NAIS RESEARCH

A Summary of Report Findings from

Tuition Trends in Independent Day Schools

William Daughtrey, William Hester, and Kevin Weatherill
Peabody College at Vanderbilt University

National Association of Independent Schools
www.nais.org

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The National Association of Independent Schools provides services to more than 1,800 schools and associations of schools in the United States and abroad, including 1,500 nonprofit, private K–12 schools in the U.S. that are self-determining in mission and program and are governed by independent boards. For more information, visit *www.nais.org*.

NAIS conducts research among schools nationally and then provides you with targeted, digested reports you can use to evaluate your own practices. Our research clearinghouse also identifies external research relevant to independent schools and helps you understand how to use the findings in your work.

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A Summary of Report Findings

From *Tuition Trends in Independent Day Schools*

William Daughtrey, William Hester, and Kevin Weatherill

Conversations about independent school sustainability gained momentum with the 2008 financial crisis. Independent school leaders, faced with new economic and demographic realities as well as increased competition from expanding low-cost or no-cost educational alternatives, have wrestled with how to balance increasing costs with the concern that their schools are reaching a "price break point," a price tag families will no longer be willing to pay.

With this context in mind, researchers at Peabody College at Vanderbilt University, William Daughtrey, William Hester, and Kevin Weatherill, in collaboration with NAIS, undertook a study to investigate how school leaders are responding to increased costs in a competitive marketplace.

Their project focused on three key questions:

1. What drivers influence the total cost to educate an independent school student?
2. How are school leaders making decisions about programs and tuition as they compete for students to enroll?
3. How are school leaders seeking to curb costs and to utilize alternative income sources or business models to close fiscal gaps?

The researchers analyzed 25 years of data from NAIS's Data and Analysis for School Leadership (DASL) as a statistical foundation to identify trends in tuition, salaries, and enrollment. They also administered two different surveys to heads of school and chief financial officers of independent day schools across the country; 551 heads of school and 538 CFOs responded to these surveys. Finally, they interviewed heads of school and CFOs at 13 independent schools that ranged from under 200 students to more than 700 students and were located in the East, Mid-Atlantic, Southeast, Southwest, and Midwest. In the figures and tables in this report, percentages may not total 100 due to rounding.

An abbreviated version of the researchers' report findings follows. The full report, which includes background, discussion, and additional details, is available at *www.nais.org*.

Finding 1

Tuitions continue to rise; financial aid expenses are increasing; and compensation, particularly for administrators, continues to account for the largest percentage of a school's operating budget.

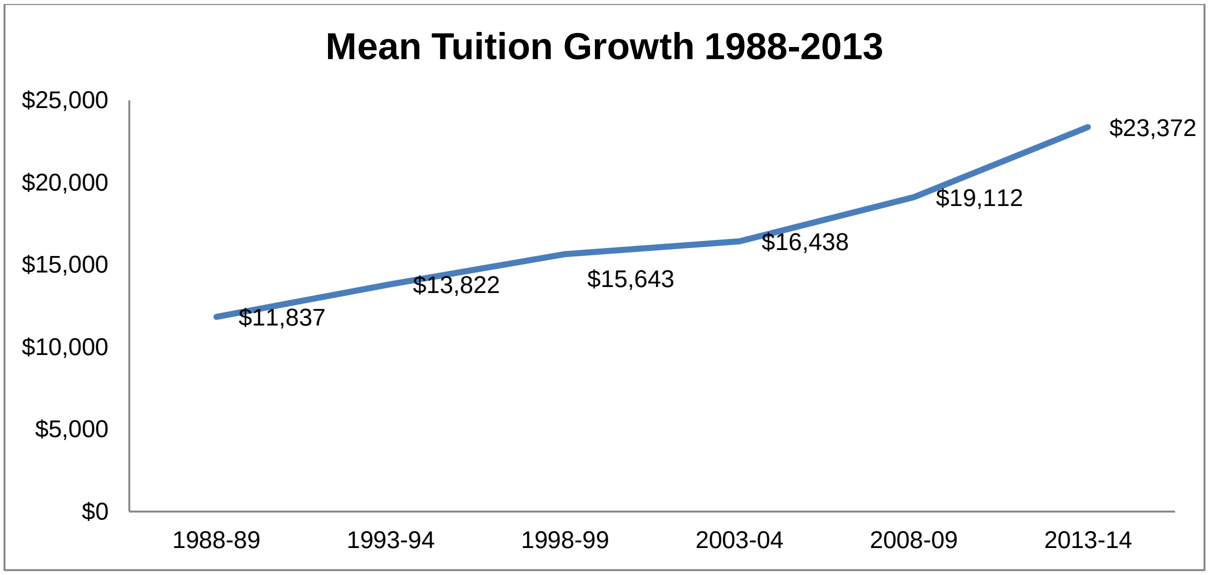
Our analysis of the historical data from NAIS's Data and Analysis for School Leadership (DASL) reveals three key findings related to tuition and tuition cost-drivers.

1. By every measure of tuition, average tuitions have been increasing steadily at rates significantly above inflation. Depending on the time period and method of calculation, average rates of tuition increase range from 2.6 percent per year to 4.1 percent.
2. While net tuition revenue has grown, its growth has been slower than that of tuition; school income from tuition has not kept pace with the rising "sticker price." For any time period under study, the rate of growth of financial aid expenditures has been significantly greater than the rate of growth of tuition revenue, often approaching double.
3. Increases in teacher salary and in overall faculty/staff salary spending have been in line with increases in tuition and revenue. The exception is spending on administrative salaries, which has risen twice as fast as spending on teacher salaries; the ratio of total teacher salary spending to total administrative salary spending has dropped from 4:1 to almost 2:1.

Increases in Tuition

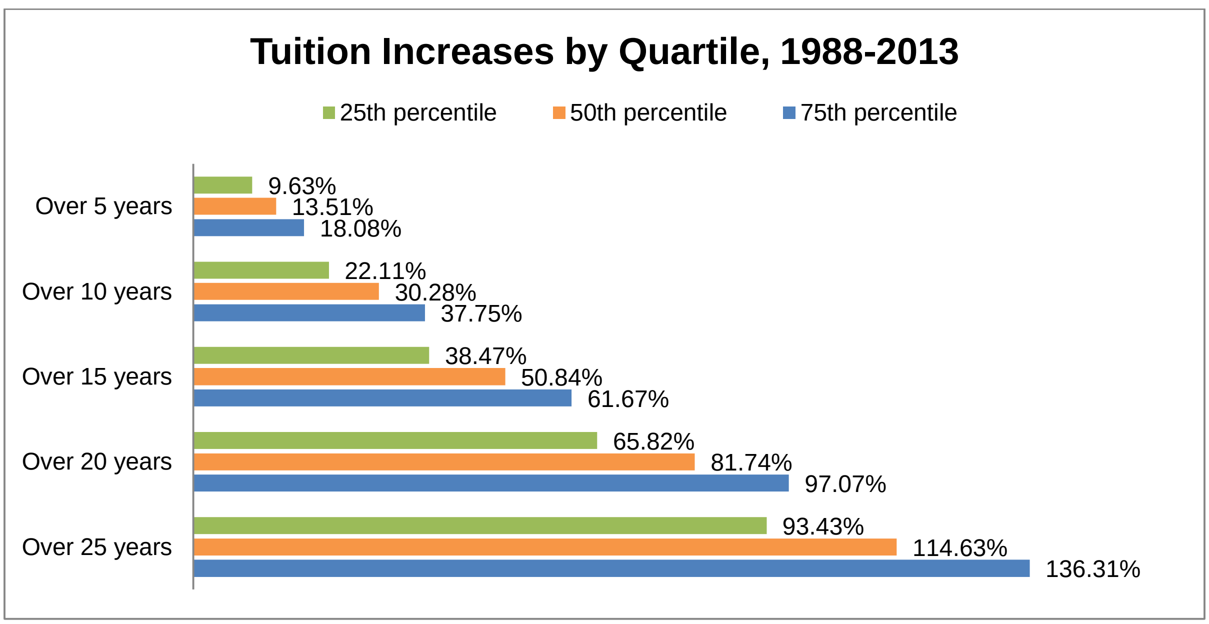
Our analysis of the data in DASL shows that tuitions over the past 25 years have steadily increased. When adjusted for inflation, mean day school tuitions grew 97 percent from 1988-99 to 2013-14, increasing from an average $11,837 to $23,372 (see Figure 5).

