Update on College Finances

President's Administrative Group Meeting
November 22, 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

- 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

Williams College

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

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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

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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

Williams College

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

~$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

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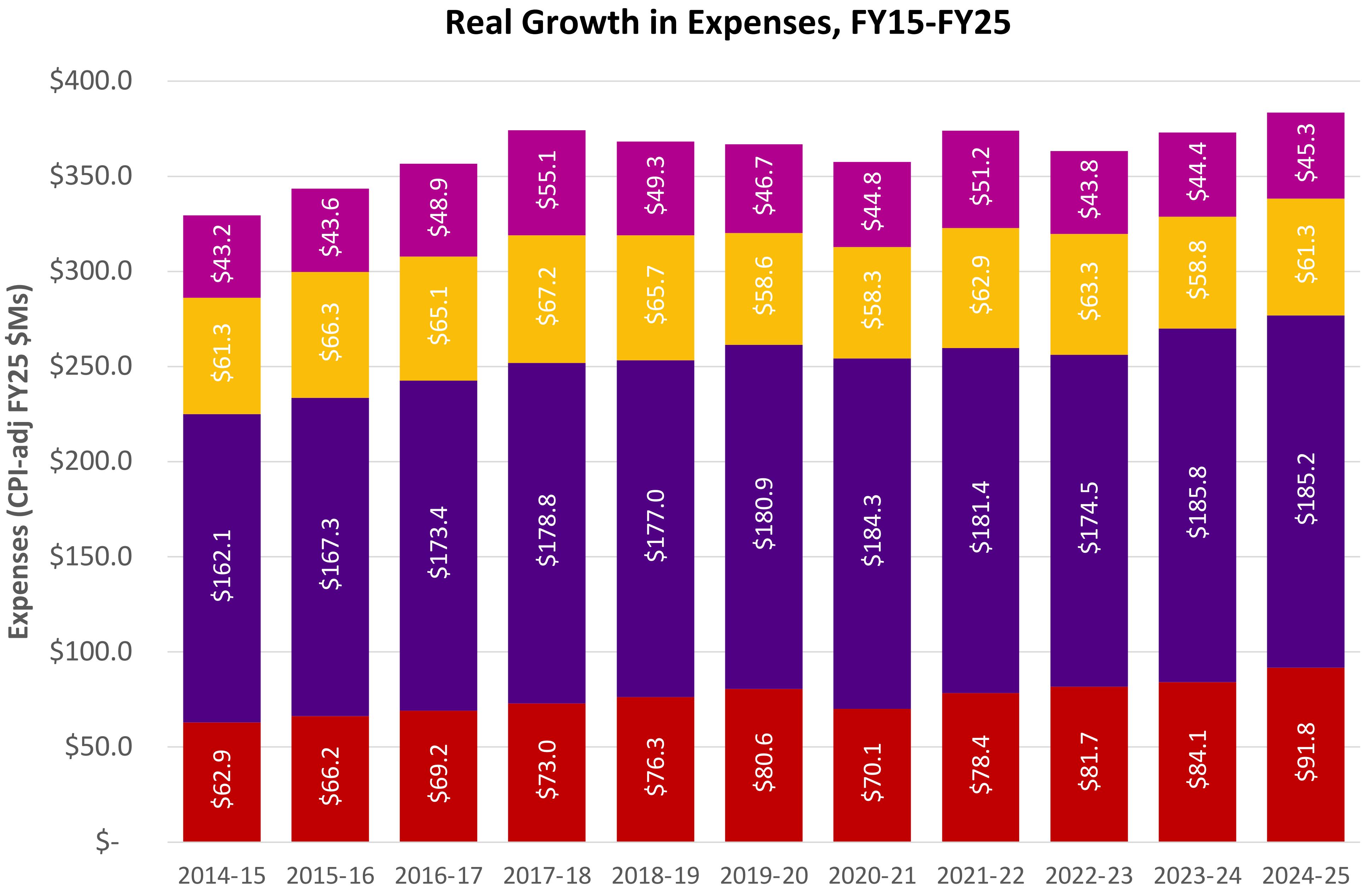
What are the sources of pressure on the college's financial model?

What are the fastest growing categories of expenses?

