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Inter-Departmental Memo

To: Hon. Howard J. Kopel, Presiding Officer
Hon. Delia DeRiggi-Whitton, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "M. Chalmers", written over the "Office of Legislative Budget Review" text.

Date: January 10, 2024

Re: Nassau Community College 2022-2023 Unaudited Year-End, and 2023-2024 First Quarter Projections

The Office of Legislative Budget Review (OLBR) has received Nassau Community College's unaudited FY 22-23 year-end operating results and prepared this memo on the anticipated results for the Legislature. The College is projecting that it will end the FY 22-23 with an unaudited operating deficit of approximately \$0.5 million. When the modified budget is compared to unaudited year-end actuals, a deficit of approximately \$1.7 million in budgeted expenses is partially offset by a \$1.2 million surplus in revenues. The impact on fund balance of the preliminary results is reflected in the attached fund balance reconciliation chart later in the report. OLBR worked with the College Administration in order to get the explanations discussed below for the Legislature.

FY 2022-2023 Year-End

Expenses

Compared to the modified FY 22-23 budget, year-end expenses came in over budget by approximately \$1.7 million. The drivers of this negative variance are the salaries, fringe benefits, contractual services, utility costs, interfund charges, and debt service lines, which are partially offset by surpluses in general expenses, equipment, and other expenses.

There is a \$2.6 million shortage in salaries and the College reports that this was due to termination

pay. The College budgeted a total of \$3.4 million in termination pay; however, total termination pay, including incentive payments and lag payouts, was roughly \$6.7 million, or \$3.3 million higher. Termination pay was high because more people retired than expected, mostly Nassau Community College Federation of Teachers (NCCFT) employees who were eligible and would still have a permanent contribution to their health insurance.

The \$0.1 million decrease in fringe benefits resulted from many reasons. Mostly, retirement health insurance was underbudgeted due to a larger than expected migration from employees moving from active to retired status. The College also underestimated social security expenses due to termination pay coming in higher than expected. Meanwhile, there was also a small surplus in regular active health insurance costs, partially offsetting the deficits.

Contributing to the overall expense deficit, is a \$0.8 million deficit in contractual services and \$0.7 million in utility costs. The shortfall in contractual services is due to increases to the costs of building cleaning and maintenance and landscaping. The deficit in utility costs can be attributed to higher than budgeted fuel costs and not achieving the energy saving efficiencies as planned. Lastly, there is a \$0.3 million shortage in interfund charges due to higher Central Utility Plant (CUP) expenses that are allocated to the College by the County.

Offsetting the overall deficit, the College reported a surplus of \$1.5 million in general expenses, due to an overall effort to reduce general expenses, such as office supplies. This was partially offset by higher-than-expected spending in data processing program products.

There were also savings of \$0.4 million in County scholarships which includes a budget for “Strategic Initiatives and Retention”. According to the College, the costs for those initiatives were spent in other salary, fringe benefits and Other Than Personal Service (OTPS) lines, which resulted in the automatic savings in this line, since it was spent from other budgeted object codes.

Revenue

According to the unaudited FY 22-23 year-end operating results, the College anticipates a \$1.2 million revenue surplus when compared to the modified budget. Based on the unaudited results, the College will need to continue to use a significant amount of fund balance. Surpluses were experienced in most of the revenue lines, however the largest occurred in revenue in lieu of sponsor share which rose about \$0.8 million over the original and modified budget. According to the College, the SUNY chargeback rate increased, and the number of out of County students declined by an amount less than expected. The chargeback rate is calculated on the total local contribution divided by the total student (Full-Time Equivalent) FTE base.

Investment income revenue grew by \$0.7 million; according to the College this is attributed to rising interest rates. The revenue offset to expenses rose by \$0.3 million due to higher-than-expected revenue from the Lifelong Learning Program, including workforce development, contract courses and Language Immersion at Nassau Community College (LINCC). Meanwhile student revenues were higher by 0.3 million compared to the budget, due to a higher enrollment figure than budgeted. The tax levy remains flat at \$52.2 million. Finally, there was a minimal revenue uptick of \$26,236 in the rents and recovery line from the liquidation of prior year encumbrances. The revenue surpluses were partially offset by shortfalls in state aid and services fees, with decreases of \$0.7 million, and \$0.4 million respectively. The drop in state aid is related to Base

Aid award. For FY 22-23, SUNY set the state aid floor based on the prior year actual budget, rather than a projected budget which was used when the College was crafting the budget (in the Spring of 22).

