

One Mission. One Vision.

One NAU.

BUSINESS PLAN | SEPTEMBER 2018

NORTHERN ARIZONA UNIVERSITY

Introduction

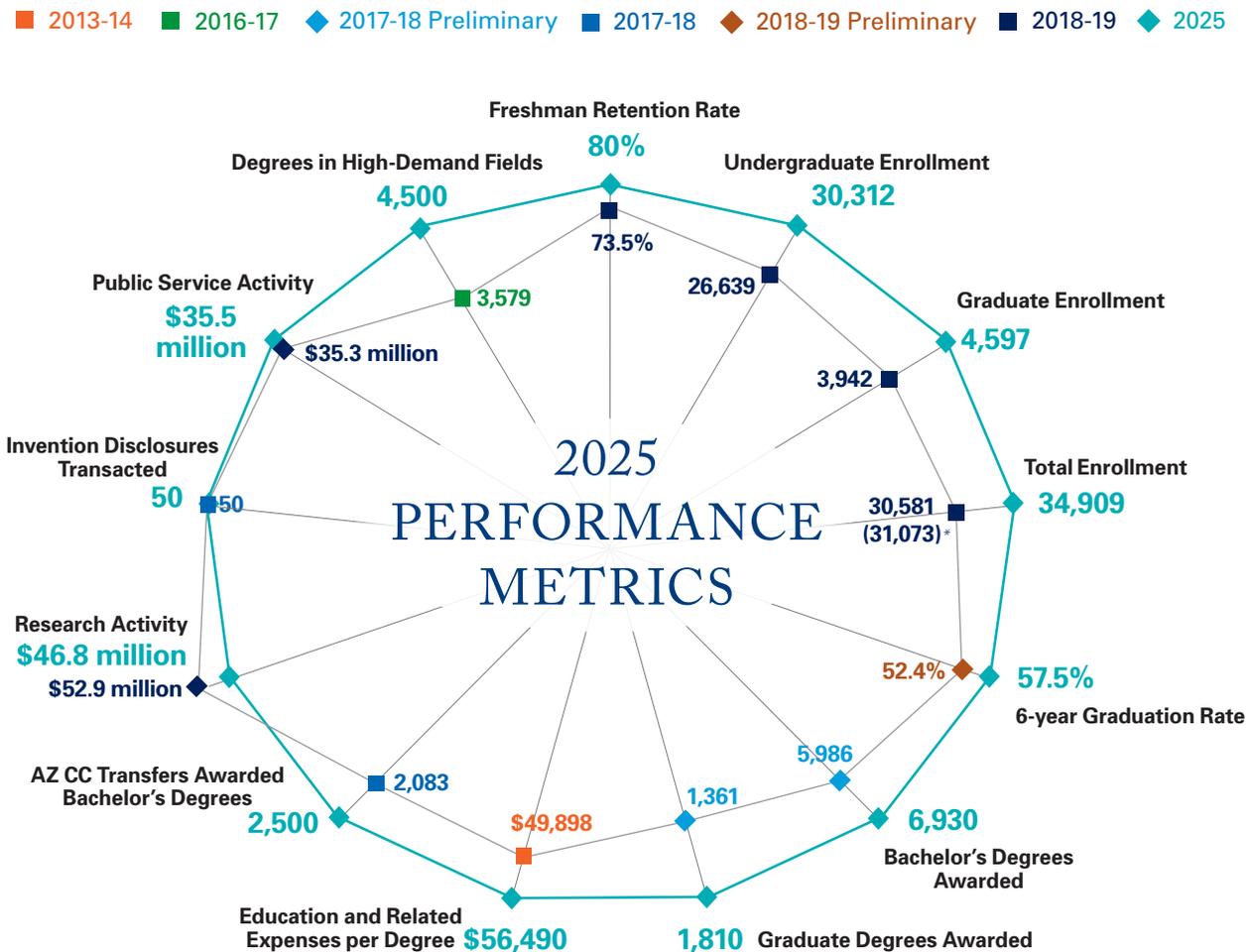
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Northern Arizona University's 2018 Operational and Financial Review (OFR) updates the progress and results achieved over this past year, and highlights the focus of our work in the year to come. This is consistent with the overall planning framework established in collaboration with the Arizona Board of Regents two years ago and reviewed again last year. From a focus on the identification of possibilities during the OFR two years ago, to turning those possibilities into success last year, NAU has a renewed and shared commitment to student access and success through efficient and proven programs and services from our strategic planning work: One Mission, One Vision, One NAU. Whether it is in our academic programs, research centers, or administrative services, NAU faculty and staff, working side by side, are committed to curriculum, research and business processes that are relevant to today's students, community needs and efficient practices - aided by a rigorous and analytical framework that guides our planning and assessment. Through this framework, NAU will best serve and prepare our students and continue to be nationally recognized and locally vital.

