is an updated estimate from the 444 FTE initially projected in March. The increase in enrollment primarily stems from a combination of roll-through of the previous year's larger incoming cohorts, a third straight year of strong incoming first year cohorts, and an increasing demand for business and technology programs from international graduate students.

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 (A2E) are implemented for Fall 2023 to support NAU's access mission. Early indications show increasing enrollment in populations targeted by A2E.

Major Initiatives/Strategic Investments

NAU's initiatives for FY24 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

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. The University Budget Advisory Board will continue to review strategies and make recommendations on steps to achieve the goal of reaching a minimum 10% increase for faculty and staff salaries over a three-year time frame. In FY23 faculty and staff received a wage investment of 4.5% towards that 10% goal with a merit-based investment planned for mid-year FY24. NAU's recent investments in the lowest tier wages for faculty and staff and student wages complement the merit-based program and have certainly contributed to lower attrition rates in faculty and staff this fiscal year. Investments of incremental recurring general-purpose funds are estimated at \$3.0 million.

Investments in Infrastructure and Technology: Investments in technology continue to be 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, including those in university housing, 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 \$3.0 million.

Operational changes to impact expenditures

Personnel Costs: Salaries, wages and benefit costs are the largest university expenditure. The University Budget Advisory Board will continue to analyze and make recommendations aligned with their charge of prioritizing the development of a sustainable three-year salary investment plan that will lead to a minimum 10% increase to faculty and staff. The first adjustment of 4.5% was recognized in January of 2023. Additional adjustments on this initiative will have a half year expense impact on the FY24 budget.

Operational budget expenditures across all departments: From contracts and leases that were renegotiated to reducing 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 budget reallocations to personnel. Moving into FY24, operational expenditures will continue to reflect increasing campus activity levels. These increases will align with the anticipated student enrollment levels

and will facilitate important residential campus student experiences that are important to student success and retention.

Expenses

NAU projects operating expenses will increase 1% over the estimated FY23 expense levels. 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 FY24 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 supplier costs associated with a range of goods and services including utilities and technology purchases.

Depreciation expense is projected to increase to \$54.5 million and will be impacted through the implementation of two recent Governmental Accounting Standards Board (GASB) pronouncements that result in changes to expense reporting classification. GASB 87 and GASB 96 implementation impacts are expected to reduce Other Operating expenses and increase Amortization and Interest expenses.

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 continues to be a focus given targeted issues with procurement supply chains.

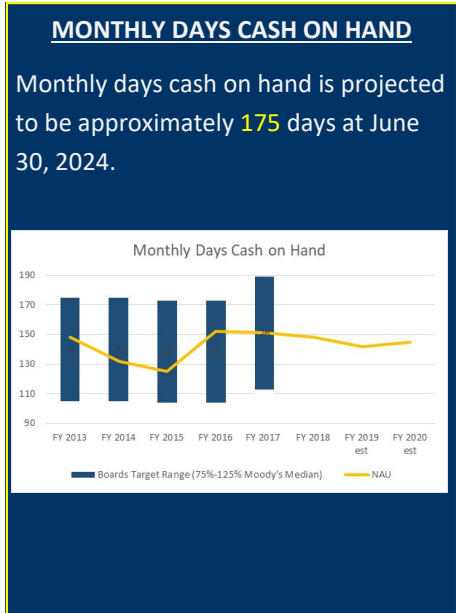
Summary

NAU's FY24 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 FY24 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 2024. 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 FY24.

ANNUAL BUDGET

FY 2024 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY UNIVERSITY BUDGET FY 2024 (WITH FY 2023 COMPARATIVE BUDGET DATA) (\$millions)				
	FY 2024 BUDGET	FY 2023 BUDGET	\$ VARIANCE BETWEEN FY 2023 AND FY 2024 BUDGET	% VARIANCE BETWEEN FY 2023 AND FY 2024 BUDGET
Revenues				
State General Fund Appropriation w/TGEN	126.7	126.4	0.3	0.2%
State Appropriation - Research Infrastructure	5.3	5.3	-	
State Appropriation - Capital Infrastructure	4.9	4.8	0.1	2.1%
State Appropriation - AFAT	1.3	1.3	-	
Total General Fund Appropriation	138.2	137.8	0.4	0.3%
State Appropriation - Arizona Teacher's Academy	12.8	4.8	8.0	166.7%
State Appropriation - Arizona Promise Program	6.7	-	6.7	
Tuition and Fees	404.4	377.4	27.0	7.2%
Less Scholarship Allowance	(189.0)	(171.2)	(17.8)	10.4%
Net Tuition and Fees	215.4	206.2	9.2	4.5%
Grants & Contracts - Sponsored Projects	78.5	72.0	6.5	9.0%
Financial Aid Grants (Primarily Federal Pell Grants)	43.5	42.5	1.0	0.0%
HEERF 1/2/3 (Institutional component)	5.9	14.4	(8.5)	-59.0%
Private Gifts	25.0	25.0	-	0.0%
Technology & Research Initiative Fund (TRIF)	19.8	17.7	2.1	11.9%
Auxiliary Revenue	79.0	69.0	10.0	14.5%
Other Revenues	38.0	31.0	7.0	22.6%
Total Revenues	662.8	620.4	42.4	6.8%
Expenses				
Salaries & Wages	297.0	270.0	27.0	10.0%
Benefits	94.5	90.0	4.5	5.0%
All Other Operating	148.0	149.0	(1.0)	-0.7%
Scholarships & Fellowships, Net of Scholarship Allowance	35.0	37.7	(2.7)	-7.2%
Depreciation	54.5	46.0	8.5	18.5%
GASB Adjustments	-	-	-	
Interest on Indebtedness	25.4	19.8	5.6	28.3%
Total Expenses	654.4	612.5	41.9	6.8%
Net Increase	8.5	7.9	0.5	6.3%



ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS *(\$ millions)*

FY 2023 Base Budget	\$ 420.0
Changes in Incremental Funding	
Tuition and Fees - rate changes	\$12.1
Tuition and Fees—enrollment and mix shift	9.6
State General Fund Appropriation	.3
State Appropriation—FY24 university capital infrastructure funding	.1
Investment Income	3.0
Net Change in Resources	\$25.1

Allocation of Incremental Resources

Technology and Facility Infrastructure including debt service	3.0
Faculty, Staff and Student Salary and Wage Investment	3.0
Student Financial Aid	9.3
Strategic Reallocations	5.8
Investments in Programs Supported by Fees	4.0
Net Change in Budget Allocations	\$25.1
FY 2024 Base Budget	\$445.1

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

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*)

	FY24 BUDGET	FY23 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 193,533.0	\$ 176,175.0	\$ 17,358.0
Non Resident Tuition	132,666.0	126,694.0	5,972.0
Program Fees	7,230.8	5,925.0	1,305.8
Other Student Fees	0.0	0.0	0.0
Miscellaneous Revenues	8,048.5	6,935.0	1,113.5
Total University Revenues	\$ 341,478.3	\$ 315,729.0	\$ 25,749.3
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 17,881.9	\$ 11,993.5	\$ 5,888.4
Regents Financial Aid Set Aside	20,855.5	30,174.1	(9,318.6)
Other Financial Aid	151,221.3	127,964.1	23,257.2
Plant Funds	1,000.0	1,000.0	0.0
Debt Service/COPS/Lease Purchase	15,200.0	14,200.0	1,000.0
Total Retained for Local Uses	\$ 206,158.7	\$ 185,331.7	\$ 20,827.0
University Revenues Remitted to State (State Collections)	\$ 135,319.6	\$ 130,397.3	\$ 4,922.3
Plus: State General Fund Appropriation	138,249.8	134,625.7	3,624.1
Total State Expenditure Authority	\$ 273,569.4	\$ 265,023.0	\$ 8,546.4

% CHANGES IN INCREMENTAL REVENUES

State General Funds 3.0%
 Tuition 7.7%
 Program, Other Student Fees and Misc. Revenue 18.8%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets 60.2% Other Financial Aid 17.4%
 Regents Financial Aid Set Aside -30.9%
 Plant/Debt Service/COPS/Lease Purchase 7%

ANNUAL BUDGET

LOCAL COLLECTIONS

	<u>FY24 BUDGET</u>	<u>FY23 BUDGET</u>	<u>CHANGE</u>
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	93,360	0
School of Communications Support. Radio, Cable, Forensics	2,750	2,750	0
Online and Educational Innovation and Partnerships Investment	14,089,579	7,396,800	6,692,779
Employee Benefit Contingency	50,000	50,000	0
Operations: Collections	502,300	502,300	0
SUBTOTAL	<u>\$ 17,181,889</u>	<u>\$ 10,489,110</u>	<u>\$ 6,692,779</u>
 <i>AUXILIARY</i>			
	\$ 0	\$ 0	\$ 0
	0	0	0
SUBTOTAL	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
OPERATING FUNDS SUBTOTAL	<u>\$ 17,181,889</u>	<u>\$ 10,489,110</u>	<u>\$ 6,692,779</u>

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 20,855,442	\$ 30,174,100	\$ (9,318,658)
Other Financial Aid - Institutional Financial Aid	150,277,500	127,964,102	22,313,398

SUBTOTAL	<u>\$ 171,132,942</u>	<u>\$ 158,138,202</u>	<u>\$ 12,994,740</u>
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MINOR CAPITAL PROJECTS/PLANT FUNDS

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

	15,200,000	14,200,000	1,000,000
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TOTAL LOCAL RETENTION FROM TUITION	<u>\$ 204,514,831</u>	<u>\$ 183,827,312</u>	<u>\$ 20,687,519</u>
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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	65,000	40,000	25,000

FINANCIAL AID

Physical Therapy Financial Aid Set Aside	\$ 336,600	\$ 232,600	\$ 104,000
Physician Assistant Financial Aid Set Aside	284,200	284,200	0
Occupational Therapy Financial Aid Set Aside	204,700	204,700	0
Athletic Training Financial Aid Set Aside	15,300	15,300	0
Doctor of Clinical Psychology Financial Aid Set Aside	103,100	92,600	10,500

SUBTOTAL	<u>\$ 943,900</u>	<u>\$ 829,400</u>	<u>\$ 114,500</u>
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TOTAL LOCAL RETENTION FROM PROGRAM FEES	<u>\$ 1,643,900</u>	<u>\$ 1,504,400</u>	<u>\$ 139,500</u>
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TOTAL LOCAL COLLECTIONS	<u>\$ 206,158,731</u>	<u>\$ 185,331,712</u>	<u>\$ 20,827,019</u>
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ANNUAL BUDGET

FY 2024 LOCAL BUDGETS WITH DEFICITS OF \$100,000 OR MORE

	FY22 ACTUAL ENDING <u>SURPLUS/(DEFICIT)</u>	FY23 PROJECTED ENDING <u>SURPLUS/(DEFICIT)</u>	FY24 ESTIMATED REVENUES AND TRANSFERS IN	FY24 ESTIMATED EXPENDITURES AND TRANSFERS OUT	FY24 PROJECTED ENDING <u>SURPLUS/(DEFICIT)</u>
	\$	\$	\$	\$	\$

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