Update on College Finances

Faculty Meeting
November 6, 2024

Williams College

Updates on current college finances & financial outlook

→ **Respond to questions asked since previous financial presentation:**

- **Why such attention to the college's long-term financial health?**
- **What is really putting pressure on the college's finances?**
- **How are we ensuring Williams' financial sustainability?**
- **What is the college protecting and prioritizing?**

Why has there been heightened attention recently to the long-term financial health of the college?

What is the college aiming to protect for the long term?

- Competitive compensation and salaries that keep pace with inflation for faculty and staff

- Funding for important commitments
    - All-Grant Financial Aid Program

Williams College

Why are there plans to fund particular strategic initiatives?

- Prioritization of resource-intensive initiatives in the strategic plan
    - True Affordability
    - The Arts
    - Athletics and Wellbeing
    - Revitalized Winter Study / Experiential Education
    - Student Residential Life, including Housing and Dining

How much of this attention is because of recent financial considerations?

- Successive years of elevated inflation rates
  - 5.4% in FY21
  - 9.1% in FY22
  - 3.0% in FY23
  - 3.0% in FY24

How much pressure did elevated inflation rates put on the college's finances?

- Inflation accounted for about $8 million in expenses in FY24 alone
  - About $3.9 million in manager's budget expenses and about $4.1 million in salary and benefits.

- Inflation has been costly for the college since FY21
  - The college has spent $24 million for salaries and $9 million for benefits to keep pace with inflation since FY21.
  - Compared to FY21, utilities costs have gone up more than 60%, library contract costs have gone up 19%, and food costs have gone up 15%.

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How much of this attention is because of recent financial considerations?

- Successive years of elevated inflation rates

- Volatile endowment returns
  - 49.9% nominal return, 44.5% real return in FY21
  - -11.2% nominal return, -20.3% real return in FY22
  - 2.96% nominal return, -0.04% real return in FY23
  - 10.18% nominal return, 7.18% real return in FY24

What happened to the financial gains from the 49.9% endowment return in FY21?

- Of the $70 million in endowment income gained in FY21:
    - $23 million in investment losses with the negative return in FY22
        - The -20.3% real return in FY22 erased about $39 million in annual purchasing power.
    - About $45 million was and will be spent on annual operating expenses from FY22 through FY25

- Especially difficult combination of factors for Williams: lost gains, inflation, spending needs

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How much of this attention is because of recent financial considerations?

- Successive years of elevated inflation rates

- Volatile endowment returns

- Recent commitment to the All-Grant financial aid program

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What was the estimated additional cost of the All-Grant financial aid program?

2018 — 2019 — 2020 — 2021 — 2022

2018

+Free Health Insurance
+Free Summer Storage
+First Yard Fund

2019

+Critical Needs Fund

2020

15% COVID Reduction

2021

+Middle-Income Initiative
+Summer Exploration Initiative

$\underbrace{\text{2018–2021}}$ ~$4M Annual Investment

2022

+All-Grant Program

~$6.5M Annual Investment

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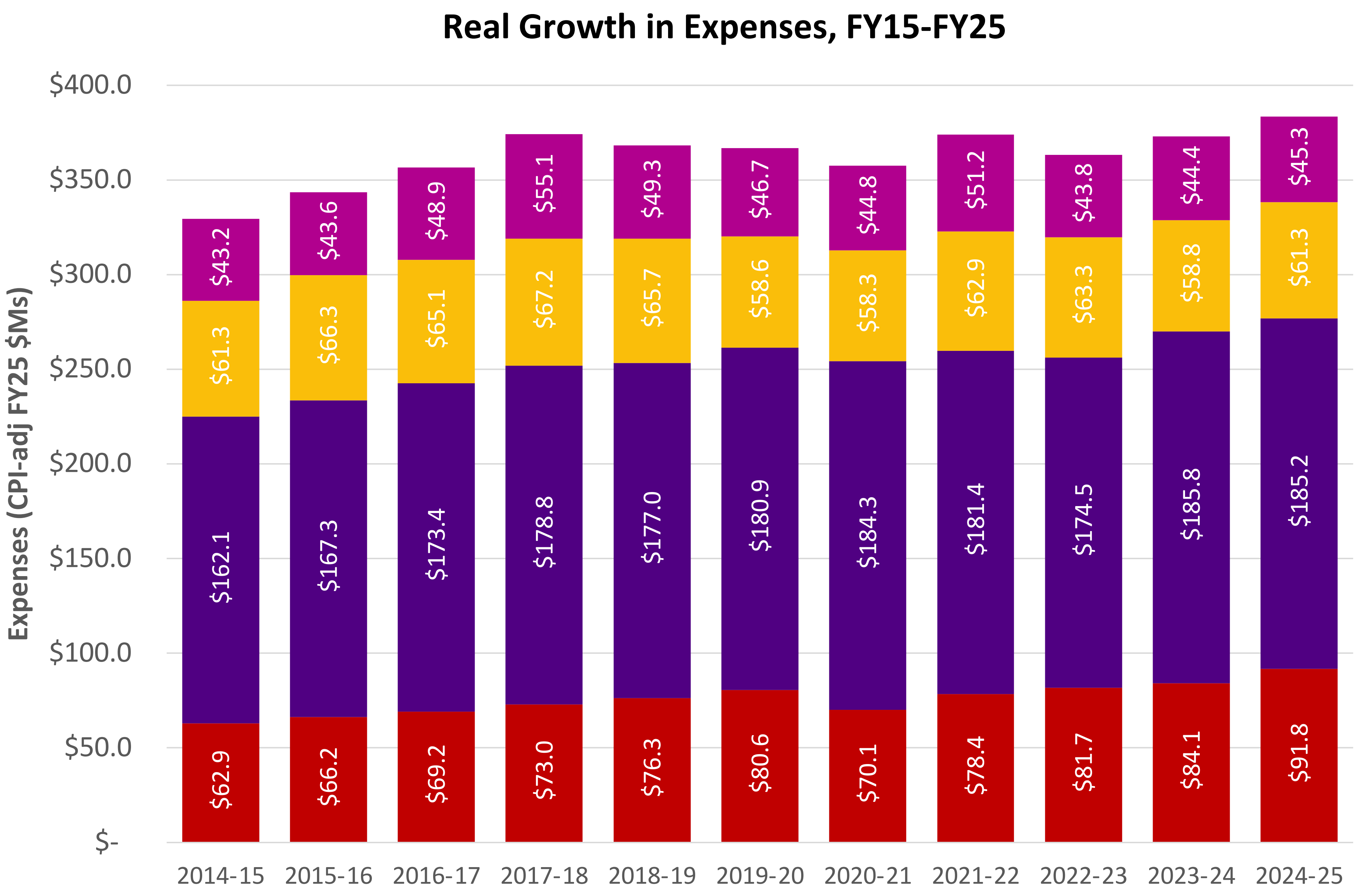
How much of this attention is because of recent financial considerations?

