Remember the economic good times—before the Great Recession of 2008? Independent schools rolled along with them, a glance at NBOA data shows. Staff numbers burgeoned by nearly a third, financial aid increased 38 percent, and student-teacher ratios improved as well.

At the same time, schools raised tuition 30 percent, an increase based on a long-accepted history of raising tuition well above the Consumer Price Index (CPI). Families apparently didn’t balk: enrollment increased 20 percent.

Now the 21st century reality of leaner times and uncertain economic forecasts has business officers, heads of school, trustees, and key staff members at many independent working together to find new formulas for financial sustainability.

Average tuition has continued to rise at both day and boarding schools while mean household income has dropped during the past three years. At the same time, those same tuition increases have far outstripped the CPI by more than 3 percent over the same period. (See chart on page 11)

Existing models provide a strong framework for structuring tuition rates and increases, but NBOA Executive Director Jeff Shields explains, “Every school must evaluate its own mission, market, and financial circumstance and develop its path to a sustainable future based on its financial philosophy and operational realities.”

One school that began seeking its own solution to tuition-setting issues a decade ago is Buckingham Browne & Nichols (BB&N), a co-ed pre-kindergarten through 12th-grade day school in Cambridge, Massachusetts. BB&N’s team of administrators and trustees has created a sustainable model, now in its third budget-planning cycle, which ties
future tuition increases to CPI+ about 1 to 1.5 percent.

Assistant Head of School for Operations and Chief Financial Officer Thom Greenlaw, along with BB&N Controller Jane Segale, will share their findings and advice with NBOA members at the 2011 Symposium with a presentation titled “Speaking from Experience: Building a Multi-Year Financial Model.”

BB&N tailored its plan to the school’s “context,” something any school seeking a viable sustainability plan must do, Greenlaw says. BB&N is a large, urban school with 1,000 students and several campuses. Historically, the school ranks as one of the country’s most selective and highest-cost day schools in the country.

“Because of the complexity of the operation, it costs more to run a bigger, urban school like ours,” Greenlaw says. In addition, the school has a relatively low endowment for its size, making BB&N—like many of its counterparts—tuition-dependent. The school wanted to find ways to increase endowment, bolster financial aid, and improve teacher salaries while taking the pressure off tuition.

A Model for the Future

BB&N started building its financial sustainability model in 2001. Using an Excel-based workbook, the school created a five-year operating model, then a 10-year, full-funds model in 2002. A full-funds model, which mirrors the school’s financial statements, was a better choice for BB&N than an operating model, which looks at current operations with some adjustment of inflation, Greenlaw explains.

The school uses the model—now at 50 pages of assumptions—to develop an annual budget, predict development and capital campaign cash flow, initiate studies of tuition versus cost at various grade levels, and develop a depreciation schedule.

The model also helps the school maintain an accessible archive of financial information, since it looks back 20 years and forward 10 years. “We also have the ability to do a lot of what-ifs, so it’s a budgeting and a planning tool,” Greenlaw says. “We can see instantly what a 4 percent salary increase would look like over the next 10 years.”

In addition, the model has become a key trustee orientation tool and an important means of engaging the board in the important work of financial sustainability—a conversation that many trustees are already having in their workplaces, Greenlaw notes.

Although BB&N was an early user of modeling as a budgeting tool, the school’s efforts got an added boost when Greenlaw and Rebecca Upham, Head of School, took a group of trustees to the NAIS/NBOA Financial Sustainability Workshop in 2006. They followed up with a board retreat that focused on financial models designed to determine if the school could sustain its reliance on tuition. Greenlaw sums up the retreat’s findings: “We couldn’t; we said that we had to do some serious work.”

BB&N looked at other elements, including enrollment growth, staffing, tuition increases, student-teacher ratios, inflation, and other factors, such as economic downturns and enrollment loss. Everything was scrutinized; nothing was deemed untouchable, Greenlaw says.

The CPI Effect

CPI also fell under the magnifying lens of BB&N’s model. In its research, BB&N found that tuition had increased 3.5 percent to 4 percent more than CPI over the previous two decades, while other income had grown at a lower rate, ranging from 5 percent more than CPI 20 years ago to 3 percent less than CPI today. On the expense side, financial
aid, faculty salaries, and benefit expenses had all outstripped CPI. Only non-compensation expenses showed negative growth compared to CPI.

“In the last 20 to 25 years, most schools went with CPI+3.5 percent and called it ‘independent school inflation.’ We were no different. That was just not sustainable,” Greenlaw says. Trustees and administrators used the model to determine what tuition BB&N would have to charge to have a balanced budget and be financially sustainable.

