ERIE COUNTY FISCAL STABILITY AUTHORITY
REPORT ON
ERIE COMMUNITY COLLEGE
2017-18 BUDGET
AUGUST 22, 2017

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 20,000 students enrolled in its three campuses – North, South and City, generating a forecasted 10,750 full-time-equivalents (FTE's) for the 2017-2018 school year. The college's operating budget for the year totals $110,845,984 a decrease of 2.14% over the 2016-17 spending plan. For 2017-18 the college has 655 full time employees, eight more than the previous academic year.

BUDGET/FINANCIAL PLAN HIGHLIGHTS

I. Revenue Related

1. Full time tuition increases by 3.53% ($67.00) as compared to the 2016/17 academic year. Tuition increased by 3% in the 2016-17, as compared to 2015-16.

2. For 2017-18 part time tuition rates increased by 3.54%, which was preceded by a 3.13% 2016-17 increase.

3. Since 2010-11 (the college's high point), full time enrollment is projected to decrease from 13,650 FTE's to 10,750 – an overall decline of 22.9%.

4. For 2018-19 enrollment is assumed to decline by 1%. In 2018-19. Enrollment is assumed to remain flat through 2020-21.

5. For 2017-18 full time fall credit hours are assumed to decrease by 2.61%. In 2016-17, budgeted full time fall credit hours decreased by 5.91% as compared to the previous year.

6. For 2017-18, full time spring credit hours are anticipated to increase by 0.43%. For 2016-17, full time spring credit hours were assumed to decrease by 3.5% as compared to the previous year's budget.

7. For 2016-17- ECC is budgeting a decrease of $341,636 in state aid, 1.11%.The rate increased per FTE, but declining enrollment led to the total decrease.

8. The sponsor contribution from Erie County will remain constant $18.05 million for 2017-18 and will remain at that figure for the period of the plan. This matches the county's financial projections.

9. For the 2017-18 fiscal year, the College is budgeting $3.67 million in fund balance as a revenue. For the 2016-17 budget year, the College designated $1.25 million in total from its fund balance as a revenue source.

II. Spending Related

1. Personal services spending for 2017-18 increases by $740,001 over the prior year. Subsequent years assume increases on a net basis of 2% per year. The net assumes the effect of the College's early retirement program, recently executed collective bargaining agreements and vacancy control measures.

2. Employee benefits costs for 2017-18 will rise by $325,295 over the previous year, a 1.15% increase. Employee benefits are assumed to decrease by 1% per year over the remaining period of the plan.

3. Contractual expenditures, over the out-years of the plan are expected to decrease by 1% due to continued cost cutting and re-engineering of college operations.

ANALYSIS/RECOMMENDATION

The 2017-18 overall, Erie Community College budget appears to be reasonable and doable based upon the assumptions provided. However, the College's long-term financial health is less clear. ECC has maintained strong cost cutting and re-engineering measures to help balance budgets in the face of a 23% drop in full-time-enrollments. At some point, the marginal benefit of cost cutting and re-engineering will diminish. There have been significant initiatives in this area during the college's enrollment decline:

- Over seventy nine percent of the ECC operating budget is personnel related (salary and fringe benefits). A prior year early retirement program, funded by Erie County has assisted in lowering those costs through accelerated attrition.

- Prior year contract settlements with the Faculty and Administrator unions will help the College reduce fringe benefits over the long-term, while creating a degree of financial stress in the present. Primarily due to the trade-off between staff salary adjustments that start now, and health insurance coverage and employee-pay provisions that provide greater budgetary relief in the future.

- The continued integration of adjunct faculty in lieu of full-time instructors will also result in increased savings for ECC. Though, there may be a point, at which full-time faculty are spread too thin, and instruction may decline.

Unfortunately, at some point, the marginal benefit of these and other cost-cutting measures will diminish over time and the College's practice of budgeting fund balance as a revenue to balance current budgets will no longer be a viable alternative.

The College's efforts to reverse the trend of declining enrollments must take hold soon:

- Since 2010, the College has averaged an approximate three and a half percent loss in FTE's per year. However, the 2017-18 budget assumes a 2.18% decrease as compared to the previous year's projections.