The shortfall in service fees is attributed to the College's continuation of waiving many fees due to COVID, such as parking. The budget was crafted in the Spring of 2022, and the College was still unsure of the ongoing effects of COVID on the College.

FY 2023-2024 First Quarter

The College provided its forecast for the First Quarter of FY 23-24 compared to the Adopted Budget. More details will be included in OLBR's mid-year report as more precise data on expense and revenue projections become available.

Expenses

Expenses in FY 23-24 are expected to come under the Adopted Budget by approximately \$2.5 million. The projected surplus is mostly related to savings in fringe benefits offset by a deficit in salaries. There is also a projected surplus of \$0.3 million in utility costs.

According to the College, the 2024 savings in fringe benefits of \$4.4 million is almost entirely due to the savings in health insurance from the CSEA union switching to the Excelsior plan from the Empire plan; and from NCCFT contributing a portion of their health premiums. However, there is a strong possibility that most of the surplus may not come to fruition, since the Excelsior health insurance rates were recently finalized and are significantly higher than what was anticipated at the time the contract was passed. Therefore, this has the potential to create a bigger operating deficit for FY 23-24.

Although fringe benefits are a function of salaries, first quarter salaries are increasing by \$2.1 million due to the new union contracts. The Legislature approved a Memorandum of Agreement (MOA) for the NCCFT union on the January 8, 2024 Committee hearing. The agreement is for a term of three years from September 1, 2022 to August 31, 2025 and provides wage increases of 3.25% in the first year, 2.75% in the second year, and 2.5% in the third year. The new NCCFT contract, with retroactive adjustments are \$1.5 million more than budgeted. Also, the new CSEA contract, with retroactive payments, are \$1.9 million more than expected. The College had budgeted for contract negotiations, however those overages, along with higher-than-expected Adjunct pay (since the College needed more adjuncts to make up for the decreased number of full-time faculty) and other variances make up the deficit.

Revenue

The college anticipates an approximate \$4.6 million revenue shortfall based on the latest projection compared to the Adopted Budget. The College has budgeted to use \$15.6 million in fund balance and receive \$1.5 million in Higher Education Emergency Relief Fund (HEERF) funds to cover the projected operating deficit. There is a projected decrease of \$4.3 million in student revenues due to the anticipated drop of FTE's. The FY 23-24 budget was prepared based on 9,344 FTEs, however current projections anticipate enrollment to drop to 9,111 FTEs which represents decrease of 233 FTE's or 2.5%. In addition, the College will experience a decline of \$0.3 million for service fees which is directly related to the anticipated drop in admissions. State aid remains flat at \$37.8

flat at \$37.8 million in the FY 23-24 projection.

The total projected FY 23-24 operating result of negative \$2.1 million is comprised of a \$4.6 million revenue shortfall, partially offset by a \$2.5 million surplus in expenses. The College plans to use the fund balance to cover the projected FY 23-24 shortage. The Nassau Community College Board of Trustees has a policy requiring the unrestricted/unreserved operating fund balance be maintained at a minimum of 4.0% of the prior year's expenses.

Current projections reflect a FY 23-24 projection of unappropriated fund balance of \$11.1 million, or 6.0% of last years' expenses. The College Comptroller's Office has decided to change the reconciliation for how they report fund balance usage. They have recently changed the methodology to be more compliant with the SUNY system, which has resulted in a higher beginning fund balance. According to the College, they are providing the analysis based on the SUNY Annual Report, which includes the Operating Fund, the Indirect Cost Fund, and all the COVID emergency relief funds (HEERF, CARES, etc.), in addition to Reserved Fund Balance (encumbrances) and all Restricted funds from outside granting agencies. In the prior year, the reconciliation did not include the Indirect Cost funds or the Reserved Fund Balance. In addition, the College Comptroller's Office is also currently working on a multi-year reconciliation of the fund balance.

OLBR had requested the College provide the balance based on what was reported in the Banner system, however this was not provided. Based on this reporting methodology change, the College is reflecting a higher beginning balance of \$35.7 million for FY 2022-23, compared to what was previously projected and provided to OLBR earlier this year.