Metrics

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NAU's progress toward the 2025 Enterprise metrics over this past year has been positive in a majority of areas and reflects the importance that these 13 individual metrics have for helping NAU set institutional priorities and measuring the university's overall progress. However, the impact that NAU generates extends beyond numerical metrics on a spider chart to impact on students, faculty, staff and communities in Arizona and beyond. The results are significant, and NAU recognizes its important role in helping the Arizona university system achieve the 2025 goals, as well as contributing to state priorities such as Achieve60AZ and the Arizona Progress Meter. As an Arizona public research university, graduating approximately 6,000 undergraduates and more than 1,350 graduate students last year, whose annual economic impact is \$2.5 billion statewide, NAU's contribution toward these efforts is powerful.



*IPEDS/All Enrolled Headcount

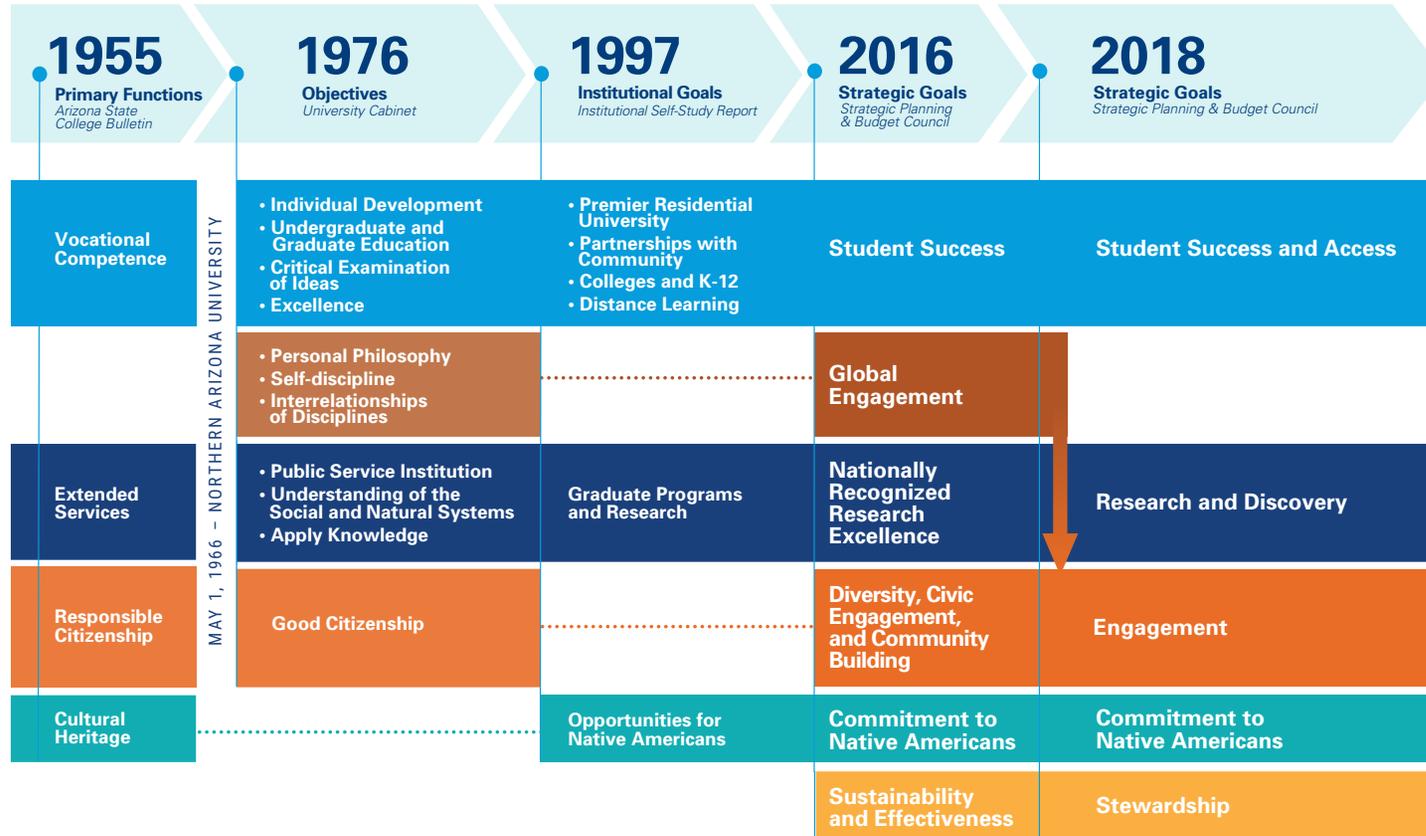
Strategic Plan

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We have made significant progress over the past two years in the area of strategic planning to finalize our overall university planning framework defining our mission, vision, values and objectives. This outcome was achieved as a result of the collective input of over 1,500 individuals across the university from students to faculty and staff to alumni. Throughout this extensive outreach process, our mission and

commitment to personalized attention to student success and scholarly excellence were clearly reaffirmed as important and distinguishing characteristics for NAU. Our next step over this upcoming year is to identify additional internal performance measures that complement the Enterprise metrics and help ensure that we address the necessary items to successfully reach the metric goals, efficiently and with identifiable

outcomes, in the five strategic priority areas for NAU: Student Success, Research and Discovery; Commitment to Native Americans; Engagement; and, Stewardship. Performance measures will be developed at the university and in conjunction with units throughout the university to increasingly align activities throughout NAU in support of the strategic priorities.



Student Success

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Student success has long been at the center of NAU's mission with a strong commitment to personalized attention that is integral to student success and retention. Efforts began last year to better align the activities in both Academic Affairs and Enrollment Management and Student Affairs to more effectively serve our students. Key to this effort was the integration of a single student record management system, Salesforce, across units. Continued evaluation of organizational alignment and activities is planned to maximize student services and increase efficient use of resources. The expansion of the work beyond first year student retention action plans to overall persistence planning is being purposefully coordinated through both areas. We will also be scaling demonstrated successful activities, including expanded mentoring programs and increased opportunities for experiential learning, across the university to extend the impact of proven programs.

