



FY17 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 are considered that support the strategic direction of NAU, and in turn, support our students, faculty, and staff.

Overview

NAU submits the FY17 Annual Budget that projects a change in net position of \$3.9 million. This net position increase reflects a financial statement view, while on a cash, or annual budgeting view, the budget submitted is balanced; an improvement from FY16's annual budget deficit based on increased revenue sources. The monthly days cash on hand metric is expected to be 126 days based on the projected expenditure level for this upcoming year. This will represent a decrease of 14 days from the projected FY16 year-end balance that includes the \$30.5 million rollover repayment which improves the balance sheet strength at this fiscal year end. NAU plans to continue addressing 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 FY17 to increase 6.0% over its FY16 revenue budget. The distribution of revenue sources varies only slightly from the FY16 budgeted revenue sources. Net tuition and fees and state appropriations comprise over 60% of NAU's revenue sources and are the primary funding source for the instruction of an increasing enrollment base. The increased FY17 state appropriation in the form of one-time funding and a base increase enables NAU to invest in critical initiatives. The list of specific investments from the \$4 million one-time state appropriation will be developed from the categories listed below prior to the August 1st 2016 submission due date required in the enacted state budget.

NAU also expects modest growth in its other revenue categories driven from increases in rates and enrollment growth, as in the case of Auxiliary revenues, and increases in lottery revenues dedicated to funding SPEED bond payments in the case of the Other Revenue category. Revenue from TRIF funding is projected to increase in accordance with the new five-year plan and NAU expects to see increased revenue from grants and contracts revenue with its increased investments in the research enterprise.

Enrollment

Enrollment assumptions are consistent with those noted during the tuition setting cycle. Those projections included a 1,450 FTE increase for Fall 2016 with two-thirds of that growth coming from undergraduate students, 85% of the growth coming from resident students and 56% of the growth coming from online. 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 will see a 1.4% increase in funding on a per FTE basis compared to FY16. Removing the \$4M one-time funding appropriation, NAU's per student funding increases only .2% to \$11,335, which is down approximately \$2,400 from 2008 levels and illustrates the importance that an ongoing commitment to a university funding model will have on NAU's future finances.

To support this projected enrollment growth, NAU's planned financial aid strategy will result in an increase in the projected scholarship allowance percentage of 1.6 percentage points from the projected FY16 amount. 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 firmly 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 extended campus or community college partnerships that NAU has developed with its 2NAU programs. The class fee review initiative for FY17 complements this philosophy and improves the transparency of student costs by transitioning from individual class fees dedicated to technology to a mandatory IT fee structure which can then be included in financial aid packages.

Major Initiatives/Strategic Investments

NAU's investments for FY17 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 are all areas that are targeted for investment in FY17 with specific investment amounts to be finalized in some cases after fall enrollment is known.

Support for Enrollment Growth: 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. Investments of incremental general purpose funds are estimated at \$2.5 million.

Support for Retention/Student Success: Closely related to the support for enrollment growth are the investments being made to ensure student success. NAU's investment in Civitas, a predictive analytics software aimed at identifying student intervention points, complements NAU's restructuring of advising across campus to a centralized advising model. Along with the recently implemented Salesforce software, each of these initiatives are aimed at providing improved resources to faculty and staff who directly impact students' success. Investments of incremental general purpose funds are estimated at \$1.5 million.

Programmatic investments in High Demand Degree growth: NAU is expanding its programs in Allied Health Care with its initial cohort in the Master's in Athletic Training degree program at the Phoenix Biomedical Campus this upcoming year. Investments to start new PhD programs in Astronomy, Informatics and Bioengineering will also broaden NAU's programs in the high degree STEM fields. Investments of incremental general purpose funds are estimated at \$2.2 million.

Research Growth: NAU's recent initiative to strategically target established researchers who build upon the university's traditional research strengths continues for this upcoming year with investments made in several key hires and the accompanying start-up expenses. These efforts are made in conjunction with a reorganization of the Office of Sponsored Projects that will now utilize a team support model for pre and post award support. Additional investments have also been approved for graduate stipend adjustments to attract and retain graduate students who will also impact the quality and breadth of NAU's research programs. Investments of incremental general purpose funds are estimated at \$1.5 million.

