



## **FY21 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. Measuring and reaffirming sustained progress toward the ABOR Enterprise 2025 metrics has been a visible outcome through these efforts.

The COVID-19 pandemic has had deep financial impacts on NAU as it has for most universities around the country. From the anticipated changes in enrollment levels and mix of students to decreased state investment in the university, the university will see lower funding levels at the same time that significant investments are required in operations to support health and safety. This pandemic has required NAU to implement a number of significant actions to mitigate these impacts and to maintain both short and long term financial sustainability.

### **Overview**

NAU submits the FY21 Annual Budget that projects a flat net position. 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 143 days based on the projected expenditure level for this upcoming year. This reflects a slight decrease from the budgeted FY20 monthly days cash on hand metric of 145 days and keeps NAU within the board approved financial liquidity range. Note the FY20 projected days cash on hand of 148 days is impacted by Federal Cares Act funding of \$11 million in institutional funding, which had it not been received, would have reduced days cash on hand at year end by approximately 7 days. 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 FY21 to decline 12% over its FY20 revenue budget and a decline versus expected 2020 actual results of 9%. At the reduced revenue level, the distribution of revenue sources varies only slightly from the FY20 budgeted revenue sources. Net tuition and fees and state appropriations comprise approximately 60% of NAU's revenue sources and are the primary funding source for the instruction and support for NAU's students. While lower enrollment is projected to result in a 15% drop in net tuition and fees compared to the FY20 budget, the FY21 state appropriations is also reduced by the elimination of the \$6.7 million investment in the university for one-time operational funding. The FY21 budget numbers do reflect the continuation of the \$3.0 million appropriation which is considered a pass through appropriation to TGEN.

NAU also expects its other revenue categories to be greatly impacted by the COVID-19 pandemic. Auxiliary revenue is projected to decline by 20% compared to the FY20 budget with a lower density in university housing and fewer meal plans purchased being the primary drivers. Fewer campus activities and lower investment income drive the decline in the Other Revenue category. Revenue from TRIF funding is expected to be impacted by the overall economic activity, and more specifically sales tax activity in the state, and is budgeted to be lower than the revised year five projection. NAU's revenue growth from grants and contracts revenue will increase both from higher sponsored project activity as well as the distribution of the remaining CARES Act student funding, which is recognized as both revenue and expense (in Scholarship and Fellowship expense) upon distribution. Philanthropic gift revenue is expected to slightly increase as efforts to diversify the university's revenue stream are realized to provide additional financial support for university operations. Further, NAU continues to pursue external opportunities for funding to help support the critical investments noted below.

As approved by the Board at its February 2018 meeting and important to note NAU's FY21 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 FY20 budgets.

### **Enrollment**

Enrollment assumptions for this upcoming year have been significantly impacted by the COVID-19 pandemic although there remain areas of strength that will position NAU positively moving forward. The projections include a 2,400 FTE decrease for Fall 2020 which corresponds to a 8% fall headcount decrease. Through NAU's investments in technology to facilitate instructional delivery, NAU will accommodate more than 4,500 remote learning requests for this upcoming fall semester to allow students to begin or continue their Lumberjack education. However, even with this option, NAU will still see fewer international and domestic non-resident students this fall even as online enrollment and 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 is 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. However, NAU is in the midst of a comprehensive review of pricing and financial aid strategies and will be used in developing plans for future years that will support enrollment growth and retention as well as overall fiscal health. Beyond the challenges that this current year poses, tuition pricing increases will be needed moving forward to generate the revenue necessary to support its student population.

### **Major Initiatives/Strategic Investments**

NAU's initiatives for FY21 focus on aligning expenditures to a reduced revenue base while at the same time making targeted and critical investments in infrastructure and operations as part of a comprehensive health and safety enhancement strategy. These important initiatives are fundamental to support the current year as well as the path forward into future years.

### **Investments**

**Investments in Technology and Infrastructure:** Investments in technology have been a primary focus of NAU's strategy to provide flexibility for instruction for this upcoming year. NAUFlex is now installed in 400 classrooms on the Flagstaff campus as well as statewide sites. This investment allows students in the classroom and at remote locations to participate together in class, in real time, while maintaining physical distancing for safety. Investments to expand and enhance WiFi on the Flagstaff campus is also an important investment for this year when a number of health and safety apps will be relied upon by the campus community. In addition, investments in improving building ventilation and air filtration have been made. These pandemic related investments do complement continued 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 incremental general purpose funds are estimated at \$3.0 million.

