

THE COLLEGE OF WILLIAM & MARY



**Committee on Financial Affairs
Board of Visitors**

September 17, 2009

The U.S. Economy Deteriorated More Than Was Anticipated In Fiscal Year 2009...

- As measured on a fiscal year basis (July through June), estimated real GDP declined 1.6 percent. (This is the first annual decline since 1975, which registered -1.7 percent.)
 - Real consumer spending declined for the first time in the post-war era.

Summary of Key U.S. Economic Indicators

Percent Change Over the Prior Fiscal Year

	<u>FY09 Forecast</u>	<u>FY09 Actual</u>
Real GDP	-0.4	-1.6
Consumer Spending	-0.7	-1.3
Employment	-1.0	-2.3
Personal Income	3.1	1.6
Wages & Salaries	2.4	0.7

- Employment declines exceeded expectations, dampening income growth.
 - The U.S. economy shed 5.7 million jobs in fiscal year 2009, erasing nearly all the gains accrued over the previous four years.

Similar To The Nation, The Virginia Economy Shed More Jobs Than Was Expected In Fiscal Year 2009...

- In Virginia, job losses accelerated in the second half of the year, led by a pullback in professional and business services and construction.
 - The Virginia economy shed 53,800 jobs in fiscal year 2009, of which 28,700 or 53 percent were related to housing (construction and financial activities).

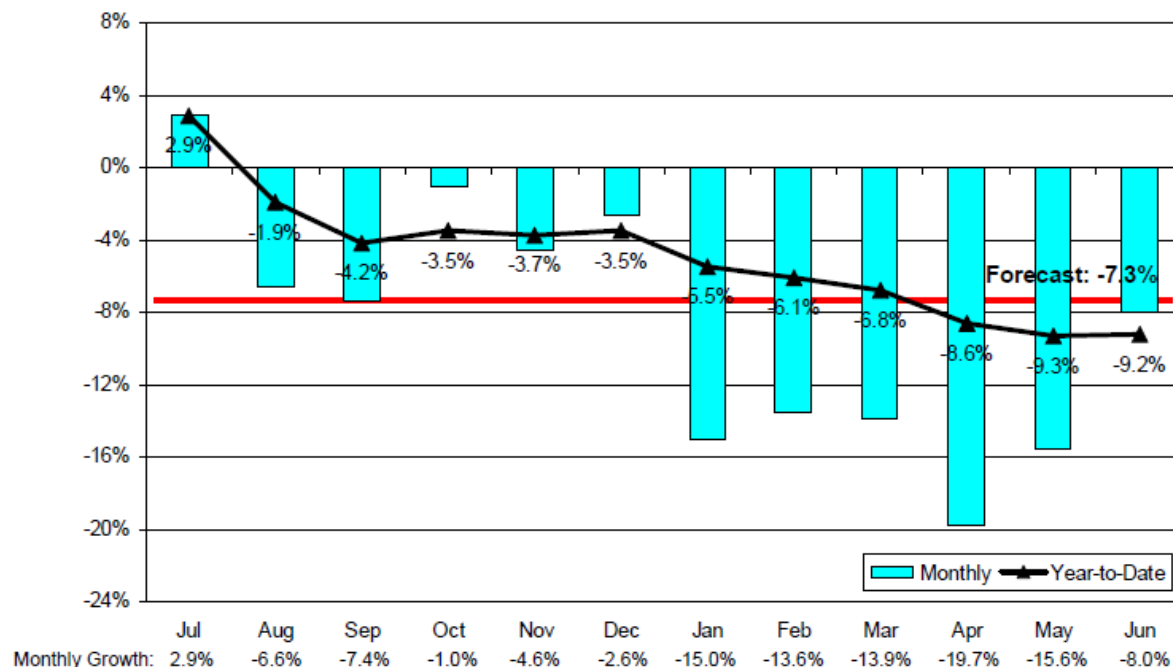
Summary of Key Virginia Economic Indicators

Percent Change Over the Prior Fiscal Year

	FY09 <u>Forecast</u>	FY09 <u>Actual</u>
Employment	-0.6	-1.4
Professional/Business	2.2	-0.8
Construction/Mining	-3.5	-10.1
Personal Income	2.1	2.3
Wages & Salaries	2.6	2.2

- Income growth is projected to be near expectations due to stronger-than-projected growth in net transfer payments.