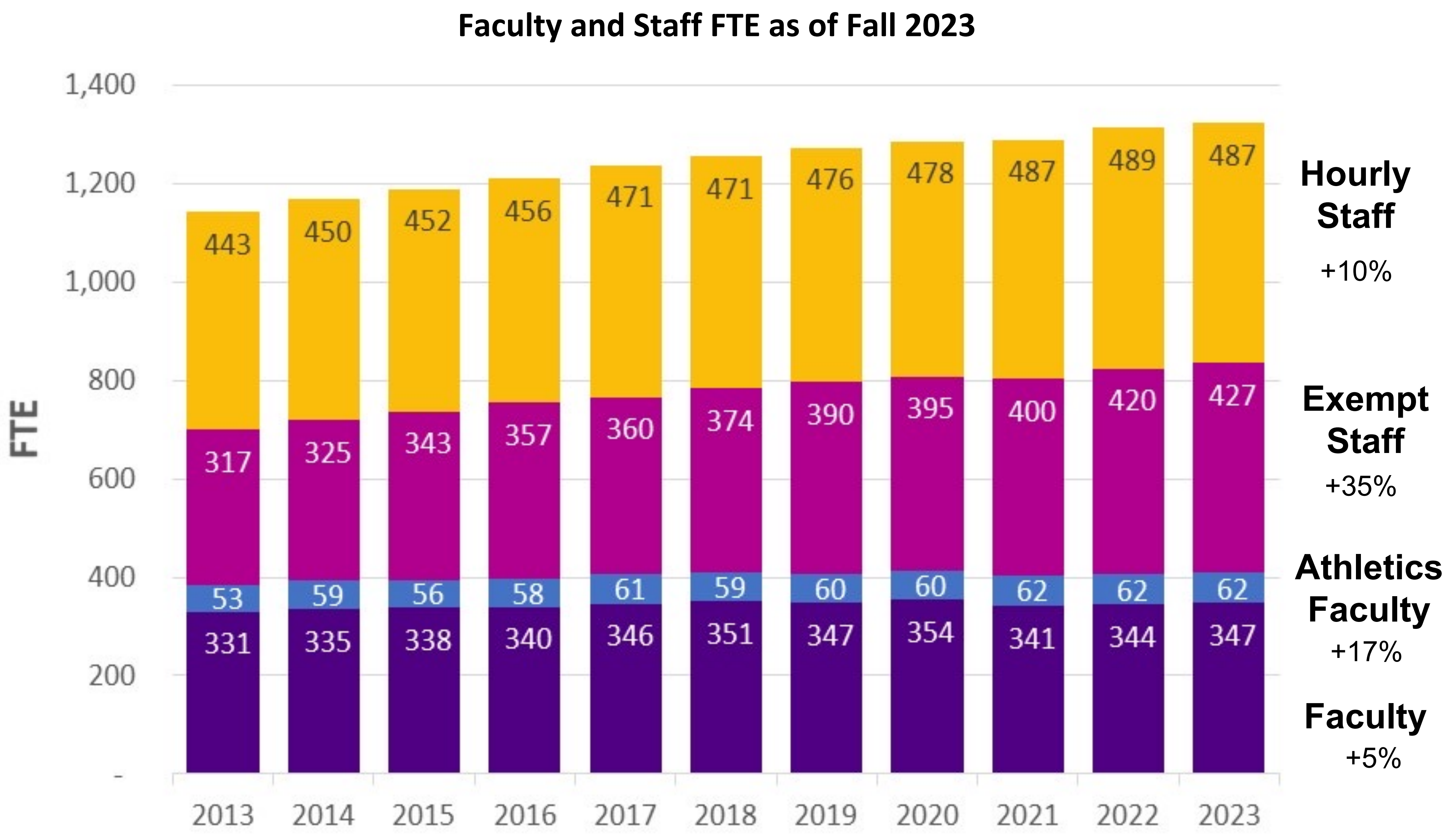


- **Financial aid**
  - 46% real growth over 10 years
- **Compensation for faculty and staff**
  - 14% real growth over 10 years

	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%**

Williams College

What has been the growth in FTE?



- **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**

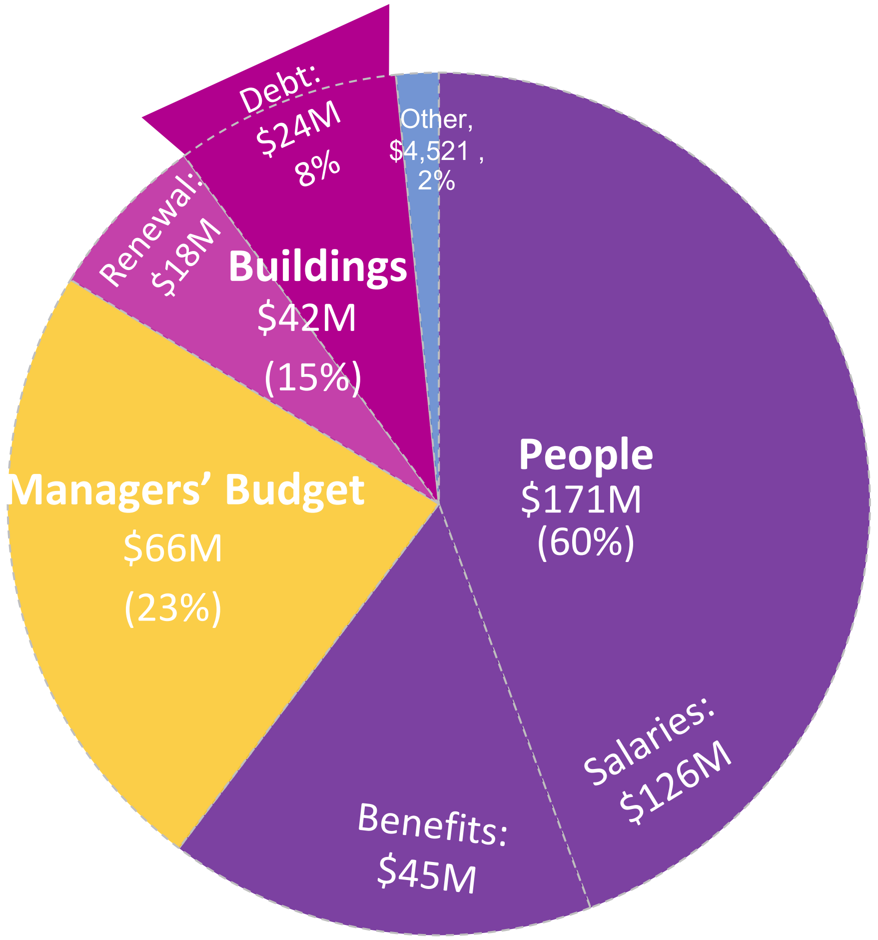
How does the college plan to fund new construction and renovation?