**Investments in Testing and Exposure Management/Contract Tracing:** NAU has invested in a number of COVID-19 testing options and exposure management/contract tracing to supplement the required daily health screening protocol for all faculty, staff and students. The NAU's Campus Health Services (CHS) will provide testing for symptomatic and exposure/close contact testing and is partnering with the state of Arizona and ASU to expand overall testing capacity to include large scale asymptomatic testing for campus health monitoring. Exposure management in the form of the COVIDWatch app will notify users if they have been exposed to COVID-19 and directs them to appropriate actions. In addition, CHS will expand its staffing to help facilitate exposure management in collaboration with the lead role that Coconino County takes in this area. Investments of incremental general purpose funds are estimated at \$7.0 million.

**Investments in PPE and Health and Safety protocols:** NAU's investment in additional PPE, such as masks and gloves, and enhanced health and safety protocols are important component of NAU's Jacks are Back efforts for the return to campus this fall. Every student, faculty and staff received a personal health kit that includes face coverings while additional hand sanitizer dispensers and signage have been deployed to visibly raise the awareness and important roles each individual has to the university community's health and safety. Investments of incremental general purpose funds are estimated at \$3.0 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 Education and Engineering programs. Investments of incremental general purpose funds are estimated at \$0.8 million.

## **Operational changes to impact expenditures**

**Restructure and refinance debt obligations:** NAU has been working with its university financial advisor to identify opportunities to further restructure and refinance

existing debt obligations. Upon the recent authorization by ABOR, NAU will pursue restructuring System Revenue Bonds in FY21 that have the potential to result in cash flow savings of up to \$20 million in FY21. NAU also did delay the Interdisciplinary Science and Technology building project and the approximate \$8M in annual debt service that would have been added with that project to minimize the impact on FY21.

**Personnel Costs:** Salaries, wages and benefit costs are the largest university expenditure and a number of actions have been implemented for FY21. In addition to a more strict hiring freeze, a temporary salary reduction program was implemented for FY21 that progressively impacted higher paid faculty and staff. Instructional capacity was reviewed and realigned and a voluntary separation retirement incentive program was offered for faculty over 69 years of age. Employment contracts were updated with language to allow for additional flexibility.

**Operational budget reduction across all departments:** From contracts and leases that were renegotiated to reductions 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.

### **Expenses**

As a result of these investments and actions, NAU projects that operating expense will decline 11% over the FY20 budgeted expense levels. A primary driver of this expenditure reduction is lower personnel costs. These expenditures comprise 60% of the university's operating costs and are budgeted to align with available resources through the actions noted previously.

The estimated decrease in the Other Operating Expense category for FY21 is the result of NAU's budget reduction efforts. Depreciation expense is projected to increase slightly to \$46 million as current capital projects are completed. Also, as previously outlined, overall debt service levels are anticipated to decrease in FY21 as NAU restructures and refinances system revenue bonds.

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 contract and lease reviews, the full implementation of a new administrative service delivery framework to increase administrative effectiveness and efficiencies, and further leveraging technology to address document management and workflow. 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 FY21 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 FY21 that recognizes the reduced revenue expectations 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 2021. The challenges to be faced during the upcoming remain great, yet NAU remains committed to working closely with the State of Arizona to identify funding that will support its long standing mission to serve Arizona.