- Successive years of elevated inflation rates
- Volatile endowment returns
- Recent commitment to the All-Grant financial aid program
- Need to assess financial capacity for major building projects over the next ten years

What are the sources of pressure on the college's financial model?

What are the fastest growing categories of expenses?



- **Financial aid**
  - 46% real growth over 10 years
- **Compensation for faculty and staff**
  - 14% real growth over 10 years

	Compound Annual Growth Rate 10-year real
Other	-0.6%
Buildings	0.5%
Managers	0.0%
People	1.3%
Financial Aid	3.9%
Total	**1.5%**

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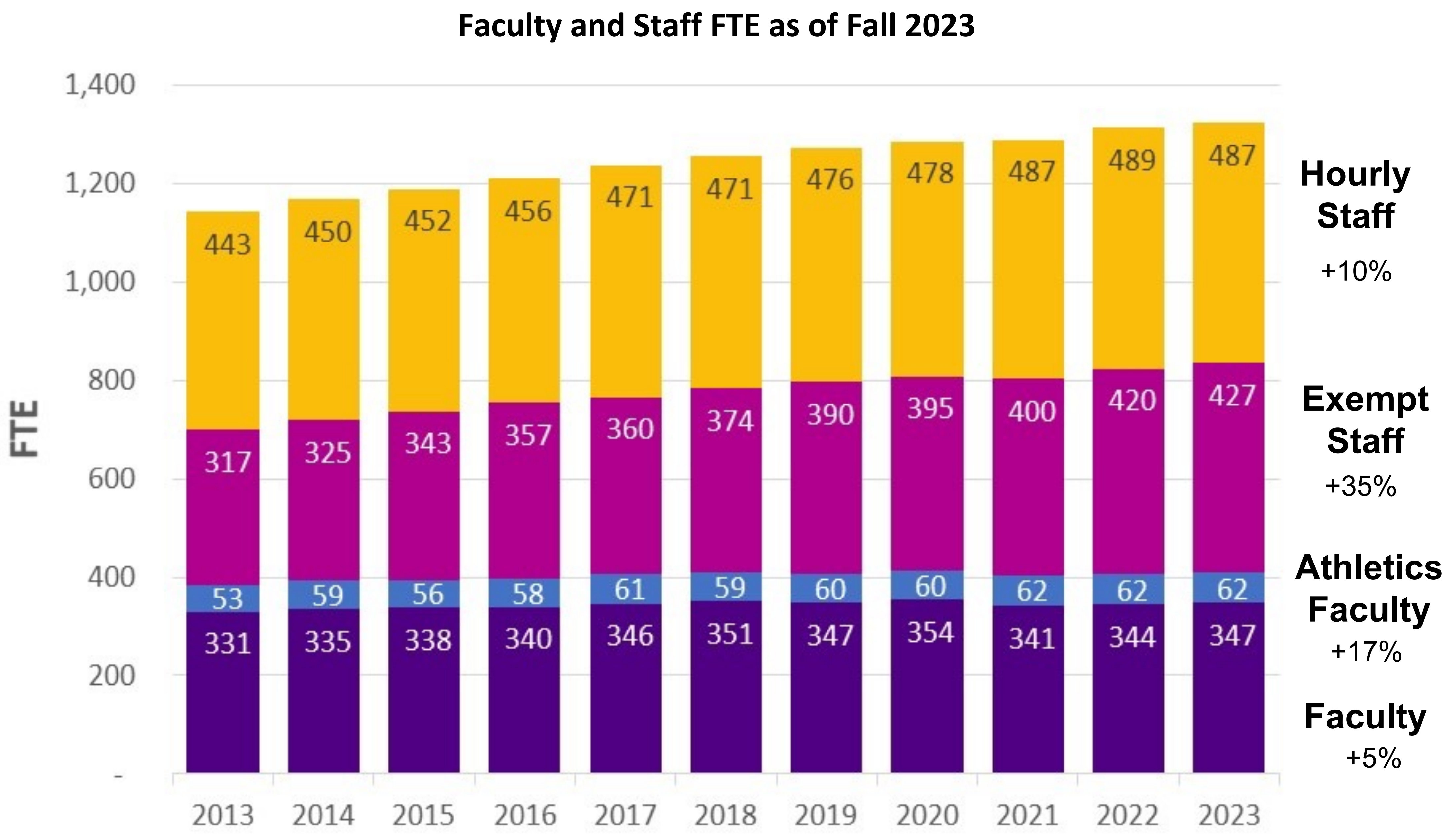
What has been the growth in salaried/exempt staff?



- **Largest category of salaried/exempt staff growth has been for faculty and student support**
  - **Faculty Support includes: Grants Office, Children's Center (teachers), Rice Center**
  - **Student Support includes: IWS (therapists), Center for Career Exploration, Campus Safety Services, OIDEI, Office of Accessible Education**

How does the college plan to fund new construction and renovation?

New Williams College Museum of Art $175 million	• At least $100 million in gifts • $75 million or less in debt
Energy and Carbon Master Plan $106 million	• $106 million in debt
Student Residential Housing $144 million	• Some gifts • $144 million or less in debt
Dining Improvements $15 million	• Some gifts • $15 million or less in debt
Multipurpose Recreation Center $41 million	• At least $20 million in gifts • $20 million or less in debt
Athletics & Wellbeing Facilities $TBD	• 100% gifts