- Despite significant tuition increases for a number of years – 7.5% in 2014-15, 7% in 2015-16, 3% in the 2016-17 budget year and 3.53% this year, the College is forecasting to stem the tide of tuition losses over the period of its plan, with decreases of 1% in 2018 and flat enrollment afterward (including a 3% tuition increase in each of those years).

- The College's student retention rates have fallen for a number of years and remain low compared to overall community college averages and its peers in New York State. In 2008/2009 the College retained 61% of its students, as compared to 64% for all state community colleges and over 66% for its NYS peers. By 2013-14, ECC had dipped to 53.5%, while the overall average dipped slightly to 62%, and the peer group average remained close, at 65%.

The College is assuming that a combination of strong outreach and retention efforts, expanded STEM (Science, Technology, Engineering and Mathematics) programs and improved facilities will allow ECC to reverse what has become a long-term trend.

However, ECC's student enrollment enhancements and retention efforts are, as of this time, not producing the results that would provide reasonable assurance that long-range targets will be met.

Based upon this assessment the ECFSA will closely monitor the College's efforts under its new President.

The following are a list of specific concerns the ECFSA has regarding the 2017-18 ECC budget and associated financial plan:

1. ***Tuition and Fees – Enhancement/Retention***

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 2017-18 budget that percentage is 50.5%. Over time, the College has become more heavily reliant on its tuition, while its student population has been decreasing. The current budget assumes a slight increase, with FTE's stabilizing over the period of the financial plan.

Recommendation

The College is continuing to pursue FTE enhancement/retention through expanded outreach efforts, improving facilities and a focus on STEM curricula. Thus far, there have been significant delays in construction projects that have impacted on ECC's ability to attract new students and potentially retain those currently enrolled. Even with new facilities and programs, there is no guarantee of stemming the reduced FTE tide. At this point, the College is not meeting statewide averages for student retention, is losing students to other community colleges. ECC's Erie County market penetration is high (2nd highest among community colleges in NYS, at 92%) but is not drawing enough students from other counties to fill its budget gaps. Given the reality of the situation, it is recommended that the College take a critical look at its business model going forward to determine reasonable alternatives to provide necessary educational services within the confines of its budget and significantly improve its student retention and attraction.

2. ***Chargeback Revenues (Tuition Subset)***

Situation

For years, Erie Community College officials have cited a disproportionately large number of Erie County Resident students attending other community colleges in the state. In the 2017 county budget that figure Erie County is charged for its students attending other community colleges in the state exceeds $6.9 million. However, the ECC chargeback figure (the money the College receives for out-of-county students attending ECC) has not received similar attention. According to an ECC budget presentation schedule, comparing ECC's chargebacks to 29 other community colleges in the state, the College is 2nd last in the state in drawing revenues (and by association, students) from outside of Erie County. According to the schedule, ECC garners only 1% of its operating revenues from students outside of Erie County, a percentage that exceeds only Suffolk at .03%. Conversely, the counties surrounding Erie enjoy a relatively high percentage of out-of-county revenues:

Genesee – 20.2%
Niagara – 12.1%
Monroe – 3.6%

Recommendation

The College has indicated that enhanced facilities and a focus on STEM curricula will reverse the tide of falling enrollment, in part because students who might be enticed to Niagara and Genesee Community Colleges would be retained in Erie. That may be true, though it has yet to be seen. Drawing students from surrounding community colleges appears to require more targeted outreach than simply retaining its own resident students. The ECFSA recommends that in addition to the planned enhancements, the College bring forward a marketing and outreach plan to attract additional students from beyond Erie's borders.

3. Sponsor Contribution

Situation

As Erie Community College's sponsor, the county provides financial support to the College each year. The College in its 2017-18 budget lists a figure of $18,054,317. Of that amount, $1,800,000 is a capital component. The figures in the College's and the county's financial plans both match for the current year and going forward. ECC budget presentations cite a state education law reference indicating a mandate for the county to provide support equaling or exceeding 26.7% of its budget. In 2015-16, the county (according to ECC schedules) provided 18% of ECC revenues. ECC does not appear to be alone in this sponsor deficit. Only Nassau County at 26.8%, Orange County at 31.9%, and Ulster at 29% exceed the state education law support percentage of the thirty community colleges referenced in the ECC budget presentation.