Growth in Total General Fund Revenue Collections FY09 Monthly and Year-to-Date



- Collections declined an unprecedented eleven consecutive months in fiscal year 2009.
- For the second half of fiscal year 2009:
 - Payroll withholding tax collections fell 1.0 percent;
 - Individual nonwithholding declined 24.8 percent;
 - Individual refunds increased 17.0 percent;
 - Sales tax collections declined 5.9 percent;
 - Corporate income tax receipts fell 19.0 percent, and;
 - Recordation taxes declined 16.8 percent.

July Revenue Collections Continued The Downward Trend From Fiscal Year 2009...

Summary of July (FY2010) Revenue Collections

<u>Major Source</u>	As a % of Total <u>Revenues</u>	Percent Growth over Prior Year		
		<u>YTD Actual</u>	<u>C. 781 Estimate</u>	<u>Variance</u>
Withholding	62.1 %	(7.1) %	3.7 %	(10.8) %
Nonwithholding	15.4	1.6	1.5	0.1
Refunds	(11.7)	21.1	(9.2)	30.3
Net Individual	65.7	(8.7)	5.8	(14.5)
Sales	20.7	(6.0)	8.7	(14.7)
Corporate	4.7	50.7	11.7	39.0
Wills (Recordation)	2.0	(9.1)	(5.1)	(4.0)
Insurance	1.9	0.0	11.0	(11.0)
All Other Revenue	5.0	(22.6)	7.3	(29.9)
Total	100.0 %	(8.1) %	6.6 %	(14.7) %

- Withholding receipts declined 7.1 percent in July, primarily a result of one fewer deposit day.
- Individual refunds increased 21.1 percent in July, the fifth consecutive monthly double-digit increase.
- Sales tax collections declined 6.0 percent in July, maintaining the trend from the second half of last year.
- Recordation tax collections declined below double-digit rates in July, for only the fifth time in the last 37 months.

INTERIM FORECAST

TOTAL GENERAL FUND REVENUE

<i>FY 2010 Official Forecast</i>		<i>\$15.262 billion</i>
<i>FY 2010 Interim Forecast</i>	-	<i><u>\$14.079 billion</u></i>

<i>FY 2010 Revenue Shortfall</i>	<i>\$1.183 billion</i>
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<i>FY 2011 Interim Forecast</i>	<i>\$14.947 billion</i>
<i>Increase over FY 2010</i>	<i>+868.0 million</i>