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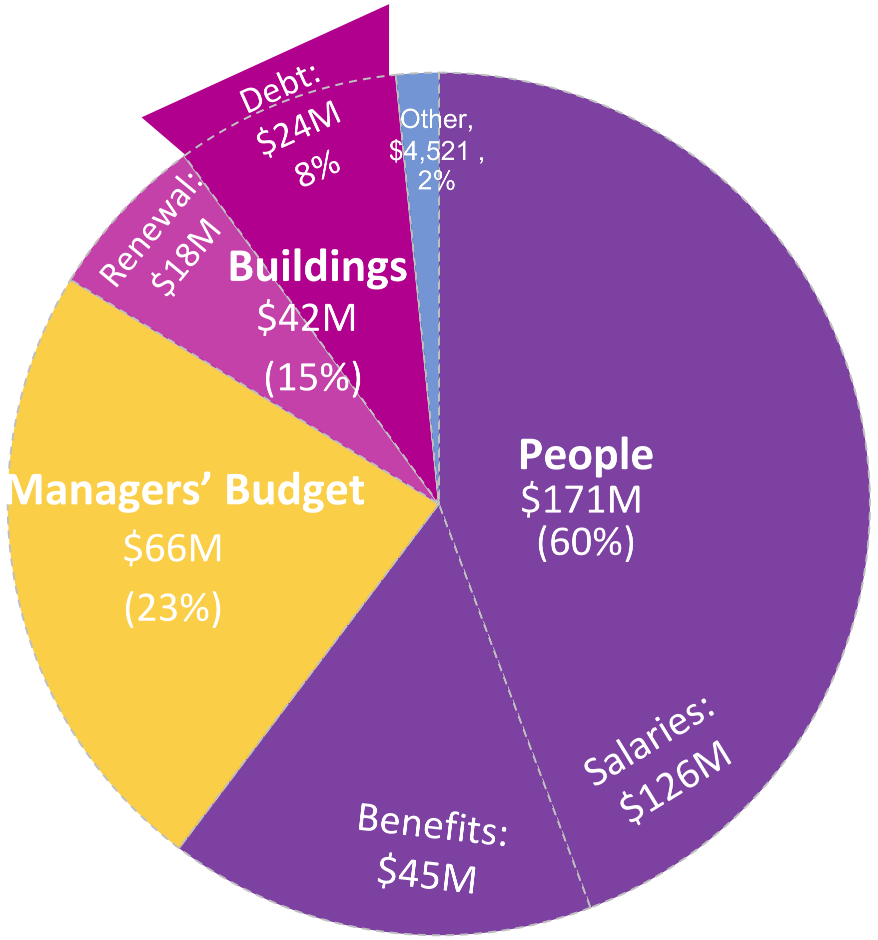
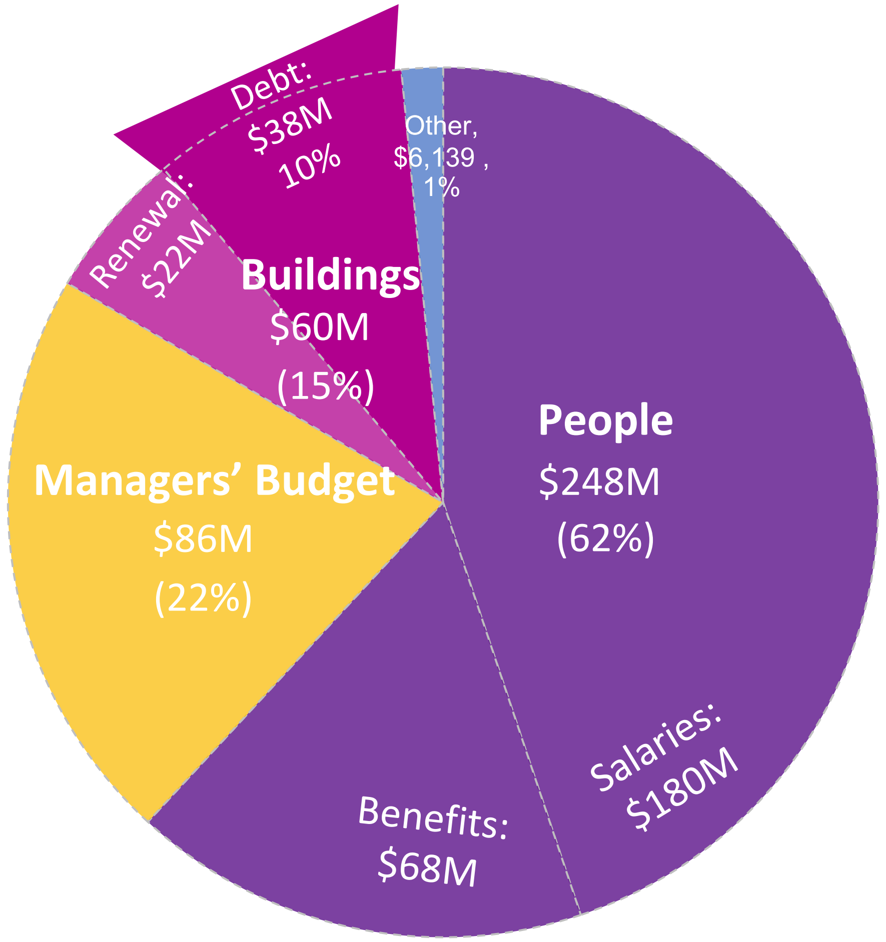
How much pressure will the additional debt for new construction and renovation put on the annual operating budget?

- Planning for $340 million in new debt over ten years
- Annual debt payment will increase from 8% ($24 million) of the operating budget in FY24 to 10% ($38 million) of the operating budget in FY34



FY 2024
$284M



FY 2034
$400M

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Why do we need to spend money (about 6% of the budget) on the annual renewal of buildings?

- Our buildings are fairly old
  - Average “renovation age” is 49 years old.
  - More than a third of buildings are more than 50 years old.
- The college currently has well more than $250 million worth of deferred maintenance
- Despite significant investments in new construction and renovation, deferred maintenance has accumulated because of underinvestment in the annual renewal of our buildings
  - Underinvestment of about $15 million each year.
- Going forward, planning to substantially reduce deferred maintenance backlog
  - Additional $500,000 a year in annual renewal.
  - Major projects (such as Energy and Carbon Master Plan, Athletics and Wellbeing, Lawrence Hall, Student Residential Housing, Dining).

