

FY25 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 FY25 budget.

Overview

NAU submits the FY25 Annual Budget that projects a net position increase of \$7.2M. This net position change reflects the projected financial statement view. On a cash, or annual budgeting view, the budget submitted is balanced. The monthly days cash on hand metric is expected to be 170 days based on the projected expenditure level for this upcoming year. This reflects a decrease from the anticipated FY24 monthly days cash on hand metric of 175 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 FY25 to increase 8% compared to the FY24 revenue budget and a fairly flat revenue outlook compared to expected 2024 actual results. Positive changes across a number of revenue categories offset the removal of several one-time revenue sources in FY24, including state appropriation, TRIF awards, and the final pandemic emergency relief funds being expended.

Net tuition and fees and state appropriations comprise approximately 51% of NAU's budgeted FY25 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 FY25 compared to the FY24 projection while the FY25 state appropriation is projected to decrease due to removal of FY24 one time state appropriation funding of \$1 million. The FY25 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 9% compared to the FY24 budget and by 6% over

expected FY24 results with increased student demand for on campus university housing and more meal plans purchased as the primary drivers. Revenue from TRIF funding, exclusive of one-time awards, is expected to maintain levels reflected in the last three year plan. NAU's revenue growth from grants and contracts revenue will increase approximately 8% from the FY24 projected results 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 a slight increase in the Other Revenue category from projected FY24 levels. Private/philanthropic gift revenue is expected to remain flat from FY24 projected 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 FY25 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 of 581 FTE for Fall 2024. The increase in enrollment primarily stems from a combination of new students and a greater roll-through of continuing students from larger post-pandemic cohorts, with strong Spring 24 enrollment serving as a leading indicator of improved retention expected in the Fall. NAU is also continuing to see growth in business and technology program enrollment from international graduate students.

NAU has taken proactive steps to mitigate impacts of the national FAFSA delay. The tuition pricing and financial aid change (A2E) implemented over the past year in support of NAU's access mission continue to provide accessible educational options to students and their families.

Major Initiatives/Strategic Investments

NAU's initiatives for FY25 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 Fiscal Year 2023 faculty and staff received a wage investment of 4.5% towards that 10% goal followed by a 3% investment implemented late in Fiscal Year 2024. 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 higher retention rates in faculty and staff this fiscal year, which are currently on pace to better last year's high employee retention levels. Investments of incremental recurring general-purpose funds are estimated at \$5.0 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 with ongoing classroom and WiFi investments accompanied by priority cyber security investments. These investments complement ongoing investments in campus master plan aligned 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 followed by a second adjustment of 3% in April of 2024. The timing of additional adjustments on this initiative will be dependent upon FY25 enrollment and revenues.

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 FY25, 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 remain relative flat compared to the estimated FY24 expense levels as one-time HEERF (Higher Education Emergency Relief Funding) related expenditures are removed. A significant component in the expenditure base is personnel costs which comprise nearly 60% of the university's operating costs. A new impact expected to hit reported personnel costs in FY25 is the implementation of GASB 101 related to compensated absence calculation and recording, which will create an additional liability/expense to be recognized.

The estimated increase in the Other Operating Expense category for FY25 is the result of NAU's operational activities with travel volume and travel costs 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 remain flat at roughly \$54 million as the implementation of two recent Governmental Accounting Standards Board (GASB) pronouncements (GASB 87 and 96) will have impacted both comparison years shifting expense from the Other Operating category to the Amortization and Interest expense categories. Interest costs will realize a favorable impact in the upcoming fiscal year from Spring 2024 refinancings of existing debt.

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, lease and space reviews while 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.

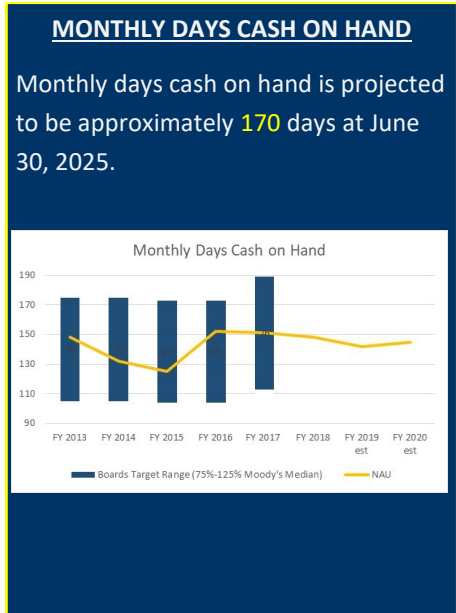
Summary

NAU's FY25 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 FY25 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 2025. 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 FY25.

