

**ERIE COUNTY FISCAL STABILITY AUTHORITY
REPORT ON
SUNY ERIE
2018-19 BUDGET
AUGUST 20, 2018**

INTRODUCTION

SUNY Erie (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.

SUNY Erie 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 2018-2019 school year. The college's operating budget for the year totals \$111,585,985 an increase of 1.82% over the 2017-18 spending plan.

For 2018-19 the College has funded an additional 5 full time faculty positions, allocated \$120,000 for Security Officer reclassification, and budgeted \$100,000 for Annual Performance Incentives Awards. There are 10 non-funded (deferred) positions listed in the position count for the 2018-19 budget, including 7 Faculty Members, a Budget Director, an Internal Audit Manager and a Junior Buyer

BUDGET/FINANCIAL PLAN HIGHLIGHTS

I. Revenue Related

1. For the 2018-19 academic year, there is no full-time tuition increase.
 - The financial plan assumes a 2% tuition and fee increase in FY 2019-20 and 2020-21 and a 3% increase in 2021-22.
 - Full time tuition increased by 3.53% (\$67.00) in 2017/18 academic year. Tuition increased by 3% in the 2016-17, as compared to 2015-16.
2. For the 2018-19 academic year, there is no part-time tuition increase.

- 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 21.25%.
 4. For the 2018-19 academic year, enrollment is assumed to remain constant.
 - The financial plan calls for enrollment to remain constant through 2021-22.
 5. For the 2018-19 academic year, full time fall credit hours are assumed to remain constant.
 - For the College 2017-18 budget, full time fall credit hours were 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 the 2018-19 academic year, full time spring credit hours are assumed to remain constant.
 - For the College 2017-18 budget, full time spring credit hours were 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 the 2018-19 academic year, the college is budgeting an increase of \$303,812 in state aid, a 1% increase.
 - The financial plan assumes a \$50 per FTE aide increase from 2019-22.
 - For 2017-18- the College budgeted a decrease of \$341,636 in state aid, a 1.11% drop. The rate increased per FTE, but declining enrollment led to the total decrease.
 8. The sponsor contribution from Erie County increases from \$18,054,317 in 2017-18 to \$18,554,317.
 - The sponsor contribution is assumed to increase 1% per year starting in 2019-20.
 - In addition to the county's regular sponsor contribution, the College is contemplating \$13.5 million per year in capital contributions to update

its campuses. Over the 4-year period, this totals \$54 million. The total capital cost through 2024 is slated to reach \$81 million.

9. For the 2018-19 fiscal year, the College is budgeting \$2,969,489 in fund balance for ERP.
 - The financial plan calls for an additional \$2.5 million in fund balance usage for 2019-20 and \$1.2 million in 2020-21 for ERP enhancements.
 - For the 2017-18 fiscal year, the College budgeted \$3.67 million in fund balance as a revenue, using \$2.42 million for its ERP program.
10. For the 2018-19 fiscal year, the College is budgeting \$812,500 in Housing revenues. The College has recently entered into an agreement with Canisius College to use some of its student housing for SUNY Erie students.
 - The financial plan calls for an annual increase of 5% in student housing revenues.

II. Spending Related

1. Budgeted personal services spending for FY 2018-19 has increased by \$449,175 over the prior fiscal year. For 2018-19 the College has funded an additional 5 full time faculty positions, allocated \$120,000 for Security Officer reclassification, and budgeted \$100,000 for Annual Performance Incentives Awards. There are 10 non-funded (deferred) positions listed in the position count for the 2018-19 budget, including 7 Faculty Members, a Budget Director, an Internal Audit Manager and a Junior Buyer
 - The financial plan calls for an increase of between 1-2% annually to account for contractual cost of living increases, steps and increments.
 - Budgeted personal services spending for 2017-18 increased by \$740,001 over the prior year.
2. Budgeted employee benefits costs for 2018-19 are assumed to decrease by \$170,718 as compared to the previous fiscal year, a 0.53% drop.
 - The financial plan calls for employee benefits to increase by 3% annually, with declining retiree healthcare benefits assumed to begin in 2021-22.