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

Williams College

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

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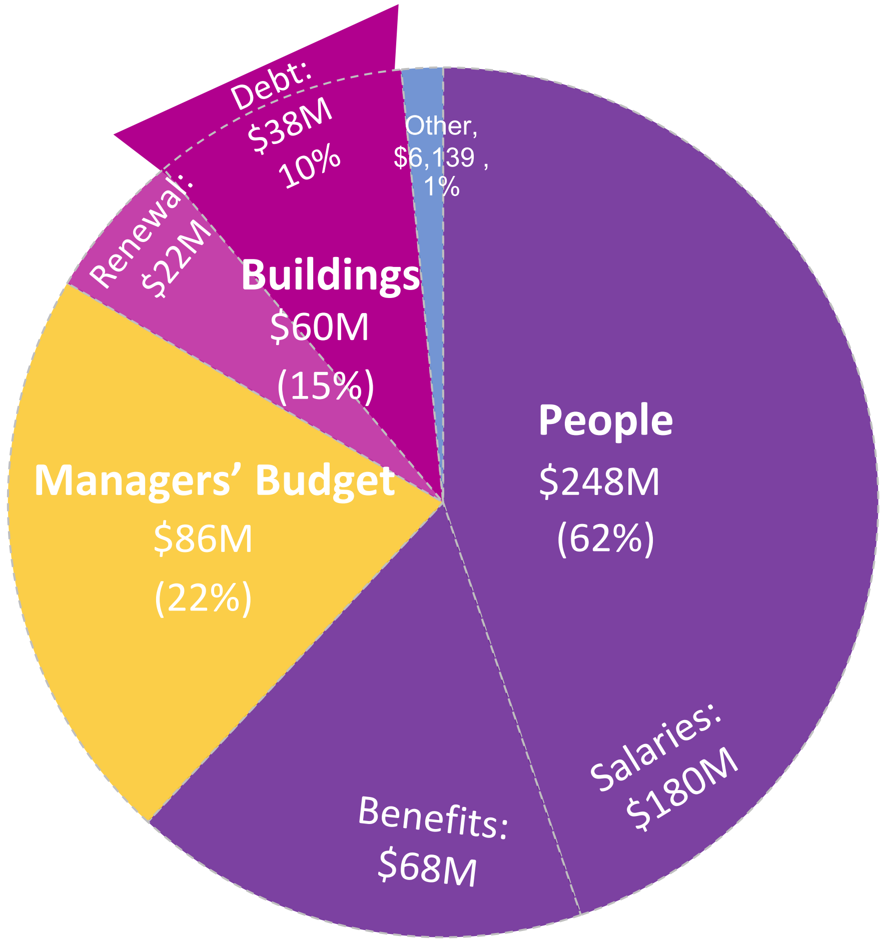

FY 2034
$400M

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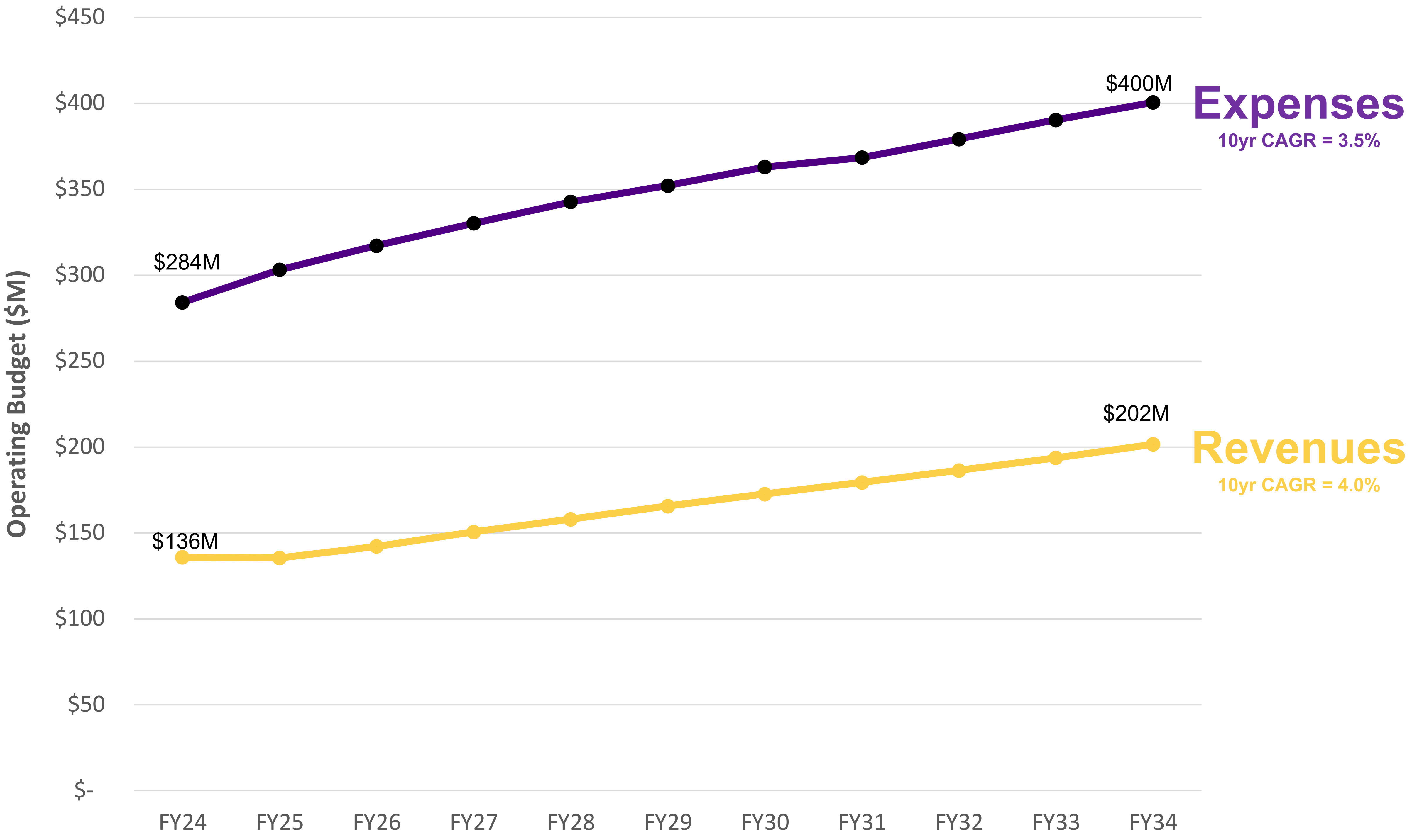
What are we doing to ensure the long-term health of the college's finances?

