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Inter-Departmental Memo

To: Hon. Howard Kopel, Chairman, Budget Review Committee
All Members of the Budget Review Committee

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", written over the printed name of the sender.

Date: January 14, 2014

Re: Nassau Community College – Year End 2012-13, First Quarter 2013-14

The following report summarizes the year-end FY 2012-13 unaudited financial results and the first quarter of FY 2013-14 year-to-date performance for the Nassau Community College.

Year-End FY 2012-13

The College ended FY 2013 with an unaudited operating deficit of approximately \$1.04 million prior to the use of \$1.5 million of Fund Balance. When the adopted budget is compared to unaudited year-end results, a surplus of \$2.4 million in revenues was offset by a expenses exceeding budget by \$1.9 million.

Unaudited year-end total obligations in FY 2013 increased 2.6% when compared to FY 2012 actuals. The growth was primarily due to approximately \$4.7 million, or 2.7%, in personal services over those of FY 2012. Salaries increased 1.1%, or \$1.4 million, while fringe benefits grew \$3.4 million, or 6.7%, over FY 2012 actuals.

However, compared to the adopted FY 2013 budget, expenses exceed the budget by \$1.9 million. The negative budget variance appears to be evenly split between personal services and other than personal services (OTPS) at \$982,299 and \$923,228, respectively. The shortage in personal services is a result of higher than budgeted termination expense and retirement costs. The FY 2013 termination budget was \$1.5 million and the FY 2013 actuals exceeded this by \$1.2

million. A total of about 26 employees retired (19 faculty and 7 Civil Service Employee Association (CSEA)), 7 more than was budgeted. The salary savings from those separations, and consequently the funding to pay for the termination expense, were anticipated to occur at the beginning of the fiscal year. However, many of the retirements did not occur until partway through the fiscal year resulting in a shortfall in salaries.

The fringe benefits deficit can be attributed to higher retirement costs of approximately \$1.4 million. When budgeting for the teachers' retirement expense, the College utilized a lower contribution rate per salary than what the State billed. The State raised the rate at the start of the State's fiscal year beginning in July which increased the expense for the remaining three months of the College's fiscal year. However, as a result of the delay in retirements, the post-retirement benefits line posted a surplus, offsetting a portion of the increased retirement costs.

In addition to the aforementioned shortfall in personal services costs, total OTPS expenditures resulted in a negative variance from budget of \$923,228. The largest variance occurred in contractual services as the College overspent the budget by \$754,945. The budget for miscellaneous contractual services appears to be the largest driver of this line. College officials report that the budget performance was driven by necessary spending for Superstorm Sandy damage and relief efforts. The College served as a shelter through December 2012 which resulted in unanticipated costs and these costs were subsequently reimbursed by the Federal Government. Interfund charges, also known as Central Utility Plant (CUP) charges, were \$347,730 over budget. College officials based the adopted budgeted CUP expenditures on costs experienced in previous years, when the actual expense was much lower. However, FY 2013 experienced higher than anticipated costs creating a deficit in this expenditure line. Offsetting these shortages in OTPS were modest surpluses in equipment, general expenses and county scholarships.

The College ended FY 2013 collecting 1.2%, or \$2.4 million, more revenue than anticipated in its adopted budget. The four revenue streams that demonstrated the most robust performance compared to the adopted budget were Rents & Recoveries, Service Fees, State Aid, and Revenue Offset to Expense.

Rents & Recoveries finished FY 2013 \$459,646, or 114.9%, over budget driven by the College's completion of its transition to the Banner Finance System in FY 2013. Reportedly, Banner allows the College to exert greater control over the liquidation of encumbrances. College management believes that last year's collections are a result of these efficiencies, however, until the College's Financial Audit is completed, OLBR is unable to verify this figure. The growth in Rents & Recoveries is significant when juxtaposed against FY 2012 operating results of \$12,799.

The College collected \$1.3 million, or 21.6%, more in Service Fees than anticipated in the budget. The Application Fee demonstrated the largest variance to the adopted budget, finishing FY 2013 \$257,866 better than expected. However, fees derived from alternative payment options also contributed to the overall surplus. According to the College Administration, students are more likely to opt into alternative payment options, such as the Tuition Payment Plan, during tough economic times. As a result, the collection of fees corresponding to alternative payment options performed positively, including the Late Registration Fee (\$114,875

in excess of budget), Convenience (Credit Card) Fee (\$183,565 in excess of budget), and Tuition Payment Plan Fee (\$253,800 in excess of budget). Other fees, such as the vehicle registration fee, also exceeded expectations in FY 2013.

According to the College Administration, enrollment declined 2.75% in FY 2013. As a result tuition payments were down across all semesters. Declining enrollment at the College triggered the State’s Safety Net Formula, which boosted the College’s State Aid allocation. Therefore, State Aid was up \$759,490, or 1.7%, over the adopted budget for FY 2013.

Revenue Offset to Expense finished the 2013 fiscal year \$916,234, or 22.6%, over budget. It was driven by Federal Government reimbursement to the College for its operation of a FEMA shelter used in the storm’s immediate aftermath along with other unpredictable costs as a result of Superstorm Sandy.

The College depended upon an appropriation of \$1.5 million from the Fund Balance in FY 2013. The College has provided a reconciliation of the Fund Balance (see chart below) that includes the FY 2013 beginning balance, operating results, net position, and planned appropriation for FY 2014. Historically, the College budgets to maintain a Fund Balance that is 4.0% of the prior year’s operating budget. Recent operating results have yielded fund balance levels in the 5.0% to 7.0% range. Fund Balance will decrease if the College spends the entire \$4.9 million appropriated in the FY2014 adopted budget.