- Employee benefits costs for 2017-18 rose by \$325,295 over the previous year, a 1.15% increase from budget to budget. Through July 2018, the College has a 5.75% positive variance in this account that (in addition to vacancy related and prior year savings) has been factored into the 2018 benefit reduction.
3. For FY 2018-19, contractual expenses increase by \$2,071,363 a 10.33% increase. Additional spending is related primarily to ERP system upgrades.
 - Contractual expenditures over the out-years of the plan are expected to increase by an inflation rate of 2% per year.
 4. The College, in addition to its \$1.8 million annual capital allocation from its sponsor, Erie County, is looking for an additional \$13.5 million per year for the next 6 years (a total of \$81 million) for capital improvements. The College has cited significant ADA deficiencies on all three campuses, including:
 - ADA Accessible Ramps
 - ADA Compliant Restrooms
 - Signage and Wayfinding (Categorized as “Exceptionally Inadequate”)
 - Concrete Walkways & Parking Lots in Extremely Poor Condition

ORGANIZATIONAL STRATEGY AND COLLEGE FINANCES

With its installation of new leadership, in 2017, the College has changed from a continuous cost cutting mode to one of expanding and targeting its reach to attract new students and retain current enrollees. There are a number of initiatives the College has put forward in the last year to attract and retain students in a shrinking traditional student market:

- Imprinting/Partnering program – reaches out early and often, particularly to new students, to provide support that would help establish and maintain a personal connection to the College. The assumption is that this relationship building would lead to greater responsiveness from the College to meet individual student needs to keep them in school and foster student loyalty to the institution.
- Expanded Online Course Initiative - The College is approved to offer online courses in 48 states, with 8 degree/certification options 100% online and 6 that are 50% online. The College is targeting working adults outside of Erie County and New York State.

- Targeting Resources to Education – The total SUNY Erie budget has increased by less than 2% (just under \$2 million) from 2017-18 to 2018-19. However, spending for student instruction has increased by over 10% (\$4.8 million). This reallocation of monetary resources indicates a commitment to the College’s core function – education. Concurrently, the general administration budget has decreased from 8% of overall spending to 6%.
- Revamping Aging and Inadequate Facilities – The College has put forward a capital budget request that lists \$13.5 million per year for the next 6 years (for a total of \$81 million) to upgrade its aging facilities to both make its three campuses more functional and attractive to current and potential students and to remedy NY State Education Department Civil Rights Compliance Review deficiencies. That request includes some projects already underway, some already funded and a number of new capital initiatives.
- Maintaining and Affordable Price Point – For the 2018-19 fiscal year, the College has not raised tuition. In the past, the College had to raise tuition to maintain revenues in a declining enrollment environment. Recent statistics indicate the College’s tuition is no longer among the lowest among its peers in New York State. For the 2017-18 fiscal year, SUNY Erie’s tuition ranked as the 3rd highest among its New York State peers. This year’s respite from a tuition increase will help with the College’s affordability going forward. See attachment “A” for a comparison with local/regional peers.
- Student Housing – One of the competitive disadvantages for the College in the past is the lack of student housing to provide the campus experience afforded by that amenity. Its closest community college peer, Niagara County Community College (NCCC), has offered student housing for years.

However, SUNY Erie is catching up. The College now has an agreement with Canisius College (which is relatively close to the Downtown Campus) to provide its students with housing. The College has put forward a proposal for a mixed-use building at or near its North Campus to provide student housing for its largest student base, which also is the closest to northern competitor, NCCC. This housing proposal is still in its inception stages, but it does hold promise.