Figure 5



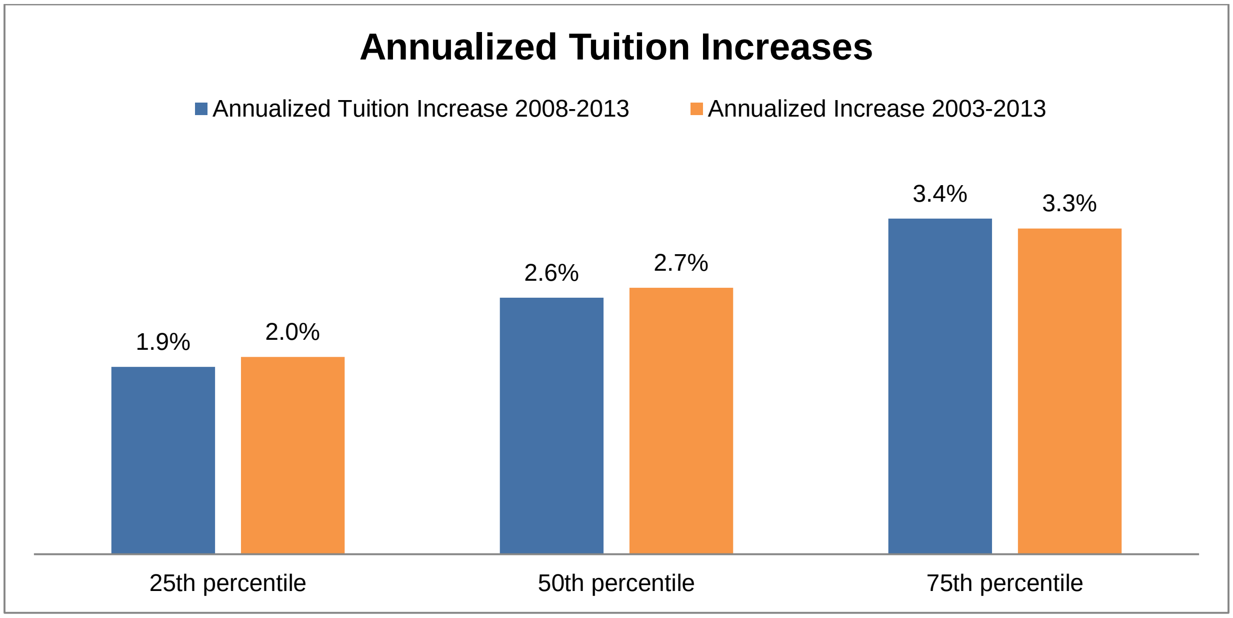
The average tuition has grown 42 percent in real dollars in the past 10 years, moving from just over $16,000 to just over $23,000. Looking at the distribution of tuition increases across schools, we found that ***over the past 10 years, 50 percent of schools increased tuition 30 percent or more in real dollars, and almost all schools doubled their tuitions in real dollars over the past 25 years*** (see Figure 6).

Figure 6



The annualized rates of tuition increases (Figure 7) reveal that 25 percent of schools increased tuition more than 3.3 percent beyond inflation, 50 percent of schools increased it more than 2.7 percent beyond inflation, and 75 percent of schools increased it more than 2 percent beyond inflation between 2003 and 2013. Rates remained fairly consistent between 2008 and 2013.

Figure 7



The Growing Expense of Financial Aid

The expense of financial aid programs has increased much faster than any measure of tuition. In 1988-89, the average independent school spent $1,067 per student (in 2013 dollars) on all financial aid, which includes need-based aid, non-need-based aid, and tuition remission for children of faculty and staff members. ***By 2013-14, this average had increased to $3,239 per student, an increase of 203.6 percent*** (see Table 2).

Table 2

	Gross Tuition & Fees revenue	Financial Aid Expense	Net Tuition & Fees Revenue
1988-89	$10,908	$1,067	$9,900
1993-94	$12,443	$1,442	$11,099
1998-99	$13,748	$1,578	$12,215
2003-04	$16,199	$1,810	$14,429
2008-09	$19,683	$2,592	$17,117
2013-14	$22,115	$3,239	$18,963

To simplify, the same inflation-adjusted 25-year span that saw tuitions double saw financial aid expenditures triple.

Since net tuition revenue is the difference between gross tuition income and total financial aid expenditure, this explosive growth in financial aid has meant lower rates of increase for net tuition revenue. Over the same 25-year period, the average school saw an annualized increase in tuition of 2.9 percent but an annualized increase in net tuition revenue of only 2.6 percent. The same period saw an annualized increase of 4.5 percent in financial aid expenses. Since all of these rates of changes are adjusted for inflation, they reflect not only the fact that all of these categories are growing faster than inflation but also the trend that financial aid expenses are growing at nearly twice the rate of net tuition revenue.

Figure 8

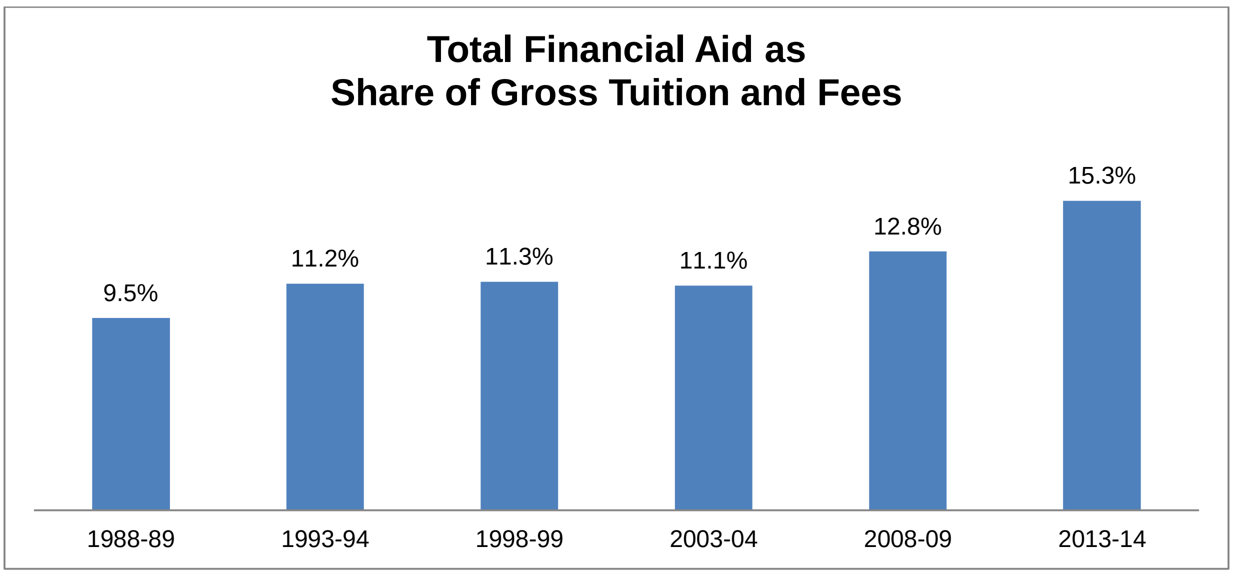


Figure 8 shows total financial aid as a share of gross tuition and fees, but an alternative way to examine this same trend is to consider total financial aid spending as a share of other crucial school financial indicators. In 1988-1989, schools devoted an average of 7.9 percent of total income and 10.5 percent of net tuition revenue to the financial aid budget; by 2013-2014, the financial aid budget averages had shifted to 15.0 percent of total income and 19.2 percent of net tuition revenue. Again, to simplify, schools have doubled the amount of financial aid awarded in relationship to their available resources. All of these indicators point to a structural shift in priorities; increases in financial aid expenditures have grown even above and beyond the significant growth in tuition revenues.