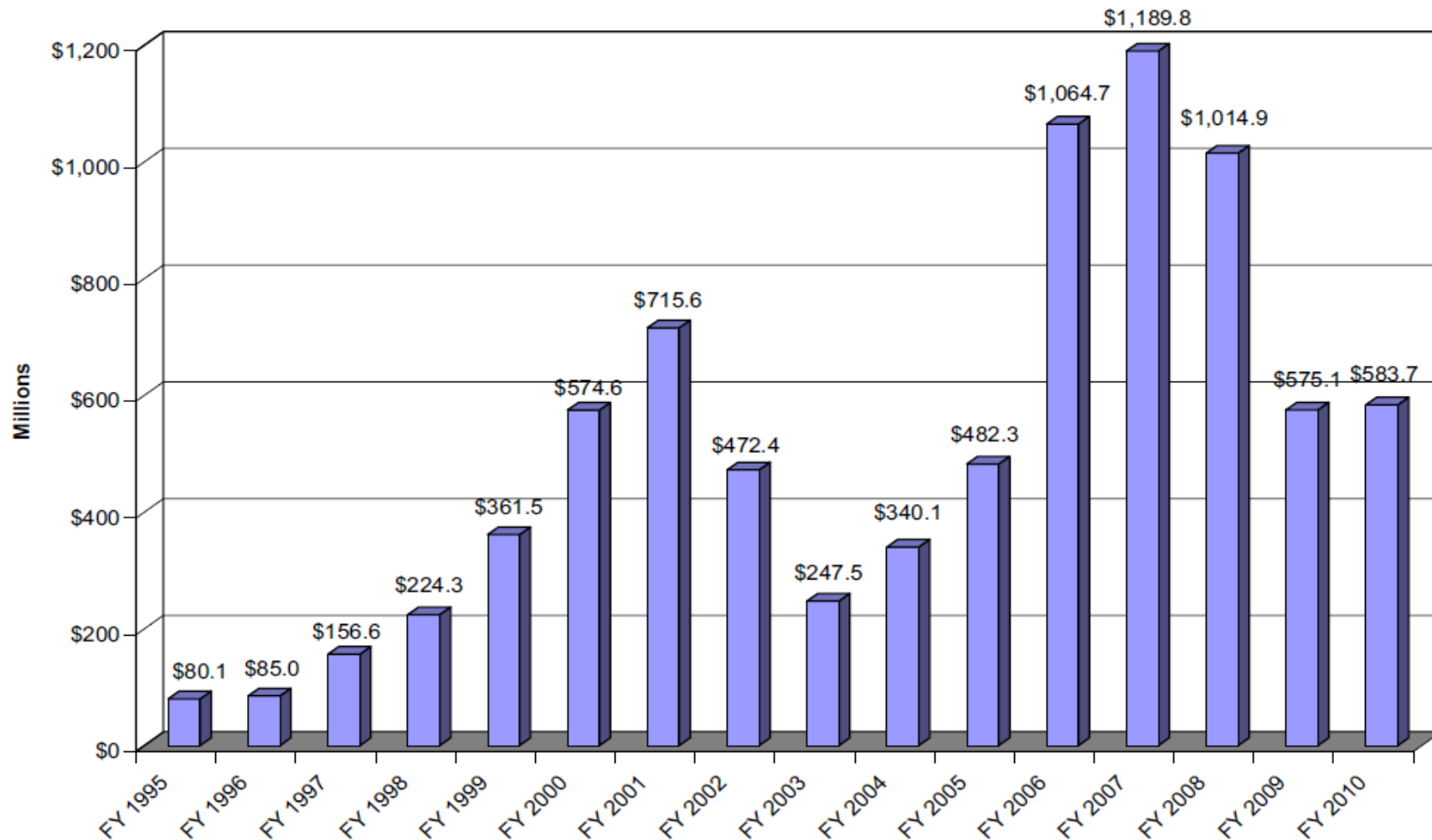
<i>FY 2012 Interim Forecast</i>	<i>\$15.728 billion</i>
<i>Increase over FY 2011</i>	<i>+782.7 million</i>

<i>Total Growth in General Fund Revenue 2010-12 biennium</i>	<i>\$1.651 billion</i>
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\$1.651 billion to address:

<i>--One-time budget balancing actions applied to FY 2010</i>	<i>\$600± million</i>
<i>--Medicaid</i>	<i>\$1.0± billion</i>
<i>--K-12 SOQ rebalancing</i>	<i>cost unknown</i>
<i>--Restoration of budget cuts</i>	<i>cost unknown</i>
<i>--Mandatory funding</i>	<i>cost unknown</i>
<i>--Funding initiatives</i>	<i>cost unknown</i>

Revenue Stabilization Fund



GOVERNOR'S BUDGET REDUCTION PLAN

Proposed Furlough:

- *One day only*
- *All full-time State employees*
 - Have to furlough all employees
 - No exceptions/exemptions
- *Includes employees in both the University and State HR systems*
- *All programs regardless of fund source*
- *State reverts total salary and social security savings from E&G programs*
 - Both general & nongeneral fund portions
- *Savings are in addition to the 15% reduction*
- *No impact on retirement*
- *Flexibility in when this is implemented*
- *Institution cannot add additional furlough days as a strategy to meet 15% budget reduction target*

Suspend Retirement Payments:

- *Last quarter of FY 2010*
- *VRS only*
- *VRS rate change will be adjusted in FY 2011*
- **May** *require employee contribution*

GOVERNOR'S BUDGET REDUCTION PLAN

Purpose: ***To address \$1.35 billion budget shortfall for FY 2010***

Higher Education: ***15% reduction for four year institutions***
 13% reduction for two year institutions

8%± (4 year) and 6.9%± (2 year) net of stimulus funds

<i>William and Mary:</i>	<i>\$6.079 m</i>	<i>(15% reduction)</i>
	<i>+0.119m</i>	<i>(eminent scholars)</i>
	<i><u>-2.848m</u></i>	<i>(additional stimulus \$)</i>