NAU continues to see an increase in the total number of students retained year over year.

We did not meet our annual goal for percent increase in retention this fall, however, and implementation of the key collaborative strategies identified previously is necessary to advance this effort across a larger student population of increasing diversity. The establishment of resident learning communities by college this fall is aimed at furthering foster connections for students on the Flagstaff Campus which has been demonstrated to be an important factor in student success and persistence. Expanding faculty professional development programs, such as the Persistence Scholars Program, which engages faculty in the scholarship of academic persistence, will further cultivate an enduring culture of student success with faculty members who play a critical role in our student success efforts. In addition, an increased emphasis will be to leverage the data and functionality currently available through Civitas Learning, our predictive analytics tool, to better guide student communications and interventions and help identify opportunities for future course redesign and improved scheduling of course sequences.

NAU's strong commitment to student success extends beyond the classroom to success post-graduation. Our recent work with Strada-Gallup to survey our alums demonstrates this ongoing value of NAU's focus on the student experience. 89% of NAU undergraduate alumni and 91% of postgraduate alumni responded that they would choose NAU for their degree if they had to make their college decisions all over again. And as noted in recent data from the Arizona Department of Economic Security, NAU graduates have increasingly stayed in Arizona and have also experienced increasing wages over time directly contributing to the Arizona economy. NAU's Arizona resident undergraduates from 2017 reached the highest rate of employment in Arizona for a graduating class at NAU at 84%. Over the past five years, Arizona undergraduates from 2010 through 2012 have seen median wages increase annually between 7 to 8 percent.

Enrollment

The enrollment landscape is competitive and NAU has managed to succeed in that environment by monitoring and adapting as necessary to external trends whether it is within the state, the region or across the nation. This requires constant evaluation of programming for

student services from recruitment throughout the college experience, degree offerings and an ability to differentiate in a crowded market. If the word "student" is inserted in place of enrollment, it is easier to determine why enrollment might be at the center of many of our

strategic discussions. From attracting students to NAU to retaining them to graduation, these efforts comprise eight of the enterprise metrics and are the primary measures which impact individual lives as well as the future economic viability of Arizona. Additionally, at NAU,

Enrollment, continued

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enrollment drives over 40% of our total budget through tuition and fee revenue and is thus a critical element of an operational and financial review to the Arizona Board of Regents.