The school leaders we interviewed were quick to link any discussion of tuition increases to the topic of enrollment and financial aid. A head of school commented, “We know there are some families who will not consider us or our competitors because of our price point. But, I think that stems from a lack of awareness of our commitment to financial aid.” The relationship between tuition and retaining and attracting families was succinctly summarized by a CFO: “Will keeping tuition lower really get you any more students?” To that same end, school leaders noted the importance of bolstering financial aid budgets. “Financial aid needs to be allocated to all 13 grades. It is our fastest growing item in the budget,” one person said. Other leaders have noted the expansion of financial aid: “Enrollment has become more challenging in the earlier grades because of the financial commitment for 13 years of tuition.” A head of school said, “We’ve seen a softening of admissions in kindergarten; we’ve seen more families applying for and qualifying for financial aid, and we’ve increased our commitment to it.”

Enrollment management, and its relation to tuition rates, remains a concern. As one respondent said, “You can’t expect to spend your total financial aid budget when you come in under the enrollment target.” Nearly every school leader agreed that financial aid budgets have increased in an effort to retain and attract families as this comment indicates:

> We had years of targeted aid. We’ve had years we’ve given more to the primary and middle schools, and it worked. During the economic downturn, we lost a few families, but we increased the percentage of families receiving aid in an effort to retain families.

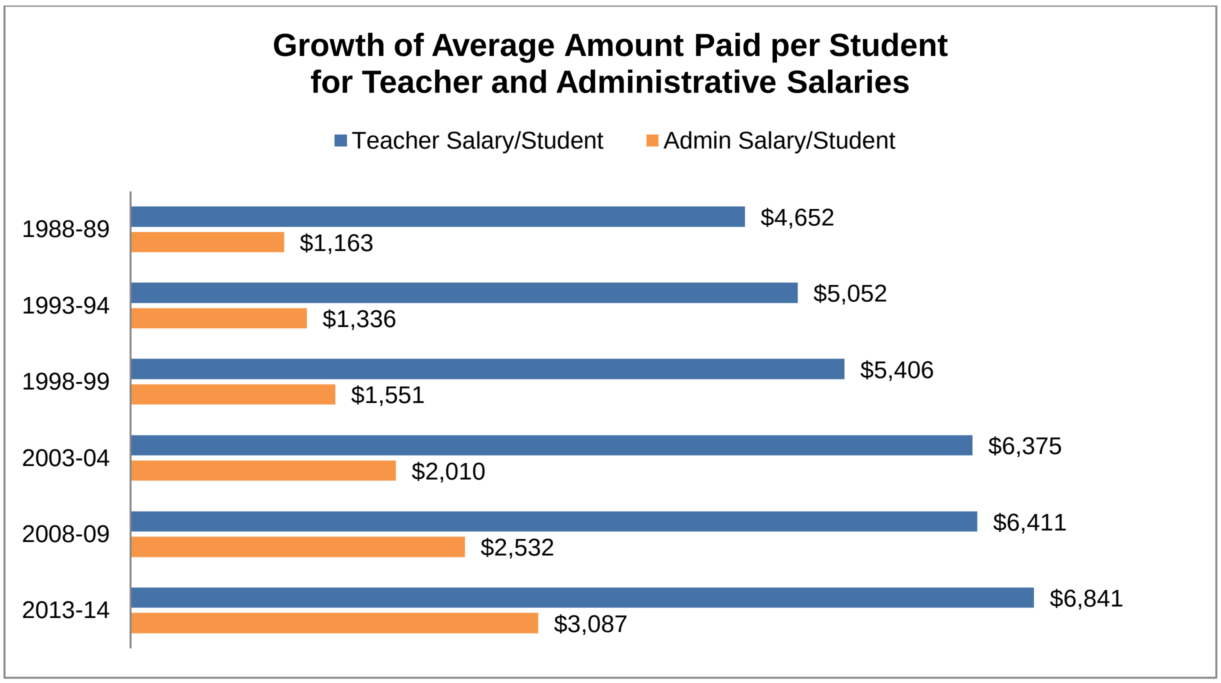
However, some leaders noted a bimodal distribution (sometimes called the “barbell effect”): “It seems like we’re drawing families that need 90 percent or nothing.” Of course, as one CFO noted, “Even if you increase enrollment, it’s only a temporary fix.”

The Rising Costs of Compensation

Independent school education is often described as a people business, and financial indicators support this characterization. Across our 25-year time span, schools have consistently spent around 70 to 80 percent of their operating budgets on salaries, benefits, and related costs of personnel. Though many studies focus primarily on teacher salaries, there are several important perspectives to consider related to the total cost of compensation for schools.

Teacher salaries at independent schools have increased but at rates below the rate of increase of tuition. In 1988-89, the average starting teacher salary in independent schools was $32,913, and the average mean teacher salary was $47,553 (both of these figures have been adjusted to 2013 dollars). By 2013-14, the starting salary average had increased to $38,767, and the mean salary average had increased to $56,702. These 25-year increases of 17.8 percent and 19.2 percent, respectively, are far below increases in tuition revenue or total school income; in fact, they reflect growth of less than 1 percent per year after inflation. The measure of total teacher salary spending per student over the same time period shows a greater increase, from $4,652 to $6,841, for a 47.1 percent increase above inflation over 25 years (Figure 9). This figure is probably more indicative of the growth in teacher salaries as a tuition driver, as it reflects both the addition of teaching positions and potential reductions in class size or teaching load or both. Still, this figure of 1.6 percent per year over 25 years is significantly below the overall growth of school income or expenses.

Figure 9



Salaries in other categories have represented significantly larger increases than teacher salaries. If we consider total faculty and staff salary spending per student, the average school has increased from $6,907 in 1988-89 to $12,054 in 2013-2014, an increase of 74.5 percent after inflation over 25 years. This annualized increase of 2.3 percent comes close to reflecting total growth in net tuition revenue over the same period and would support the hypothesis that compensation is the single largest driver of tuition revenue.

Growth in administrative salaries has outpaced both overall compensation and teacher salary spending by a significant margin. In 1988-89, schools spent an average of $1,163 per student on administrative salaries (adjusted to 2013 dollars); by 2013-14, that average had increased to $3,087 per student (see Figure 9).

This 25-year growth of 165.4 percent equals an annualized increase of 4.0 percent above inflation. This far outpaces even the 75th percentile of schools' tuition increases. It is unclear to what extent this spending increase is driven by higher salaries for administrators or a greater number of employee positions designated as administrators; in either case, the shift from faculty pay to administrator pay is clear.

In 1988-89, for every dollar spent on teacher pay, schools spent 25 cents on administrative pay; by 2013-14, for every dollar spent on teacher pay, schools spent 45 cents on administrative pay.

Over that same period, while teacher salaries as a share of total spending fell from 41 percent to 32 percent, administrative salaries as a share of total spending rose from 10 percent to 14 percent.

Finding 2

School leaders, particularly of larger schools, plan to continue increasing tuition above the rate of inflation.

Eighty-one percent of heads of school and 89 percent of chief financial officers indicated that next year's tuition would increase at a rate equal to or higher than CPI (r=.297, r=.295, respectively). Overall, more than half of the heads and CFOs surveyed indicated that tuition increases will be slightly more than CPI (see Table 3).

Table 3

Question A: How do you expect tuition next year will compare with tuition this year?