Retention and Recruitment of faculty and staff: Investments in NAU's faculty and staff is an important university initiative in FY17. 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. The implementation of a merit based salary program for faculty and staff along with targeted work force adjustments will be the primary components. To fund these permanent salary adjustments, ongoing reviews of resource allocations will be made throughout the university to identify efficiencies that may then be reinvested in our faculty and staff. Investments of incremental general purpose funds are estimated at \$2.7 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 will launch its fourth Personalized Learning degree program in the continued high demand field of nursing in FY17 with the addition of an RN to BSN competency based program. NAU also continues 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 \$2.5 million.

Facility and Technology Infrastructure related costs: Continued investments in facilities are an ongoing part of the need and priority for NAU and will include projects for classroom technology remediation, fire life safety, roofing, other deferred maintenance investments, as well as targeted campus landscaping 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 also see an increase in debt service costs in FY17 after a one-time FY16 benefit from debt refinancing is removed. Investments of incremental general purpose funds are estimated at \$1.4 million.

Expenses

As a result of these investments, NAU projects that operating expense will grow 4.5% over the FY16 budgeted expense levels. 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 FY16, NAU hopes to moderate that impact by continuing a deliberate approach to hiring, reviewing all hiring requests throughout FY17 to ensure that critical hires are made while restructuring services and priorities where appropriate to postpone hiring requests where possible.

The increase estimated in the Other Operating Expense category for FY17 is the result of NAU's investments in technology improvements in its classrooms and a series of strategic department moves to better utilize existing space across campus. Depreciation expense shows only a slight increase as the bulk of the university's recent major building projects came into service in FY16.

Overall debt service levels increase by approximately \$4 million in FY17 with the majority of this increase coming from increased principal rather than interest payments due to recent debt refinancing efforts.

Summary

NAU's FY17 annual budget submission reflects its strong commitment to its students and the employees who work to support those students as well as continuing to respond to Arizona's workforce needs. Achieving a balanced budget for FY17 is the next step along a continuing path to develop 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 is 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; targets that once achieved, will further increase the already significant impact that NAU's presence has in Arizona.



NORTHERN ARIZONA UNIVERSITY

FY 2017

ANNUAL BUDGET

FY 2017 ANNUAL BUDGET

NORTHERN ARIZONA UNIVERSITY
 UNIVERSITY BUDGET
 FY 2017 (WITH FY 2016 COMPARATIVE BUDGET DATA)
 (\$ millions)

	FY 2017 BUDGET	FY 2016 BUDGET	\$ VARIANCE BETWEEN FY 2016 AND FY 2017 BUDGET	% VARIANCE BETWEEN FY 2016 AND FY 2017 BUDGET
Revenues				
State General Fund Appropriation	102.1	96.6	5.5	5.7%
State Appropriation - Research Infrastructure	4.2	5.5	(1.2)	(22.7%)
Tuition and Fees	347.9	315.6	32.3	10.2%
less Scholarship Allowance	(117.5)	(98.3)	(19.2)	19.5%
Net Tuition and Fees	230.4	217.3	13.1	6.0%
Grants & Contracts - Research	48.0	44.0	4.0	9.1%
Financial Aid Grants (Primarily Federal Pell Grants)	43.0	39.0	4.0	10.3%
Private Gifts	15.8	15.6	0.2	1.3%
Technology & Research Initiative Fund (TRIF)	13.7	12.4	1.2	9.8%
Auxiliary Revenue	57.8	54.5	3.3	6.1%
Other Revenues	37.0	35.7	1.3	3.5%
Total Revenues	551.9	520.7	31.3	6.0%
Expenses				
Salaries & Wages	241.1	240.1	1.0	0.4%
Benefits	87.2	80.1	7.1	8.8%
All Other Operating	120.8	110.0	10.8	9.8%
Scholarships & Fellowships, Net of Scholarship Allowance	32.6	28.8	3.8	13.3%
Depreciation	37.5	37.0	0.5	1.4%
Interest on Indebtedness	28.9	28.6	0.3	1.0%
Total Expenses	548.1	524.7	23.4	4.5%
Net Increase	3.9	(4.0)	7.9	

MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately 126 days at June 30, 2017.



