# *ERIE COUNTY FISCAL STABILITY AUTHORITY REPORT ON ERIE COMMUNITY COLLEGE 2021-22 BUDGET/FINANCIAL PLAN OCTOBER 18, 2021*

## 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 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 2011-12 school year, credit enrollment has gone down by 45%.

The 2021-22 spending plan assumes a budget of $102,746,397. As compared to the College's 2020-21 adopted budget, spending is up $7,757,033 (8.17%). Personnel costs are up $610,872 (1.05%), fringe benefits are down $511,886 (2.08%), and contractual services are up $6,846,189 (59.46%).

However, 2020 was a pandemic year, with a draconian and unrealistic initial budget that included hundreds of layoffs not following the collective bargaining process that the current Interim President inherited. The 2021-22 budget is 2% greater than 2020-21 expected year-end spending.

## BUDGET HIGHLIGHTS

### *I. Revenue Related*

1. For the 2021-22 academic year, there is no full-time tuition rate increase.

    - The financial plan assumes a 3% tuition and fee increase for 2022-23 and 2023-24 and a 1% increase for 2024-25.

2. For the 2021-22 academic year, there is no part-time tuition increase. The assumptions for the out-years of the financial plan appear to be the same

as those for full-time tuition, with annual increases of 3%, 3% and 1% respectively.

3. The Charges-to-Non-Residents budget for 2021-22 has been increased by $1,303,810 (133%) as compared to the 2020-21 budget.

4. Since 2011-12 (the college's high point), credit enrollment has decreased by 45%.

    - Updated figures provided by the College indicate year-end 2020-21 FTEs are up 2.46% as compared to the revised 2020-21 budget and down 10.93% from 2019-20 actuals.

    - The financial plan assumes 2021-22 FTEs would decrease by 666 (8.2%) as compared to the 2020-21 budget. Then increase by 1,276 (17.1%) for 2022-23 and 168 (1.9%) for 2023-24 and 70 (0.8%) for 2024-25.

5. For the 2021-22 academic year, fall credit hours are assumed to be reduced by 13,299 (11.87%) as compared to the 2020-21 approved budget.

6. For the 2020-21 academic year, spring credit hours are assumed to be reduced by 8,518 (7.96%), as compared to the 2020-21 approved budget.

7. For the 2021-22 academic year, the College is budgeting an increase of $4,985,167 (21.69%) in state aid as compared to the prior year approved budget.

    - The financial plan assumes a $4,985,167 (21.69%) increase in state aid for 2021-22 as compared to the 2020-21 approved budget. State funding decreases 2% in 2022-23 and increases 4.6% and 1.9% in succeeding financial plan years.

8. The sponsor contribution from Erie County increases by $1 million over the approved 2020-21 budget to $19,804,317 for the 2021-22 budget year.

    - The financial plan assumes the sponsor contribution will remain constant, with the $1 million increase, for the out-years at the 2021-22 level.

    - The College has put forward a six-year, $36 million capital budget, with half of the cost borne by Erie County ($18 million), at $3 million per year.

- In last year’s financial plan, the College was looking at $24 million in county share over the life of the capital plan.

9. In the plan submitted earlier this year, fund balance was anticipated to shrink to a low of $436,044 at the end of 2022-24 and end the financial plan period with a balance of $1,545,879.

   However, projected 2020-21 actuals anticipate a $2,065,666 addition to fund balance, as opposed to the originally forecasted 864,605 deficit. Below is a chart detailing the College fund balance (original and revised over time:

| **Fund Balance** | | | |
|---|---|---|---|
| | | | |
| | **Original** | **Adjust *** | **Revised** |
| **2020-21** | **5,536,086** | **2,930,271** | **8,466,357** |
| **2021-22** | **5,725,978** | **2,930,271** | **8,656,249** |
| **2022-23** | **678,013** | **2,930,271** | **3,608,284** |
| **2023-24** | **436,044** | **2,930,271** | **3,366,315** |
| **2024-25** | **1,545,879** | **2,930,271** | **4,476,150** |
| | | | |
| *** Net 2020-21 change $2,065,666+864,605** | | | |
| **(originally a deficit).** | | | |

10. For the 2021-22 fiscal year, the College is budgeting Federal Stimulus Act funds in the amount of $12,619,491. They had budgeted $11,471,517 in 2020-21.