In addition to the fund balance appropriation in FY 23-24, the College has advised it will be receiving \$1.5 million in federal grants through the Coronavirus Aid, Relief, and Economic Security (CARES)/HEERF, which supplements the loss of revenue that continues to impact the College, in turn reducing the operating results. Since the stimulus funding will no longer be available going forward, the College is at the point where they must address how ongoing operating deficits will be managed in future years.

The FY 22-23 audit is still in progress, therefore, potential adjustments to the operating results can change the projected results. The following table provides the projected reconciliation of the fund balance for the current year.

FUND BALANCE RECONCILIATION	
PROVIDED BY NCC	
Beginning Fund Balance FY 2022-2023 (as reported by NCC)	35,758,866
Fund Balance Usage	(19,243,514)
Unaudited FY 2022-2023 Operating Results	<u>(532,926)</u>
Projected FY 2022-2023 year-end Unreserved Fund Balance Pre-HEERF Grants	15,982,426
Unaudited FY 2022-2023 Federal Grant Awards (CARES/HEERF)	10,595,119
Reserve for Encumbrances	<u>691,763</u>
Projected FY 2022-2023 year-end Unreserved Fund Balance Including federal grants	27,269,308
Projected FY 2023-2024 Operating Results	(2,102,337)
Projected FY 2023-2024 Fund Balance used as Revenue	<u>(15,597,073)</u>
Projected FY 2022-2023 year-end Fund Balance	9,569,898
Projected HEERF Grants reimbursement 2023-2024	<u>1,500,000</u>
Projected FY 2023-2024 year-end Unappropriated Fund Balance including federal grants	<u>11,069,898</u>

Conclusion

It is essential that the College continues to efficiently work to modify its operations by either reducing costs or enhancing its revenue, which continues to be negatively impacted by their declining enrollment. In FY 23, the College recognized a \$0.6 million operating deficit, however this was artificially produced since \$10.6 million was utilized from (CARES/HEERF) funding, and \$19.2 million was appropriated in fund balance. In FY 24, the College is projecting a shortfall of \$2.1 million, which will again be supplemented by both fund balance and the remaining stimulus funding. Since most of the stimulus funds will be exhausted after this year, the College is at a point where they will be forced to face these challenges with the preparation of next year's budget. The College is trying to find resources to increase fund balance, however other strategies may still be required.

cc: Dr. Maria Conzatti, Acting President, NCC
 Dr. Omar Mayyasi, Consulting Vice President of Finance and Administration, NCC
 Edward J. Gutman, Accounting Executive, NCC
 Andrew Persich, Budget Director, OMB
 Chris Ostuni, Majority Counsel
 Meredith Hughes, Deputy Majority Counsel, Policy Director
 Michele Darcy, Minority Finance
 William T. Biamonte, Minority Chief of Staff
 Michael Pulitzer, Clerk of the Legislature

**Nassau Community College
FY 2022- 2023 Expense
Unaudited Year End Results**

	Adopted Budget	Modified Budget	22-23 YE Actual	Variance Modified To Actual	% Variance
Wages, Salaries & Fees	\$103,587,798	\$102,841,675	\$105,392,124	(\$2,550,449)	-2.5%
Employee Fringe Benefits	54,793,371	54,793,371	54,907,218	(113,847)	-0.2%
Subtotal Personal Services	158,381,169	157,635,046	160,299,342	(2,664,297)	-1.7%
Equipment	1,886,580	1,212,562	405,618	806,944	66.5%
General Expenses	6,905,257	7,683,630	6,187,020	1,496,610	19.5%
Contractual	9,102,588	9,774,761	10,552,027	(777,266)	-8.0%
Utility Costs	3,654,000	3,654,000	4,304,793	(650,793)	-17.8%
Interfund Charges	2,423,786	2,423,786	2,762,836	(339,050)	-14.0%
Debt Service	1,085,011	1,085,011	1,101,841	(16,830)	-1.6%
Other	520,000	445,000	33,407	411,593	92.5%
Subtotal OTPS	25,577,222	26,278,750	25,347,541	931,209	3.5%
*2022 Carryover Purchase Order		44,595		44,595	
Grand Total	<u>\$183,958,391</u>	<u>\$183,958,391</u>	<u>\$185,646,884</u>	<u>(\$1,688,493)</u>	-0.9%

*The Original Budget in total is the same, however the College is reflecting some changes in different object codes.

