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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: February 15, 2023

Re: Nassau Community College 2021-2022 Unaudited Year-End, and 2022-2023 First Quarter Projections

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The Office of Legislative Budget Review (OLBR) has received Nassau Community College's unaudited FY 21-22 year-end operating results and prepared this memo on the anticipated results for the Legislature. The College is projecting that it will end the FY 21-22 with an unaudited operating deficit of approximately $1.6 million. When the modified budget is compared to unaudited year-end actuals, a surplus of approximately $9.9 million in budgeted expenses is offset by a $11.5 million deficit in revenues. The impact on fund balance of the preliminary results is reflected in the attached fund balance reconciliation chart later in the report. OLBR worked with the College Administration in order to get the explanations discussed below for the Legislature.

FY 2021-2022 Year-End

Expenses

Compared to the modified FY 21-22 budget, year-end expenses came in under budget by approximately $9.9 million. The main drivers of this positive variance are the salaries, fringe benefits, equipment, and general expenses lines, along with a smaller surplus in other expenses. Salaries generated a $6.1 million surplus and the College reports that this was due to the reduction in staff and attrition with the majority from adjuncts. The budget was prepared while most of the faculty and staff were working remotely as this is how all instruction was being offered. As enrollment continued to decline and as instruction was slowly returned to campus the number of teaching sections offered in FY 22 was reduced. This resulted in a significant reduction in the issuing of adjunct teaching sections. Also, as faculty and staff were directed to return to campus as the Covid risks diminished, some attrition occurred. Offsetting the salary surplus, terminal leave exceeded the budget by $2.5 million, overtime expenses by approximately $0.4 million, and lag payout by approximately $0.2 million.

The $2.1 million decrease in fringe benefits resulted from health insurance costs that increased less than anticipated when preparing the budget. There were also positive variances in pension and social security contributions because of lower salary expenses.

Contributing to the surplus, is a favorable $1.9 million in general expenses and $1.3 million in equipment. The surplus in general expenses is a result of fewer sections being taught. There were positive variances found in travel and travel related expenses, postage, and professional membership fees. In addition to fewer sections being taught, the surplus in equipment is a result of positive variances found in computer equipment and motor vehicles.

The College had a $0.4 million savings in County scholarships, which in combination with other expense reductions, helped offset deficits in contractual services, utility costs, interfund charges, and debt service. Utility costs was overbudget by $0.9 million due to increased rates in heat, lighting, power and fuel. The $0.7 million shortage in contractual services is attributed to increased costs in building and grounds and facilities management costs related to the opening of the campus after the pandemic. Lastly, the $0.3 million deficit in interfund charges is a result of the increased shared cost of the Central Utility Plant (CUP) adjacent to the College campus.

Revenue

According to the unaudited FY 21-22 year-end operating results, the College anticipates an $11.5 million revenue shortfall when compared to the modified budget. Based on the unaudited results, the College will need to use fund balance. The largest shortfalls occurred in student revenues, revenue offset to expenses and services fees, with decreases of $7.2 million, $1.8 million, and 1.3 million respectively. Student revenues and services fees declines were directly correlated to a reduction in student enrollment. The FY 21-22 budgeted count was approximately 10,444 while the actual total was 9,312, a decline of about 1,132 FTEs or 10.8%.

The revenue offset to expenses dropped by $1.8 million which is primarily attributed a decline in revenue generated from the Continuing Education programming. According to the College, although there were upticks in the Center for Workforce Training, Drinking Driver Programs, Lifelong learning programs and Contract Courses there was a significant drop-off in traditional Continuing Education programs. There was also a negative variance in the Reimbursement for College Services category (charges to outside entities for using college facilities). Both can be attributed to the slow recovery of campus activity after Covid. Investment Income revenue experienced a shortfall of roughly $0.2 million attributed to lower than budgeted interest rates during the fiscal year compared to when the budget was prepared.

Meanwhile, there was a revenue decline of $0.5 million in the rents and recovery line from the liquidation of prior year encumbrances. In the past the College allowed the encumbrances (open purchase orders) to remain open for multiple periods, but as reported by the College, users have been more conscientious in trying to use up the old encumbrances before they are automatically liquidated resulting in fewer liquidations. The College now closes out the encumbrances one year after it is rolled over.