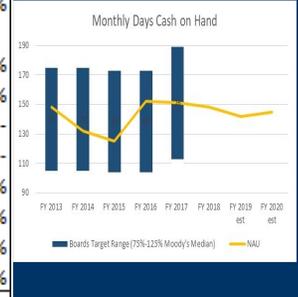
# ANNUAL BUDGET

## FY 2021 ANNUAL BUDGET

	FY21 BUDGET	FY20 ESTIMATE	FY20 BUDGET	VARIANCE BETWEEN FY 2021 BGT & FY 2020 EST		VARIANCE BETWEEN FY 2020 EST & FY 2020 BGT	
<b>Revenues</b>							
State General Fund Appropriation	\$98.9	\$105.4	\$105.3	(\$6.5)	-6.2%	\$0.1	0.1%
State Appropriation - Research Infrastructure	\$4.9	\$5.9	\$5.9	(\$1.0)	-17.3%	\$0.0	0.0%
State Appropriation - Capital Infrastructure	\$4.7	\$4.6	\$4.7	\$0.1	2.0%	(\$0.1)	-2.2%
State Appropriation - AFAT	\$1.3	\$1.3	\$1.3	\$0.0	0.0%	\$0.0	0.0%
Tuition and Fees	\$368.0	\$389.6	\$404.1	(\$21.6)	-5.5%	(\$14.5)	-3.6%
<i>less Scholarship Allowance</i>	(\$155.0)	(\$155.7)	(\$154.0)	\$0.7	-0.4%	(\$1.7)	1.1%
Net Tuition and Fees	\$213.0	\$233.9	\$250.1	(\$20.9)	-8.9%	(\$16.2)	-6.5%
Grants & Contracts -- Research	\$65.0	\$62.5	\$68.0	\$2.5	4.0%	(\$5.5)	-8.1%
Financial Aid Grants (Primarily Federal Pell Grants)	\$42.0	\$45.5	\$48.0	(\$3.5)	-7.7%	(\$2.5)	-5.2%
Arizona Teachers Academy	tbd	\$5.1	\$0.0	(\$5.1)	-100.0%	\$5.1	--
CARES Act Revenue	\$7.0	\$17.5	\$0.0	(\$10.5)	-60.0%	\$17.5	--
Private Gifts	\$22.0	\$19.4	\$20.0	\$2.6	13.4%	(\$0.6)	-3.2%
Technology & Research Initiative Fund (TRIF)	\$15.3	\$16.9	\$15.2	(\$1.6)	-9.7%	\$1.7	11.0%
Auxiliary Revenues, Net	\$53.1	\$58.1	\$66.0	(\$5.0)	-8.6%	(\$7.9)	-12.0%
Other Revenues	\$27.8	\$39.4	\$48.0	(\$11.6)	-29.4%	(\$8.6)	-18.0%
Total Other Revenues	\$232.2	\$264.4	\$265.3	(\$32.2)	-12.2%	(\$0.9)	-0.3%
<b>Total Revenues</b>	<b>\$555.0</b>	<b>\$615.5</b>	<b>\$632.7</b>	<b>(\$60.6)</b>	<b>-9.8%</b>	<b>(\$17.2)</b>	<b>-2.7%</b>
<b>Expenses</b>							
Salaries and Wages	\$248.6	\$267.9	\$267.5	(\$19.3)	-7.2%	\$0.4	0.1%
Benefits	\$86.4	\$92.1	\$91.9	(\$5.7)	-6.2%	\$0.2	0.2%
All Other Operating	\$121.2	\$147.5	\$139.8	(\$26.3)	-17.8%	\$7.7	5.5%
Scholarships & fellowships, Net of Scholarship Allowance	\$43.1	\$46.9	\$43.0	(\$3.8)	-8.1%	\$3.9	9.0%
Interest on Indebtedness	\$9.6	\$23.6	\$28.5	(\$14.0)	-59.2%	(\$4.9)	-17.2%
Depreciation	\$46.0	\$45.2	\$43.6	\$0.8	1.8%	\$1.6	3.7%
Pension Liability/OPEB (GASB 68 & GASB 45)	\$0.0	(\$2.8)	\$11.8	\$2.8	-100.0%	(\$14.6)	-123.7%
<b>Total Expenses</b>	<b>\$555.0</b>	<b>\$620.4</b>	<b>\$626.2</b>	<b>(\$65.4)</b>	<b>-10.5%</b>	<b>(\$5.8)</b>	<b>-0.9%</b>
<b>Net Increase</b>	<b>\$0</b>	<b>(\$4.9)</b>	<b>\$6.5</b>	<b>\$4.9</b>	<b>-100.0%</b>	<b>(\$11.4)</b>	<b>-174.7%</b>

### MONTHLY DAYS CASH ON HAND

Monthly days cash on hand is projected to be approximately 143 days at June 30, 2021.