Recommendation

That the College maintains positive relationships with county officials to at least maintain the current level of county "sponsor" support and that, strategies and programs be considered that could reduce the county's outlay of funds for Erie County students attending out-of-county community colleges.

4. Fund Balance

<u>Situation</u>

The 2017-18 Erie Community College budget includes $3,671,721 fund balance as a revenue source to balance its budget. In the out-years of the financial plan, the College continues to list fund balance as a revenue with $500,000 in 2018-19, and $500,000 in 2019-20, prior to designations for a new ERP system. With the ERP system, fund balance usage increases by approximately $7 million over the period of the financial plan - $2.06 million in 2018-19, $2.59 million in 2019-20, and $2.41 million in 2020-21.

These transfers are problematic in that there is an allocation of non-recurring revenues to cover recurring operations spending. With planned usage over the period of the financial plan, the college, absent additional revenues and/or reduced expenses would significantly deplete its fund balance.

<u>Recommendation</u>

That the College weans itself from using accumulated fund balance as a revenue to balance its budgets and that the College establishes a fund balance policy that maintains a reasonable level of reserves. This is easier said, than done, given ECC's declining enrollment. To maintain a healthy fund balance, the College's student enhancement and retention efforts must show results soon.

5. State Aid

<u>Situation</u>

For 2017-18 the state-aid revenues are decreasing by $341,636 due to declining enrollment, though the FTE rate is increasing by $50 per FTE. The College is anticipating a $100 increase in the reimbursement rate per year for the remainder of the financial plan period. State aid is the second largest College revenue at 27.3% of budget. It is critical to at least maintain or enhance this revenue source.

<u>Recommendation</u>

That the College maintains beneficial relationships with Albany policymakers to help provide some assurance that this important revenue source meets anticipated funding levels. Given that this revenue is driven by full-time-equivalent credit hours, it is imperative that in addition to good Albany relationships that the College grows its student body.

6. Personnel

Situation

Two of the College's major collective bargaining agreements, with FFECC, and the AAECC (comprising three quarters of personnel costs) have been renegotiated. The College's financial forecasts include funds for salary adjustments, net of attrition, vacancy and fringe benefit savings.

Recommendation

The College has maintained good control of its personnel costs through judicious hiring and appropriate vacancy control. The ECFSA is looking for ECC to maintain those controls and participate in labor negotiations in such a way that the necessary labor force is maintained without financially overburdening the College's students.

7. Financial Plan Gaps/Shortfalls

Situation

In its financial plan, the College has forecasted gaps of $704,835 in 2018-19 and surpluses of $384,670 in 2019-20 and $928,378 in 2020-21. The College has not delineated methods of filling the gap or of other initiatives in the event curriculum and facility enhancements do not bring desired results.

Recommendation

The College must delineate and quantify gap closers in the financial plan and prepare for contingencies, should the curriculum and facility enhancements not achieve the desired outcomes.

CONCLUSION

The College is at a crossroads at this point. Current and next decade student populations ECC draws upon are forecasted to decline significantly. ECC's financial plan calls for a reversal in the 23% decline in FTE's the college has experienced since the 2010-11 fiscal year. FTE's are assumed to increase slightly (2.18%) in the first year of the plan, and remain flat for the remainder of the period. With the new leadership at the College, the assumption appears to be a paradigm shift will occur that will allow ECC to buck demographic trends and maintain its enrollment on a long term basis.

With the initiation of STEM (Science, Technology, Engineering and Mathematics) facilities and programming, the College is betting its future, and in some ways, the workforce in Erie County, on the College becoming a leader in providing job-ready graduates necessary to make this economic sector successful in Western New York.

To cushion the dip in enrollments, the College has done a good job in cost control and resource management, has raised tuition beyond inflation rates and used fund balance as a revenue to balance its budgets.

However, ECC cannot continue to raise tuition rates well beyond the cost of living index, cannot continue to use fund balance as a revenue and at some point, will run out of significant cuts to make in annual budgets and available fund balance.

Under its new leadership, ECC is reviewing its current business model. Recent actions to upgrade its ERP system and to reduce administrative staff are good initial steps in a process that hopefully, will allow ECC to continue to provide quality educational services to the residents of Erie County, while maintaining fiscal stability.