	Head	CFO
Next year's tuition will be lower (in nominal dollars) than this year's.	1%	1%
Next year's tuition will be the same (in nominal dollars) as this year's.	4%	3%
Next year's tuition will increase but at less than the rate of inflation (CPI).	13%	7%
Next year's tuition will increase at approximately the rate of inflation.	25%	17%
Next year's tuition will increase somewhat more than the rate of inflation.	52%	62%
Next year's tuition will increase much more than the rate of inflation.	4%	10%
Total responses	551	442
Correlation with size of school	.297	.285

Interesting differences emerged related to the size of the respondent's school. The percentage of heads and CFOs agreeing with the statement that next year's tuition would increase somewhat above CPI grew as school size increased, with leaders from the largest schools (those with 700 students or more) the most likely to agree.

There were positive correlations between plans for next year's tuition and measures of overall school financial health. Both head and CFO surveys revealed statistically significant correlations between tuition and the following issues: overall financial health (r=-.117, r=-.202), capacity to offer competitive salaries and benefits (r=-.136, r=-.145), and capacity to fund professional development (r=-.164, r= -.168). For each of those issues, a greater planned increase in tuition as reported by the school leader was correlated with more positive assessments of financial health, a greater ability to offer competitive salaries, and a stronger capacity to fund professional development.

There were positive correlations between size of the school and measures of overall school financial health. Larger schools were more likely than smaller schools to report "very good" or "good" overall financial health; the very largest schools (over 700 students enrolled) were twice as likely as the very smallest schools (under 200 students enrolled) to report "very good" or "good." Similar trends existed for size of school and the school's capacity to offer competitive salaries and benefits and to fund professional development; in both cases, small schools were significantly less likely to report positive responses to those questions (see Table 4).

Table 4

Percent of respondents who indicated "very good" or "good" to financial health indicators (by size of school)

	<201	201-300	300-500	501-700	>700	Corr.
School's overall financial health	56%	74%	86%	86%	97%	.374
School's capacity to offer competitive salaries/benefits	40%	71%	71%	71%	93%	.411
School's capacity to fund professional development	54%	69%	79%	75%	94%	.328
School's ability to articulate a value proposition to families	81%	84%	89%	92%	92%	.157
School's ability to meet families' financial need	62%	67%	77%	72%	81%	.113
The overall sustainability of the school's business model	56%	66%	77%	79%	86%	.252

The school leaders we interviewed saw tuition increases as inextricably linked to teachers' compensation. As one head of school noted: ***"You're either going to balance things financially on the backs of faculty or families."***

Schools often reported that they had to increase tuitions in order to generate the raise pool for faculty and staff and to cover increased costs of benefits. One head of school summed it up well when he said, "The top priority for our school: rewarding great teaching."

This balance of compensation and tuition — to increase one is to increase the other — was echoed by another head of school when discussing the impact of the school's decision to limit tuition increases: "We decided we can't increase tuition past CPI. We want to send the message that we are doing everything we can to keep costs down.... We have a limited raise pool because of our tuition-increase ceiling."

Yet the majority of the comments we heard in our interviews are captured in this comment from one head of school: "We've given salary increases, but our teachers really could stand to be more competitively compensated. We're not at 80 percent of the public school salaries." School leaders feel the pressure not to limit annual raises even when that most certainly means tuition increases well above inflation.

Finding 3

School leaders set tuition increases based on the school's educational program and strategy, not inflation.

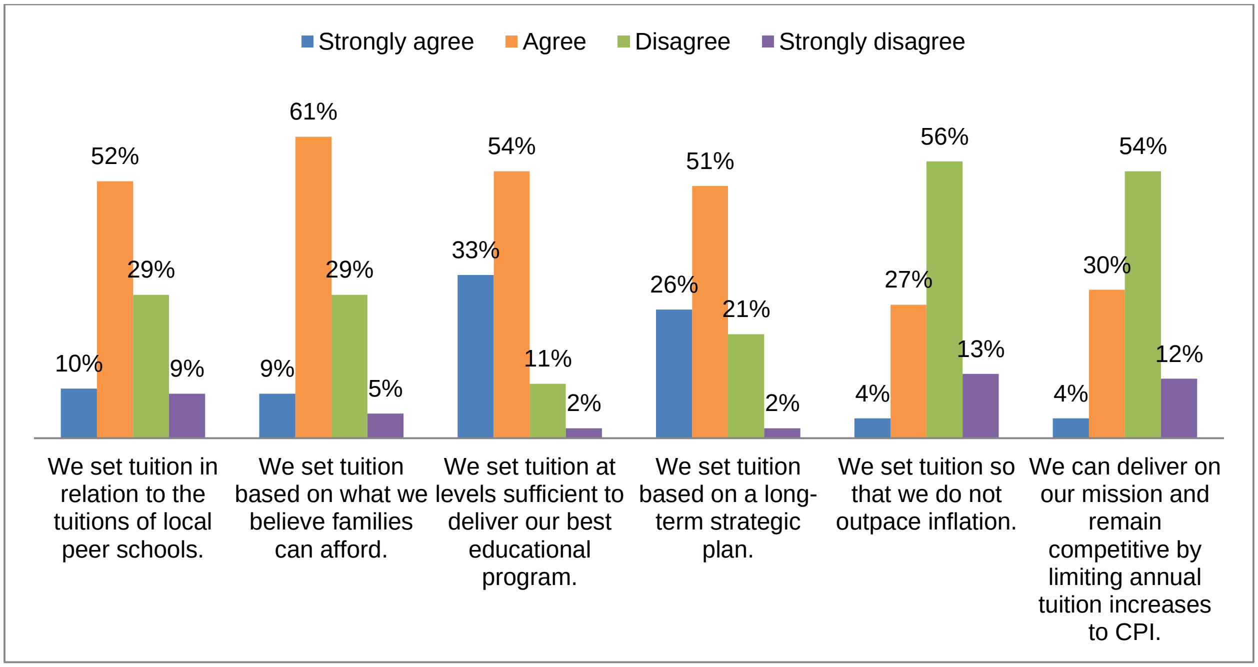
Sixty-nine percent of heads and 82 percent of CFOs disagree or strongly disagree with the statement, "We set tuition so that we do not outpace inflation (CPI)" (see Figure 10). Head of school and CFO surveys produced statistically significant correlations with tuition (r=.416, r=.400). As school leaders were more likely to report planning tuition increases greater than inflation, they were more likely to report disagreeing with the idea that they could sustainably limit themselves to inflation-based increases. Both the head and the CFO surveys found statistically significant correlations between responses to "We set tuition at levels sufficient to deliver our best educational program" and "We can deliver on our mission and remain competitive by limiting annual tuition increases to CPI" (r=.429, r=.455).

As planned tuition increases grow, so does the likelihood of disagreeing with the statement "We can deliver on our mission and remain competitive by limiting annual tuition increases to CPI." Sixty-six percent of heads and 77 percent of CFOs either disagreed or strongly disagreed with the idea that they would be able to offer the best educational program and remain competitive while limiting tuition increases to inflation.

