ERIE COUNTY FISCAL STABILITY AUTHORITY REPORT ON ERIE COMMUNITY COLLEGE 2013-14 BUDGET AUGUST 8, 2013

INTRODUCTION

Erie Community College 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.

ECC has approximately has over 20,000 students enrolled in its three campuses – North, South and City, generating an estimated 12,500 full-time-equivalents (FTE's) for the 2013-2014 school year. The college's operating budget for the year totals $111,474,023, an increase of 0.42% over the 2012-13 spending plan. For 2013-14 the college has 692 full time employees, an addition of 11 full time staff members as compared to the previous academic year.

BUDGET/FINANCIAL PLAN HIGHLIGHTS

I. Revenue Related

1. Full time tuition increases by 2.4% ($95.00) in the 2013-14 academic year, as compared to 2012-13. The rate of increase has slowed significantly as compared to the last two years in which tuition increased by approximately 8% in 2012-13 and approximately 9% in 2011-12.

2. For 2013-14, part time tuition rates increased by2.45%, a significant reduction from the 2012-13 part-time tuition increase of 8.67%.

3. Since 2010-11, full time enrollment is projected to decrease from 13,650 FTE's to 12,500 – an overall decline of 8.42%

4. For 2013-14, full time fall credit hours are assumed to decrease by 1.3% as compared to the previous year's budget. In the 2012-13 budget full-time fall credit hours are assumed to decrease at a rate of 8.8% as

compared to the 2011-12 budget. Starting in 2013-14 there is an incremental credit enrollment growth of 1% per year.

5. For 2013-14, full time spring credit hours are assumed to decrease by almost 4.3% as compared to the previous year's budget. For 2012-13 full-time spring credit hours were assumed to decrease at a rate of 5% as compared to the 2011-12 budget. Out years of the plan includes an incremental credit enrollment growth of 1% per year.

6. For 2013-14 the state-aid revenues are increasing by just under $1million due to a $150.00 increase in the full-time-equivalent (FTE) reimbursement rate, from $2,272 to $2,422.

7. The sponsor contribution from Erie County will remain constant at $17.4 million for 2013-14. This plan assumes the county's contribution will remain constant for the period of the college's financial plan.

8. For the 2013-14 budget year, the college is allocating $3.5 million in total from its fund balance as a revenue source. For the 2012-13 fiscal year $3.5 million in fund balance was budgeted as a revenue. As of 8/31/12, ECC's unrestricted/undesignated fund balance was $13.4 million.

II. Spending Related

1. Personal services spending for 2013-14 decreases by approximately $1.1 million over the prior year (that figure includes $656,000 in budgeted turnover), despite a small increase in the number of full-time positions. Subsequent years assume negotiated cost of living increases in addition to increments and rank advancements of 2% each year, net of retirements.

2. Although cost of living increases for county unions without current contracts have not been included in the 2013-14 budget, all other terms and conditions of collective bargaining agreements been factored in.
    - The Faculty Federation contract (accounting for approximately 60% of personal service costs) expired on August 31, 2009.
    - The Administrators contract (accounting for approximately 16% of personal service costs) expired on August 31, 2011.
    - CSEA (accounting for approximately 12% of personal service costs) expired on December 31, 2006.

3. Employee benefits costs for 2013-14 will increase approximately $644,000 over the previous year, a 2.25% increase. Employee benefits are assumed to increase by 5% per year over the remaining period of the plan.

OBSERVATIONS/ANALYSIS

The 2013-14 Erie Community College budget appears to be reasonable and doable based upon the assumptions provided. However, there are a number of risk items that could be problematic for the college in the out-years of the financial plan included within the budget documents. Those items include:

1. *Tuition and Fees*

Like the 2012-13 budget, the 2013-14 ECC Budget assumes declining enrollment. The 2013-14 budget assumes a 3.68% decrease in credit hours and assumes a 1% credit enrollment growth starting in 2014-15.

In previous versions of this report, the ECFSA commented that, despite the best efforts of college recruitment officials, the assumed high growth in enrollments would not continue – the 2012-13 and 2013-14 trends evidence that the student pool has or is reaching its short-term limit. Given the declining enrollment that has averaged 2.9% per year since 2010-11, the prospect of 1% annual increases starting in 2014-15 appears extremely optimistic at this point.

Like the county, with its sales tax revenues, the college's financial health is tied to tuition and fee revenue. In 2007-08, tuition and fee revenues comprised only 37% of total revenues. For the 2012-13 budget that percentage increased to 52%, then decreased slightly to 51% for 2013-14. As time has gone by, with variable New York State funding and leveling of Erie County sponsor support, the college has become more heavily reliant on its tuition. The viability of its financial plan, in many ways, is tied to the college's successful efforts to fill its classrooms.

