ERIE COUNTY FISCAL STABILITY AUTHORITY REPORT ON ERIE COMMUNITY COLLEGE 2020-21 BUDGET OCTOBER 7, 2020

INTRODUCTION

Erie Community College (ECC) in 1946 was originally established as the Institute at Buffalo as a unit of the State University of New York. In 1953, Erie County assumed sponsorship of the College, which it retains to this day. It is this sponsorship, establishing ECC as a component unit of Erie County, which is the basis for Erie County Fiscal Stability Authority review and comment on the College's budget and financial plan.

In its July 13th revised budget submission to the Erie County Legislature, the College put forward an annual spending plan that accounts for revenue losses associated with COVID-19 and the continued decline in Erie County's school aged population, with 54% of its students under the age of 21. From its high point in the 2010-11 school year, Full-Time-Equivalents (FTE's) have gone down more than 40%.

The revised 2020-21 spending plan assumes a budget of $94,989,365. As compared to the College's 2019-20 adopted budget, spending is down $10,931,314 (10.32%). Personnel costs are down $1,277,285 (2.15%), fringe benefits are down $3,944,992 (13.82%), and contractual services are down $3,986,406 (25.72%).

Significant reductions have been made to balance ECC's operating budget. However, the initially proposed and adopted 2020-21 budget was even more draconian. The initial proposed 2020-21 spending was $83,924,707 ($11,064,558 less than the final adopted budget).

In previous budget submissions, the College has included an associated four-year financial plan. Given the College's difficult and uncertain finances, administrators have not forecasted beyond the current fiscal year.

BUDGET HIGHLIGHTS

I. Revenue Related

1. For the 2020-21 academic year, there is a 3% full-time tuition rate increase.

   - The financial plan submitted last year assumed a 3% tuition and fee increase in FY 2020-21 and a 2% increase in 2021-22 and 2022-23.

2. For the 2020-21 academic year, there is a 2.93% part-time tuition increase.

   - The financial plan submitted last year assumed a 3% tuition and fee increase in FY 2020-21 and a 2% increase in 2021-22 and 2022-23.

3. The Charges-to-Non-Residents budget for 2020-21 has been lowered by $12,107 as compared to the 2019-20 budget.

   - The financial plan submitted last year assumed a FY 2020-21 budget increase of 9%, then by 3% for each of the subsequent years of the financial plan.

4. Since 2010-11 (the college's high point), enrollment has decreased from 13,650 FTE's to 8,107 – an overall decline of 40.6%.

   - For the 2020-21 academic year, FTE's are assumed to be reduced by 17.9% as compared to the 2019-20 budget.

   - The financial plan submitted last year assumed 2020-21 FTE's would initially remain constant at a 10,100 base, then increase slightly (1%) through 2022-23.

5. For the 2020-21 academic year, fall credit hours are assumed to be reduced by 25,624, an 18.6% reduction, as compared to the 2019-20 adopted budget.

6. For the 2020-21 academic year, spring credit hours are assumed to be reduced by 22,936, a 17.6% reduction, as compared to the 2019-20 adopted budget.

7. For the 2020-21 academic year, the college is budgeting a decrease of $6,653,910 in state aid, a 22.45% reduction as compared to the prior year adopted budget.

- The financial plan submitted last year assumed a $250,000 increase per year, 0.84% annually through 2022-23.

8. The sponsor contribution from Erie County increases by $250,000 over the adopted 2019-20 budget to $18,804,317 for the 2020-21 budget year.

   - The financial plan submitted last year assumed the sponsor contribution would increase by $1 million in 2020-21. For the subsequent years, the County subsidy is assumed to keep that additional $1 million in the base and increase the amount by 1% per year.

   - The College has put forward a six-year, $24,000,000 capital budget request to Erie County ($4 million per year).

   - In the financial plan submitted last year, the College was requesting $13.5 million per year in capital contributions to update its campuses. Over the four-year period, this totaled $54 million. The total capital cost through 2024 was slated to reach $81 million.

9. Fund balance usage increases by $2,919,918 (98%) in the 2020-21 budget over the 2019-20 adopted budget ($5,900,000 – $2,980,082).

   - The financial plan submitted last year assumed $2.99 million in fund balance usage for 2020-21 and $2.71 million in 2021-22 and $630,000 in 2022-23 for ERP enhancements.

10. For the 2020-21 fiscal year, the College is budgeting $350,000 for student rental income, down from $700,000 in the previous year's adopted budget.

II. Spending Related

1. Budgeted personal services spending for FY 2020-21 has decreased by $1,277,285 as compared to the prior fiscal year's adopted budget.

   - In the financial plan submitted last year indicated that increases in personal services spending is driven by 5% cost of living increases and contractual obligations annually.

   - In last year's financial plan, annual increases for 2020-21 through 2022-23 call for increases of 4%, 2% and 2% respectively in personal services spending.

2. Budgeted employee benefits costs for 2020-21 are assumed to decrease by $3,944,992 as compared to the prior year's adopted budget figure.

- Last year's financial plan narrative called for employee benefits to increase by 3% annually, with declining retiree healthcare benefits assumed to begin in 2021-22.