**Nassau Community College
FY 2022- 2023 Revenue
Unaudited Year End Results**

	Adopted Budget	Modified Budget	22-23 YE Actual	Variance Modified To Actual	% Variance
Fund Balance	\$19,243,514	\$19,243,514	\$19,243,514	\$0	0.0%
Investment Income	85,000	85,000	812,072	727,072	855.4%
Rents and Recoveries	395,895	395,895	422,131	26,236	6.6%
Revenue Offset to Expenses	2,100,315	2,100,315	2,392,216	291,901	13.9%
Service Fees	5,021,286	5,021,286	4,646,737	(374,549)	-7.5%
Student Revenues	54,978,337	54,978,337	55,287,835	309,498	0.6%
Revenue Lieu Sponsor	11,504,979	11,504,979	12,333,737	828,758	7.2%
State Aid	38,422,182	38,422,182	37,768,833	(653,349)	-1.7%
Property Taxes	52,206,883	52,206,883	52,206,883	-	0.0%
Total Revenues	<u>\$183,958,391</u>	<u>\$183,958,391</u>	<u>\$185,113,958</u>	<u>\$1,155,567</u>	0.6%

NASSAU COMMUNITY COLLEGE
Projected Operating Results on Budgetary Basis FY 2024

	2023 Operating Results <small>Per Banner @ 11-28-23</small>	2024 Adopted Budget	2024 Projected Operating Results	2024 Projected Operating Variances	
				Favorable/(Unfavorable) \$	%
EXPENSES					
Salaries	105,392,124	101,796,682	103,923,276	A (2,126,594)	-2.09%
Fringe Benefits	54,907,218	57,811,238	53,434,956	B 4,376,282	7.57%
Sub-total	160,299,342	159,607,920	157,358,232	2,249,688	1.41%
Equipment	405,618	1,143,891	1,143,891	C 0	0.00%
General Expenses	6,187,020	7,905,716	7,905,716	C 0	0.00%
Contractual	10,552,027	7,535,699	7,535,699	C 0	0.00%
Utility Costs	4,304,793	4,580,469	4,304,793	C 275,676	6.02%
Central Utility Plant Charges	2,762,836	2,762,836	2,762,836	C 0	0.00%
Debt Service- CSEA VSIP/ NCCFT VSIP	1,101,841	1,105,591	1,105,591	C 0	0.00%
Other	33,407	620,000	620,000	C 0	0.00%
Sub-total	25,347,541	25,654,202	25,378,526	275,676	1.07%
Total Expenses	185,646,884	185,262,122	182,736,758	2,525,364	1.36%
REVENUES					
Fund Balance Appropriation	19,243,514	15,597,073	15,597,073	* 0	0.00%
Investment Income	812,072	85,000	85,000	C 0	0.00%
Rents & Recoveries**	422,131	395,895	395,895	** 0	0.00%
Revenue Offset to Expenses	2,392,216	3,100,315	3,100,315	C 0	0.00%
Service Fees	4,646,737	5,020,603	4,678,262	D (342,341)	-6.82%
Student Revenues	55,287,835	59,294,917	55,009,556	E (4,285,361)	-7.23%
Revenue in Lieu of Spons Share	12,333,737	11,792,603	11,792,603	G 0	0.00%
State Aid	37,768,833	37,768,833	37,768,833	F 0	0.00%
Property Taxes	52,206,883	52,206,883	52,206,883	0	0.00%
Total Revenues	185,113,958	185,262,122	180,634,421	(4,627,701)	-2.50%
Operating results	(532,926)		(2,102,337)	*	(2,102,337)
Cares/Stimulus Funding	10,595,119		1,500,000		
Fund Balance Used as Revenue	(19,243,514)	(15,597,073)	(15,597,073)		
Fund Balance Impact	(9,181,321)	(15,597,073)	(16,199,410)		

* (\$16,199,410) Projected Net Fund Balance Contribution/(Usage). Results of Operations plus CARES Stimulus Funding

** 2023 Rents and Recoveries Include YE Open Encumbrances from Committed Budget (\$384,831.77) plus posted Rent & Recoveries(\$37,299.24)
2024 Rents and Recoveries based on budgeted revenue

A See Salary Projection tab

B See Fringe tab

C Based on the larger of fy 2024 YTD operations or 2023 Budget

D Prior Year x Enrollment factor

E See Student Revenue Projection tab

F See State Aid Revenue Projection tab

G Prior Year x Enrollment factor