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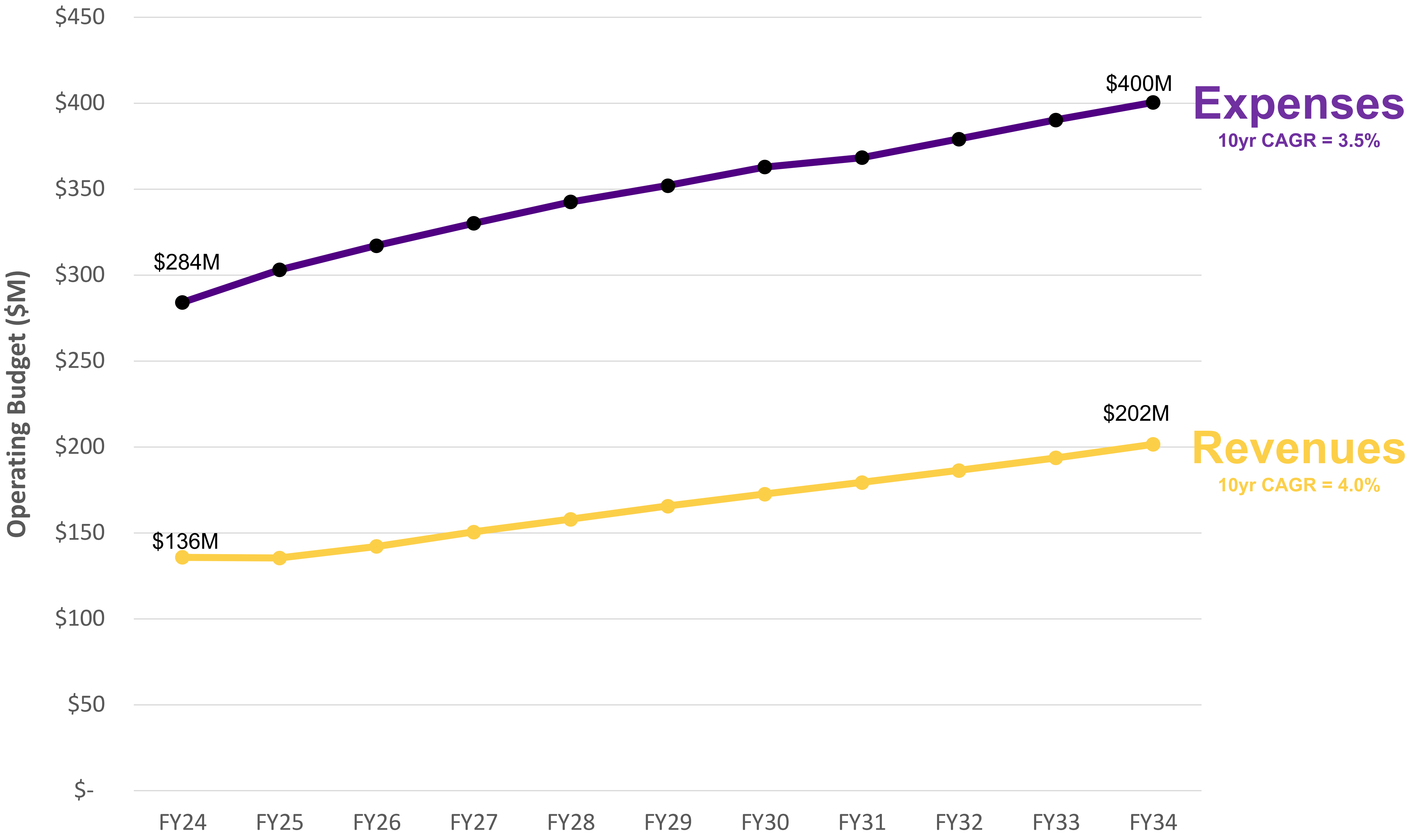
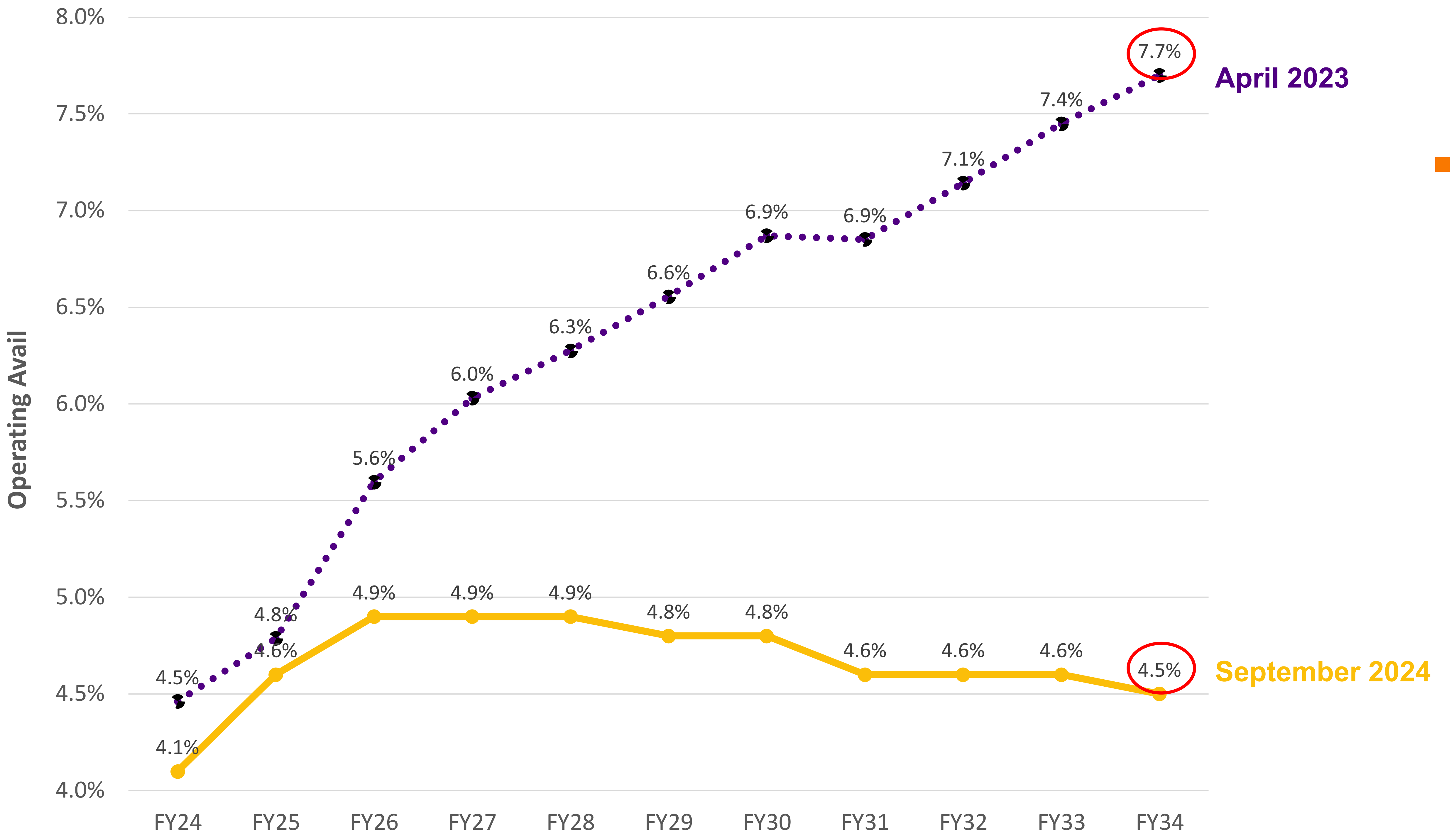
What are we doing to ensure the long-term health of the college's finances?

How do our ten-year projections look?



- **Current projections reflect strategies to curb expense growth and boost revenue growth**

How do our ten-year projections look?