FY 2017

ANNUAL BUDGET

INCREMENTAL ALLOCATION OF GENERAL PURPOSE FUNDS (\$ millions)

FY 2016 Base Budget	\$ 361.7
Changes in Incremental Funding	
Tuition and Fees - rate changes	9.7
Tuition and Fees—enrollment and mix shift	20.1
State Appropriation—base adjustment	1.5
State Appropriation—one time funding	4.0
State Appropriation—Research Infrastructure adjustment	(1.2)
Other	1.1
Net Change in Resources	\$ 35.2

Allocation of Incremental Resources

Enrollment Growth	\$ 2.5
Student Success and Retention Initiatives	1.5
High Demand Degree Growth (Allied Health and PhD programs)	2.2
Research Enterprise Growth	1.5
Retention and Recruitment of Faculty and Staff including ERE	2.7
Online Education Investment	2.5
Facility and Technology Infrastructure	1.4
Student Financial Aid	20.9

Net Change in Budget Allocations	\$ 35.2
FY 2017 Base Budget	\$ 396.9

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		

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.



NORTHERN ARIZONA UNIVERSITY

FY 2017

ANNUAL BUDGET

STATE EXPENDITURE AUTHORITY BY APPROPRIATION CAMPUS (\$ thousands)

	FY17 Budget	FY16 BUDGET	CHANGE
University Revenues			
Resident Tuition	\$ 166,125.0	\$ 148,574.0	\$ 17,551.0
Non Resident Tuition	116,076.0	105,343.0	10,733.0
Program Fees	4,023.0	2,982.0	1,041.0
Other Student Fees	0.0	0.0	-
Miscellaneous Revenues	1,665.0	1,665.0	-
Total University Revenues	\$ 287,889.0	\$ 258,564.0	\$ 29,325.0
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 16,292.4	\$ 11,412.2	\$ 4,880.2
Regents Financial Aid Set Aside	30,250.0	26,000.0	4,250.0
Other Financial Aid	77,063.3	60,417.5	16,645.8
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	16,000.0	14,447.7	1,552.3
Total Retained for Local Uses	\$ 140,605.7	\$ 113,277.4	\$ 27,328.3
University Revenues Remitted to State (State Collections)	\$ 147,283.3	\$ 145,286.6	\$ 1,996.7
Plus: State General Fund Appropriation	106,314.6	102,047.8	4,266.8
Total State Expenditure Authority	\$ 253,597.9	\$ 247,334.4	6,263.5

% CHANGES IN INCREMENTAL REVENUES

State General Funds 4%
 Tuition 11%
 Program and Other Student Fees 22%

USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets 43% Other Financial Aid 28%
 Regents Financial Aid Set Aside 16%
 Plant/Debt Service/COPS/Lease Purchase 11%



NORTHERN ARIZONA UNIVERSITY

FY 2017

ANNUAL BUDGET

LOCAL COLLECTIONS

	FY17 BUDGET	FY16 BUDGET	CHANGE
LOCAL COLLECTIONS FROM TUITION AND FEES			
OPERATING FUNDS FROM TUITION			
American Disabilities Act (ADA) Services	\$ 690,000	\$ 690,000	\$ -
Art Gallery	10,900	10,900	-
Child Care	43,900	43,900	-
Graduate Assistant Tuition Remission	2,300,000	2,300,000	-
Honors Forum	8,700	8,700	-
NAU Yuma Activity Program	19,900	19,900	-
Peer Mentoring and Retention	502,000	617,300	(115,300)
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	10,500	25,500	(15,000)
Student Activities	229,000	235,100	(6,100)
Student Financial Aid Operations	337,300	337,300	-
Online Education Investment*	8,907,700	3,919,400	4,988,300
SUN (Student Union Network Entertainment)	55,800	55,800	-
Employee Benefit Contingency	100,000	100,000	-
Operations: Collections	502,300	500,800	1,500
SUBTOTAL	\$ 13,959,000	\$ 9,105,600	\$ 4,853,400
*Reflects funding change consolidation			
AUXILIARY			
Intercollegiate Athletics	\$ 1,537,000	\$ 1,537,500	\$ -
Mountain Campus Identification Cards	-	13,200	(13,200)
Skydome	207,900	207,900	-
SUBTOTAL	\$ 1,744,900	\$ 1,758,100	\$ (13,200)
OPERATING FUNDS SUBTOTAL	\$ 15,703,900	\$ 10,863,700	\$ 4,840,200



NORTHERN ARIZONA UNIVERSITY

FY 2017

ANNUAL BUDGET

LOCAL COLLECTIONS (Cont.)