Fund Balance Reconciliation	
Beginning Fund Balance FY 12-13	15,897,210
FY 12-13 Appropriation of Fund Balance	<u><u>(1,533,699)</u></u>
FY 12-13 Operating Results	501,346
Net End of Year 2013 Fund Balance	<u><u>14,864,857</u></u>
FY 13-14 Appropriation of Fund Balance	<u><u>(4,873,800)</u></u>
FY 13-14 Un-appropriated Fund Balance	<u><u>9,991,057</u></u>

**Unaudited Year End as of January 2014*

1st Quarter 2013 - 14

Expenses for FY 2014 are projected to come in on budget. However, the outcome of the contract settlements of the two faculty unions, the Adjunct Faculty Association (AFA), currently in the fact finding stage and the Nassau Community College Federation of Teachers (NCCFT),

currently in negotiation, could create a shortfall in the salary and fringe benefits lines. The College plans to fund any increases with fund balance. A detailed analysis will be included in OLBR's mid-year report as more precise data on expense projections become available.

In addition, First Quarter FY 2014 operating results indicate that the College should meet its annual revenue targets. A detailed analysis will be included in OLBR's mid-year report as more precise data is made available. Enrollment, based on credit hours, is down approximately 1.0% in Fall 2013 (FY 2014) from Fall 2012. The College Administration anticipated this decline when it prepared the FY 2014 budget.

In a recently released field audit, the County Comptroller identified several issues with the College's handling of outstanding accounts receivable. The College Administration informed OLBR that it has taken a number of steps to not only reduce current outstanding accounts receivable, but also to avert the growth of future outstanding obligations.

The College provided several examples of these change, the first being a revision to the Financial Aid award process to improve accuracy of student aid awards. In the past, some awards were estimates based off best available information. Some students were entitled to more financial aid than received. Second, the College streamlined the process for identifying and placing holds on student accounts. The Registrar and the Financial Aid/ Student Financial Affairs departments are now able to work with more efficiency to place holds on the accounts of students with outstanding balances, thereby preventing these students from registering for subsequent semesters. Finally, the College has leveraged Banner software to enhance collection processes. Some of the collection procedures have been converted from manual to automatic or programmatic processes. This conversion creates more timely information for the collections team and/or collections agencies. As of January 1, 2013, the accounts receivable balance is approximately \$10.0 million. Successful collections of any outstanding accounts receivable could possibly help to replenish the current Fund Balance. In our Mid-Year Report, OLBR will report to the Legislature on the College's progress in addressing the outstanding balance.

cc: Hon. George Maragos, Nassau County Comptroller
Steven Labriola, Nassau County Chief Deputy Comptroller
Timothy Sullivan, Deputy County Executive
Roseann D'Alleva, Director, OMB
Evan Cohen, Executive Director, NIFA
David Gugerty, Minority Chief of Staff
Dan McCloy, Director of Law, Finance & Operations
Gregory May, Director of Legislative Affairs
William Muller, Clerk of the Legislature

Nassau Community College
FY 2012 - 13 Expenses
Unaudited Year End Results

Object Class		Adopted Budget	Modified Budget	Aug 31-13 Actual	Variance Adopted To Actual	% Obligated
AA	Wages, Salaries & Fees	\$127,603,492	\$127,603,492	\$128,119,672	(\$516,180)	100.4%
AB	Employee Fringe Benefits	52,121,245	52,065,901	52,494,748	(373,503)	100.7%
AC	Workers' Comp	874,990	874,990	967,606	(92,616)	110.6%
	Subtotal PS	180,599,727	180,544,383	181,582,026	(982,299)	100.5%
BB	Equipment	2,313,914	2,477,334	2,268,747	45,167	98.0%
DD	General Expenses	7,444,412	7,908,559	7,225,419	218,993	97.1%
DE	Contractual Services	6,583,290	7,689,763	7,338,235	(754,945)	111.5%
DF	Utility Costs	4,800,540	4,722,540	4,888,853	(88,313)	101.8%
HH	Interfund Charges	2,950,000	2,109,595	3,297,730	(347,730)	111.8%
08	County Scholarships	55,000	55,000	51,400	3,600	93.5%
	Subtotal OTPS	24,147,156	24,962,791	25,070,384	(923,228)	103.8%
	Grand Total	<u>\$204,746,883</u>	<u>\$205,507,174</u>	<u>\$206,652,410</u>	<u>(\$1,905,527)</u>	100.9%

Nassau Community College
FY 2012 - 13 Revenue
Unaudited Year End Results

Codes	Revenue Source	Adopted Budget	Modified Budget	Aug 31 -13 Actual	Variance Adopted To Actual	% Recognized
AA	Fund Balance - BOY	\$1,533,699	\$1,533,699	\$1,533,699	0	100.0%
BE	Investment Income	82,000	82,000	64,618	(17,382)	78.8%
BF	Rents and Recovery	400,000	400,000	859,646	459,646	214.9%
BG	Revenue Offset	4,048,000	4,808,291	4,964,234	916,234	122.6%
BJ	Interfund Revenues	0	0	0	0	-
BK	Service Fees	5,991,000	5,991,000	7,285,588	1,294,588	121.6%
BL	Tuition	82,372,988	82,372,988	81,469,769	(903,219)	98.9%
BM	Revenue Lieu Sponsor	14,000,000	14,000,000	14,058,715	58,715	100.4%
FA	Federal Aid	250,000	250,000	77,213	(172,787)	30.9%
SA	State Aid	43,862,313	43,862,313	44,621,803	759,490	101.7%
TL	Property Taxes	52,206,883	52,206,883	52,210,077	3,194	100.0%
	Supplemental Appropriations	0	0	0	0	-
	Total Revenues	<u>\$204,746,883</u>	<u>\$205,507,174</u>	<u>\$207,145,362</u>	<u>\$2,398,479</u>	101.2%