How do our ten-year projections look?



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

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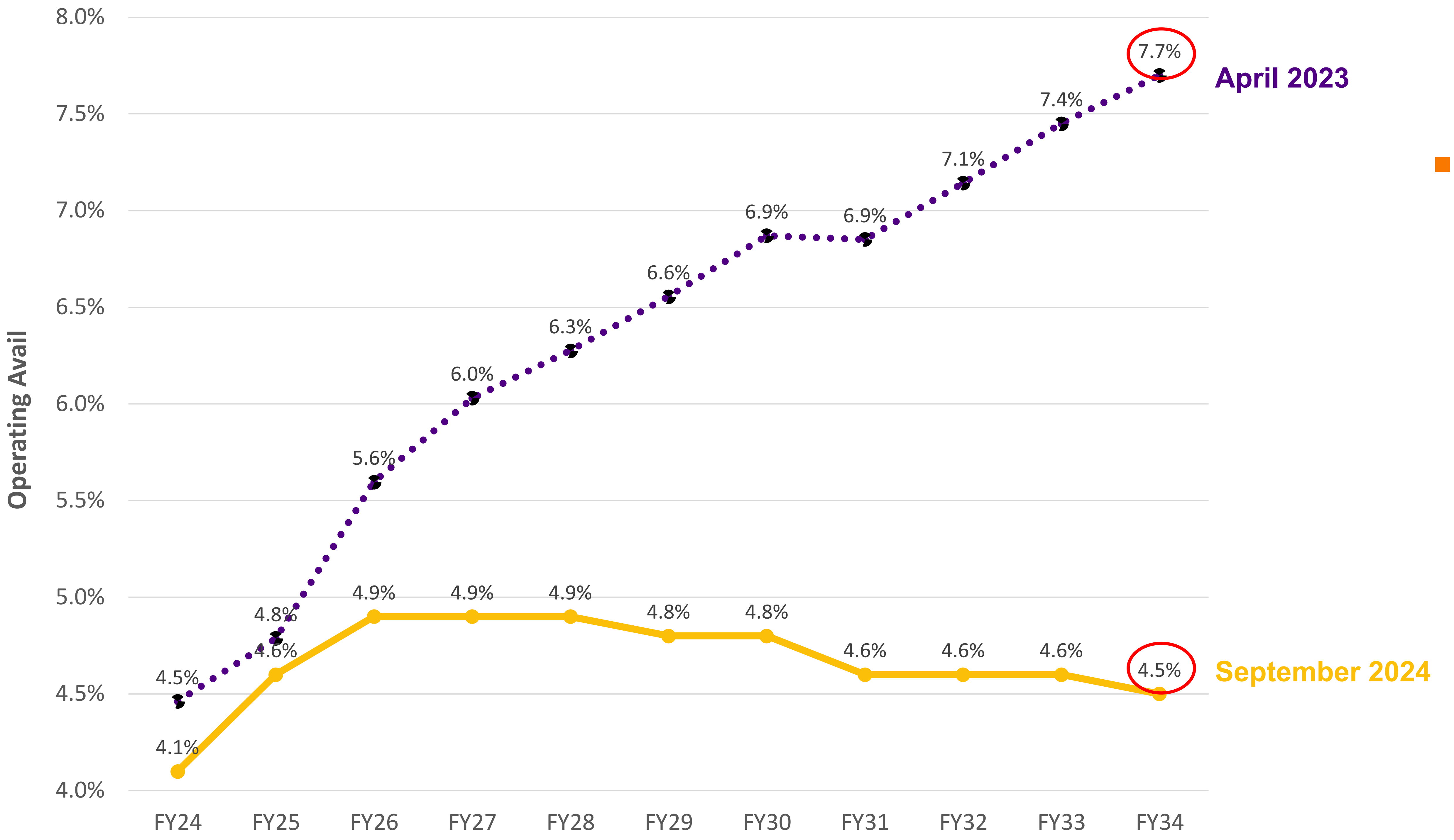
How do our ten-year projections look?