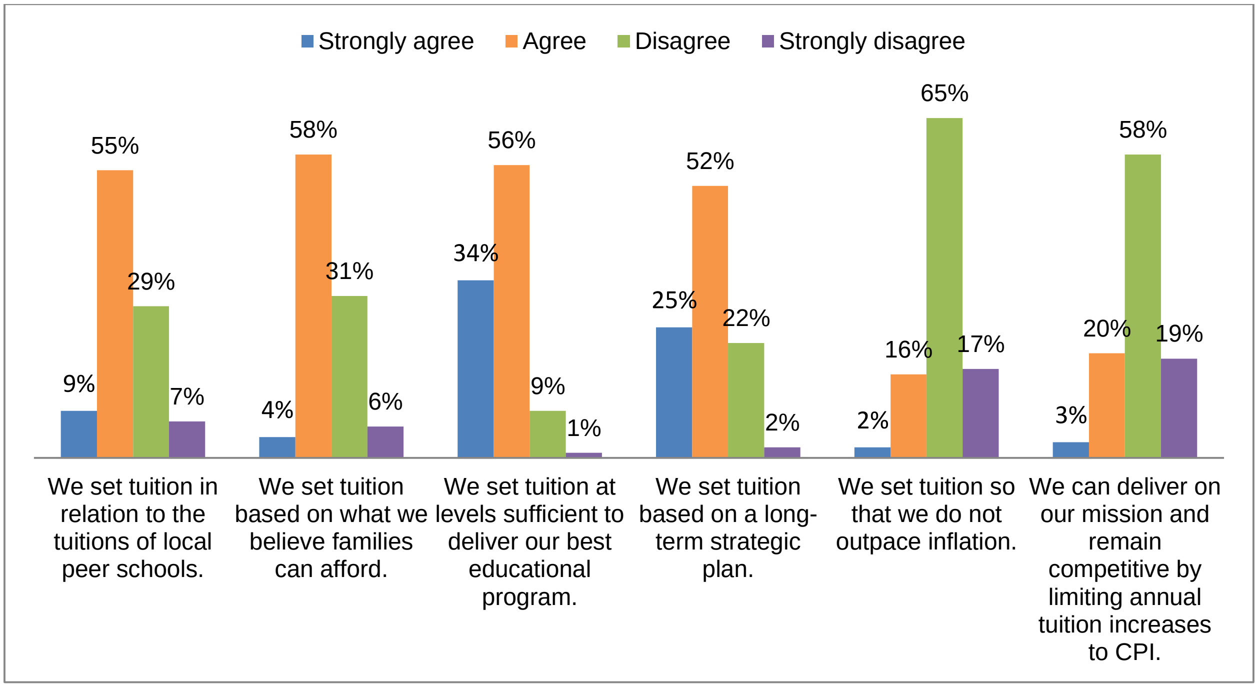
Figure 10

Level of agreement with the following statements about tuition-setting practices

Head of School responses



CFO responses



There were statistically significant correlations on both head and CFO surveys between overall school financial health and the following practices: setting tuition at levels sufficient to deliver the best educational program, setting tuition based on a long-term strategy, altering financial aid practices to compete with local schools, and altering financial aid to attract new families. As each of these likelihoods increased, so did the reported overall financial health of the school.

As with tuition increases, size of school matters. CFOs of the smallest schools were nearly twice as likely to agree or strongly agree with the practice of limiting tuition increases to inflation or less in order to remain competitive in their market. Heads mirror this finding, with the smallest schools most likely to report keeping tuition increases at or below inflation as a means of staying competitive in local markets. Head and CFO surveys found statistically significant correlations between size of school and these two statements: "We set tuition at levels sufficient to deliver our best educational program" and "We set tuition so that we do not outpace inflation." Larger schools were more likely to report that they set tuition at levels sufficient to deliver their best educational program.

We often heard that the process of setting tuition involved conversations about the anticipated increases at local schools in competition with the same students, financial aid practices, quality educational programming, and compensation. Schools report trying to find a tuition point that allows them to deliver the value the market demands at a price it is willing to pay. A CFO described tuition decisions as "not planned in a vacuum … we're always talking about what the market can bear in addition to what other schools are charging, and what we need to operate."

As one school leader noted, "We're slightly above CPI on faculty salary increases. We haven't had any issues with enrollment or financial aid. We anticipated increases in the number of families applying for financial aid." Heads of school varied on their approach to setting tuition. As one commented, "We are the least expensive of the private schools [in the local market]. We are intentionally positioning ourselves there." And yet, another head of school said, "If we cut tuition dramatically, there would be families who questioned our value. We feel families feel our value when they're here; the question is whether they can afford it."

One head of school was cautious about engaging too heavily in conversations about limiting tuition increases to CPI. ***"If you look at organizations who price the way we do," he said, "they focus on value and enhancing value.*** They don't focus on the price. They operate on the assumption that people will respond to the value proposition in a more powerful way."

Finding 4

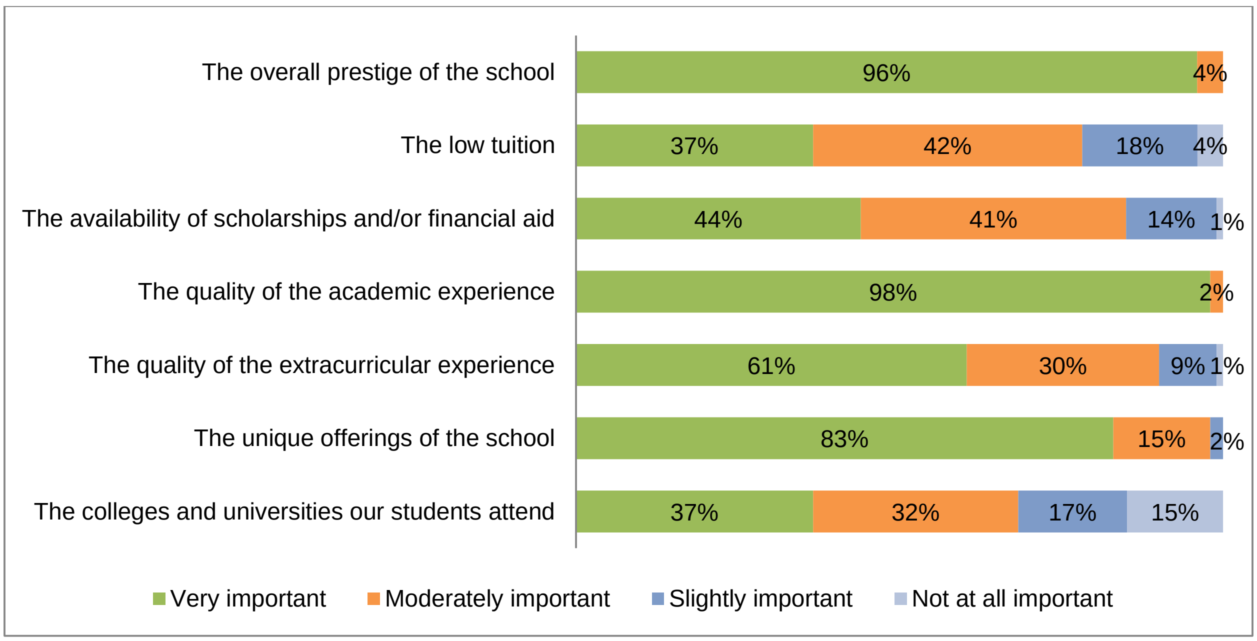
School leaders prioritize the quality of the academic experience when considering how to communicate the school's value proposition.

When it comes to encouraging families to enroll, school leaders overwhelmingly reported that the overall prestige, the quality of the academic experience, and the unique offerings of a school were more important to prospective families than tuition rates or financial aid policies (see Figure 11).

Figure 11

Question H: For each item, indicate how important each will be in marketing the school over the next five years.

Head of School responses



When asked to identify the school features that would be most important to attracting families to the school in the next five years, 98 percent of heads of school responded that "the quality of the academic experience" was "very important," 96 percent responded that "the overall prestige of the school" was "very important," and 83 percent reported that "the unique offerings of the school" were "very important." Sixty-one percent reported that "the quality of the extracurricular experience" was "very important." The reported importance of financial aspects of the school was consistently lower, with 44 percent of respondents reporting "the availability of scholarships and/or financial aid" and 37 percent of respondents reporting "the low tuition" as "very important" to attracting families to attend the school.

Survey responses also reveal that school leaders weigh the quality of the educational program most heavily in their conversations about setting annual tuition increases. Eighty-seven percent of heads of school say that they "strongly agree" or "agree" that they "set tuition at levels sufficient to deliver our best educational program." We found a statistically significant correlation between heads of school who agreed that the school set tuition at levels sufficient to deliver its best educational program and heads of school who highly rated their school's overall financial health ($r=.350$, $p<.01$).