- These strategies will ensure the sustainability of the college's financial model

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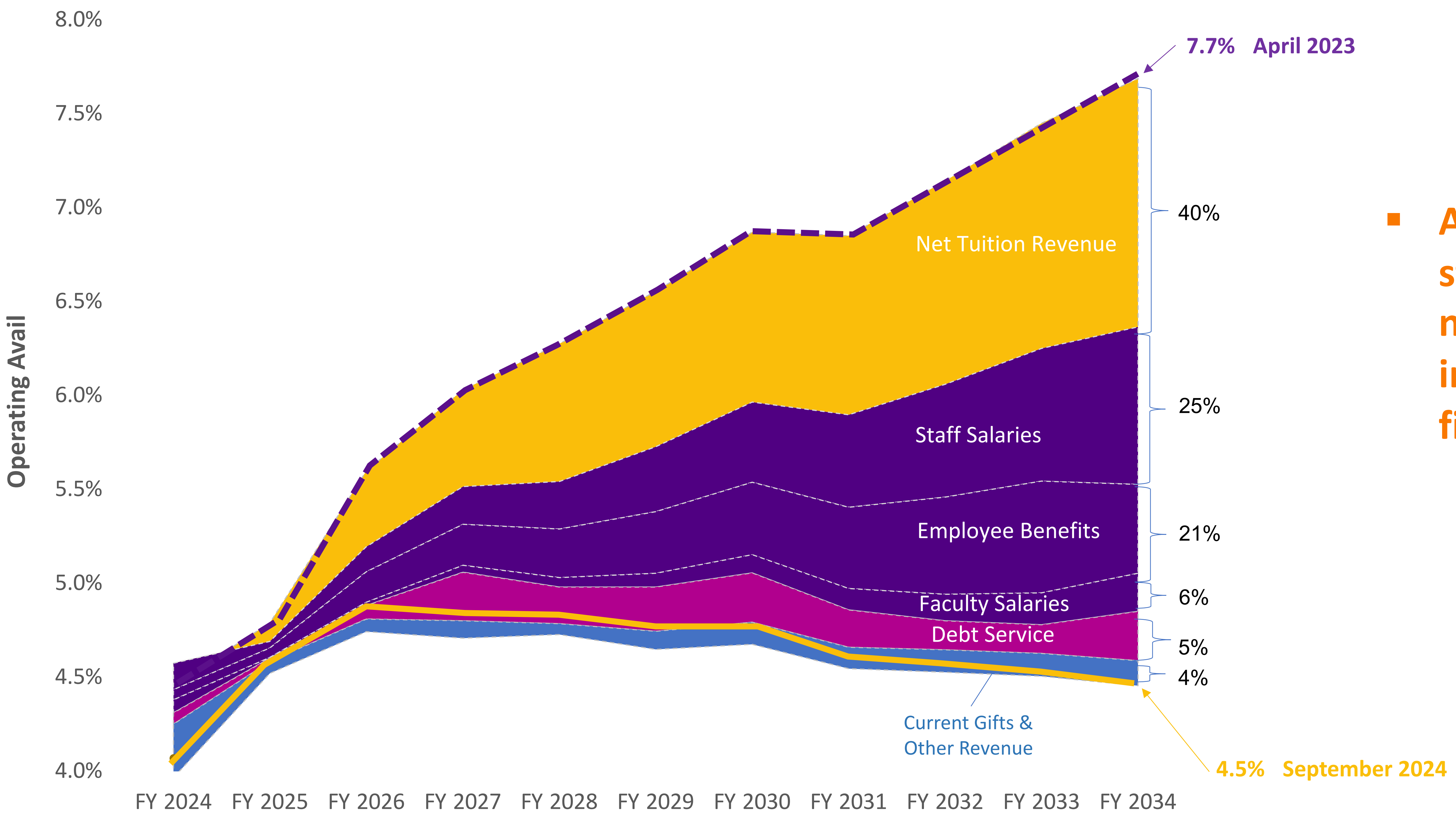
What are those strategies for ensuring the college's long-term financial health?

- Increasing the comprehensive fee substantially
- Charging Williams tuition for students studying away
- Requiring new or reallocated revenue for new initiatives

- Increasing manager's budgets in disciplined way
- Reducing staff FTE through attrition
- Phasing in shift of medical plan contribution to employees
- Capping dependent tuition grant for future employees

What accounts for the improvement in the long-term financial outlook?



- A combination of strategies is necessary to improve the financial outlook

What are those strategies for ensuring the college's long-term financial health?

- Increasing the comprehensive fee substantially
- Charging Williams tuition for students studying away
- Requiring new or reallocated revenue for new initiatives

- Increasing manager's budgets in disciplined way
- Reducing staff FTE through attrition
- Phasing in shift of medical plan contribution to employees
- Capping dependent tuition grant for future employees

- Maximizing fundraising for major building projects

Why can't we just take more money out of the endowment?

- Out of a commitment to intergenerational equity, we do not take from future generations in order to spend more on ourselves in the present

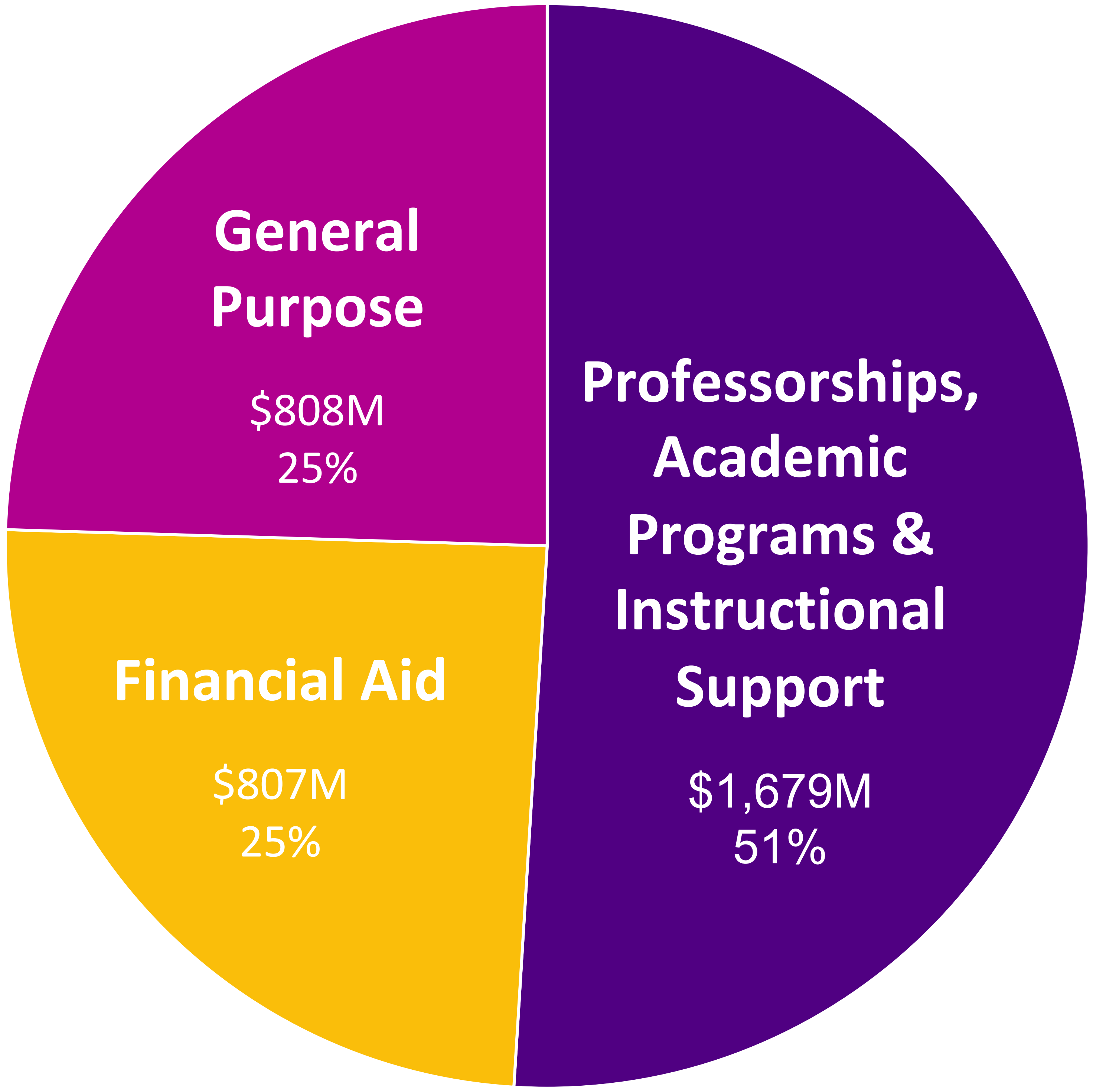
- The endowment is like a retirement account, except that the college is expected to live forever