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

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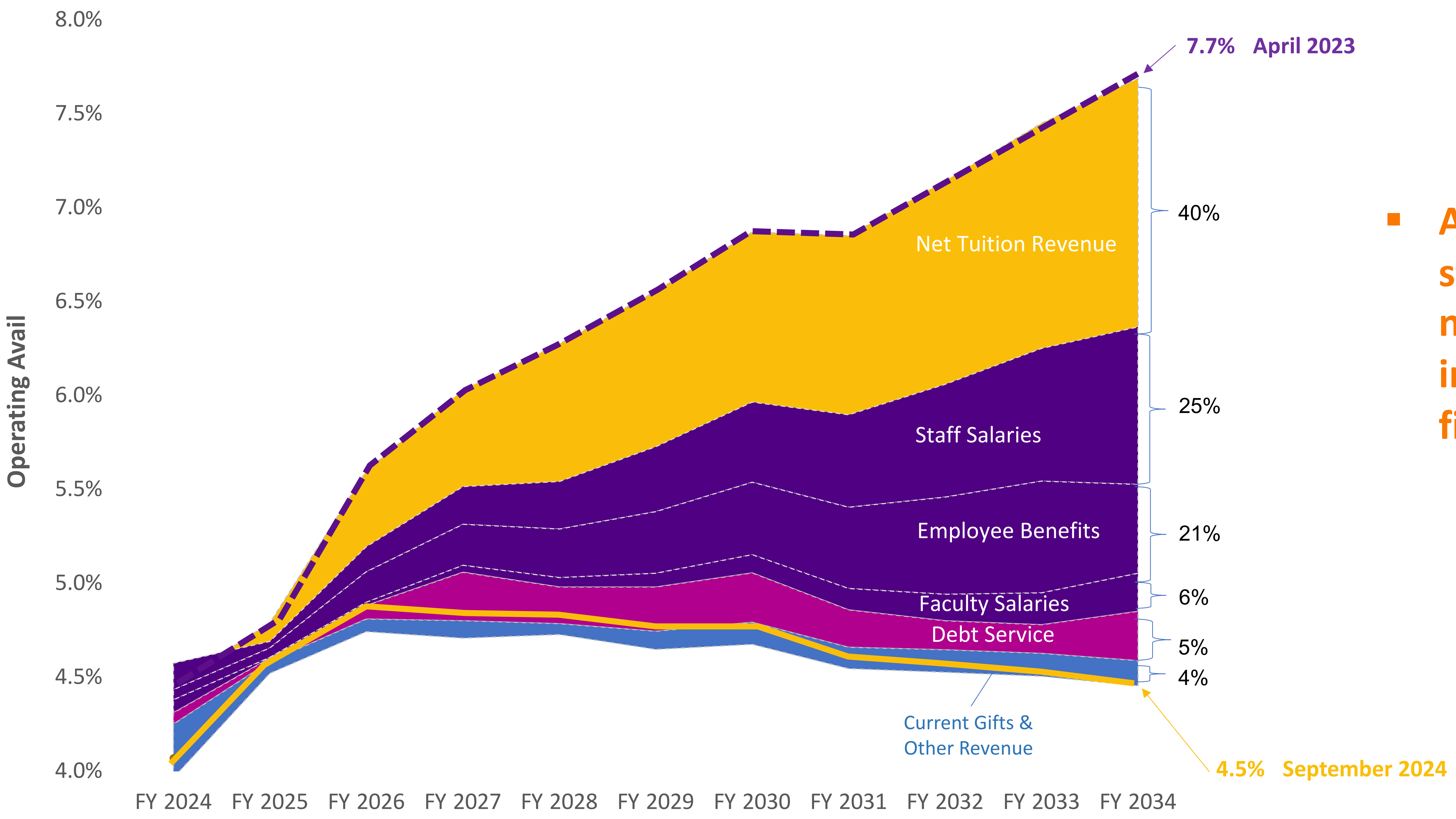
What are those strategies for ensuring the college's long-term financial health?

- 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

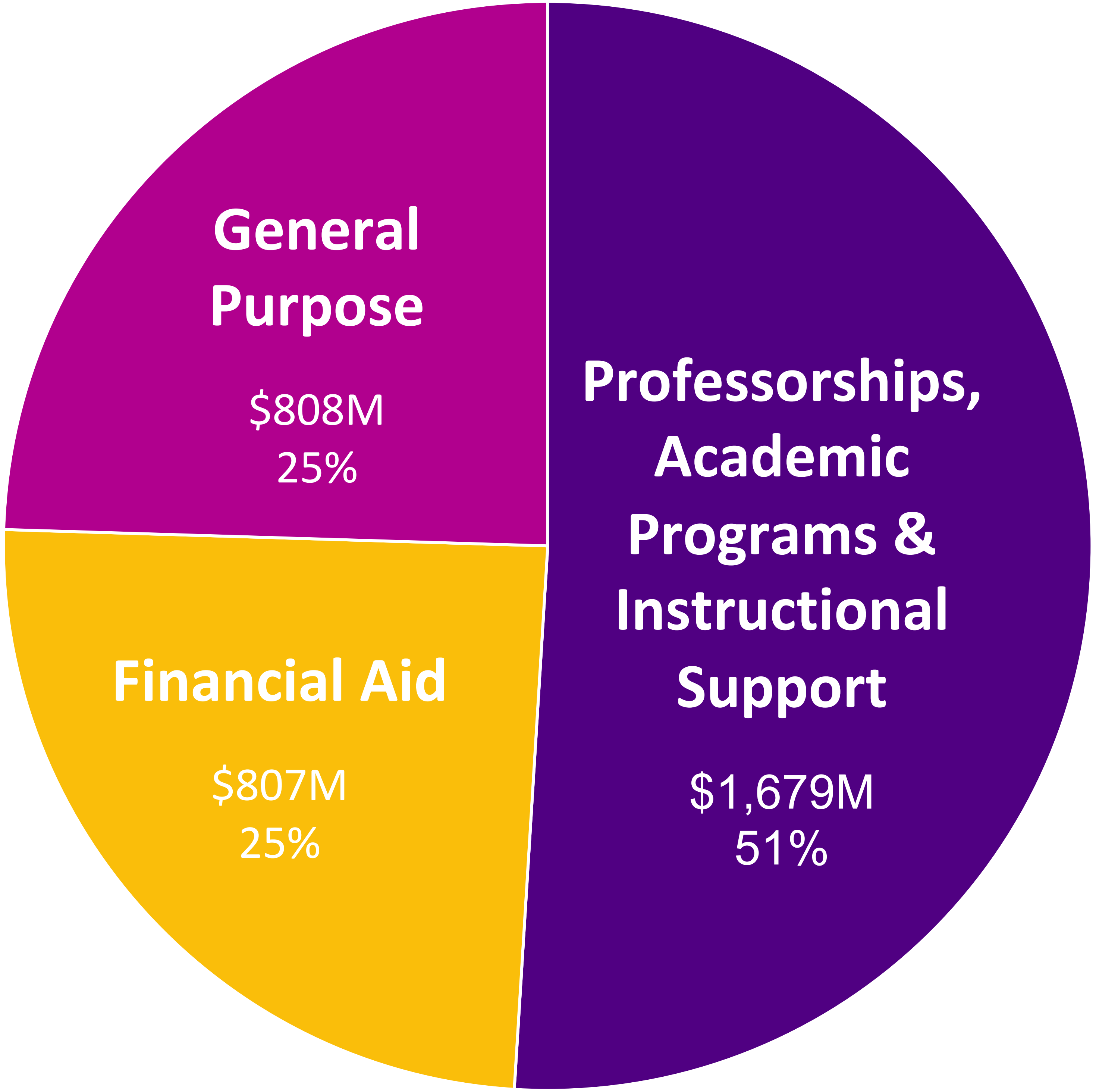
- Increasing manager’s budgets in disciplined way
- Reducing staff FTE through attrition
- Phasing in shift of medical plan contribution to employees
- Capping dependent tuition grant for future employees

