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Inter-Departmental Memo

To: Hon. Richard J. Nicolello, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: January 22, 2018

Re: Nassau Community College – Year End 2016-2017, First Quarter 2017-2018

The Office of Legislative Budget Review (OLBR) has received the Nassau Community College's unaudited FY 2016-2017 year-end operating results and prepared this memo for the Legislature. The College is projecting that it will end FY 2016-2017 with an ***unaudited*** operating surplus of approximately $4.5 million. When the modified budget is compared to unaudited year-end results, a surplus of $7.3 million in budgeted expenses is offset by a $2.8 million revenue shortfall.

FY 2016-2017 Year-End

Expenses

Compared to the modified FY 2016-2017 budget, year-end expenses came in under budget by approximately $7.3 million. The majority of this positive budget expense variance is in the salary and fringe benefit lines. The $2.3 million surplus in salaries is related to mostly savings from separations that were not immediately filled. In addition, when positions are backfilled, they earn a lower salary than the veteran employees. Savings also occurred in the salaries for Adjuncts due to fewer classes being held. The lower than budgeted headcount from the retirements and terminations is also contributing to a surplus in fringe benefits where there is a $4.7 million surplus. Savings are expected in health insurance costs for active employees, teacher's retirement, and TIAA CREF expenditures.

The above surplus is enhanced by an extra $0.3 million in Other than Personal Services (OTPS) expenditures. Savings are expected in all the OTPS object codes, except for general expenses and equipment. The $1.1 million deficit in general expenses is due to higher than budgeted costs in office supplies, copying and blueprint, postage delivery, program product costs and other general expenses.

The largest of the OTPS surpluses, $0.8 million in inter-fund charges, reflects lower than anticipated Central Utility Plant Charges (CUP) charges. The Central Utility Plant provides the heated and chilled water to heat and cool the buildings. According to the college, the savings occurred from the renewal of the contract between the County and the vendor.

Finally, debt service expenses came in under budget by $0.3 million. This expense includes the principal and interest costs for prior year bonding of the Voluntary Separation Incentive Program (VSIP) and NCCFT termination expenses.

Revenue

A lower than anticipated enrollment was the main driver of an FY 2016-2017 revenue shortfall of $2.8 million. Compared to the modified budget, shortfalls occurred on the following lines: student revenues, revenue offset to expenses, state aid, revenue in lieu of sponsor share and service fees. Investment income and rents and recoveries performed slightly better than the modified budget. It should be mentioned that the rents and recoveries line includes the liquidation of prior year encumbrances and manually rolled encumbrances. Although revenues had an overall deficit, the College was able to more than offset the revenue shortfalls with expense savings allowing the College to anticipate it will contribute $4.5 million to its fund balance.

Enrollment in FY 2016-2017 declined 7.2%; this decline in enrollment was greater than the 5.0% decrease that the College Administration used when it formulated the FY 2016-2017 budget. According to the College, a strong economy and a decline in graduating high school seniors contributed to their enrollment decrease. The decline in enrollment led to underperformance on student revenues by $1.7 million, of $0.5 million in revenue offset to expense, $0.3 million in state aid reimbursement, $0.2 million in revenue in lieu of sponsor share, and $0.1 million in service fees relative to the modified budget.

FY 2017-2018 First Quarter

For the First Quarter FY 2017-2018, the projected results are compared to the College's Adopted Budget as a modified budget has not yet been provided by the College. Historically, the college has moved appropriations between object codes on an as needed basis with the bottom line remaining unchanged. More details will be provided in OLBR's mid-year report as more precise data on expense projections become available.

Expenses

Expenses in FY 2017-2018 are expected to come under the Adopted budget by approximately $2.2 million. The projected surplus is mostly related to an anticipated surplus in fringe benefits, with a smaller savings in salaries. Savings from less than budgeted Employee Retirement pension, active health insurance and social security costs are expected to contribute to the $1.9 million fringe benefit surplus. The projected $0.3 million overage in salaries is due to continued retirements and terminations since the crafting of the budget. According to the College, it will be up to management of the College and individual departments to decide whether and when these vacancies are backfilled.

Revenue

According to the latest projection, the College anticipates a $1.4 million revenue surplus in FY 2017-2018. The largest projected revenue line surplus, $1.2 million, is in student revenues. Contributing to the heightened revenues is a lower than anticipated enrollment decline. The budget was based upon a 6.0% enrollment decrease and current projections reveal a 5.6% enrollment decline. The College expects additional revenue surpluses on the following enrollment sensitive lines: revenue in lieu of sponsor share ($49,074), state aid ($37,783), and service fees ($32,966).