\*Includes Federal Cares Act Funds for FY21

\*\*Incorporates ABOR approval of debt restructuring/ refinancing authority

# ANNUAL BUDGET

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

<b>FY 2020 Base Budget</b>	<b>\$ 466.0</b>
<b>Changes in Incremental Funding</b>	
Tuition and Fees - rate changes	\$1.0
Tuition and Fees—enrollment and mix shift	(38.1)
State Appropriation—FY20 one time funding removed	(6.7)
State Appropriation—FY21 research infrastructure funding	(1.0)
State Appropriation—FY21 university capital infrastructure funding	0.1
Other including investment income	(2.0)
<b>Net Change in Resources</b>	<b>(\$46.7)</b>

**Allocation of Incremental Resources**

High Demand Degree Growth (Allied Health, STEM)	0.8
Testing and Exposure Management/Contract Tracing	7.0
Technology and Facility Infrastructure	3.0
PPE and Health and Safety Protocols	3.0
Student Financial Aid	1.0
Strategic Reallocations	(61.5)

**Net Change in Budget Allocations** **(\$46.7)**

**FY 2021 Base Budget** **\$419.3**

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*)

	FY21 BUDGET	FY20 BUDGET	CHANGE
<b>University Revenues</b>			
Resident Tuition	\$ 174,269.0	\$ 186,330.0	\$ (12,061.0)
Non Resident Tuition	124,801.0	143,117.6	(18,316.6)
Program Fees	5,706.0	4,608.0	1,098.0
Other Student Fees	0.0	0.0	-
Miscellaneous Revenues	3,625.0	3,126.0	500.0
<b>Total University Revenues</b>	<b>\$ 308,401.0</b>	<b>\$ 337,180.6</b>	<b>\$ (28,779.6)</b>
<b>University Revenues Retained for Local Uses</b>			
Support for Local Operating Budgets	\$ 13,467.8	\$ 16,987.0	\$ (3,519.2)
Regents Financial Aid Set Aside	33,000.0	33,000.0	-
Other Financial Aid	115,811.9	113,039.1	2,772.8
Plant Funds	1,000.0	1,000.0	-
Debt Service/COPS/Lease Purchase	6,200.0	17,000.0	(10,800.0)
<b>Total Retained for Local Uses</b>	<b>\$ 169,479.7</b>	<b>\$ 181,026.1</b>	<b>\$ (11,546.4)</b>
<b>University Revenues Remitted to State (State Collections)</b>	<b>\$ 138,921.3</b>	<b>\$ 156,154.5</b>	<b>\$ (17,233.2)</b>
<b>Plus: State General Fund Appropriation</b>	<b>109,804.6</b>	<b>117,250.9</b>	<b>(7,446.3)</b>
<b>Total State Expenditure Authority</b>	<b>\$ 248,725.9</b>	<b>\$ 273,405.4</b>	<b>\$ (24,679.5)</b>

### % CHANGES IN INCREMENTAL REVENUES

State General Funds (6%)  
Tuition (9%)  
Program, Other Student Fees and Misc. Revenue 21%

### USES OF INCREMENTAL REVENUES (% Change)

Local Operating Budgets (21%)      Other Financial Aid 2%  
Regents Financial Aid Set Aside 0%  
Plant/Debt Service/COPS/Lease Purchase (60%)

# ANNUAL BUDGET

## LOCAL COLLECTIONS

	FY21 BUDGET	FY20 BUDGET	CHANGE
<b>LOCAL COLLECTIONS FROM TUITION AND FEES</b>			
<b>OPERATING FUNDS FROM TUITION</b>			
American Disabilities Act (ADA) Services	\$ 0	\$ 750,000	\$ (750,000)
Art Gallery	0	10,900	(10,900)
Child Care	43,900	43,900	-
Graduate Assistant Tuition Remission	2,400,000	2,400,000	-
Peer Mentoring and Retention	0	502,000	(502,000)
College of Arts and Letters Support	93,400	106,000	(12,600)
School of Communications Support. Radio, Cable, Forensics	2,800	27,000	(24,200)
Student Activities	0	90,400	(90,400)
Student Financial Aid Operations	0	337,300	(337,300)
Online and Educational Innovation and Partnerships Investment	9,540,400	11,578,700	(2,038,300)
Employee Benefit Contingency	50,000	50,000	-
Operations: Collections	502,300	502,300	-
SUBTOTAL	\$ 12,632,800	\$ 16,398,500	\$ (3,765,700)
 <u>AUXILIARY</u>			
	\$ 0	\$ 0	\$ 0
	0	0	0
SUBTOTAL	\$ 0	\$ 0	\$ 0
<b>OPERATING FUNDS SUBTOTAL</b>	<b>\$ 12,632,800</b>	<b>\$ 16,398,500</b>	<b>\$ (3,765,700)</b>