Net Reduction
To be addressed

\$3.35m in FY 2010

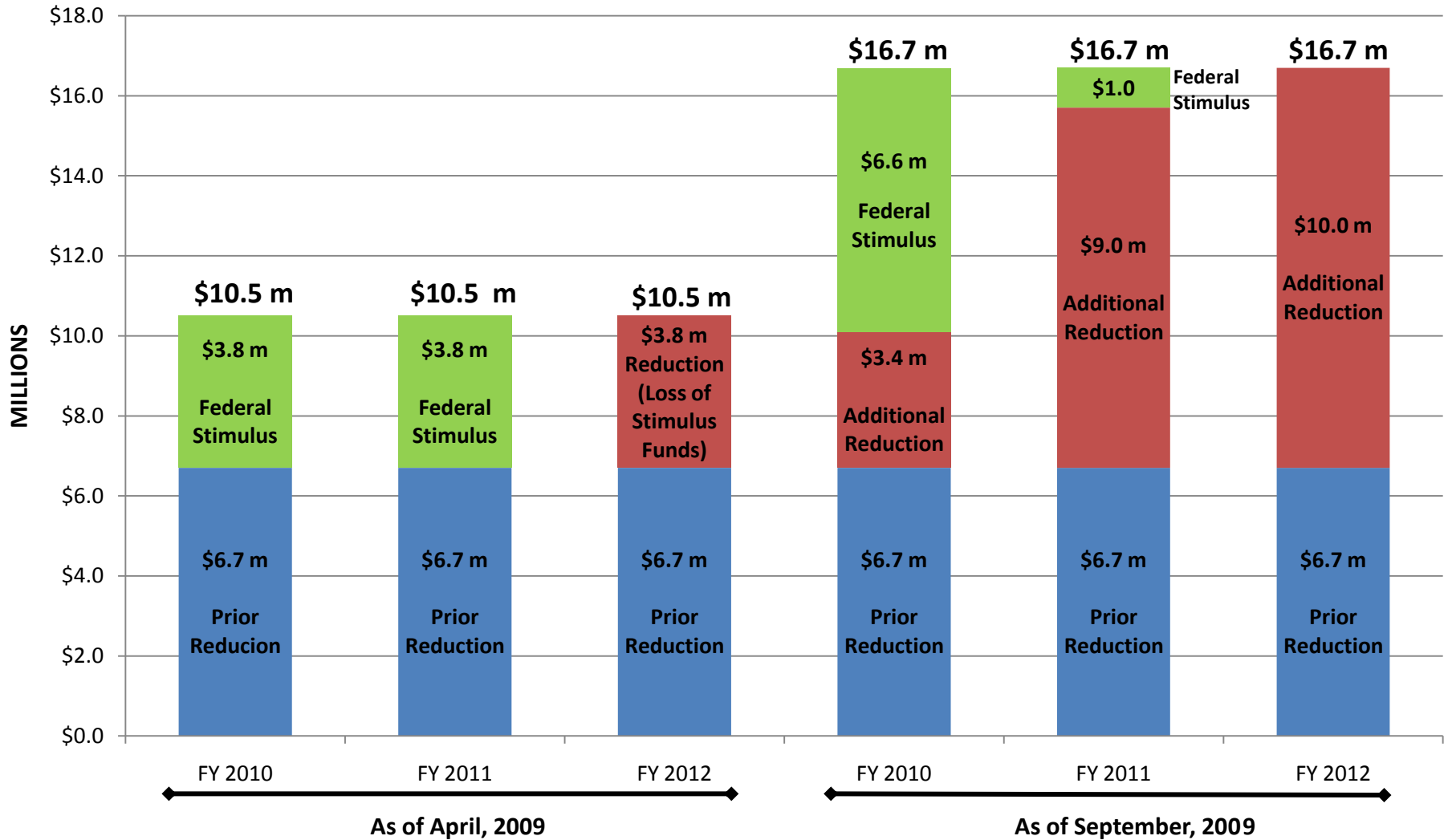
GOVERNOR'S BUDGET REDUCTION PLAN

Interaction of State Cuts and Federal Stimulus Funds:

- *In **April** state allocated \$3.8 million in one-time federal funds to offset \$3.8 million reduction in base general fund support. The State planned to continue the \$3.8 million in stimulus funds for FY 2011. The College would then have to address the permanent loss of \$3.8 million in state support in FY 2012.*
- *In **September** state reduces its support by an additional \$6.2 million and plans to move \$2.8 million of the FY 2011 stimulus funds to FY 2010. This results in a net FY 2010 additional reduction of \$3.4 million but requires the College to absorb in FY 2011 the September \$6.2 million reduction plus \$2.8 million of the original April reduction.*
- *The State hopes they can shift some federal stimulus funds from K-12 to higher education in FY 2011 to help with this transition.*
- *Proposed use of federal stimulus funds requires federal approval.*