## *II. Spending Related*

1. Budgeted personal services spending for FY 2021-22 has increased by $610,872 (1.05%) as compared to the prior fiscal year’s approved budget. However, salaries at $59.7 million have decreased by $5.7 million since the 2019/20 fiscal year.

   - In the financial plan, increases in personal services spending of 0.8% per year in each of the out-years are driven by contractual cost of living increases, mitigated by an early retirement program, vacancy control and turnover.

- Although the budget includes increases under the current collective bargaining agreements, no potential increases have been factored in. Both faculty and administrators' contracts (FFECC and AAECC) expired in August of this year.

2. Budgeted employee benefits costs for 2021-22 are assumed to decrease by $511,886 (2.08%) as compared to the prior year's approved budget figure.

    - The financial plan calls for employee benefits to decrease by 1.38% annually, for each of the out-years. This reduction is the result of an early retirement program, turnover, and vacancy control.

3. For FY 2021-22, contractual expenses increased by $6,846,189 (59.46%) as compare to the prior year approved budget.

    - In the financial plan, contractual/other expenditures to decrease by 6.1% annually, for each of the out-years. The College has been paying for two ERP systems simultaneously, while transitioning to the new Workday system, from the legacy Colleague technology.

## <u>ERIE COMMUNITY COLLEGE BUDGET/FINANCIAL PLAN ASSESSMENT</u>

College financials indicate an organization that is currently very good at cost and budget cutting (figures in millions of $'s):

***<u>Annual Spending:</u>***

| | |
|---|---|
| 2021/22 Approved Budget | $102.7 |
| 2020/21 Projected Actuals | $100.1 |
| 2019/20 Actuals | $109.3 |
| 2018/19 Actuals | $110.2 |
| 2017/18 Actuals | $106.4 |

Current College spending is almost 3.5% lower than it was 4 years ago – a significant accomplishment, given inflation over time.

However, the decrease in enrollment (full time equivalents – FTE's) has been steeper than College budget cuts over the same period:

***FTE's***

| | |
|---|---|
| 2021/22 Approved Budget | 7,441 |
| 2020/21 Actuals | 8,306 |
| 2019/20 Actuals | 9,325 |
| 2018/19 Actuals | 9,920 |
| 2017/18 Actuals | 10,391 |

Current College FTEs are 28% lower they were 4 years ago. The cost per FTE has risen significantly over that time:

***Cost/FTE***

| | |
|---|---|
| 2021/22 Approved Budget | $13,807 |
| 2020/21 Projected/Actuals | $12,052 |
| 2019/20 Actuals | $11,720 |
| 2018/19 Actuals | $11,110 |
| 2017/18 Actuals | $10,241 |

The cost per FTE has risen by 35% over the last 4 years.

This analysis indicates the College, under its current configuration is fiscally well run, but ECC is facing a long-standing, long-term enrollment problem that cannot be addressed solely or primarily through cost cutting. Federal COVID dollars, a retraction in NYS cuts and additional county support have given the College some time to reconfigure its education and business model, but change is necessary.

The ECFSA views the currently approved 2021-22 budget as in balance and achievable at this point, based on a combination of holding the line on spending and the infusion of $12.6 million in previously unanticipated American Rescue Plan (ARP) funding and an additional $1 million from its local sponsor, Erie County. However, structural change, sooner, rather than later is necessary for the College to remain a going concern.

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 to provide significant ongoing support to the College, while ECC transitions to an ongoing economically viable entity.

Under its current configuration, ECC's finances are highly dependent on continued reduced spending in a declining revenue environment. The College's current business model will not sustain the institution for the long term, even under the best expenditure reduction measures.

Student driven revenues have declined precipitously. The current College President has stated ECC, as configured, is not financially sustainable. ECC is not alone in this situation, educational institutions throughout the state and around the country are facing similar hurdles.