The projected $2.2 million expense surplus will add to the $1.4 million revenue surplus resulting in a positive projected operating result of approximately $3.5 million. Since the College has budgeted $2.0 million in fund balance appropriation, the College is currently expecting to add $1.5 million to its fund balance in FY 2017-2018. The table below provides a reconciliation of the fund balance which includes the FY 2016-2017 beginning balance, operating results, net position, and planned contribution for FY 2017-2018. If FY 2017-2018 unfolds as predicted, the fund balance would stand at $18.2 million, or 8.6% of the previous year's operating budget. The projected fund balance is well above the Board of Trustees' 4.0% threshold.

Estimated Fund Balance	
Beginning Fund Balance FY 2016-2017	**$12,095,648**
FY 2016-2017 Appropriation of Fund Balance	**-**
FY 2016-2017 Operating Results	**4,519,494**
Net End of Year 2017 Fund Balance	**16,615,142**
FY 2017-2018 Appropriation of Fund Balance	**(2,006,320)**
FY 2017-2018 Unappropriated Fund Balance	**14,608,822**
FY 2017-2018 Projected Operating Results	**3,545,971**
FY 2017-2018 Projected Unappropriated Fund Balance	**$18,154,793**

Conclusion

The College continues to experience some success as it works toward improving its fiscal health. However, Full-Time Enrollments (FTE) continues to decrease and to address a stagnant revenue base, many budgets have relied on tuition increases. The College's property tax allocation has remained unchanged over the last ten years. Going forward, increasing tuition may not be an option as the College competes with other four-year institutions for affordability. Some operating expenses, such as termination from Voluntary Separation Incentive Plans, have been borrowed for which on a budget basis contributed to year-end surpluses. The fund balance continues to grow and is well above the Board of Trustees threshold of 4.0%. With expenses due to increase, the College recognizes that it needs to address its revenue base and is exploring several options. The College's fiscal health will be determined by the leadership's ability to address the revenue base to offset any expense increases.

Nassau Community College
FY 2016- 2017 Expense
Unaudited Year End Results

	Adopted Budget	Modified Budget	Aug 31-17 Actual	Variance Modified To Actual	% Variance
Wages, Salaries & Fee:	$124,837,737	$124,878,746	$122,533,020	$2,345,726	1.9%
Employee Fringe Benefits	60,580,000	60,580,000	55,891,350	4,688,650	7.7%
Subtotal PS	**185,417,737**	**185,458,746**	**178,424,370**	**7,034,376**	3.8%
Equipment	2,255,493	1,703,924	1,770,095	(66,171)	-3.9%
General Expenses	7,832,273	8,197,147	9,258,749	(1,061,602)	-13.0%
Contractual Services	7,866,675	8,157,591	7,860,517	297,074	3.6%
Utility Costs	4,470,500	4,325,270	4,224,962	100,308	2.3%
Debt Service	654,456	654,456	400,875	253,581	38.7%
Interfund Charges	3,120,000	3,120,000	2,345,495	774,505	24.8%
County Scholarships	55,000	55,000	48,852	6,148	11.2%
Subtotal OTPS	**26,254,397**	**26,213,388**	**25,909,545**	**303,843**	1.2%
Grand Total	**$211,672,134**	**$211,672,134**	**$204,333,915**	**$7,338,219**	3.5%

Nassau Community College
FY 2016- 2017 Revenue
Unaudited Year End Results

	Adopted Budget	Modified Budget	Aug 31-17 Actual	Variance Modified To Actual	% Variance
Fund Balance	$0	$0	$0	$0	0.0%
Investment Income	65,000	65,000	129,530	$64,530	99.3%
Rents and Recovery	600,000	600,000	614,174	$14,174	2.4%
Revenue Offset	4,642,364	4,472,000	3,931,364	($540,636)	-12.1%
Service Fees	7,259,942	7,430,307	7,330,887	($99,420)	-1.3%
Student Revenues	85,047,353	85,047,354	83,304,372	($1,742,982)	-2.0%
Revenue Lieu Sponsor	14,075,581	14,075,579	13,871,235	($204,344)	-1.5%
State Aid	47,775,011	47,775,011	47,450,986	($324,025)	-0.7%
Property Taxes	52,206,883	52,206,883	52,206,883	$0	0.0%
Total Revenues	**$211,672,134**	**$211,672,134**	**$208,839,431**	**($2,832,703)**	-1.3%