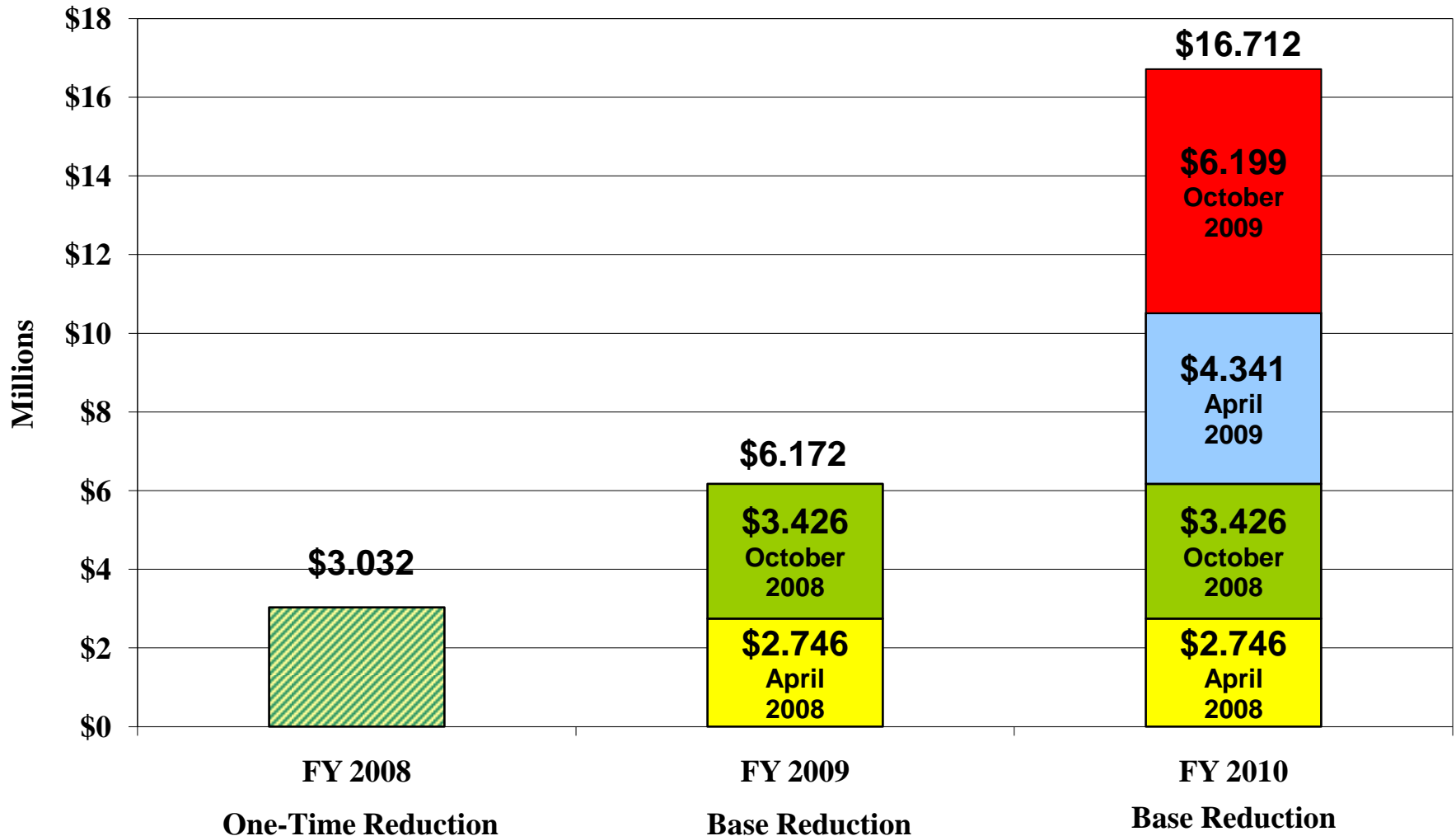
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Interaction of State Funding Reduction and Federal Stimulus Offsets