State aid decreased by $0.6 million compared to the modified budget. Most of the decline is related to the Base Aid award. The FY 21-22 state aid budget formula implemented a floor to the state aid formula of 98% of the prior year state aid award. When the Budget was prepared, it was based on the prior year's state aid amount, however the final award was adjusted for changes in enrollment. In addition, a smaller percentage of the decrease is related to the rental aid award which is calculated by SUNY after the budget is approved locally. These funds are awarded to community colleges for up to 50% of eligible rental costs. Most years it is less than 50% because SUNY allocates the rental aid pool by the total community college requests.

Finally, revenue in lieu of sponsor share rose about $0.2 million over the budget due to an increase of the non-resident chargeback rate. Even though the enrollment has dropped the chargeback rate has been increasing significantly. The chargeback rate is calculated on the total local contribution divided by the total student FTE base. The tax levy hasn't changed but the contribution from Fund Balance has increased significantly, and the total FTE has decreased, both having the effect of increasing the rate.

FY 2022-2023 First Quarter

The College provided its forecast for the First Quarter of FY 22-23 compared to the Adopted Budget. More details will be included in OLBR's mid-year report as more precise data on expense and revenue projections become available.

Expenses

Expenses in FY 22-23 are expected to come under the Adopted Budget by approximately $2.7 million. The projected surplus is mostly related to savings in salaries offset by a slight deficit in fringe benefits. According to the College, the staffing overall is declining in all categories with the overwhelming majority of the anticipated savings coming from a decline in the number of full-time faculty. NCCFT full-time salaries are projected to have savings of approximately $1.6 million. The College is also projecting salary savings of $0.7 million in part-time staff with most from adjuncts. Fringe benefits are expected to be over budget by $0.2 million due to social security expenses. The College estimates savings every year for anticipated attrition and other terminations that are not known at the time of budget preparation. If the anticipated level of attrition and other terminations are not met it will contribute negatively to the variance from the budget.

Revenue

The college anticipates an approximate **1.0** million revenue surplus based on the latest projection compared to the Adopted Budget. The College has budgeted to use of $19.2 million in fund balance which will be offset by $10.0 million in Higher Education Emergency Relief Fund (HEERF) funds. There is a projected increase of $1.6 million in student revenues because of the higher budgeted FTE's. The FY 22-23 budget was prepared based on 8,474 FTE's compared to last year's projected actual of 9,312, however current projections expect an enrollment increase to 8,841 FTEs which represents an increase of 367 FTE's or 4.3% compared to the current year budget. According to the College, the enrollment decline is less severe than anticipated. State aid was reduced by roughly $0.7 million in the FY 22-23 projection. The reduction in state aid was a result of the final state aid calculation being calculated on 100% before the SUNY adjustment was announced. In addition, the College expects a nominal increase of $30,697 for service fees which is directly related to the anticipated increase in admissions.

The total projected FY 22-23 operating surplus result of $3.6 million is comprised of $2.7 million expense and $1.0 million revenue surpluses. The College plans to use the fund balance to cover the projected FY 21-22 shortage. The Nassau Community College Board of Trustees has a policy requiring the unrestricted/unreserved operating fund balance be maintained at a minimum of 4.0% of the prior year's expenses. Current projections reflect a FY 22-23 projection of unappropriated fund balance of $30.1 million, or 16.5% of last years' expenses. The College has advised it will be receiving $10.0 million in Federal grants through the Coronavirus Aid, Relief, and Economic Security (CARES)/HEERF, which will reimburse the loss of revenue that continues to impact the College because of the pandemic, in turn reducing the operating results. This is a short-term fix to a larger issue that must be addressed in FY 22-23 and future years after the stimulus funding is depleted.

The FY 21-22 audit is still in process, therefore, adjustments to the operating results are possible and can change the projected results. The table below provides the projected reconciliation of the fund balance.