- Last year's financial plan projections indicated a 3% employee benefit amount increase in FY 2020-21, followed by a 1.3% increase for each of the subsequent years.

3. For FY 2020-21, contractual expenses decrease by $3,986,406 (25.7%) as compare to the prior year adopted budget.

    - In last year's financial plan, ontractual expenditures over the out-years of the plan were expected to increase by an inflation rate of 2% per year.

ERIE COMMUNITY COLLEGE BUDGET ASSESSMENT

The 2020-2021 College budget on an overall basis appears to be reasonable and achievable based upon the assumptions provided. However, long-term falling enrollment trends and COVID-19 fiscal and operational challenges do not bode well for ECC's future financial health. As ECC's sponsor, there may be increasing stress on Erie County itself to provide significant ongoing support to the College, despite its own COVID-19 related revenue challenges.

Under its current configuration, ECC's finances are highly dependent on strong, continued expense control in a declining revenue environment. The recently installed Interim President has a history of instituting and maintaining strong expense control, but, at some point in the not-too-distant future, the College's current business model will most likely not sustain the institution for the long term, even under the best control measures.

All major College revenues, except for one (Erie County Sponsor Support) have declined precipitously and may not recover. ECC is not alone in this situation, educational institutions throughout the state and around the country are facing similar hurdles.

In light of this situation, the ECFSA is looking to the ECC leaders to turn crisis into opportunity in reinventing the College so that it will be able to sustain its charge of developing a workforce that will facilitate not only economic recovery, but future growth, as well.

The overarching recommendation of the ECFSA is for the College to completely review its business and education model, bringing in outside technical assistance and stakeholders together to reinvent the College and apply that new vision in meeting its charge.

SPECIFIC RISK ITEMS

The following are a list of specific concerns the ECFSA has regarding the 2020-21 ECC budget and comments/recommendations on addressing those items:

1. Tuition and Fees – FTE Driven

Situation

The College's financial health is tied to tuition and fee revenue. In 2007-08, tuition and fee revenues comprised only 43% of total revenues. For the 2020-21 budget it is 50%. FTE's, since peaking in 2010-11, have declined over 40% and the pool of eligible high school students is anticipated to decline for the foreseeable future.

Recommendation

Before COVID-19 hit, the College is doing the right things to attract students to its campuses. Inquiries were up and so was retention, but, as mentioned in the previous section, the College's revenue model as a subset of its business model must be revisited.

2. State Aid

Situation

State aid has declining precipitously. Unless there is a turnaround in Washington that calls for additional COVID related funding to states and localities, the chance of state revenues reverting to previous, higher levels, is remote.

Recommendation

The College should continue to work with New York State officials on getting appropriate State funding, but be prepared for continued, reduced levels of support in the future.

3. Sponsor Contribution

<u>Situation</u>

As ECC's sponsor, the County provides annual financial support to the College. The College in its 2020-21 budget lists a figure of $18,804,317. The County provides just under 20% of the College's revenues at this time.

In its previous financial plan, the College was anticipating greater operations and capital project support from the County. That funding may be in jeopardy as a result of the County's own COVID-19 related financial issues.

<u>Recommendation</u>

Given the County's status as local sponsor for the College, ECC must work closely with County leadership (as funders and stakeholders) not only on revenue and capital project issues, but also on reinventing ECC to sustain itself for the future.

4. Fund Balance

<u>Situation</u>

The 2020-21 Erie Community College budget includes $5,900,000 fund balance as a revenue source. At this point, the listed 2019-20 remaining fund balance of $7,745,780 is at an appropriate level for the College.

<u>Recommendation</u>

In previous reports the ECFSA recommended a formal fund balance policy. The ECC Board has established an appropriate policy.

5. Personnel/Spending Control

<u>Situation</u>

In addition to its every-day spending control measures, the College is assuming an early retirement plan that will save between $1.25 and $1.5 million per year. Key to that plan is revenue from Erie County to fund the retirement program. Similar initiatives in the past have brought ongoing salary and fringe benefit savings and it appears there is further opportunity for that to occur.

Recommendation

That the College work closely with the County to assure funding for its early retirement program and successfully implement the initiative to provide ongoing salary and fringe benefit relief.

Further, that strong vacancy and other spending controls that already exist remain in-place.

6. Capital Project Spending/Funding

Situation

The College has reduced its County capital funding expectations significantly. Previous submissions included a total of $81 million. That has been scaled back to a more reasonable $24 million, spread out over six years ($4 million per year).

Recommendation

That future capital projects be viewed in light of a reinvented Erie Community College.

CONCLUSION

Given the realities of prior, current and anticipated losses in its largest potential student pool (54% of ECC’s student population is under 21), and the long-term operational, educational and financial issues brought about by COVID-19, the time has come for ECC to reinvent itself. The College provides a necessary and useful workforce development function in Erie County and should continue to provide that tremendous benefit.

A change in the College’s business and educational model is not only appropriate, but necessary, at this point. ECC is not alone, among educational institutions, in this kind of difficult situation. The ECFSA has confidence in the College’s leadership to work with ECC’s stakeholders to assure its benefit to the people of Erie County will continue in the years to come.