ANNUAL BUDGET

FY 2025 ANNUAL BUDGET

UNIVERSITY BUDGET				
FY 2025 (WITH FY2024 COMPARATIVE BUDGET DATA)				
(\$ millions)				
	FY25 BUDGET	FY24 BUDGET	\$ VARIANCE BETWEEN FY 2024 & FY 2025 BUDGET	% VARIANCE BETWEEN FY 2024 & FY 2025 BUDGET
Revenues				
State General Fund Appropriation	\$123.7	\$123.7	\$0.0	0.0%
State Appropriation - Research Infrastructure	\$5.0	\$5.3	(\$0.3)	-5.7%
State Appropriation - Capital Infrastructure	\$5.0	\$4.9	\$0.1	2.0%
State Appropriation - AFAT	\$1.3	\$1.3	\$0.0	0.0%
Total General Fund Appropriation	\$135.0	\$135.2	(\$0.2)	-0.1%
State Appropriation - Arizona Teachers Academy	\$6.5	\$12.8	(\$6.3)	-49.2%
State Appropriation - AZ Promise	\$8.6	\$6.7	\$1.9	28.4%
Tuition and Fees	\$422.2	\$404.4	\$17.8	4.4%
<i>less Scholarship Allowance</i>	<i>(\$210.2)</i>	<i>(\$189.0)</i>	<i>(\$21.2)</i>	<i>11.2%</i>
Net Tuition and Fees	\$212.0	\$215.4	(\$3.4)	-1.6%
Grants & Contracts -- Sponsored Projects	\$110.0	\$78.5	\$31.5	40.1%
Financial Aid Grants (Primarily Federal Pell Grants)	\$48.0	\$43.5	\$4.5	10.3%
Higher Education Emergency Relief (HEERF) - Institution	\$0.0	\$5.9	(\$5.9)	-100.0%
Private Gifts	\$35.0	\$25.0	\$10.0	40.0%
Technology & Research Initiative Fund (TRIF)	\$19.5	\$19.8	(\$0.3)	-1.5%
Auxiliary Revenues, Net	\$91.0	\$79.0	\$12.0	15.2%
Other Revenues	\$48.0	\$38.0	\$10.0	26.3%
Total Other Revenues	\$351.5	\$289.7	\$61.8	21.3%
Total Revenues	\$713.6	\$659.8	\$53.8	8.2%
Expenses				
Salaries and Wages	\$330.0	\$297.0	\$33.0	11.1%
Benefits	\$102.0	\$94.5	\$7.5	7.9%
All Other Operating	\$164.5	\$145.0	\$19.5	13.4%
Scholarships & fellowships, (Net of Scholarship Allowance) and other Financial Assistance	\$34.0	\$35.0	(\$1.0)	-2.9%
Depreciation	\$54.1	\$54.5	(\$0.4)	-0.7%
Pension Liability/OPEB (GASB 68 & GASB 45)	\$0.0	\$0.0	\$0.0	
Interest on Indebtedness	\$21.5	\$25.4	(\$3.9)	-15.4%
Other Expenditures	\$0.0	\$0.0	\$0.0	
Total Expenses	\$706.1	\$651.4	\$54.7	8.4%
Net Increase	\$7.5	\$8.4	(\$0.9)	-10.7%



ANNUAL BUDGET

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

FY 2024 Base Budget	\$ 403.4
Changes in Incremental Funding	
Tuition and Fees - rate changes	5.0
Tuition and Fees— enrollment and mix shift	7.0
State Appropriation—Remove one-time State appropriation	(1.4)
State Appropriation—FY25 Research Infrastructure Funding	(.3)
State Appropriation—FY25 university Capital Infrastructure Funding	.1
Other including investment income	2
Net Change in Resources	\$12.4
 Allocation of Incremental Resources	
Faculty, Staff and Student Salary and Wage Investment	\$ 4.0
Faculty, Staff and Student Salary and Wage Investment	1.7
Student Financial Aid	4.2
Technology & Facility Infrastructure	2.5)
 Net Change in Budget Allocations	\$12.4
FY 2025 Base Budget	\$415.8

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

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*)