NAU has adapted to a changing and crowded market in several ways, including an update to our college structure to align with the identity that both students and the workforce are looking for, including separating Engineering from the Sciences reflecting enrollment growth in the STEM areas, and developing an Honors College to respond to the desire among Arizona's highest achieving students for a unique college experience. We have modified, enhanced and added degrees especially in high demand fields to be relevant to today's dynamic and ever changing global environment, with curriculum that prepares students to succeed in rigorous environments. At the same time, the services NAU offers students continues to be personal and relevant to our student's needs, while the decisions behind those services are now guided by rigorous analysis of data and outcomes.

One of NAU's priorities is an increasing use of targeted marketing efforts to build brand awareness across all delivery models which is a critical initiative to maintain our enrollment momentum. That momentum will also be influenced by a number of other items that impact each of our delivery models. The completion of an overall enrollment strategic plan will further

guide both the marketing efforts and the university's focus across all enrollment categories and identify the actions necessary to achieve the goals. NAU's Community College Partnerships have been reorganized and we look forward to building on the foundational work from this past year to reenergize our statewide community campuses. With online education being an important component of NAU's future enrollment growth, NAU hired a new dean to lead this effort and will look at opportunities to expand the number of online program offerings in targeted areas.

NAU has added several graduate program offerings over the last three years and will continue to expand enrollments in these programs. Further graduate program enhancement in engineering has been positioned by the restructuring of NAU's college structure and will be forthcoming to the Board of Regents for review in the next year as well as expansion of programs, or addition of programs, in healthcare which are currently under evaluation. Expansion of graduate programs and students is an integral complement to growth in the university's research goals in addition to increasing the number of graduates in high demand degree fields.

Enrollment mix and diversity of our student body continues to be a strength of the university and reflects NAU's commitment to providing access to high-quality higher education.

International recruitment is an important component of the overall enrollment strategy as international students increases the breadth of diversity and overall strength of NAU. We will continue building relationships and expanding our international recruitment in other countries including Asia and Latin America.

To meet our goals of increased access to postsecondary education in Arizona, financial aid is reviewed annually to remain relevant and competitive. This includes reviews of institutional aid, including merit scholarships, student financial need levels and discount rates, with the goal of reaching as many students as possible and optimizing our financial aid resources by delivery model. We offer various price points, including the Pledge program on the Flagstaff Campus for undergraduate students which is an important factor in recruitment and retention. As noted in last year's Financial Aid report and tuition setting process, NAU Arizona resident undergraduates paid an average of \$3,091 in tuition and mandatory fees, which is reflective of NAU's commitment to providing an impactful education to students at great value. NAU's graduates with debt fall below the national median for public four year universities and for all universities – 18% and 28% below the respective medians. The average amount of debt of those NAU students with debt has remained flat since 2012 while the average amount of debt for all NAU students has declined slightly during this period.

NAU continues to demonstrate progress towards our goal of ranking within the top 200 universities as measured by the National Science Foundation's Higher Education Research and Development (HERD) survey of more than 600 institutions in the U.S. NAU ranked 213 in FY16 when our NSF HERD research expenditures were \$39.6M. We are optimistic that the ranking will improve further based on the results we have achieved over the past two fiscal years, reaching \$52.9M in FY18 for this metric, a \$13.2M, 33%, increase versus FY16 expenditures. It is important to note that the pursuit of higher research activity and success has occurred, and will continue to occur, in close synergy with our other important missions. Increased research activity improves the institution's national reputation for research and creative scholarship, increases NAU's competitive positioning to attract graduate and undergraduate students, and improves the experiential learning opportunities for students that are important components of their education at NAU and their preparation to join the future workforce for Arizona. All of these factors support the importance of maintaining a strategic commitment to increasing research and scholarship activity.

NAU plans to continue pursuing strategic research hires targeted in areas in which we have traditional strengths and building outwards, for example, in ecology, microbiology, bioengineering, material science, astronomy, and informatics. This targeted growth requires funding of start-up packages and a thoughtful plan for facilities and research space needs within the overall context of university space planning. We will continue to address the need for modern laboratory, collaboration, and office space through the Science Annex renovation and through programming work for the multi-disciplinary STEM building over the next year. We expect to bring the STEM building project forward for Board approval in FY20. Increased funding for research initiatives has come through the higher portion of the TRIF budget dedicated to research in the present five-year plan and through an increasing amount of Facilities and Administrative cost recovery, which grew by 24% in FY18 versus FY17 reflecting the return on investments that have been made in the research enterprise.