A concept for reducing the number of full-service campuses has been brought forward as a potential resolution to the College's financial situation. There is also a potential intervention with the passage of a proposed Federal budget that would make two-year college tuition free. Though the passage and details/mechanics of that proposal are unclear at this point.

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. Elements of that model may include a reduction in full-service campuses and/or federal guaranteed tuition revenues.

## SPECIFIC RISK ITEMS

The following are a list of specific concerns the ECFSA has regarding the 2021-22 ECC budget and comments/recommendations on addressing those items:

1. ***Tuition and Fees – FTE Driven***

### ***Situation***

Since peaking in 2011-12, credit enrollment has declined 45% and the pool of eligible high school students is anticipated to decline for the foreseeable future. The impacts of COVID-19 have exacerbated the situation.

### ***Recommendation***

The College must systematically review and revise its educational and business model, with relevant community, educational and government partners, to provide reasonable assurance ECC will continue to provide its educational and job development charge to Western New York.

### *2. State Aid*

***<u>Situation</u>***

State Aid, even with recently instituted funding floors, state funding is primarily dependent on enrollment.

***<u>Recommendation</u>***

The College should continue to work with New York State officials on getting appropriate State funding, but plan 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 2021-22 budget lists a figure of $19,804,317, a $1 million increase over the previous year. That higher level of county funding is assumed through the period of the financial plan.

***<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. Federal Revenue (Potential)*

***<u>Situation</u>***

There is a proposal included in the 2021-22 Federal budget that would allow for free community college education across the country. The proposed federal budget includes $109 billion for 2 years of free community college, $80 billion for increases in PELL grants and $62 billion to invest in completion and retention activities in colleges and universities that serve high numbers of low-income students (particularly community colleges), as part of the education component.

***<u>Recommendation</u>***

At this point, federal free-community-college is a budget proposal that has not been approved by the House and/or the Senate. If adopted, it could be a definite game-changer for ECC and other community colleges across the state and country. However, the potential of federal monies should not deter the College from reinventing its educational and business strategies to better serve its students and community partners.

### *5. Fund Balance*

***Situation***

The 2021-22 Erie Community College budget forecasted reserves of almost $190,000 will be generated from operations (no fund balance usage). In its original submission, the College assumed fund balance would reach a low of $436,044 in 2023-24 before rebounding to $1,545,879 in 2024-25.

Those figures have been revised upward by $2,930,271 (a 2020-21 expected deficit of $864,605 has changed to a $2,065,666 adjusted surplus to be added to fund balance). Revised fund balance lows and fiscal plan ending balance are now $3,366,315 and $4,476,150 for 2023-24 and 2024-25 respectively.

***Recommendation***

At this point, the College is still planning to use fund balance to augment its revenues. Reconfiguring ECC should include a goal of revenues matching expenses on a long-term basis.

### *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 considering a reinvented Erie Community College.

## CONCLUSION

Since the 2011-12 school year, Erie Community College has suffered a 45% loss in credit enrollment. The ECFSA expects reduction in enrollment to continue based upon declining high school graduation rates and impacts related to COVID-19, despite College forecasts of increases beginning in the 2022-23 fiscal year.

To balance its budget, ECC continues to rely on expenditure reductions and use of reserves. Although the College has implemented several initiatives to increase revenue, and enhance student enrollment and retention, these initiatives taken individually or collectively are not enough. Unless this is changed, ECC will face fiscal uncertainty resulting in an inability to meet its core mission, a mission that has been an integral element in the network of higher educational opportunities in the region.

The wild card for ECC and other community colleges in NYS and the country is the current Federal proposal to make junior college "free for all". Despite some detail on proposed federal appropriations, it is unclear how the proposal would affect ECC and there is no certainty some form of the proposal will be approved in the Congressional budget process.

Despite the potential for federal support, the ECFSA continues to recommend that there be a very public discussion about the future of ECC and how it fulfils its role in the region and within the network of higher education. This should be a bold and visionary discussion including elected officials, taxpayers, the business community, philanthropic entities, and educators at all levels. The Erie Community College of today is not equipped to meet the needs of the students and community of tomorrow under its current structure and financing.