OPERATING FUNDS FROM TUITION AND FEES (cont.)

FINANCIAL AID

Regents Financial Aid Set Aside	\$ 30,250,000	\$ 26,000,000	\$ 4,250,000
Other Financial Aid - Institutional Financial Aid	76,500,000	60,000,000	16,500,000

SUBTOTAL

\$ 106,750,000	\$ 86,000,000	\$ 20,750,000
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MINOR CAPITAL PROJECTS/PLANT FUNDS

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

16,000,000	14,447,700	1,552,300
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TOTAL LOCAL RETENTION FROM TUITION

\$ 139,453,900	\$ 112,311,400	\$ 27,142,500
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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	45,000	30,000
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	\$ 217,300	\$ 164,800	52,500
Physician Assistant Financial Aid Set Aside	187,200	168,000	19,200
Occupational Therapy Financial Aid Set Aside	152,500	84,700	67,800
Athletic Training Financial Aid Set Aside	6,300	-	6,300

SUBTOTAL

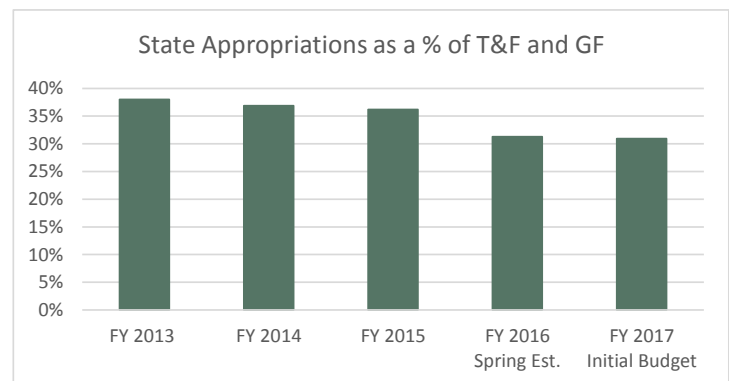
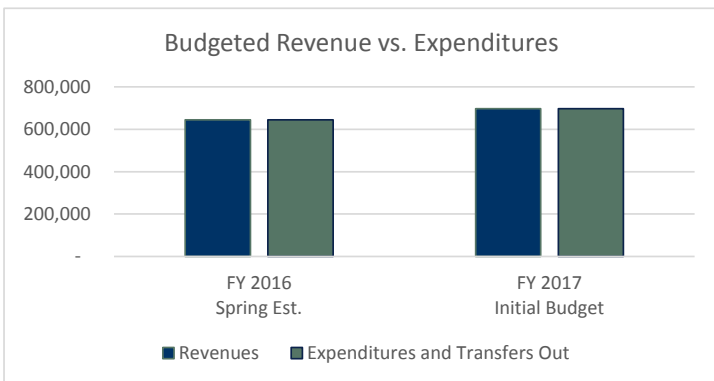