# 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	115,031,100	112,393,900	2,619,200

#### SUBTOTAL

\$ 148,013,100	\$ 145,393,900	\$ 2,619,200
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#### MINOR CAPITAL PROJECTS/PLANT FUNDS

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

6,200,000	17,000,000	(10,800,000)
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#### TOTAL LOCAL RETENTION FROM TUITION

<b>\$ 167,845,900</b>	<b>\$ 179,792,400</b>	<b>\$ (11,946,500)</b>
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### LOCAL COLLECTIONS FROM PROGRAM FEES

#### DESIGNATED OPERATING FUNDS

Doctorate of Physical Therapy (DPT) Program Fee	\$ 345,500	\$ 458,500	\$ (113,500)
Physician Assistant (PA) Program Fee	435,000	75,000	360,000
Occupational Therapy (OT) Program Fee	5,000	45,000	(40,000)
Athletic Training (AT) Program Fee	50,000	10,000	40,000

#### FINANCIAL AID

Physical Therapy Financial Aid Set Aside	\$ 229,200	\$ 212,100	17,100
Physician Assistant Financial Aid Set Aside	280,000	210,700	69,300
Occupational Therapy Financial Aid Set Aside	206,400	206,400	0
Athletic Training Financial Aid Set Aside	14,700	16,000	(1,300)
Doctor of Clinical Psychology Financial Aid Set Aside	68,500	0	68,500

#### SUBTOTAL

\$ 798,800	\$ 645,200	\$ 153,600
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#### TOTAL LOCAL RETENTION FROM PROGRAM FEES

<b>\$ 1,633,800</b>	<b>\$ 1,233,700</b>	<b>\$ 400,100</b>
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#### TOTAL LOCAL COLLECTIONS

<b>\$ 169,479,700</b>	<b>\$ 181,026,100</b>	<b>\$ (11,546,400)</b>
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**ANNUAL BUDGET**