BUDGET/FINANCIAL PLAN ASSESSMENT

The 2018-19 SUNY Erie budget and associated financial plan appear to be reasonable and achievable based upon the assumptions provided. The College's basic strategy, impacting its long-term financial health, is to re-brand the institution as a higher-profile online and in-classroom destination for students. Enhancing its educational experience to attract new students and (more importantly) retain its current students.

Successfully transitioning from the previous administration's cost cutting focus to generating additional FTE's that will stem the almost decade-long downturn will take some time and holds some risk in an environment in which the traditional, potential student population is declining.

RISK ITEMS

The following are a list of specific concerns the ECFSA has regarding the 2018-19 SUNY Erie budget and associated financial plan 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 2018-19 budget that percentage is just over 50%. FTE's, since peaking in 2010-11, have declined over 20%. Recent trends indicate FTE's are remaining stable.

The College's retention rate of 52% is well behind its peers. Comparable New York State educational institutions' retention rates are in the 62% to 65% range. College Officials have set a goal of 62% for SUNY Erie student retention.

Recommendation

The College has put forward a strategy including a series of initiatives to stabilize, then increase enrollment. Rebranding from ECC to SUNY Erie is a worthwhile marketing endeavor. However, the key to attracting and retaining students is enhancing the College's educational product. The ECFSA recommends SUNY Erie focuses its attention and resources on improving its educational core.

2. Chargeback Revenues (Tuition Subset)

Situation

For years, College and County officials have cited a disproportionately large number of Erie County resident students attending other community colleges in the state. In the 2018 county budget, Erie County is being charged \$7.1 million for its students attending other community colleges (borne by Erie County taxpayers) That number increases by 2% per year, reaching \$7.53 million in 2021.

However, the SUNY Erie chargeback figure (the money the College receives for out-of-county students attending SUNY Erie) is only \$1.5 million for the 2018-19 fiscal year, increasing by only 2% per year throughout the period of the financial plan. The amounts budgeted for each of the financial plan years are less than the \$1.64 million received in 2016-17. The County, in its financial plan, is assuming an increase in chargebacks of 2% per year over the period of its financial plan.

Recommendation

The ECFSA recommends that in addition to the planned enhancements, the College bring forward a targeted marketing and outreach initiative to attract additional students who are considering educational alternatives beyond Erie's borders and those just beyond the County's borders who are contemplating attending college. Fewer County dollars budgeted for out-of-county students could provide an impetus for greater County resources for SUNY Erie. Having more out-of-county students would increase the College's out-of-county revenue in addition to the incremental tuition dollars.

3. Sponsor Contribution

Situation

As SUNY Erie's sponsor, the County provides annual financial support to the College. The College in its 2018-19 budget lists a figure of \$18,554,317. Of that amount, \$1,800,000 is a capital component. The figures in the College's and the County's financial plans match for the current year but the County assumes no increase through 2021, while the College assumes a 1% annual increase from the County, starting in 2019-20.

SUNY Erie budget presentations cite a state education law indicating a mandate for the county to provide support equaling or exceeding 26.7% of its budget. In 2015-16, the county (according to SUNY Erie schedules) provided 17.1% of SUNY Erie revenues. SUNY Erie does not appear to be alone in this sponsor deficit. Previous College comparisons illustrated few of its peers equaling or matching the mandated sponsor percentage.

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 increasing outlay of funds for Erie County students attending out-of-county community colleges.

Further, that County and College officials reconcile their respective expectations of ongoing Sponsor Funding.

4. Fund Balance

Situation

The 2018-19 SUNY Erie College budget includes \$2,969,489 fund balance as a revenue source. In the out-years of the financial plan thru the 2020-21 fiscal year. In 201920 the College uses \$2.5 million and in 2020-21 the usage is \$1.2 million. The final year of the plan assumes no fund balance usage.

With planned usage over the period of the financial plan (see attachment “B”), the College, absent additional revenues and/or reduced expenses would deplete reserves.

Recommendation

That the College continues to wean 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.