- The endowment is *not* a savings account, pile of cash, or slush fund

- "The endowment" is actually more than 1,800 individual endowments, created by gifts from alumni, families, and friends of the college over more than 200 years

- Most of the individual endowed funds – about 89% – are restricted to a specific purpose

What are the specified purposes of the endowment?



$3.3 billion
(FY 2023)

- **The largest percentage of endowment dollars is for faculty research and teaching**
- **The second largest percentage is for financial aid**

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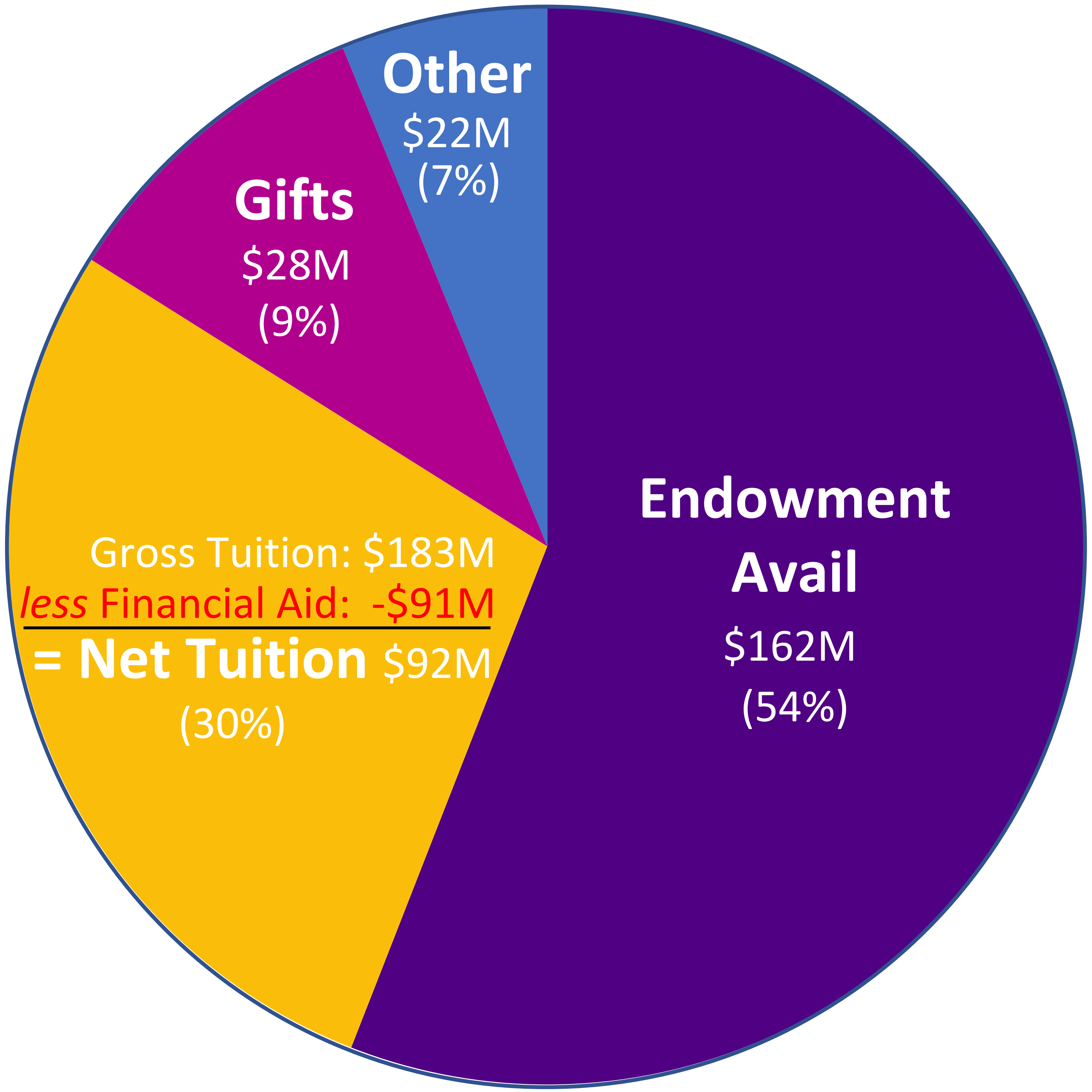
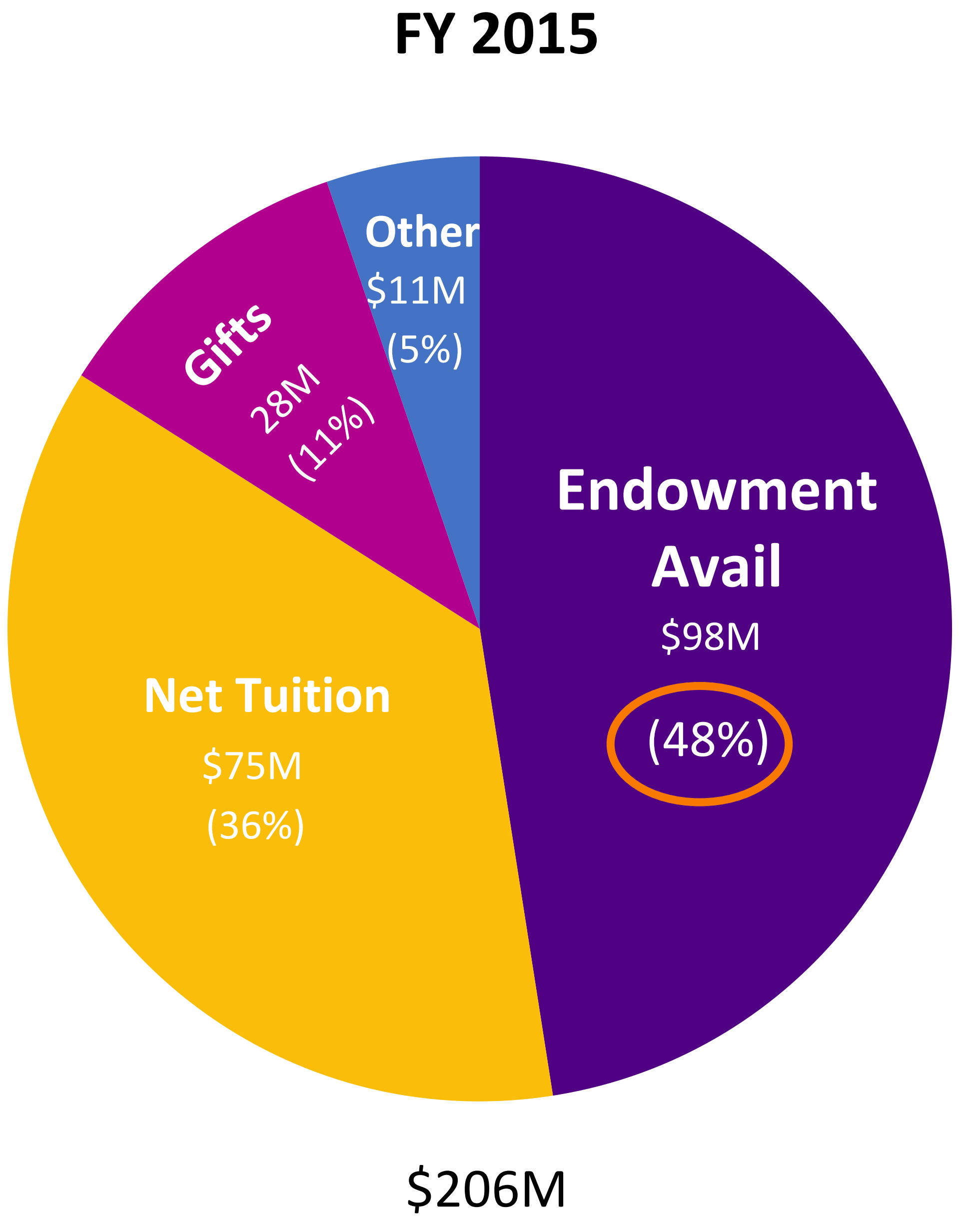
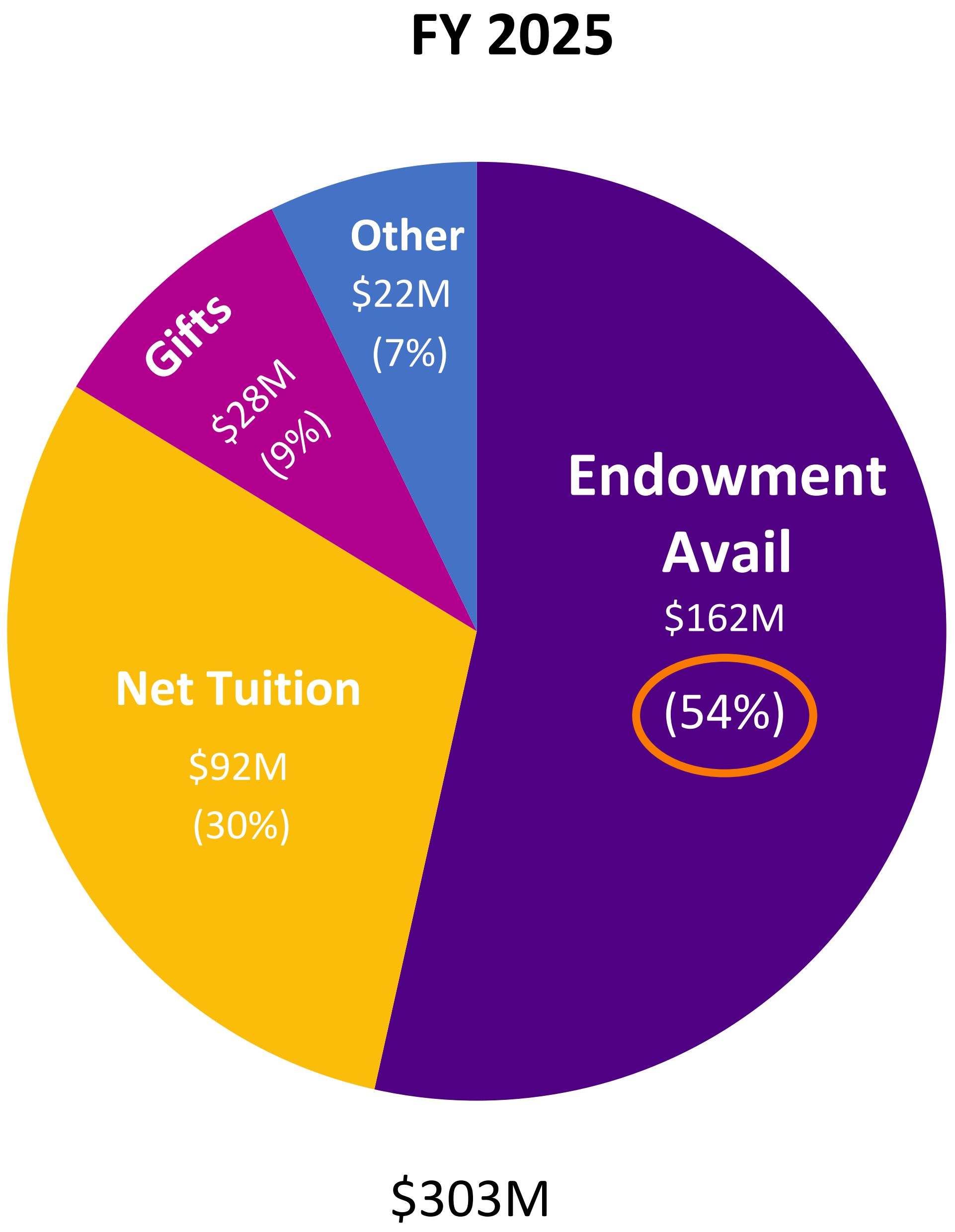


FY 2025 Revenues
($303M)

- **Williams is already heavily reliant on the endowment to fund more than half of what we do every year**

Why can't we just take more money out of the endowment?