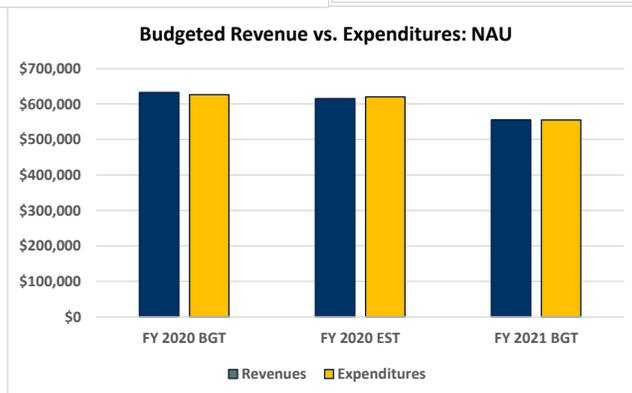
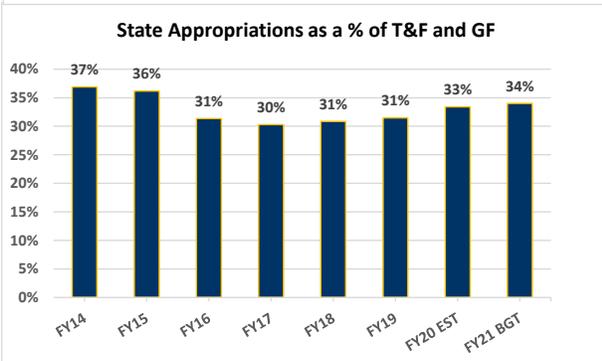
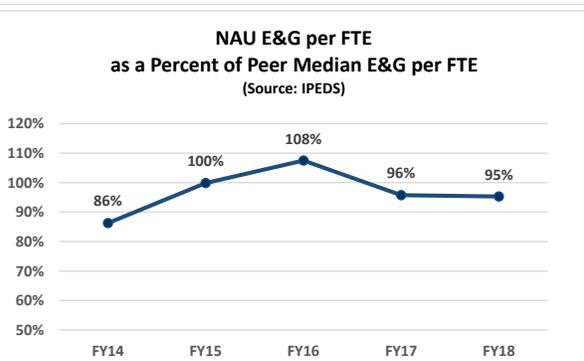
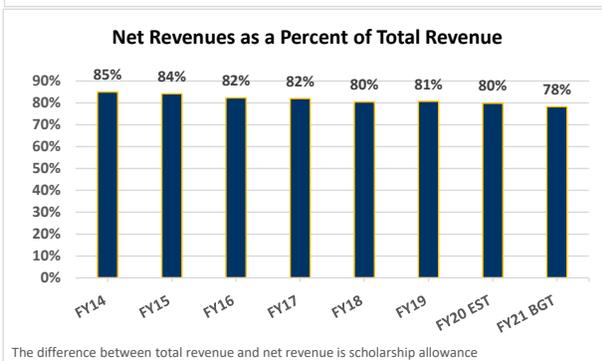
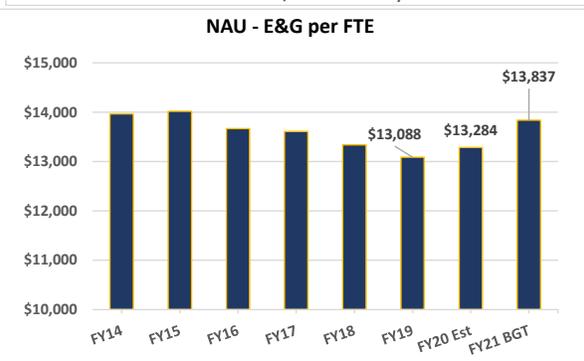
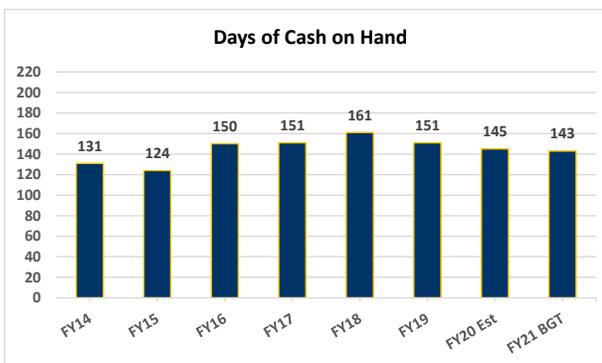
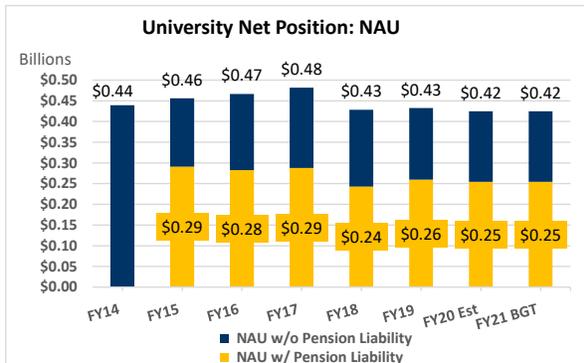
**FY 2021 LOCAL BUDGETS WITH DEFICITS OF \$100,000 OR MORE**

	FY19 ACTUAL ENDING <u>SURPLUS/(DEFICIT)</u>	FY20 PROJECTED ENDING <u>SURPLUS/(DEFICIT)</u>	FY21 ESTIMATED REVENUES AND TRANSFERS IN	FY21 ESTIMATED EXPENDITURES AND TRANSFERS OUT	FY21 PROJECTED ENDING <u>SURPLUS/(DEFICIT)</u>
	\$	\$	\$	\$	\$

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## FY 2021 ANNUAL BUDGET



Notes:

University Net Position: Beginning in FY 2015 and FY 2016 (GASB 68 & GASB 45, respectively) new accounting standards require a liability for pension obligations including other postemployment benefits (OPEB) be recognized on the balance sheet, thereby reducing the universities net position.