- 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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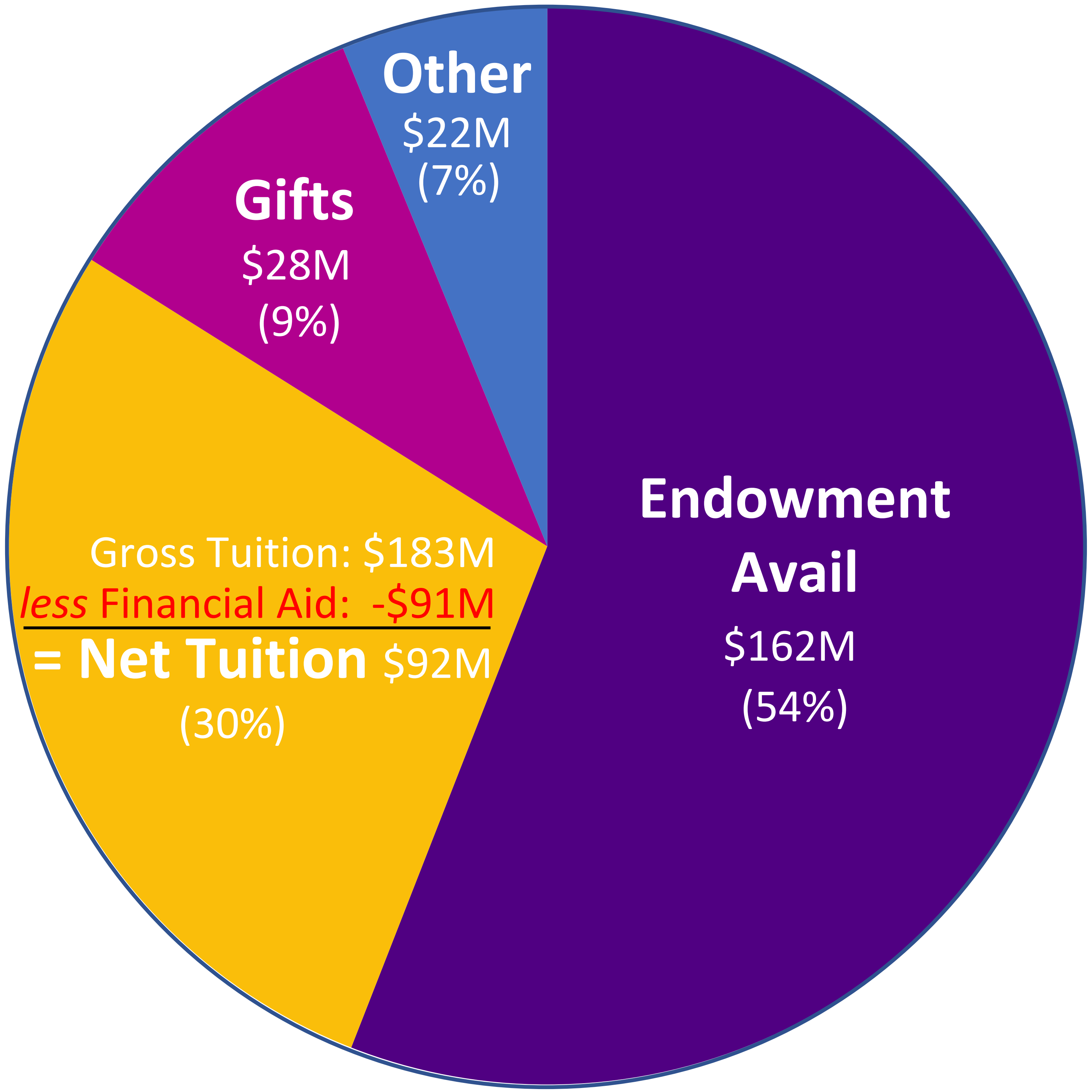

FY 2025 Revenues
($303M)