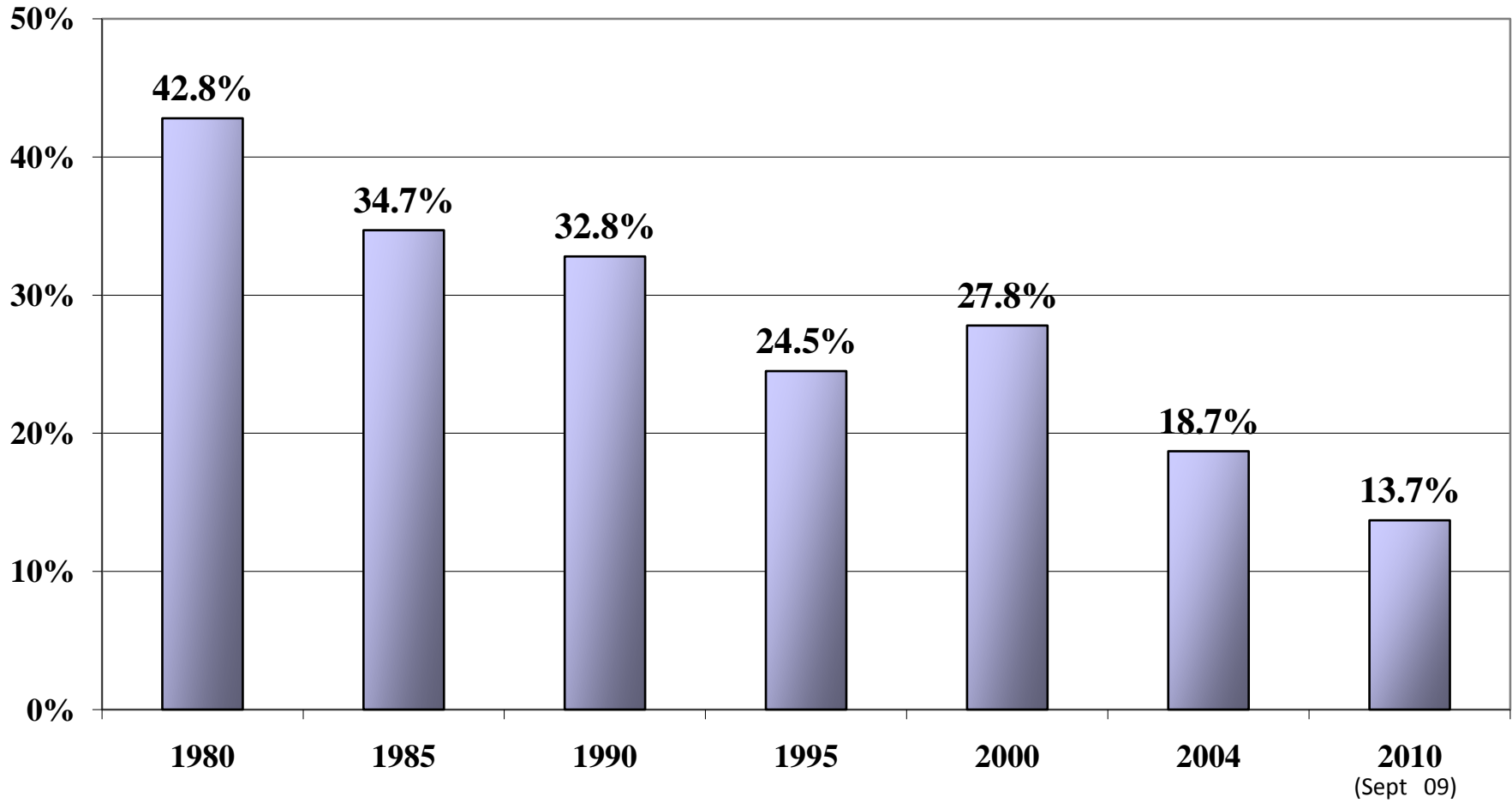
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Reduced State Support for Operations (2008-2010)



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State Support for Operations



*Estimated. Includes impact of 7% general fund reduction in October, 2008, an additional 8% general fund reduction in FY 2010, and a one-third reduction in eminent scholars support.

COLLEGE OF WILLIAM AND MARY
OPTIONS TO BALANCE THE BUDGET

Over the next two years:

- *Increase revenue*
- *Limit hiring*
 - hiring freeze or target selected positions*
- *Create “early retirement” incentives*
- *Expand alternative work schedules*
 - Flexible or fewer hours*
 - 10 month employee option*
- *Review size and scope of programs/activities*
- *Improve efficiency of operations*
- *Reduce operating Support*