5. State Aid

Situation

For 2018-19 the state-aid revenues increase by \$303,812 due to an increase in the NY State FTE rate of \$50. The College is anticipating a \$50 per year state aide increase through the remainder of the financial plan. State aid is the second largest College revenue at 27.4% of budget. It is critical to enhance this revenue source.

Recommendation

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. Student Housing

Situation

The College has entered into an agreement with Canisius College to house some of its students. In the 2018-19 fiscal year that agreement is forecasted to generate \$812,500 in revenue. Housing revenues are anticipated to increase at a rate of 5% yearly as the student housing program grows.

College Officials have proposed a more extensive student housing program centering around the Amherst Campus. An initial mixed-use proposal has been put forward. At this point, there is no full-fledged plan in place.

Recommendation

It's recommended that College Officials further pursue student housing, not only to increase housing revenues, but to add to the College experience that will help the institution match its peers. Upon the review of the College's next financial plan, the ECFSA would anticipate a complete plan to move forward, with appropriate direction and timelines.

7. Personnel

Situation

For 2018-19 the College has funded an additional 5 full time faculty positions, allocated \$120,000 for additional Security Officers, and budgeted \$100,000 for Annual Performance Incentives Awards. There are 10 non-funded (deferred) positions listed in the position count for the 2018-19 budget, including 7 Faculty Members, a Budget Director, an Internal Audit Manager and a Junior Buyer.

Instructional spending, led by personnel costs, is up by \$4.8 million this year over last (10%), indicating a commitment to allocate resources to enhance the College's educational experience.

Recommendation

That the College continue to target resources to areas that will enhance SUNY Erie education to improve retention and new student attraction, while being careful to justify additional staffing through a series of measurable outcomes that support the College's mission and strategy.

Further, that vacancy and other personnel controls that have existed over a number of years, remain in-place.

8. Capital Project Spending/Funding

Situation

The College has asked the County to include an additional \$13.5 million for capital improvements per year (in addition to the \$1.8 million current allocation), over the next six years (totaling \$81 million), for the County's consideration among its construction projects to address facility and grounds deficiencies. That figure includes some projects already underway, some already funded and those yet-to-be-funded.

Recommendation

There is no disagreement that significant improvements are needed at the three SUNY Erie campuses. Major projects the College is looking to initiate or complete include \$30 million for a new academic building \$17.6 million for roof replacement and \$4.2 million for building infrastructure improvements.

It is recommended that the College continue to work with County Officials to target capital funding to meet facilities mandates and to enhance its three campuses to attract and retain students.

CONCLUSION

In prior years, the ECFSA has focused on major issues impacting the College's financial health, including student attraction in a shrinking pool of traditional enrollees, retaining its own students, the need for continuous cost cutting and dipping into financial reserves to balance its annual budgets.

The (still relatively new) College Administration is keenly aware of these issues and has taken initial steps to reverse the trend. The ECC rebranding to SUNY Erie is a good marketing tool, as is its capital plan to address less-than-stellar facilities.

Attracting non-traditional students, particularly though long-distance learning that relies upon non-local students, is a worthwhile endeavor, but SUNY Erie may have a difficult time in this market segment, given its saturation, relatively late start in entering the segment and lack of name recognition outside of Western New York.

The key to SUNY Erie's financial health lies in retaining its own students. The College has reallocated its financial resources to place more of an emphasis on education, as opposed to ancillary or support services. That additional funding and staffing should assist in student retention. If the College were to achieve its goal of increasing its retention rate to 62% from the current 52% an additional \$5.6 million in student revenues (5% of budget) could be realized and state-aid would increase due to the link between FTE's and state dollars.

The upcoming and subsequent fiscal year will paint a picture of how well the College's new strategy is working. The ECFSA will be closely monitoring the College's efforts as it progresses through its strategy. If the anticipated College transformation does not materialize over that period-of-time, SUNY Erie may have to look at revising its business model.