The school leaders we interviewed consistently reported that while financial aid budgets were increasing and while they were sensitive to large tuition increases, those things were secondary to providing the best educational program available. "We do not compete on price," one CFO reported. "We are a product/process school." Leaders agreed that people are not choosing independent school because it is an inexpensive option but rather because it is an investment in a quality education. "We've shifted from being overly concerned with what others were charging, and moved to focusing on what we offer," a head of school noted.

When we asked school leaders to identify the key challenge for their schools, we found that they are not concerned about price but the value of the experience: "It's not a financial challenge; it's a value proposition challenge." Another head noted, "It's making sure what we're offering is really worth it." In order to attract families to the school, the majority of leaders are focusing their efforts on making sure they are offering an experience people want to have.

"We have to, now more than ever, articulate our so-called value proposition.... We know we have to be smarter and more savvy about why you're paying $25,000 after taxes."

Finding 5

School leaders are cautious about utilizing cost-saving measures that could negatively impact the quality of the educational program.

We asked school leaders to consider how important a variety of cost-saving measures pertaining to the salary, benefits, and educational program were to decreasing costs over the next five years. There is strong agreement among most heads of school and CFOs interviewed that all of the cost-saving measures were either “not at all” or only “slightly” important (see Figure 12).

Since independent schools on average dedicate 75 to 80 percent of operating budgets to salary and benefits, adjustments in these domains stand to have the largest immediate impact on school operating expenses. Yet our survey results indicate that 84 percent of CFOs felt “slowing the pace of salary increases” was either “not at all important” or “slightly important” to decreasing costs over the next five years. Both heads of school and CFOs responded similarly when asked about other variables, such as reducing employer benefit contributions or changing available benefit plans.

The school leaders we interviewed emphasized that delivering a quality educational program means paying competitive salaries, offering robust benefits packages, and retaining talented teachers. School leaders broadly agree that people are a key part of the value proposition. One head of school captured the importance of teachers in creating the value of the student experience when he said, “We rely on human interaction … to create learning experiences.”

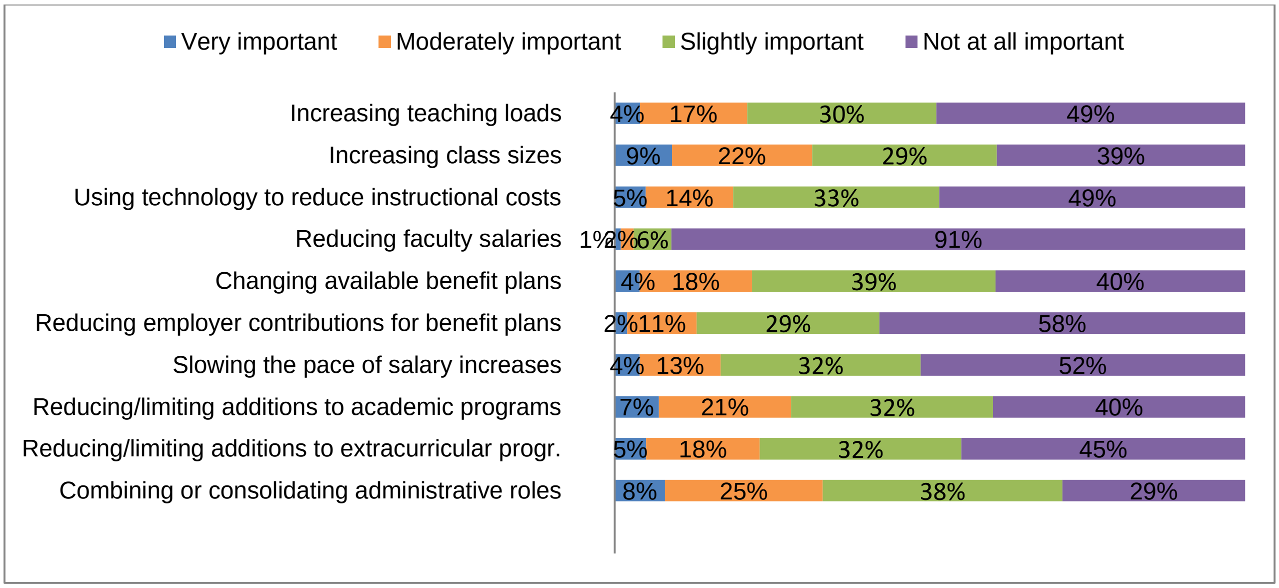
While there was common agreement about the challenges associated with the increasing costs of salary and benefits, particularly the cost of health benefits, the heads and CFOs we interviewed prioritized supporting faculty and staff. “A top priority of our school is, and must be, rewarding great teaching,” a head of school noted. The combined worth of salary and benefits serves as a clear signal of an employee’s value. As one CFO observed, “We are going to have an excellent benefits plan compared to corporate America. People are going to stay here. We want them to stay here.”

Those school leaders we interviewed who were slowing the pace of salary increases or reducing employer contributions to benefits articulated a desire to compensate and reward their faculty in other ways. “We have to find alternative ways to compensate faculty: development funds, endowed chairs, bonus-incentive programs. We're going to stick to smaller compensation increases but also find a way to reward good teaching," said one CFO.

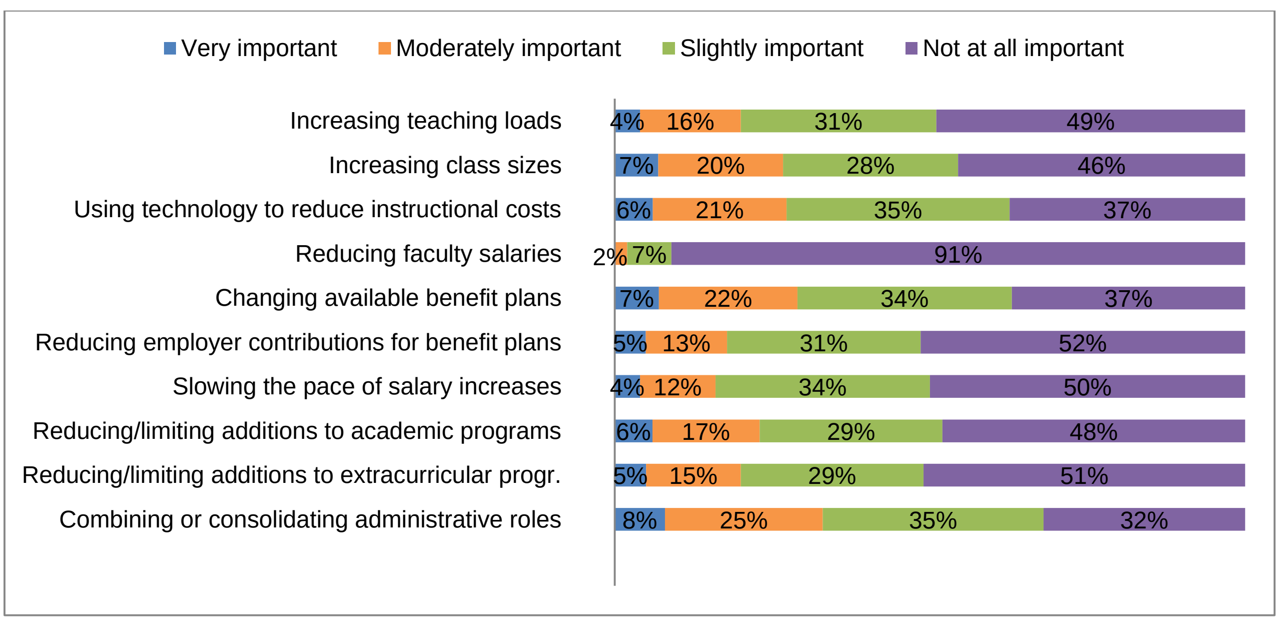
Figure 12

Question F: For the following items, how important will each be in decreasing costs over the next five years?

Head of School responses



CFO responses



Similar efforts have been made to maintain student experiences, even if that means sacrificing efficiency. Eighty-six percent of CFOs who responded to our survey report that they have not cut programs to lower costs. When we asked CFOs how important it was to pursue other levers to increase efficiency, 27 percent identified "increasing class sizes" and 20 percent identified "increasing teaching loads" as "very important" or "moderately important" to cutting costs in the next five years.