“We went back and said that if we relate everything to CPI and make the assumption that CPI is a good barometer of inflation, then what happens if we tie our major assumptions to CPI?” he explains. For tuition, the answer came to CPI+1 to 1.5 percent, rather than the “old normal” of CPI+2 or more. “For our school, for our purposes, if we do all the things we do and tie it to CPI and keep going with the status quo, we don’t need to charge more than that to be sustainable,” Greenlaw says.

Included in the modeling was an agreement around the percent of depreciation that the school would fund. BB&N set that figure at 75 percent. Currently, the school is funding 50 percent, but administrators expect to reach the 75-percent point within the next seven years.

In other areas, BB&N decided to tie salaries and non-operating expenses, including utilities, to CPI+0. Built into the model are methods to correct inefficiencies; for example, if food or utilities prices rise more than expected, the school can adjust other areas to CPI or less than CPI. Or, if BB&N finds that its faculty salaries have fallen behind the market, the school could make a one-time change, “but it would not be funded with tuition,” Greenlaw says. “We are saying some budgets might be cut. That’s a very hard discussion to have.”

Plugging in the numbers, the board and administration settled on the most “dramatic” scenario, one that increased the ratio from 7:1 to 8:1 over time and realized a savings of $2 million a year. “We decided that was the place we needed to be,” he says.

Town-hall-style meetings between trustees and faculty explained the “new normal” for teacher-student ratios. For teachers, the change would mean one to two more students in each class. At the same time, the school standardized what constitutes a full-time workload (the number of students that a full-time faculty member is assigned). In BB&N’s case, a full-time faculty member oversaw anywhere from 40 to 60 students; the change set the number at 50 to 55 across the board.

Instituting the model meant making some unpopular decisions, including cutting some part-time faculty positions, travel expenses, and library acquisitions. The changeover, however, has also allowed for some creative fundraising. “We created a wish list and went out to our donors,” Greenlaw says. “It has been wildly successful. We have had people step up and buy books and fund our faculty members going to conferences. One donor purchased several Smartboards for the school.”

The school’s financial sustainability efforts have also put the endowment in the spotlight, identifying the need for enough growth to fund additional financial aid and program enhancements. BB&N is completing a $62 million capital campaign begun in 2003 and about half that amount went toward the endowment, Greenlaw notes. Growing the endowment is “part of the long-term strategic plan for the school. We have decided it’s really where we need to go.”

Having a well-honed, functional model streamlines the budgeting process. “Last year, when we did this for the second time, we sat down with the
trustees,” Greenlaw recalls. “The only discussion was what we thought CPI would be and we plugged everything in and said, ‘Here’s our budget.’ Now we focus on big strategic issues. Before, we would fuss over every little thing.”

For other schools considering adopting a similar type of modeling, Greenlaw recommends that they look at every aspect of their program for inefficiencies. “You need to look at your core programming and be clear about what’s working for your school. The challenge I would offer any other independent school is: ‘Don’t just blithely assume you can increase tuition every year because the school down the road has done it or because you want to fund some new programs.’”

Schools can choose either a full-funds or operating model. For schools considering debt financing or that have outsiders looking at their bottom line, the full-funds method is the best route, Greenlaw says. For internal purposes only, an operating model works well. Schools can create a “home-grown” or “off-the-shelf” model using products such as the NAIS Financial Calculator. The answer depends on the school’s needs, the amount of time the business office and other administrators have to work on a model and the amount of expertise they can call on.

In BB&N’s case, the modeling process helped the school arrive at a new reality designed for its unique needs and mission. “You need to solve this for your own school, whether you are a growing school, a mature school, a small school or a large one,” Greenlaw says. “Don’t be part of the herd, but have the very complex and hard discussions about what it means to be financially sustainable. Develop your sustainability model and stick to it.”

Since 2001 Thom Greenlaw has served as Assistant Head for Operations/CFO at the Buckingham Browne & Nichols School in Cambridge, MA. He oversees all non-academic operations of the school and serves as Assistant Treasurer. Prior to his employment at BB&N, Greenlaw served as Business Manager at the Dana Hall School for six years and was a hospital administrator for 20 years. He also has served as an adjunct professor at Western New England College and has served for four years as Chair of the Board of Trustees at Summit Montessori School in Framingham, MA. Greenlaw currently serves on the Board of Directors of Independent School Compensation Corporation (ISCC) and the National Business Officers Association (NBOA).