- **The college has become more reliant on the endowment over the last ten years**

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Why can't we just take more money out of the endowment?

- Need to build more of a protective cushion in the event of a financial downturn or successive years of muted endowment returns
    - The target real return on the endowment is 5% a year over time.
    - Over the last 10 years, the average annual real return has been 6.4%.

Why can't we fundraise more for _______?

- Initiative-based fundraising focuses on identified priorities
- The Development Office is already achieving ambitious levels of fundraising
  - Our annual fundraising average over the last 5 years is about $64 million.
  - The fundraising total in the last fiscal year was about $112 million.
- We are already benefitting from the generosity of major donors
- Fundraising headwinds include financial uncertainty, political polarization, perceptions of Williams' wealth, disengagement of recent classes

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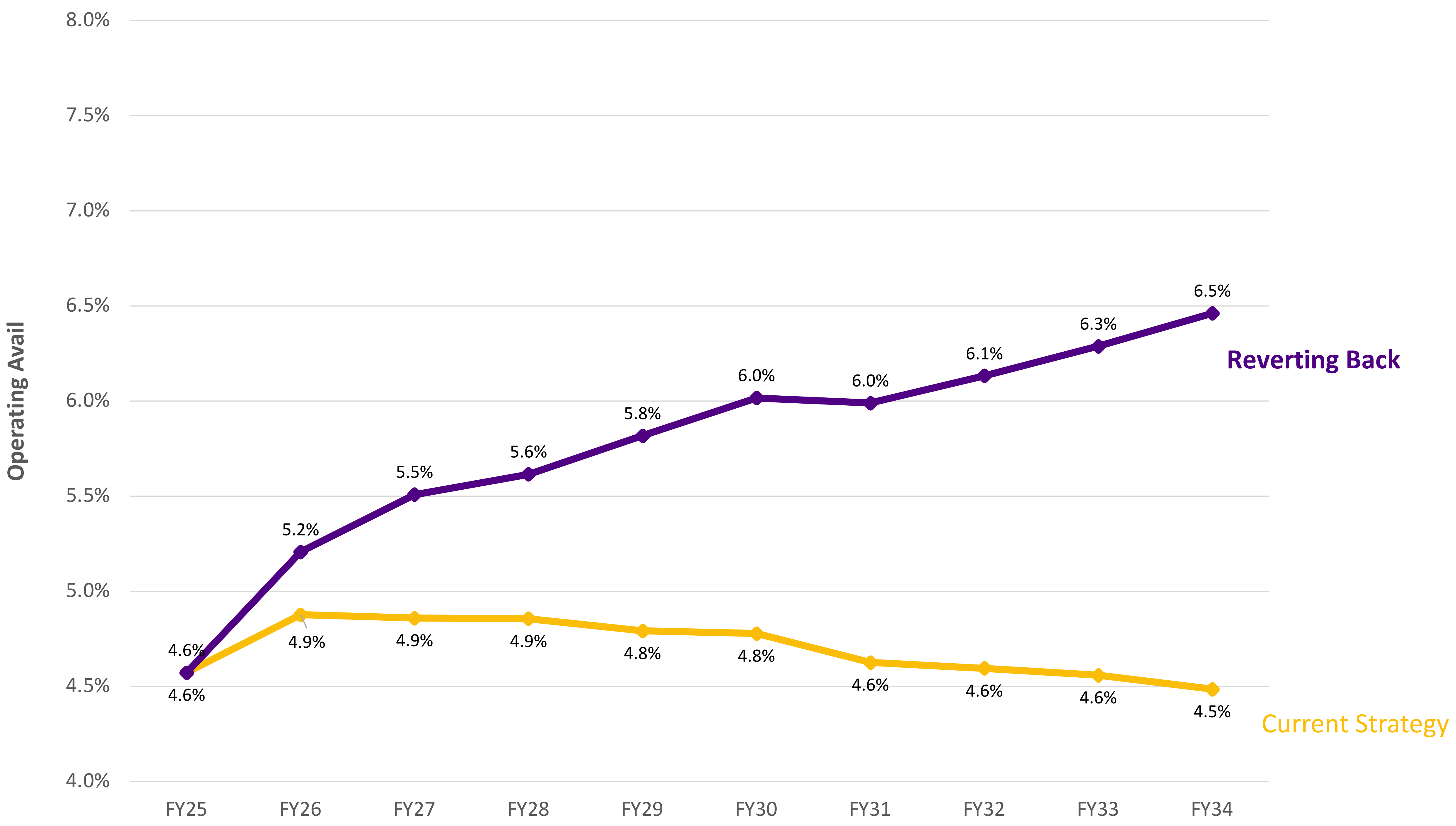
With all of the planning and measures put in place, haven't we already done enough?



- **If we were to stop now, we would revert back to an unsustainable path of our expenses growing faster than our revenues**

What does this mean for the next fiscal year (FY26)?

What will guide decision-making about the FY26 budget?

- Continued commitment to competitive compensation for faculty and staff
- Manager’s budget increase of 1%, request more than 1% only if extraordinary need
- New staff FTE request only if extraordinary need, and must have plan to offset additional FTE

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How will decisions be made about the FY26 budget?

Manager's Budget and Staffing Request Guidance

- Default increase of 1%; request more than 1% only if extraordinary need
- Request new staff FTE only if extraordinary need; must have plan to offset additional FTE

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Department and Division

- Each budget manager develops request through discussion with their department
- Recommendations are submitted to the division head

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Senior Staff Area

- Each senior staff member amalgamates and prioritizes the requests from all of their departments and divisions

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Provost, VPFO & Senior Staff Member

- Each senior staff member has meetings with the Provost, VPFO, and budget team about their manager's budget and staffing requests

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Committee on Priorities and Resources

- Series of meetings with each senior staff member
- Discussion with Chief Human Resources Officer about all staff FTE requests
- Meeting with Facilities representatives about capital improvement requests

Senior Staff

- Series of meetings with each senior staff member
- Discussion with Chief Human Resources Officer about all staff FTE requests
- Meeting with Facilities representatives about capital improvement requests

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Provost, VPFO & President Submit Operating Budget to the Board of Trustees

What is the college protecting and prioritizing?

What is the college endeavoring to protect and prioritize?

- Competitive compensation and salaries that keep pace with inflation for faculty and staff
- Important recent commitments
  - All-Grant Financial Aid Program
- Strategic initiatives
  - The Arts
  - Athletics and Wellbeing
  - Revitalized Winter Study / Experiential Education
  - Student Residential Life, including Housing and Dining

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