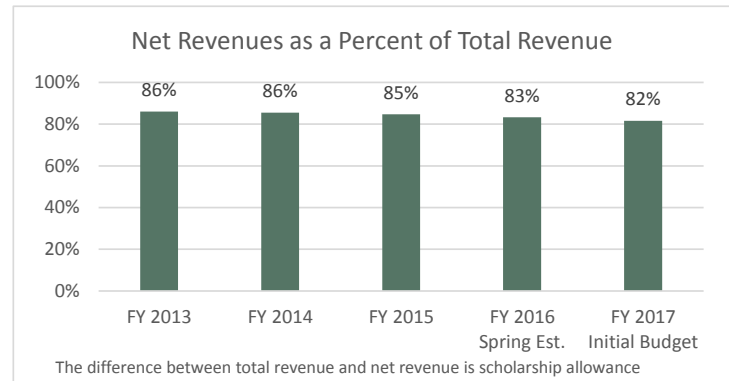
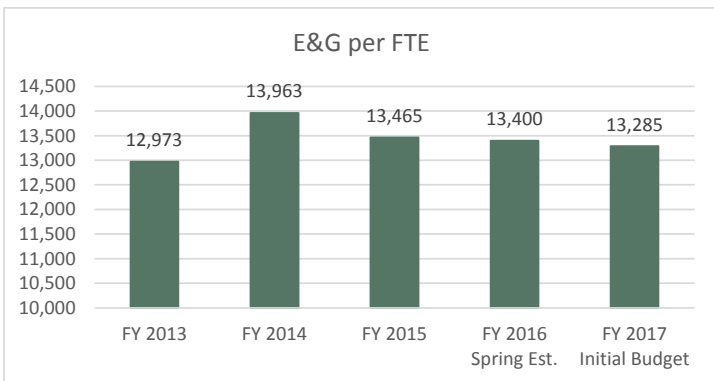
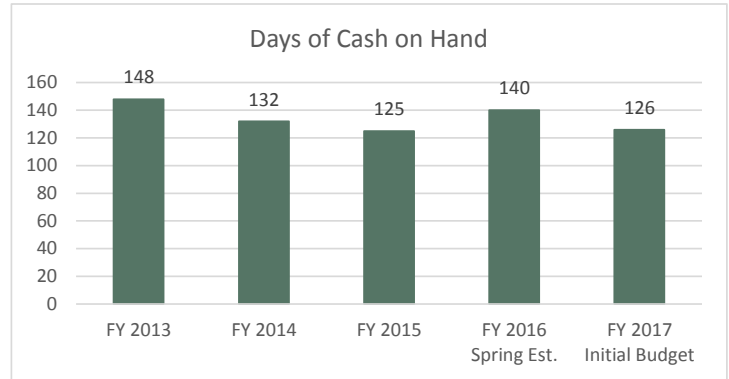
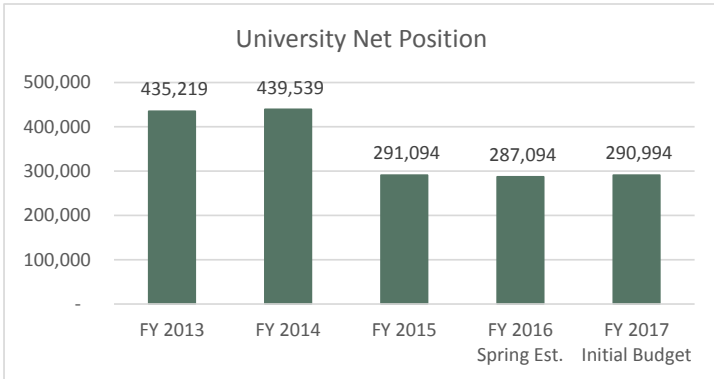
\$ 563,300	\$ 417,500	\$ 145,800
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TOTAL LOCAL RETENTION FROM PROGRAM FEES

\$ 1,151,800	\$ 966,000	\$ 185,800
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TOTAL LOCAL COLLECTIONS

\$ 140,605,700	\$ 113,277,400	\$ 27,328,300
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NORTHERN
ARIZONA
UNIVERSITY



2017 ANNUAL BUDGET

July 1, 2016 – June 30, 2017

FY17 BUDGET CONTEXT

NORTHERN
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- State appropriation addition
 - One time vs. Base funding
- Continued higher enrollment in conjunction with the PLEDGE tuition program
 - Growth of 7,679 students from FY08 to FY16 (+36%)
 - Projected growth of 1,709 students from FY16 to FY17 (+6%)
- Newly established Enterprise 2025 Metric targets
- NAU adaptations to a changing landscape to operate more efficiently and more effectively

TOTAL REVENUES

(IN MILLIONS OF DOLLARS)