Those schools who reported that they had cut programs or that it would be important to increase class sizes and teaching loads were also more likely to report lower overall school financial health (r= -.165, r= -.183). One head of school's response in an interview captures the reasoning we heard from school leaders around the country: ***"Often the quality of the education lies in the inefficiencies."***

As one CFO reported, "We intentionally limit the number of classes teachers teach… so they have time to know students." School programs are seen as an essential aspect of quality. "All the things we've done with programming," one CFO reported, "were meant to address our academic reputation in the market." While few school leaders discussed reducing academic or extracurricular programs, we consistently heard about making smart choices — and being willing to make choices. "If you're going to add something, you have to take something away." Nonetheless, as one head of school noted, ***"When you need to step it up, you do it … even if it costs more."***

The conversation about reducing costs led several of our interviewees to note that many of the conversations about cost did not deal directly with an important topic of discussion, the educational model. While discussing some ways to contain costs, one head of school noted that the rising costs

> "encourage us to have a much bigger conversation about the financial model … and as you do so, you run smack dab into the educational model. As long as teaching is 18 kids in a room with a teacher, you've taken care of the [cost] variables. You're working on the margins then. It's like dealing with the federal budget without touching entitlements. ***Our challenge is to find a way to talk about the model of 18 kids in a room, or pivot to the place where we say in 21st Century, 40 percent disposable income goes towards education. This is difficult to fix on the cost side."***

Finding 6

Chief financial officers report auxiliary services are not a significant source of operating revenue.

According to CFOs, summer programs, after-school programs, and facilities rentals are the most common auxiliary revenue sources. Yet, the majority of CFOs who responded to our survey did not consider their auxiliary programs to be a significant source of income (see Figure 13).

Figure 13

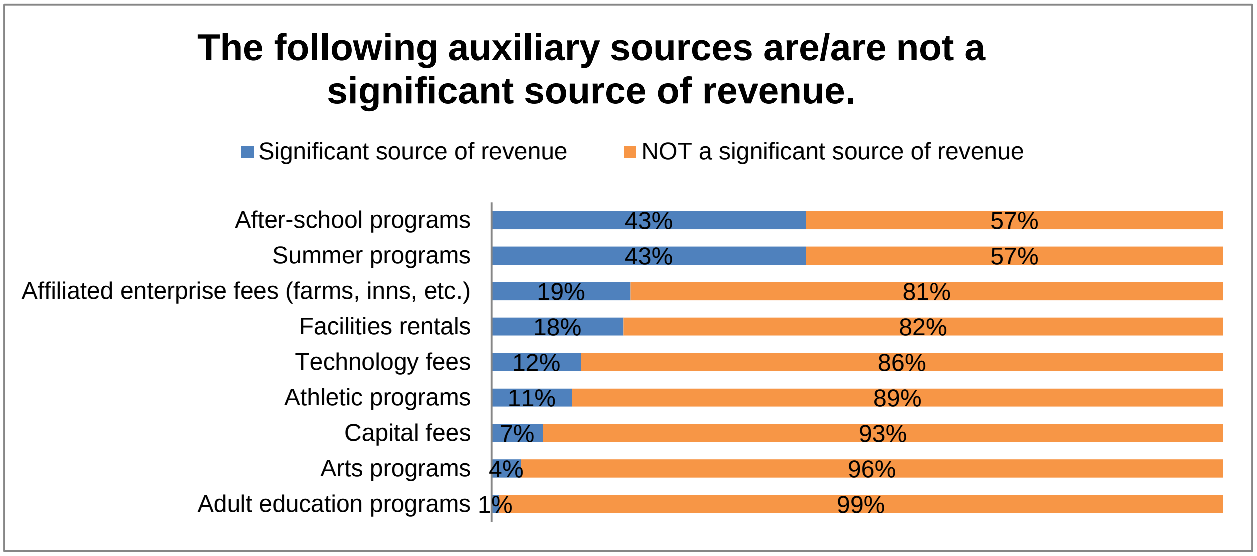
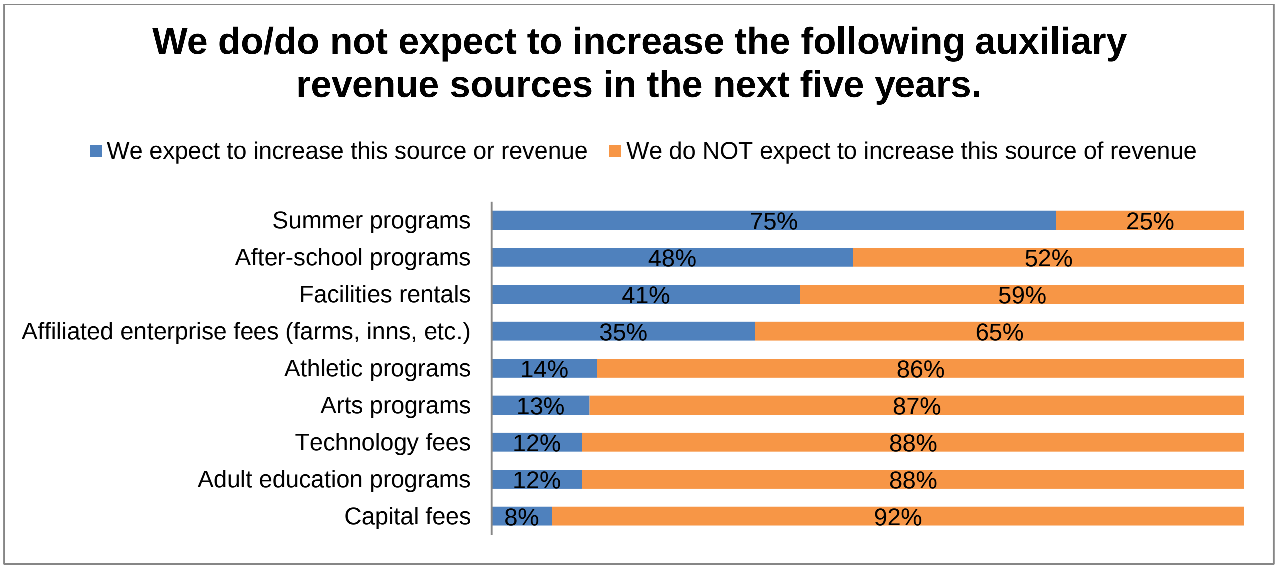


Figure 14



Nonetheless, CFOs still indicate that they expect to increase income from summer programs (75 percent), after-school programs (48 percent), and facilities rentals (41 percent). The majority of those schools that already identify auxiliary programs as a significant source of revenue report that they want to increase revenues over the next five years (see Figure 14). The majority of those schools that do not already receive significant income from auxiliary programs do not expect to increase those sources of income in the next five years. The one exception is summer programs. A t-test reveals that there are no significant differences in responses by size of school.

Our qualitative study provided some important insights into our survey responses. A few of our interviewees highlighted the importance of auxiliary revenue to their operating budget every year. A head of school on the East Coast said:

> We've grown our summer camp each year. Our lunch program brings in money, so does our after-school program, and we've thought about ways we can use our facilities and grounds for auxiliary income. Our music program is a big money maker, and we've opened it to the community as well.

Some schools noted that they rely heavily on auxiliary revenue to offset losses in net tuition revenue. "We bring in over $100,000 through our summer programs. That's five full-pay tuitions, five kids we don't have to convince to pay $25,000 a year."

We consistently heard about the challenges of putting the appropriate resources toward making the programs run smoothly. "It was a huge pain when I last tried to get a group in to rent our field and gym," a CFO in the Midwest reported. "Our athletic department didn't like having to work with a set of outside groups and juggle schedules; it took a lot of their time — and my time." Others were concerned about the unintended consequences of devoting too many resources to develop a relatively minor income stream.

