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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 name of the sender.

Date: February 8, 2017

Re: Nassau Community College – Year End 2015-2016, First Quarter 2016-2017

The College ended FY 2015-2016 with an *unaudited* operating surplus of approximately \$3.0 million. When the adopted budget is compared to unaudited year-end results, a surplus of \$8.1 million in budgeted expenses is offset by a \$5.1 million revenue shortfall.

Expenses

FY 2015-2016 Year-End

Compared to the adopted FY 2015-2016 budget, expenses came in under budget by approximately \$8.1 million. The positive budget variance is concentrated in the salaries and fringe benefits lines. The College utilized bonded funds to cover termination pay, reduced staffing from retirements and implemented a hiring freeze in anticipation of downward enrollment trends, and ended with a \$3.7 million surplus in salaries. Additionally, a \$2.4 million surplus in fringe benefits was due to lower than budgeted health insurance costs.

The above surplus is enhanced by an extra \$2.0 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, the OTPS surplus is related to savings in almost every area except for contractual services and debt service charges. The largest of the surpluses, \$1.5 million in interfund charges, reflects lower than anticipated Central Utility Plant Charges (CUP) charges. The Central Utility Plant provides the College with light, power and water but due to a needed repair to the service line, the power was temporarily cut off, thus generating an expense surplus. In anticipation of this suspension of service, a temporary plant

was installed on campus during the months of August through December 2015, using capital funds. The temporary plant was fueled with heating oil that was paid for with prior year encumbrances, hence not impacting the operating budget. The surpluses in equipment and general expenses reflect the College's purchasing restrictions.

The deficit in contractual services is a result of the reclassification of certain items. The debt service line was broken out after the budget was adopted to identify the costs associated to the Nassau Community College Federation of Teachers (NCCFT) Voluntary Separation Incentive Program (VSIP) offered to union members in 2015. The College secured \$7.2 million in bonds to cover the termination costs associated with this incentive as well as that of the Civil Service Employee Association's (CSEA) incentive of 2014. The costs for the NCCFT VSIP were not yet determined at budget time, so the actual expense includes an interest component for the VSIP as well as debt service for prior year's CSEA incentive.

Revenue

The College came up short of its modified FY 2015-2016 revenue budget by \$5.1 million. The shortfall is concentrated mainly on the following lines: revenue in lieu of sponsor share, revenue offset to expense, state aid, service fees, and student revenue. The College performed slightly better than expected on the investment income, and rents and recoveries lines. Thanks to the positive result on the expense side, NCC avoided drawing on its fund balance for the first time in over five years.

Enrollment in FY 2015-2016 declined 6.7%, from 17,934.6 Full Time Equivalent (FTE) students in FY 2014-2015 to 16,725.4¹ FTEs in FY 2015-2016. This precipitous drop in enrollment was over three times more than the Administration had expected when it formulated the FY 2015-2016 budget. The College cited a change in the mix of students (e.g. full time, part time, and non-revenue help center students, etc.) among the contributing factors behind the steep drop in enrollment. The College warned that the \$3.7 million student revenue deficit would have been much larger if not for the \$300 tuition increase adopted for FY 2015-2016. The steep drop in enrollment also led to similar underperformance on other revenue lines, including shortfalls of \$0.7 million in revenue offset to expenses, \$0.6 million in revenue in lieu of sponsor share and \$0.1 million in state aid reimbursement.

FY 2016-2017 First Quarter

Expenses

Expenses in FY 2016-2017 are expected to come under budget by approximately \$2.9 million. The projected surplus is due to anticipated surpluses in fringe benefits and OTPS. Savings from less than projected Teachers' Retirement System (TRS) and TIAA-CREF/ Optional Retirement Plan (ORP), pension contributions reflecting lower staffing will result in savings of approximately \$3.1 million in fringe benefits which will be offset by a deficit of approximately \$0.7 million in salaries. Savings from retirements and terminations which may materialize by the end of the year are not included in the salary projection which may account for the deficit. OTPS expenses are projected to be mostly on budget except for anticipated savings in utility

¹ State Aidable FTE Enrollment reported to State.

costs, central utility plant charges and debt service charges. The College is expecting an overall surplus of \$0.5 million in OTPS. It is important to note that adjustments may occur on an as needed basis in any line of OTPS during the FY 2016-2017 fiscal year. A detailed analysis of the FY 2016-2017 budget will be included in OLBR's mid-year report as more precise data on expense projections become available.

Revenue

According to the latest projection, the College anticipates a \$2.5 million revenue shortfall in FY 2016-2017. Another difficult year for enrollment underlies the expected underperformance. The College built the FY 2016-2017 budget on the assumption that enrollment would decline 5.0% this year, but First Quarter results indicate that the actual year end enrollment drop could be over 6.0%. As a result of this greater than expected decline, enrollment sensitive revenues are expected to register another poor performance in FY 2016-2017. The College expects shortfalls on the following enrollment sensitive lines: student revenue (\$1.6 million), state aid (\$0.5 million), revenue in lieu of sponsor share (\$0.3 million), and service fees (\$0.1 million). The projected revenue shortfall would widen if enrollment worsens in the Winter, Spring, and Summer semesters.