Fund Balance Reconciliation	
Beginning Fund Balance FY 2021-2022	31,725,367
Fund Balance Usage	(12,086,901)
Unaudited FY 2021-2022 Operating Results	(1,564,109)
Projected FY 2021-2022 year-end Unreserved Fund Balance Pre-HEERF Grants	18,074,357
Unaudited FY 2021-2022 Federal Grant Awards (CARES/HEERF)	17,660,571
Projected FY 2021-2022 year-end Unreserved Fund Balance Including federal grants	**35,734,928**
Projected FY 2022-2023 Operating Results	3,642,358
Projected FY 2022-2023 Fund Balance used as Revenue	(19,243,514)
Projected FY 2021-2022 year-end Fund Balance	20,133,772
Projected HEERF Grants reimbursement 2022-2023 (CARES/HEERF)	10,000,000
Projected FY 2022-2023 year-end Unreserved Fund Balance including federal grants	**30,133,772**

Conclusion

It is essential that the College continues to efficiently work to modify its operations by either reducing costs or enhancing its revenue, which continues to be negatively impacted by their declining enrollment. In FY 22, the College recognized a $1.6 million operating deficit, however this was produced after $17.7 million was utilized from (CARES/HEERF) funding, thus ensuing an artificial year-end overall result. In FY 23, the College is projecting a surplus of $3.6 million, which will again be supplemented by stimulus funding and fund balance used as revenue. The stimulus funding is due to expire this year, and with this funding exhausted, the College will be forced to face challenges with the preparation of next year's Budget and may have to rely more on Fund Balance.

cc: Dr. Maria Conzatti, Acting President, NCC
Dr. Omar Mayyasi, Consulting Vice President of Finance and Administration, NCC
Andrew Persich, Budget Director, OMB
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Michael Pulitzer, Clerk of the Legislature

Nassau Community College FY 2021- 2022 Expense Unaudited Year End Results					
	Adopted Budget	**Modified Budget**	**21-22 YE Actual**	**Variance Modified To Actual**	**% Variance**
Wages, Salaries & Fees	$111,095,507	$109,972,256	$103,851,403	$6,120,854	5.6%
Employee Fringe Benefits	56,317,288	56,317,288	54,260,472	2,056,816	3.7%
Subtotal Personal Services	**167,412,795**	**166,289,544**	**158,111,875**	**8,177,670**	4.9%
Equipment	1,956,889	1,973,483	699,360	1,274,123	64.6%
General Expenses	6,777,107	7,838,483	5,937,992	1,900,491	24.2%
Contractual	8,309,701	8,429,981	9,080,578	(650,597)	-7.7%
Utility Costs	3,654,000	3,654,000	4,535,823	(881,823)	-24.1%
Interfund Charges	2,423,786	2,423,786	2,762,836	(339,050)	-14.0%
Debt Service	1,085,011	1,085,011	1,105,591	(20,580)	-1.9%
Other	535,000	460,000	13,923	446,077	97.0%
Subtotal OTPS	**24,741,494**	**25,864,745**	**24,136,104**	**1,728,641**	6.7%
Grand Total *	**$192,154,289**	**$192,154,289**	**$182,247,978**	**$9,906,311**	5.2%

*The original budget in total is the same, however the College is reflecting some changes in different object codes.

*Surpluses are shown as positive.

Nassau Community College
FY 2021- 2022 Revenue
Unaudited Year End Results

	Adopted Budget	Modified Budget	21-22 YE Actual	Variance Modified To Actual	% Variance
Fund Balance	$12,086,901	$12,086,901	12,086,901	$0	0.0%
Investment Income	$300,000	$300,000	62,260	(237,740)	-79.2%
Rents and Recoveries	$852,923	$852,923	313,670	(539,253)	-63.2%
Revenue Offset to Offset Expense	$4,068,732	$4,068,732	2,268,862	(1,799,870)	-44.2%
Service Fees	$6,099,310	$6,099,310	4,821,670	(1,277,640)	-20.9%
Student Revenues	$66,612,379	$66,612,379	59,407,003	(7,205,376)	-10.8%
Revenue Lieu Sponsor	$11,504,979	$11,504,979	11,701,673	196,694	1.7%
State Aid	$38,422,182	$38,422,182	37,814,948	(607,234)	-1.6%
Property Taxes	$52,206,883	$52,206,883	52,206,883	-	0.0%
Total Revenues	**$192,154,289**	**$192,154,289**	**$180,683,870**	**($11,470,419)**	-6.0%