NORTHERN
ARIZONA
UNIVERSITY



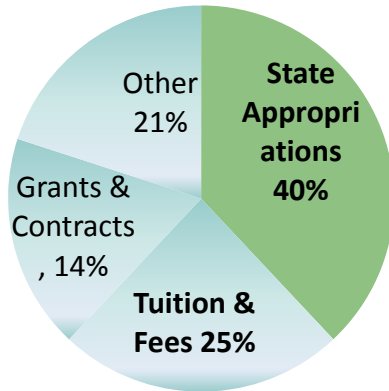
Total Revenues	2016 Budget	2017 Budget	\$ Change	% Change
State General Fund Appropriation	\$93.6	99.1	5.5	6%
State Appropriation – TGEN	3	3		
State Appropriation – Research Infrastructure	5.5	4.2	(1.2)	(23%)
Tuition and Fees, Net	217	230	13	6%
Grants & Contracts - Research	44	48	4	9%
Financial Aid Grants (Primarily Pell Grants)	39	43	4	10%
Private Gifts	16	16	0	1%
Technology & Research Initiative Fund (TRIF)	12	14	1	10%
Auxiliary Revenue, Net	55	58	3	6%
Other Revenue	36	37	1	17%
Total Revenues	\$520.7	552	31	6%

Net Tuition & Fee Revenue: +6% growth

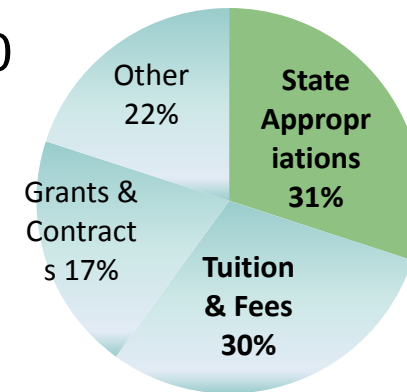
- 2016 Enrollment growth over budget
- 2017 Enrollment growth & mix changes
- 2017 Tuition Rate Changes
- 2017 IT Fee Change

CHANGES IN NAU REVENUE SOURCES – FY17

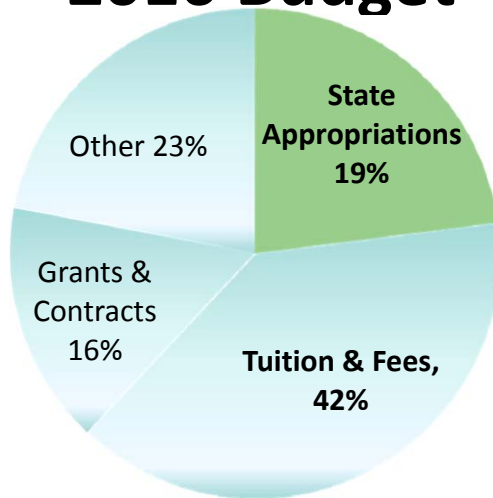
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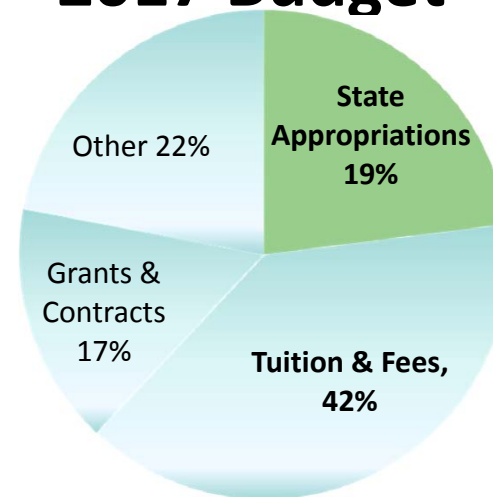
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2016 Budget

