June 17, 2024

Dear Williams faculty and staff,

As we reflect on this year's budget process, we would like to express our deep appreciation to everyone who planned carefully and thought creatively to further the academic mission and strategic priorities of the college, even amid financial challenges. We write today to share how your efforts culminated in the operating budget for the 2025 fiscal year, and how this coming year fits into our community's necessary work to make the college's finances sustainable.

Financial Context

Last spring, our financial modeling, shared in community presentations, revealed that while our current financial situation is stable, if the college continues on its current trajectory, expenses would grow significantly faster than revenues over the next ten years. The college would have to draw increasingly more from the endowment, thereby eroding its purchasing power and its ability to support the college's commitments. Measures are needed now to ensure the college's finances are sustainable and minimize the need to take drastic measures in the near future.

The college continues to face financial headwinds in the near term. Annual inflation, as measured by the Consumer Price Index, has come down since this time last year. Even so, at 3.3% in May, it remains above the Federal Reserve's 2% target. An elevated inflation rate drives up what the college spends on faculty and staff compensation, various items in manager's budgets, and maintenance of facilities. In addition, endowment returns have been variable. Our return for this fiscal year is currently positive, but the 2.96% return in the 2023 fiscal year was below the Investment Office target of a 5% real return (that is, adjusted for inflation), while the -11.2% return in the 2022 fiscal year was the lowest real return in almost fifty years.

Since the college depends on the endowment to fund more than half of our expenditures, which makes Williams more endowment dependent than most of our peer institutions, maintaining the purchasing power of the endowment for future generations of students, faculty, and staff is especially important for the college's financial sustainability. A few years of outsized, positive real returns would help alleviate some financial pressures, but would not alone address the fundamental, structural reality of the college's expenses growing faster than revenues.

Fiscal Year 2025 Budget

In this financial context, the college must practice fiscal restraint in order to both protect its core commitments and evolve through the support of strategic priorities. These commitments and priorities guided the decision-making process for the 2025 fiscal year (FY25).

- Competitive compensation for faculty and staff. Raising faculty and staff salaries to at least keep pace with inflation over time.
- Access and affordability. Sustaining the All-Grant financial aid program.
- Academic initiatives. Supporting the development of the Global Scholars program and a refreshed Winter Study program, to give only two examples.

These longer-term projects are also important in the college's financial planning.

- Enhancing arts education, which includes creating a new home for the Williams College Museum of Art.
- Promoting sustainability, such as by investing in campus decarbonization through the Energy and Carbon Master Plan.
- Supporting student wellbeing, which encompasses dorm renovations and dining improvements.

Focusing on the 2025 fiscal year, the college's annual operating budget includes expenses of $303 million (up from $292 million in FY24) and revenues of $141 million (up from $130 million in FY24). The gap between expenses and revenues is funded by a draw on the endowment. Next year, the endowment will fund over half (about 54%) of our expenses, supporting so much of what we do.

Details about key elements of the FY25 operating budget, relative to the FY24 budget, include:

- Revenues
  - 5.74% increase in the comprehensive fee to $85,820;
  - 6.6% increase in gifts for current use;
  - no increase in the draw on the endowment, at $162 million;
- Expenses
  - 7.4% increase in managers' budget;
  - 2.9% increase in capital renewal for maintaining buildings, funding sustainability projects, and improving spaces on campus;
  - 6.3% increase in debt service for capital projects;
  - 2.6% increase in aggregate for faculty and staff compensation (salaries and benefits).

Fiscal Year 2025 and Beyond

The FY25 annual operating budget reflects the continuation of efforts begun in FY24 (including the 15% reduction in manager's budgets) to put the college's finances on a sustainable path. For FY25, these include: disciplined growth in expenses, including a modest 7.36 FTE increase in staff positions; anticipated changes to employees' medical cost share; and the 5.74% comprehensive fee increase. Various efforts will continue in the years ahead. The ten-year projections of revenues and expenses assume ongoing measures to increase revenues and decrease expenses, such as: growing net tuition revenue, increasing current use gift revenue, reducing staff FTE through attrition or reorganization, slowing growth in the college's share of employee benefit costs, redirecting resources to innovative initiatives, and supporting new programs only if a new source of revenue is identified or existing funds are reallocated.

Further details about the operating budget for the 2025 fiscal year as well as the college's financial sustainability can be found in recent presentations to the faculty and to staff managerial leaders.

Williams is fortunate to be a well-resourced institution, thanks to the generosity of generations of alumni, prudent investment management, and careful stewardship of the college's resources. As the college navigates financial challenges, supports innovation, and protects our most important commitments, it is essential that we continue to exercise the financial discipline that has served us so well over many years.

We hope that you will participate in ongoing discussions this coming fall about Williams' financial future. As always, we are eager to hear your questions, concerns, and ideas about protecting the college's core commitments, advancing strategic priorities, and improving operations.

Yours sincerely,

Eiko Maruko Siniawer
Provost and Class of 1955 Memorial Professor of History

Michael Wagner
Vice President for Finance and Operations and Treasurer