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

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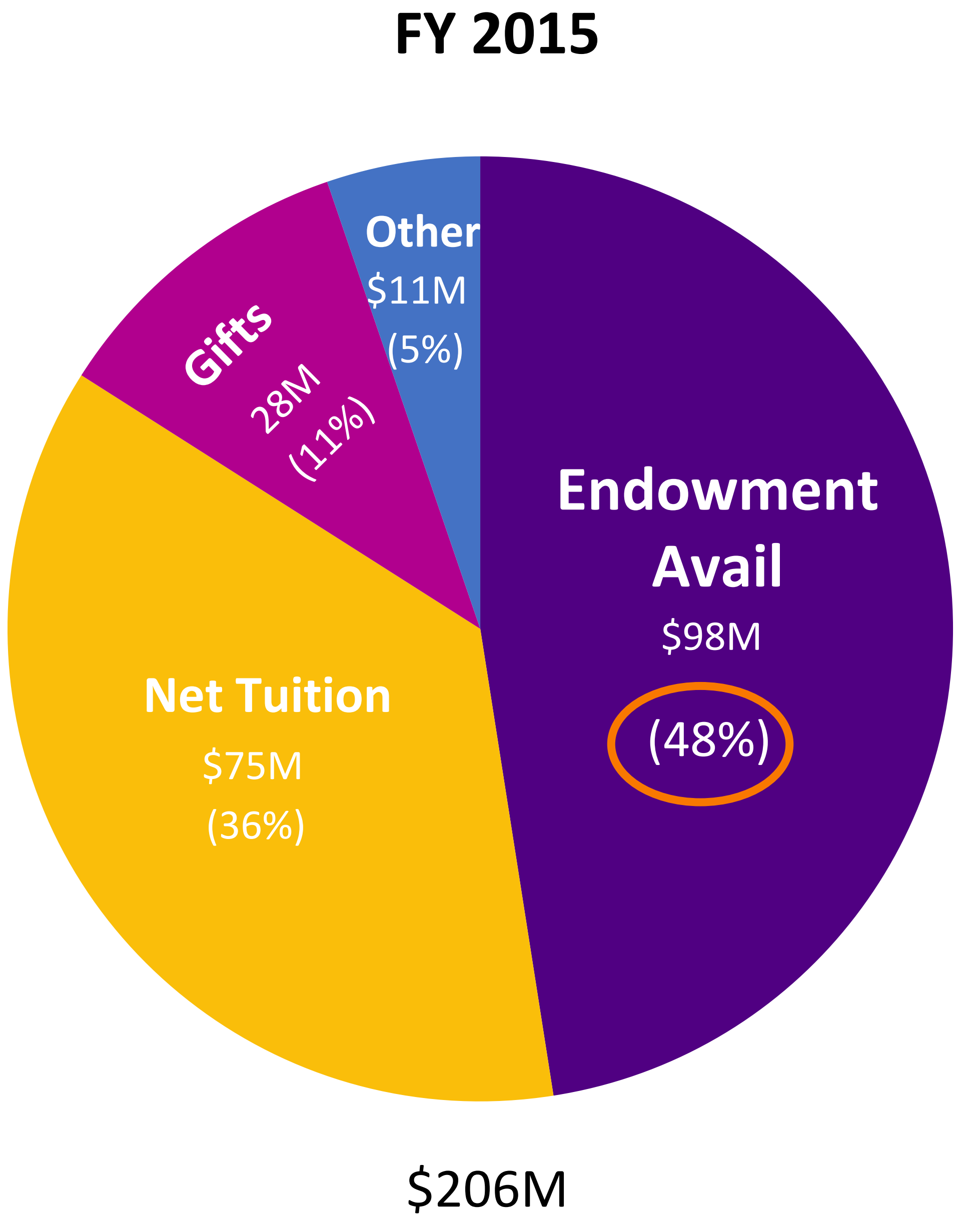