The projected \$2.9 million expense surplus should more than offset the \$2.5 million revenue shortfall. The College has indicated it will direct the \$0.4 million anticipated overall surplus to the fund balance. The table below provides a reconciliation of the fund balance which includes the FY 2015-2016 beginning balance, operating results, net position, and planned contribution for FY 2016-2017. If FY 2016-2017 unfolds as predicted, the fund balance would stand at \$12.5 million, or 5.8% of the previous year's operating budget. If enrollment drops off more than 6.1% in FY 2016-2017, the College could draw on the fund balance to offset the revenue shortfall, as the fund balance is well above the Board of Trustees' 4.0% threshold.

Estimated Fund Balance	
Beginning Fund Balance FY 2015-2016	\$8,759,892
FY 2015-2016 Appropriation of Fund Balance	-
FY 2015-2016 Operating Results	2,972,277
Anticipated FY 2015-2016 Liquidation	368,832
Net End of Year 2016 Fund Balance	12,101,002
FY 2016-2017 Appropriation of Fund Balance	-
FY 2016-2017 Unappropriated Fund Balance	12,101,002
FY 2016-2017 Projected Operating Results	363,064
FY 2016-2017 Projected Unappropriated Fund Balance	\$12,464,066

Conclusion

Over the last few years, the College has experienced a number of successes as it sought to improve its overall fiscal health. The fund balance has been replenished, operating expenses have been controlled, and personnel costs have been reduced to match enrollment levels, among other measures. However, the College continues to shed FTEs at an alarming rate. Enrollment in FY 15-16 was down 12.0% compared to FY 12-13 and 14.3% compared to FY 11-12. College leaders must find a way to turn the tide on this trend because solutions aren't coming from the outside. There has not demonstrated a willingness to increase the College's tax levy and the State cannot be relied upon to deliver additional aid. Finally, further tuition increases would drive it to a level comparable with four year State institutions. The College's fiscal recovery will be challenged if leadership can't figure out a way to retain current enrollees and recruit prospective students.

Nassau Community College
FY 2015- 2016 Expense
Unaudited Year End Results

	Adopted Budget	Modified Budget	Aug 31-16 Actual	Variance Modified To Actual	% Variance
Wages, Salaries & Fees	\$128,935,989	\$128,675,989	\$125,015,226	\$3,660,763	2.8%
Employee Fringe Benefits	58,805,000	58,805,000	56,431,734	2,373,266	4.0%
Subtotal PS	187,740,989	187,480,989	181,446,960	6,034,029	3.2%
Equipment	2,177,303	2,180,643	1,894,281	286,362	13.2%
General Expenses	7,632,251	7,737,912	7,148,056	589,856	7.7%
Contractual Services	8,047,520	7,938,519	8,105,839	(167,320)	-2.1%
Utility Costs	4,744,500	4,744,500	4,716,602	27,898	0.6%
Debt Service		260,000	453,601	(193,601)	
Interfund Charges	3,281,100	3,281,100	1,815,734	1,465,366	44.7%
County Scholarships	55,000	55,000	47,012	7,988	14.5%
Subtotal OTPS	25,937,674	26,197,674	24,181,125	2,016,549	7.8%
Grand Total	<u>\$213,678,663</u>	<u>\$213,678,663</u>	<u>\$205,628,085</u>	<u>\$8,050,578</u>	3.8%

Nassau Community College
FY 2015- 2016 Revenue
Unaudited Year End Results

	Adopted Budget	Modified Budget	Aug 31-16 Actual	Variance Modified To Actual	% Variance
Fund Balance	\$0	\$0	\$0	\$0	-
Investment Income	65,000	65,000	81,628	16,628	25.6%
Rents and Recovery	600,000	600,000	624,882	24,882	4.1%
Revenue Offset	4,642,364	4,397,957	3,942,119	(455,838)	-15.1%
Service Fees	6,887,285	7,131,692	6,914,734	(216,958)	0.4%
Student Revenues	86,528,479	86,528,479	82,823,480	(3,704,999)	-4.3%
Revenue Lieu Sponsor	14,825,357	14,825,357	14,189,837	(635,520)	-4.3%
State Aid	47,923,295	47,923,295	47,810,987	(112,308)	-0.2%
Property Taxes	52,206,883	52,206,883	52,206,883	0	0.0%
Sub-total	213,678,663	213,678,663	208,594,550	(5,084,113)	-2.4%
Total Revenues	<u>\$213,678,663</u>	<u>\$213,678,663</u>	<u>\$208,594,550</u>	<u>(\$5,084,113)</u>	<u>-2.4%</u>