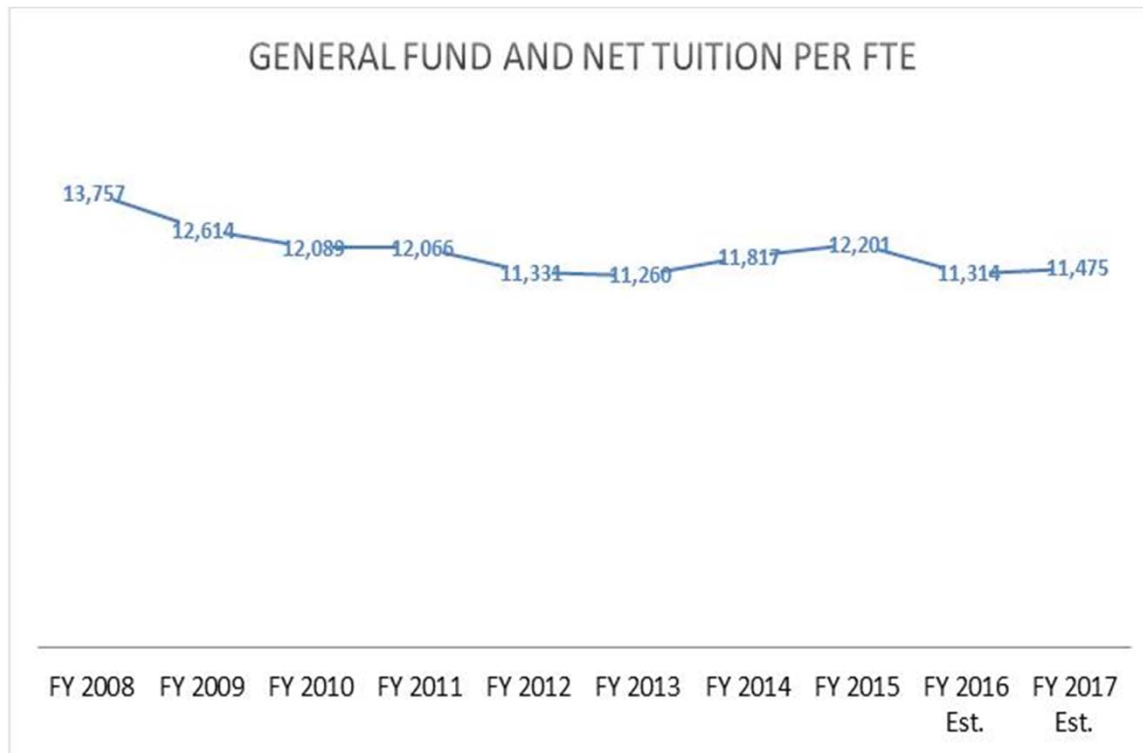


2017 Budget



ENROLLMENT ASSUMPTIONS CONSISTENT WITH TUITION HEARING

- **FY17 Budget assumes FTE Growth of 5.3%**
 - **+ 1,450 overall FTE increase**
 - Online: +814 (Personalized Learning: +250)
 - Flagstaff/Statewide: +636



- In FY17, NAU will operate with approximately 1.4% more per student funding than in FY16
- Excluding one-time state appropriation, growth in per student funding is 0.2%

USES OF INCREMENTAL GENERAL PURPOSE FUNDS TO SUPPORT 2025 GOALS

(IN MILLIONS OF DOLLARS)

Change in University Resources \$35.2M		
Enrollment Growth Support		\$2.5
Student Success and Retention Initiatives	<i>Student Related</i>	1.5
Financial Aid		20.9
High Demand Degree Investments (Allied Health Programs; PhD Programs)		2.2
Online Education Programming	<i>Program Related</i>	2.5
Research Enterprise		1.5
Faculty & Staff Recruitment, Retention & Benefits	<i>Operations Related</i>	2.7
Infrastructure Investments		1.4

TOTAL EXPENSES

(IN MILLIONS OF DOLLARS)

NORTHERN
ARIZONA
UNIVERSITY



Total Expenses	2016 Budget	2017 Budget	\$ Change	% Change
Salaries and Wages	\$240	241	1	0.4%
Benefits	80	87	7	9%
All Other Operating	110	121	11	10%
Scholarships & Fellowships	29	33	4	13%
Depreciation	37	38	1	1%
Interest on Indebtedness	29	29	0	1%
Total Expenses	\$525	548	23	4.5%

FY17 Net Asset
Increase = \$3.9

Moody's and S&P April 2016:
Stable Outlook

Projected Days Cash on Hand
= 126 Days

- within Board liquidity guideline

FY17 BUDGET SUMMARY

NORTHERN
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- Protected NAU's core educational mission with FY16 strategies
- Achieve a balanced budget in FY17
 - One time state appropriation funding was critical
 - Focus on operational efficiencies and expense management
- Future strategic investments must be made and will be determined by
 - Continued enrollment growth and viability of PLEDGE program
 - Level of future state operating appropriations
 - Continued review of balance sheet impact