



NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. Norma Gonsalves, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", written over the "From:" line.

Date: February 1, 2016

Re: Nassau Community College – Year End 2014-2015, First Quarter 2015-2016

The College's financial system currently reflects the FY 2014-2015 unaudited operating result as a surplus of approximately \$0.9 million. A surplus of \$2.9 million in expenses was offset by a \$2.0 million revenue shortfall. However, the College expects the surplus to grow to \$1.4 million as prior year obligations are disencumbered and reflected in their financial system.

Expenses

FY 2014-2015 Year End

Compared to the adopted FY 2014-2015 budget, expenses came in under budget by approximately \$2.9 million. The positive budget variance is concentrated in the personal services line, specifically in salaries. The \$2.4 million surplus in salaries is primarily related to the separation of members and resulting vacancies in both the Civil Service Employees Association (CSEA) and the Nassau Community College Federation of Teachers (NCCFT) union. Associated termination costs were reimbursed through the County. Deficits of \$142,164 in fringe benefits, primarily due to higher pension expense, and \$168,281 in workers' comp, offset some of the salary savings.

The surplus in personal services is enhanced by a \$0.8 million surplus in other than personal services (OTPS). Historically, the College has adjusted spending for OTPS on an as-needed basis. Sometimes OTPS spending shifts at year's end due to surpluses in other areas of the budget to fund needed expenses. Compared to the modified budget, most of the OTPS surplus is

related to savings in equipment, general expenses, contractual services and central utility plant (CUP) charges offset by a deficit of \$915,017 in utility expenses; the budget anticipated savings of approximately \$1.0 million over the prior year for utility costs which did not materialize. Additionally the College did not budget for costs for the SAFER (Staffing for Adequate Fire and Emergency Response) program but ultimately absorbed the expense. The College assumed this obligation when it was learned that federal grant funding would not be made available to the County. The SAFER grant is designed to encourage individuals to become participants in Nassau County's volunteer fire departments and as fire department emergency medical service (EMS) providers while they attend NCC. In exchange for tuition reimbursement, student/volunteers must maintain volunteer activity and training levels and certain academic objectives during their course of study and must commit to post-education service obligation of one year for each scholarship they receive.

FY 2015-2016 First Quarter

Expenses in FY 2015-2016 are expected to surpass the budget by approximately \$851,997. The projected deficit is due to projected shortfalls in salaries of \$198,135, partially offset by a surplus of \$46,138 in fringe benefits. It is hoped that the deficit can be made up through attrition. In addition, a \$700,000 deficit will be generated from unbudgeted SAFER grant expense. At the time the budget was prepared, it was thought that Nassau County's Office of Emergency Management (OEM) would apply for and receive this grant, thereby neutralizing the expense for the program. After the College budget was passed and approved, it was learned that this will not occur. The College will now absorb the costs for the program. A detailed analysis of the FY 2015-16 budget will be included in OLBR's mid-year report as more precise data on expense projections become available.

Revenue

FY 2014-2015 Year-End

The College finished FY 2014-2015 about \$2.0 million short of its revenue budget. This result includes a \$2.5 million appropriation of the fund balance. The shortfall was concentrated in tuition, revenue offset to expense income, and rents & recoveries. The College's Administration had anticipated a 1.0% enrollment decline when it put together the FY 2014-2015 budget, but enrollment actually fell 2.4% last year. Enrollment has declined better than 2% each academic year dating back to FY 2011-2012.

As a result of the enrollment decline, student revenue (tuition) missed budget by 1.0%, or roughly \$0.8 million. Enrollment also affected service fees and state aid revenue; each line was off target by about \$100,000. The College missed its revenue offset to expense budget by 10.4%, or \$467,163. The shortfall was driven by underperformance in the Language Immersion at Nassau Community College (LINCC) program and worse than expected reimbursement for costs associated with Pell Grant Administration and other college services. The rents & recoveries line finished about \$627,981 off budget. An additional \$516,463 in open FY 14-15 encumbrances should liquidate by August 31, 2016 which as previously mentioned will increase the FY 14-15 surplus to roughly \$1.4 million once this occurs.

FY 2015-2016 First Quarter

Currently, the College expects to miss its revenue target by about \$2.8 million in FY 2015-2016. The deficit is largely attributable to a projected \$2.4 million tuition shortfall and a \$0.3 million deficit in service fees. The College enacted several fiscally prudent measures when it constructed the FY 2015-2016 budget, but they've been undermined by a precipitous drop in enrollment.

In an effort to match the recent enrollment trend, the College built its budget on the assumption that enrollment would decline 2.0% in FY 2015-2016. The tuition rate was also increased to accommodate lower enrollment. These efforts have been undercut by a worse than expected drop in enrollment. As of January 2016, the College projects FY 2015-2016 enrollment to be 5.1% lower than in FY 2014-2015. The overall revenue deficit could widen if enrollment does not recover in the Winter, Spring, and Summer semesters.

The FY 2015-2016 budget did not include a fund balance appropriation. The College may have no choice but to turn to this dwindling revenue source to balance its budget. Should that be the case, the College's overall financial position would further deteriorate. The College depended on an appropriation of \$2.5 million from the fund balance in FY 2014-2015. The table below provides a reconciliation of the fund balance which includes the FY 2014-2015 opening balance, operating results, net position, and planned appropriation for FY 2015-2016.