2. *Sponsor Contribution*

As Erie Community College's sponsor, the county provides financial support to the college each year. The college in its 2013-14 budget lists a figure of $17,429,317. The county in its budget and plan submission lists a figure of $15,629,317. The difference is the capital component of $1,800,000 that is not presented in the college section of the county's financial plan.

Unlike previous versions of the college's financial plan, there is no difference between the college's financial plan expectation of support from the county and county's anticipated sponsor contribution. In the notes to its financial projections, the college indicates "ECC will lobby aggressively for annual increases."

3. Fund Balance

The 2013-14 Erie Community College budget includes $3,500,000 fund balance as a revenue source to balance its $111,474,023 million budget. There is a trend of the college using fund balance to close its financial gaps. In 2010-11, the college transferred $882,193 in 2011-12 that figure increased to $1,432,823 for 2012-13 that figure budgeted increased again to $3,500,000. However, college officials anticipate using no more than $2,500,000 of that budgeted fund balance for the soon-to-be-completed school year.

In the out-years of the financial plan, the college continues to list fund balance as a revenue with $2,500,000 in 2014-15, $1,500,000 in 2015-16 and $500,000 in 2016-17.

These transfers are problematic in that there is an allocation of non-recurring revenues to cover recurring operations spending. According to internal ECC presentations, at the end of fiscal year 2011-12, the unrestricted/undesignated fund balance was $13.4 million.

The college is not affected by the county's 5% requirement for fund balance, but if it were, the 2011-12 fund balance calculation would exceed the minimum by approximately $8 million.

4. State Aid

After three successive years of decreases in state aid, starting in 2009, ECC's state aid increased in 2012-13 and is anticipated to increase in the 2013-14 budget. The college is budgeting just under a $1 million increase for 2013-14, as compared to the previous year budget. In addition, the college is anticipating a $150 increase in the reimbursement rate for each year of the plan starting in 2014-15.

5. Personnel

Three of the College's collective bargaining agreements, with CSEA, FFECC, and the AAECC (comprising approximately 88% of personnel costs) are presently expired. The college's financial forecasts do not specifically include amounts that might be negotiated in future potential agreements. The college has focused on a bargaining strategy that calls for retirements, staffing and/or benefit reductions that would mitigate the financial impact of any potential, non-forecasted salary adjustments.

CONCLUSION

Erie Community College has reduced its short-term enrollment estimates to more accurately reflect the available student pool, and is raising tuition to help maintain its largest single revenue. However, with the declining trend in student enrollment, the assumed 1% annual increase in credit enrollment starting in the 2014-15 budget year does not appear to be realistic at this time. Since the 2010-11 budget, enrollment has decreased by an average of 2.9% per year.

For 2013-14 ECC has slightly increased its full-time staffing levels, instituted a turnover account with a managed vacancy program and has had to use fund balance for the fourth year in a row to balance a budget with recurring expenses growing faster than recurring revenues.

With the current budget and plan, ECC is continuing its heavy reliance on tuition revenues. Unfortunately for the college, the available pool of potential students generating this revenue is not increasing as it once was. Given that, the ECFSA believes the challenges the college is facing are becoming increasingly difficult.

In addition to the concern for ongoing tuition revenue increases, the consistent use of fund balance as a revenue to balance budgets shows that ECC's finances are stressed. However, ECC appears to be initiating action that recognizes the need for change to improve its core capabilities and, in-turn, its finances.

The college has recently released its "Program Needs and Space Utilization Analysis" report which recommends (among other things) $30 million in capital improvements to the ECC North Campus to enhance ECC as a trainer for advanced manufacturing and health science careers. The report recognizes the decline in the potential student pool available to ECC through the 2020's and 2030's, and recommends programmatic strategies that will allow ECC to attract students via better matching of curriculum, facilities and available jobs for its graduates. As a community college, ECC's focus is to have its students career-ready upon graduation. This report appears to be a significant step in creating a strategy to better meet that core responsibility.

In previous reports, the ECFSA has commented on the college's ability to manage its finances, given challenging enrollment figures, on a year-to-year basis. It appears that ECC has recognized that it needs to act strategically to better position itself in its core competency of attracting, retaining and graduating more career-ready and job-compatible students. This strategy will serve not only to enhance the college's role in the community, but should positively reflect on its finances through increased student-driven revenues.