	TOTAL	FY24 BUDGET	CHANGE
Resident Tuition	212,453.6	193,533.0	18,920.6
Non Resident Tuition	119,387.1	132,666.0	(13,278.9)
Differential Tuition			-
Program Fees ¹	8,099.1	7,230.8	868.3
Miscellaneous Revenues	8,048.5	8,048.5	-
Total University Revenues	\$ 347,988.3	\$ 341,478.3	\$ 6,510.0
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 16,219.5	\$ 17,881.9	\$ (1,662.4)
Regents Financial Aid Set Aside	27,446.0	20,855.5	6,590.5
Other Financial Aid	169,132.5	151,221.3	17,911.2
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	13,500.0	15,200.0	(1,700.0)
Total Retained for Local Uses	\$ 227,298.0	\$ 206,158.7	\$ 21,139.3
University Revenues Remitted to State (State Collections)			
	\$ 131,836.8	\$ 135,319.6	\$ (3,482.8)
Plus: State General Fund Appropriation²	143,585.8	135,249.8	8,336.0
Total State Expenditure Authority	\$ 275,422.6	\$ 270,569.4	\$ 4,853.2

¹ Includes Special Program Fee Revenue for University Central only - Other Special Program Fee Revenue Reflected in Local Budgets

² Does not include TGEN, does include AFAT

% CHANGES IN INCREMENTAL REVENUES

State General Funds -3%

Tuition 2%

Program, Other Student Fees and Misc. Revenue 22%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets -9% Other Financial Aid 6%

Regents Financial Aid Set Aside 32%

Plant/Debt Service/COPS/Lease Purchase -11%

ANNUAL BUDGET

LOCAL COLLECTIONS

	FY25 BUDGET	FY24 BUDGET	CHANGE
LOCAL COLLECTIONS FROM TUITION AND FEES			
OPERATING FUNDS			
<u>DESIGNATED</u>			
Child Care	43,900	43,900	-
College of Arts and Letters Support	93,360	93,360	-
School of Comm Student Radio, Cable & Forensics	-	2,750	(2,750)
Online and International Program Investments	15,314,734	14,089,579	1,225,155
Employee Benefit Contingency	50,000	50,000	-
SUBTOTAL	15,501,994	14,279,589	1,222,405

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

<u>AUXILIARY</u>			-
SUBTOTAL	-	-	-
OPERATING FUNDS SUBTOTAL	15,501,994	14,279,589	1,222,405
<u>FINANCIAL AID</u>			
Regents Financial Aid Set Aside	27,446,000	20,855,442	6,590,558
Other Financial Aid - Institutional Financial Aid	167,962,900	153,179,800	14,783,100
SUBTOTAL	195,408,900	174,035,242	21,373,658
<u>MINOR CAPITAL PROJECTS/PLANT FUNDS</u>	1,000,000	1,000,000	-
<u>DEBT SERVICE</u>	13,500,000	15,200,000	(1,700,000)
TOTAL LOCAL RETENTION FROM TUITION	225,410,894	204,514,831	20,896,063
LOCAL COLLECTIONS FROM PROGRAM FEES			
<u>Designated Operating Funds</u>			
Doctorate of Physical Therapy (DPT) Program Fee	187,000	187,000	-
Physician Assistant (PA) Program Fee	312,800	312,800	-
Occupational Therapy (OT) Program Fee	92,200	92,200	-
Athletic Training (AT) Program Fee	43,000	43,000	-
Clinical PsyD program	82,500	65,000	17,500
<u>Financial Aid Set Aside for Program Fees</u>			
Physical Therapy Financial Aid Set Aside	430,640	336,600	94,040
Physician Assistant Financial Aid Set Aside	345,940	284,200	61,740
Occupational Therapy Financial Aid Set Aside	219,450	204,700	14,750
Athletic Training Financial Aid Set Aside	18,291	15,300	2,991
Doctor of Clinical Psychology Financial Aid Set Aside	155,281	103,100	52,181
TOTAL LOCAL RETENTION FROM PROGRAM FEES	1,887,102	1,643,900	243,202
TOTAL LOCAL COLLECTIONS	227,297,996	206,158,731	21,139,265

ANNUAL BUDGET

FY 2025 LOCAL BUDGETS WITH DEFICITS OF \$100,000 OR MORE

		FY23 PROJECTED	FY24 ESTIMATED	FY24 ESTIMATED	FY24 PROJECTED	
		ENDING	REVENUES AND	EXPENDITURES AND	ENDING	
	ACCOUNT	BALANCE	TRANSFERS IN	TRANSFERS OUT	BALANCE	