Historically, the College strives to maintain a fund balance that is 4.0% of the prior year's expense budget. Recent operating results have yielded a fund balance level of approximately 4.0%. The College is working to improve its fiscal health through more prudent budgetary management, such as OTPS cost control initiatives and matching staff size to enrollment. On the revenue side, the Board of Trustees and the College Administration are reviewing and pursuing student retention strategies suggested in a study produced by the Academic Senate. Over the last year, the Administration has offered retirement incentives to match staff size with enrollment trends.

Estimated Fund Balance

Beginning Fund Balance FY 14-15	\$9,723,179
FY 14-15 Appropriation of Fund Balance	(2,473,000)
FY 14-15 Operating Results	864,999
Anticipated FY 14-15 Liquidation	516,463
Net End of Year 2015 Fund Balance	8,631,641
FY 15-16 Appropriation of Fund Balance	-
FY 15-16 Unappropriated Fund Balance	8,631,641
Presentation Adjustment*	93,957
FY 15-16 Adjusted Unappropriated Fund Balance	\$8,725,598

**The College reports a net year-end FY14-15 Fund Balance of \$8,725,598, or about \$93,957 more than OLBR's.*

The discrepancy comes down to a presentation matter; in the past, the reported Fund Balance figures included reserved encumbrances. This issue has been resolved for future reports.

Conclusion

The College is faced with many fiscal challenges. In recent years, it has relied on the fund balance to sustain operation. The College has few options to increase revenue and the most viable require legislative approval. Failing a successful student retention drive, either the tax levy or tuition rate will need to be increased. The College has been forced to increase tuition several times in recent years; continual tuition hikes may eventually price out prospective students. On the other hand, the College's tax levy has been \$52.2 million since FY 2008-2009. The County raised the major funds' property tax levy about 3.1% in FY 2015, but the College was not included in the adjustment. A similar increase to the College's levy would have yielded about \$1.6 million in additional revenue.

On the expense side, the College will need to replicate cost control efforts that have been successful in the past, including initiatives that have reduced spending on overtime, OTPS, and part-time employees. Additionally, the College ought to be measured with any retirement incentive it offers in the future; the Nassau Interim Finance Authority (NIFA) has taken the position that the County should not borrow to fund operating expenses, including termination pay.

cc: Eric Naughton, Deputy County Executive
Roseann D'Alleva, Budget Director, OMB
Evan Cohen, Executive Director, NIFA
William Biamonte, Minority Chief of Staff
Dan McCloy, Director of Law, Finance & Operations
Concetta Petrucci, Director of Legislative Affairs
William Muller, Clerk of the Legislature
Chris Ostuni, Majority Counsel
Peter Clines, Minority Counsel
Michele Darcy, Minority Finance

Nassau Community College
FY 2014 - 15 Expenses
Unaudited Year End Results

	Adopted Budget	Modified Budget	Aug 31-15 Actual	Variance Adopted To Actual	% Variance
Wages, Salaries & Fees	\$132,731,000	\$132,731,000	\$130,321,467	\$2,409,533	1.8%
Employee Fringe Benefits	57,475,000	57,475,000	57,617,164	(142,164)	-0.2%
Workers' Comp	975,000	975,000	1,143,281	(168,281)	-17.3%
Subtotal PS	191,181,000	191,181,000	189,081,912	2,099,088	1.1%
Equipment	2,400,000	2,307,482	1,727,656	672,344	28.0%
General Expenses	7,800,000	8,185,664	7,630,975	169,025	2.2%
Contractual Services	6,945,000	7,891,985	7,379,034	(434,034)	-6.2%
Utility Costs	4,900,000	3,678,769	4,593,786	306,214	6.2%
Interfund Charges	3,300,000	3,281,100	2,796,119	503,881	15.3%
County Scholarships	55,000	55,000	468,471	(413,471)	-751.8%
Subtotal OTPS	25,400,000	25,400,000	24,596,041	803,959	3.2%
Grand Total	<u>\$216,581,000</u>	<u>\$216,581,000</u>	<u>\$213,677,953</u>	<u>\$2,903,047</u>	1.3%

Nassau Community College
FY 2014 - 15 Revenue
Unaudited Year End Results

Revenue Source	Adopted Budget	Modified Budget	Aug 31 -15 Actual	Variance Adopted To Actual	% Variance
Fund Balance - BOY	\$2,473,000	\$2,473,000	\$2,473,000	0	0.0%
Investment Income	65,000	65,000	51,524	(13,476)	-20.7%
Rents and Recovery	3,838,573	3,838,573	3,210,592	(627,981)	-16.4%
Revenue Offset	4,472,000	4,642,365	4,004,837	(467,163)	-10.4%
Service Fees	7,028,000	6,857,635	6,936,224	(91,776)	-1.3%
Student Revenue	83,598,615	83,598,615	82,795,681	(802,934)	-1.0%
Revenue Lieu Sponsor	15,542,010	15,542,010	15,596,212	54,202	0.3%
Federal Aid	0	0	2,568	2,568	0.0%
State Aid	47,356,919	47,356,919	47,262,928	(93,991)	-0.2%
Property Taxes	52,206,883	52,206,883	52,209,387	2,504	-
Sub-total	216,581,000	216,581,000	214,542,952	(2,038,048)	-0.9%
Total Revenues	<u>\$216,581,000</u>	<u>\$216,581,000</u>	<u>\$214,542,952</u>	<u>(\$2,038,048)</u>	-0.9%