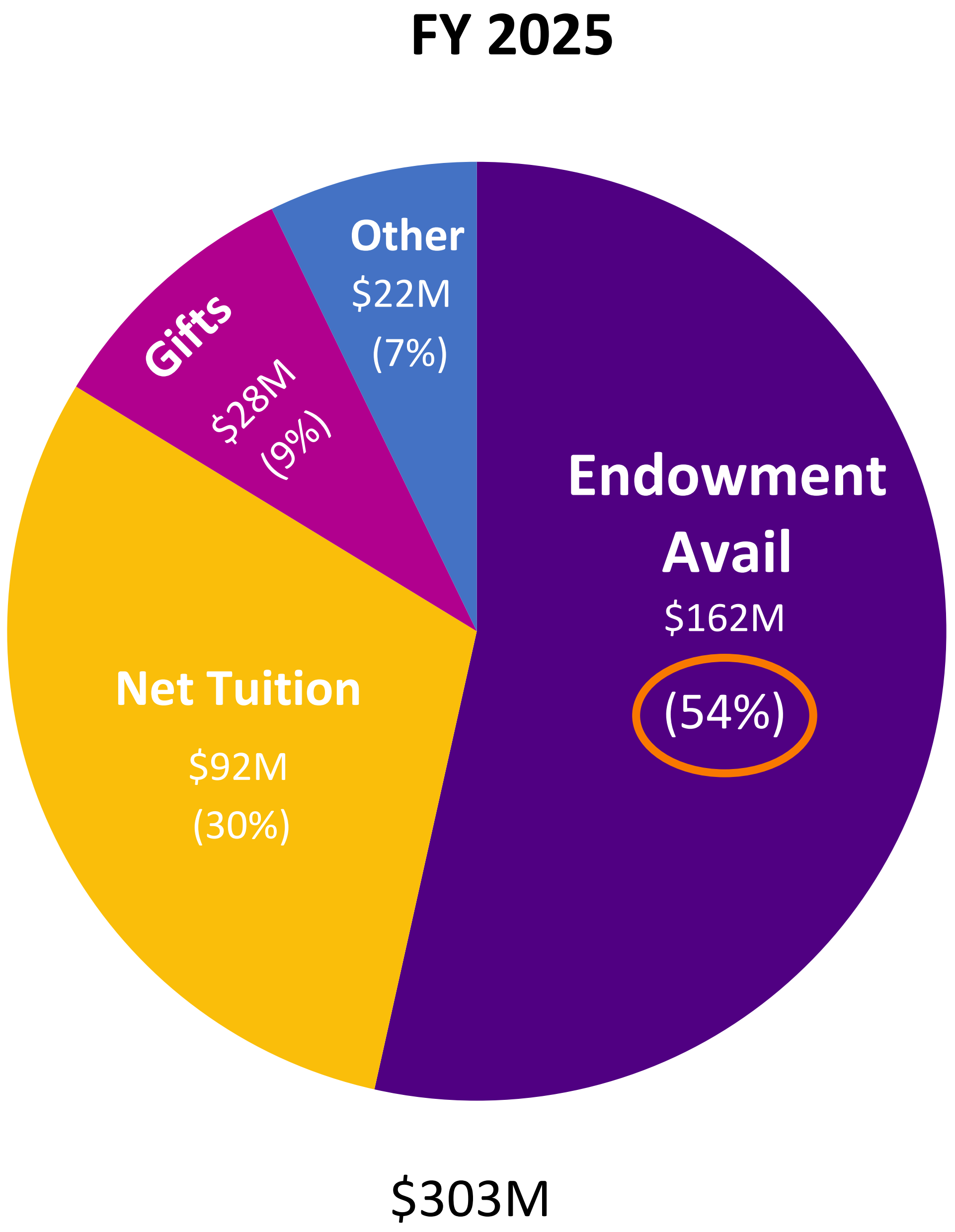

- The college has become more reliant on the endowment over the last ten years

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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 _______?

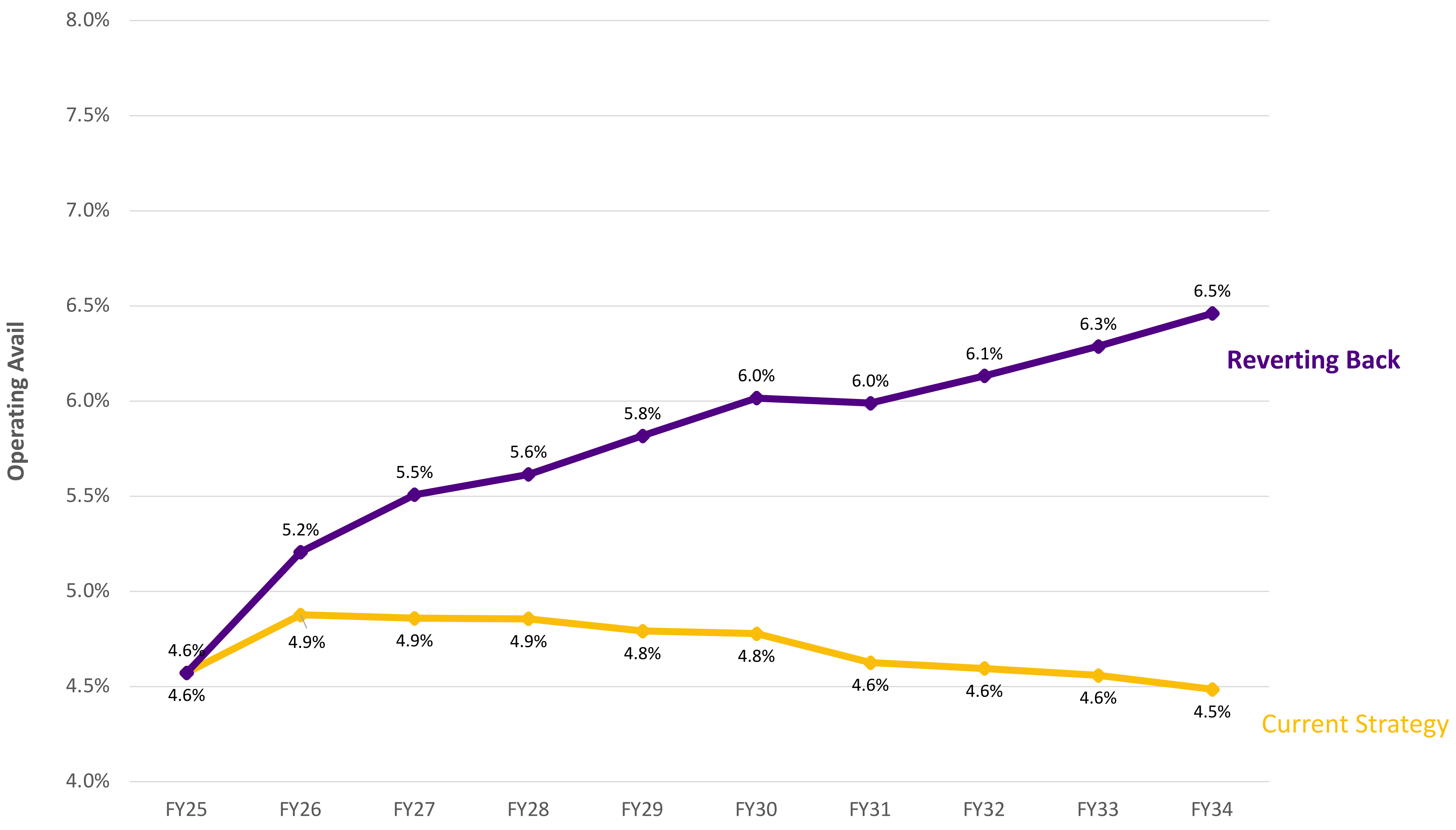
- Initiative-based fundraising focuses on identified priorities

- 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

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
- 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

Williams College

What is the college endeavoring to protect and prioritize?

- Competitive compensation and salaries that keep pace with inflation

- 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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