Tech Transfer activity at NAU increased in association with NAU's growing research activity and increased interdisciplinary collaboration has facilitated the emergence of more inventors, more innovation, and more discovery. NAU

invention disclosures increased to 50 in FY18 from 46 in FY17 and patents granted increased to 15 compared to our FY02-FY13 average of under two per year. This reflects NAU's growing research activity and success in areas such as cyber security, bioengineering, health care, and pathogen science. In addition, the range of faculty members disclosing intellectual property for potential patenting and licensing continued to be broad with more than 50 unique inventors, 17 first time inventors, and 14 women inventors in FY18.

Public Service expenditures increased this past year to an estimated \$35.3 million, and combined with the higher research activity, reflects NAU's ever increasing impact on the state of Arizona and beyond. Through NAU's long standing sponsored project activity in increasing the Arizona high school graduation and college-going rates under the Gear Up program, NAU supports critical state initiatives that have multiple partners working toward the combined Achieve60AZ goals of postsecondary education attainment. Our Institute for Human Development also continues to have a significant impact in Arizona both in terms of community service support, as well as basic and applied research that works to positively advance attitudes that value individuals with disabilities.

NAU's overall fiscal position remained healthy in FY18. Days cash on hand exceeded the FY18 budget target of 148 resulting in 160 days cash on hand, which is within the Board guidelines for cash liquidity. NAU projects a slightly higher net position increase again in FY18 as compared to FY17. S&P also affirmed the university's current bond rating with a stable financial outlook in July 2018. The days cash on hand liquidity metric is a key measure that we will continue to utilize along with the comprehensive financial index components to measure financial health. We will also continue to use measures of efficiency such as faculty and staff per 100 students and expenditures per degree to further measure operational and financial efficiencies.

NAU plans to use university financial resources in FY19 to fund capital projects such as the Science Annex renovation and the Recital Hall. This strategic decision is done with the expectation that we will increase the level of days cash on hand in FY20 as we receive the second year of university capital infrastructure funding from the state to support the Science Annex project. This approach also helps preserve our debt capacity within the state's statutory limits, which we anticipate will be utilized for the multi-disciplinary STEM building currently in the planning phase and incorporated into NAU's Capital Improvement Plan (CIP).

It is important to note in the context of expected financial results moving forward, Arizona's public universities are at a critical juncture in their partnership with the State. Having bounced between potential funding formulas seeking a

sustainable and effective model toward achieving joint goals, we have proposed a resident student funding model that seeks to share in the strategic and targeted priorities outlined by policymakers for increased educational attainment while the universities assume the responsibility for other university activities and operations. NAU's reliance on a continued state partnership is critical in continuing our model to serve a predominantly resident student population, and to continue to prioritize resident students in our competitive programs, such as allied health graduate programs.

As previously noted, tuition and fees are the largest source of funding for the university and our enrollment modeling must account for the fact that revenues from enrollment vary by campus and program mix while accounting for the enrollment metric targets set for us. Enrollment growth targets and expectations vary by campuses and delivery modality in future years, which reflects Arizona's demographics and the need to address the postsecondary education attainment of current working adults as well as recent high school graduates. More specifically, this fact is noted in that not all of NAU's enrollment, or tuition, growth in the future will come from Flagstaff campus students and undergraduate students, but will also reflect growth from online programs and graduate student populations. To address the fact that not all programs and campuses have the same enrollment or costs, we expect to bring forward program fees for the board's consideration for next fiscal year to address those programs with higher costs.

Our Pledge tuition program's effectiveness is seen in the recruitment and retention of first time full time students to the Flagstaff campus. However, the program is also reviewed each year in conjunction with projected expenditures and the state's base funding levels. Realizing progress in the state's 50/50 resident FTE funding model is important to the continuation of this program since base, ongoing investments are important to support an expenditure structure whose primary component is employee wages and benefits. We have continued to include increased operational investments from the state in our revenue projections for future years reflecting the critical impact this funding has on NAU's ability to meet the metric goals.

Revenue diversification has been a development area over the past two years and the results from this work must accelerate. Philanthropic funding needs to increase and we have just announced the hiring of our new Vice President of Development and Alumni Engagement to guide the university into the next, and larger, comprehensive campaign which will be launched in FY19. Philanthropic funding generates critical resources to help fund items from scholarships to faculty positions to capital projects which have a direct impact on our ability to achieve our student success and research goals.

