

FY21 Annual Budget Submission

Introduction

The annual budget process provides an opportunity to align the budget with 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 reallocation 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 key 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 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 impact 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 81% of the total revenue. Net tuition and fees are the primary funding source for the instruction. While enrollment is projected to result in a 18% drop in net tuition and fees compared to the FY20 budget, the FY21 state appropriation 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 20% compared to the FY20 budget with a lower density in university housing and fewer meal plans purchased being the primary drivers. 4 To

existing debt obligations. Under 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, all units across the university reviewed and identified opportunities to reduce non-personnel expenditures as a primary source of addressing the budget reductions.

Expenses decrease
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

	FY21 BUDGET	FY20 BUDGET	CHANGE
University Revenues			
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
Total University Revenues	\$ 308,401.0	\$ 337,180.6	\$ (28,779.6)
University Revenues Retained for Local Uses			
Support for Local Operating Budgets	\$ 13,467.8	\$ 16,987.0	\$ (3,519.2)
Regents Financial Aid Set Aside	33,000.0		

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