NAU remains committed to expense management and implementing operational improvements to increase effectiveness and improve efficiencies. This university framework of stewardship identifies resources to reinvest in strategic priorities such as increasing tenured

and tenure-track faculty. For this upcoming year, administrative service delivery improvement is a key priority to identify an appropriate approach to use in redesigning the services to both improve effectiveness in addition to further increasing the efficient use of our resources.

Last year, the data governance process and university policy reviews were noted as key priorities and the work in each area aligned the efforts and discussions across the university. This included the creation of a strategic project review process to help prioritize technological projects and resource and a policy committee that has developed a framework standard for all policies to be migrated to. NAU also shifted its approach with enterprise software maintenance by contracting with a third party vendor to realize annual savings with its maintenance contracts starting in FY19.

Investments in people and facilities will remain strategic priorities over this upcoming year and will be influenced by our ability to manage expenditures and implement operational improvements. Salary investments based on performance for faculty and staff whose salaries lag the market will be implemented to help retain the top performing talent as they have in recent years with amounts to be evaluated. The commitment we have made to this area can be seen in the most recent Annual Personnel Report where salary increases needed to reach market improved (i.e. decreased) slightly versus the prior year. In addition to the need for salary adjustments to retain faculty and staff, increasing

the numbers of tenured and tenure track faculty are an important commitment especially in programs such as engineering with the launch of the new College of Engineering, Informatics and Applied Science.

NAU's deferred maintenance backlog of \$132 million continues to be an issue and is the reason NAU dedicated one time appropriations to address infrastructure in both FY17 and FY18. That investment of one time funds in both facility and utility infrastructure totaled \$7.2 million and reflects NAU's commitment to being good stewards of the university infrastructure needed for effective operations in the future. These efforts to address deferred maintenance helped NAU recognize a small improvement in the most recent facility condition index that now stands at .07.

NAU is utilizing the FY19 one-time appropriation funding of \$1.6 million in combination with the first two years of the university capital infrastructure funding for the Science Annex building renovation. The importance of these investments from the state to NAU's Flagstaff campus can be seen in the fact that this funding allows us to make improvements in one of NAU's four remaining "red" coded buildings, which reflect deferred maintenance costs of at least 40% of a building's replacement cost. Upon completion of this project, NAU expects to have three "red" coded buildings. NAU has dedicated these one-time state funds for one-time expenditures, which further enhances a financially stable budget for

the future. These monies are not permanent and therefore not dedicated to ongoing costs. The one-time nature of these investments, however, does not provide for the operational sustainability of critical ongoing expenses that contribute to student access, to affordable postsecondary education options, and student support systems which enhance student success.

While annual capital planning is provided to the Arizona Board of Regents through one-year and three-year outlooks for campus infrastructure needs, NAU has not engaged external capital planning assistance since 2010. NAU will be engaging in a master planning project this next year to update this work last done in 2010, incorporating the changing campus boundaries as well as the changes to the community surrounding NAU. This important project will help to further define the key projects that need to be considered in future planning in addition to the multi-disciplinary STEM building as well as consider efficient use of all existing facilities. One project that is currently under review and will be brought forward to the Board in the future is an Athletic Performance Center that would serve an important role to our student athletes and provide students in our Athletic Training and Physical Therapy programs both space and practical experience in support of our Athletics program. Additionally, NAU is engaged in conversations with key partners regarding possible expansion of the Native American Cultural Center.

Closing

In the last two years, NAU has identified enrollment competition, facilities, and competitive salaries as key challenges that must be addressed. These challenges continue to exist and have been noted in this document in conjunction with actions planned to address them ranging from enhancing our recruitment efforts through expanded planning efforts, targeted marketing and enhanced program offerings to engaging in a campus master planning effort, increasing our operational effectiveness and

diversifying our revenues. Our efforts in each of these areas, in conjunction with our ability to successfully advocate for increased state funding in the form of base investments through the resident student funding model is integral to the success we expect to achieve as well as the success necessary to reach the state's educational attainment goal.

NAU remains well positioned to meet the goals set before us in the future as a result of the significant progress demonstrated not only

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this past year, but in the advances NAU has made throughout its history. We must continue to adapt our operations, revisit our program offerings where appropriate, and further increase our data driven focus to remain positioned to take advantage of the opportunities that will arise. In remaining focused on this, our students, faculty and staff, and communities all benefit from the progress we achieve working together as one NAU, with one mission and one vision.