"We could do a whole lot for auxiliary programs but it would still be a drop in the bucket, and it could distract us from our mission. If we focus on that, did we miss being the best education?"

The school leaders we spoke with were concerned that the costs associated with facilities usage outweigh the income generated by auxiliary programs. "On the one hand, if I generate $50,000 by renting out our turf field, I have effectively paid for two students," said a head of school in the Midwest. "But we just found out our field is more compacted than it should be at this point. So what's the impact of having to pay $400,000 four years early? We haven't budgeted for that." Still another head of school in the Southeast commented:

> I think any schools that did an honest accounting of their auxiliary programs would find they operate at a loss, if they fully allocated what they cost. It looks like great cash coming in, but no one actually accounts for the cost of the lights being turned on and the fields being kept. You tend not to look at that and say, "Look at all this cash."

Because of the costs associated with heavy use of their facilities, some schools are choosing to limit the impact of auxiliary programs. "If we can't save enough money to keep up facilities, our physical plant could bankrupt us," one chief financial officer emphasized.

The majority of the school leaders we interviewed identified supporting faculty, marketing the school, and augmenting the student experience to be the primary drivers for auxiliary programs. "Frankly," one head of school noted, "I've always thought auxiliary programs are great if they run a positive balance and they provide employment for faculty and support the brand, but if it was only about making money, I'd be pretty skeptical." Instead of thinking of ways after-school and summer programs might generate revenue for the school, some school leaders are focusing on ways these programs can augment the student and the family experience at the school. "We are thinking about what we can do to make the $24,000 school experience even better without costing money."

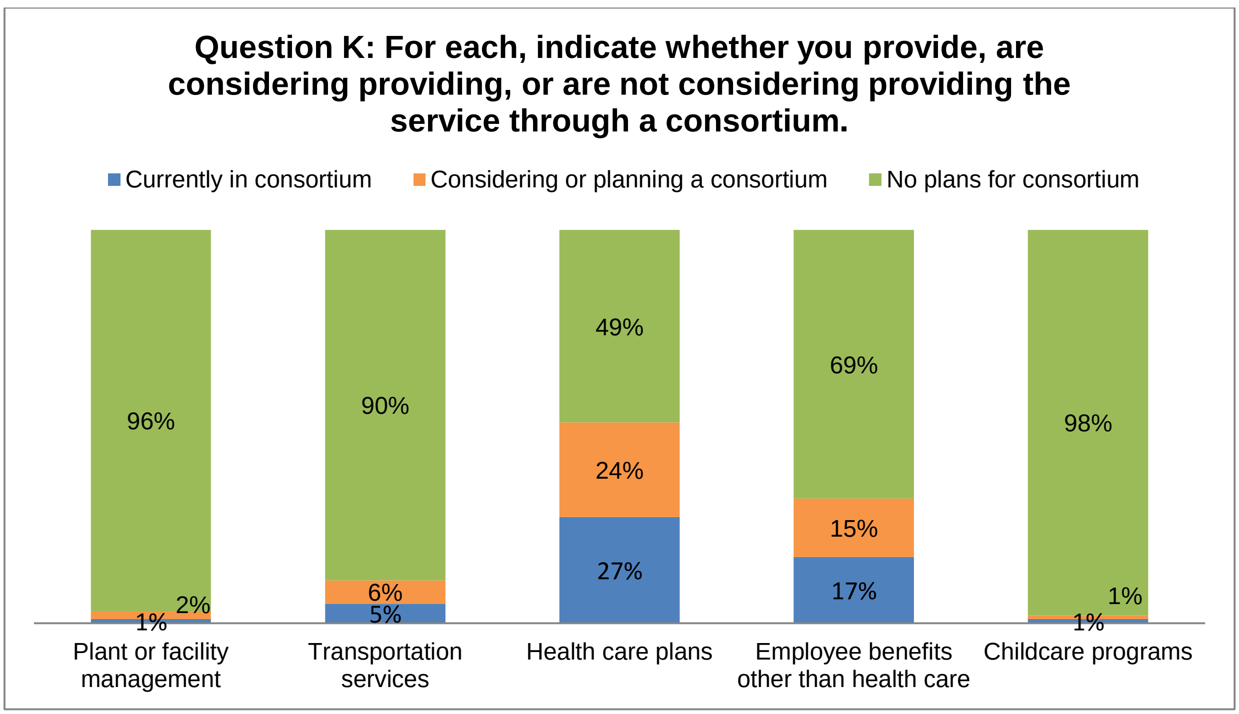
Finding 7

School leaders do not consider outsourcing or consortia to be cost-saving measures.

The majority of CFOs who responded to our survey reported that they currently outsource food services (74 percent) and payroll/benefit services (64 percent). Approximately half reported outsourcing student transportation services. The share of respondents who currently outsource textbook services, facilities maintenance, and childcare programs is much lower. Less than 10 percent of respondents reported that they were considering or planning to outsource in any area.

The majority of respondents are not in, and do not plan to join, a consortium (see Figure 15). Schools who are participating in consortia are mostly sharing purchasing power for health care plans (27 percent).

Figure 15



School leaders in our interviews reported that outsourcing allows schools to focus on primary operations but is not always a cost-saving measure. One CFO from the Midwest noted, “Outsourcing allows us to focus on our primary mission. We always look at cost, but we’re not always outsourcing for that reason.” Instead of focusing on staffing issues for large food service or facilities operations, schools can focus their energies on teaching and learning. “We had several issues with our facilities staff that was taking up so much of my time with legal and human resources issues that we ultimately decided to hire a local company to provide those services,” reported a CFO from the Midwest. “ Now … if we have an issue … we just go to the company.”

School leaders around the country confirmed that they will choose to offer a service they know they could purchase at a lower cost if the service they provide is more mission-appropriate. “We make choices for the students, not just for cost,” reported one CFO. One story captures this notion best. A CFO discovered that it would be less expensive to outsource the staffing of the school’s wellness center through the local nursing school. The nursing school would use this placement to allow their nurses to complete a rotational assignment. After discussing the proposal with students, parents, and faculty, the CFO realized that staffing the wellness center in this way would mean that the students would not have the opportunity to build rapport and trust with the staff, potentially creating a sense of disruption or disconnection in the building.

Two topics about consortia emerged in our interviews: health care and online academies. Leaders of schools who already participated in a health care plan consortium, such as Independent School Benefits Consortium, reported that they had experienced savings through the group. Those who were not part of the consortium noted that they were intrigued by the idea, but they felt they had a better chance of finding a program and rate that suited their needs if they worked independently rather than in a consortium. “I think it’s an interesting idea,” reported one CFO. “I just don’t think the buying power is really there.” The heads of school and CFOs we spoke with indicated that being part of consortia that allow students to take online classes from independent school teachers around the country takes lots of resources, both in terms of money and teachers’ time. Schools that choose to participate in these consortia do so to expand opportunities for their students, knowing that they will be adding “approximately $50,000 in operating costs” by doing so.

RECOMMENDATIONS

- **Independent schools should take to heart the lessons learned from the recent closures of small liberal arts colleges; as schools devote more and more money to financial aid, they must watch their net tuition revenues closely.** Data from the schools in our DASL sample revealed that the rate of growth in financial aid expenditures has been significantly greater than the growth of tuition revenue, often approaching double. As tuitions continue to outpace increases in inflation, financial aid budgets will continue to rise. And as financial aid expenses increase and represent a larger share of tuition revenues, schools need to emphasize strategic enrollment management practices guided by a clear understanding of the resources necessary to sustain financial aid.
- **Schools should develop budgets founded on a clear understanding of their value proposition, and price accordingly.** Schools must maintain a clear and compelling value proposition, and school leaders report that they will need to increase tuitions faster than inflation in order to deliver excellent programs and compensate outstanding faculty. Schools need to resist the temptation to simply add to their existing programs and begin with a clear understanding of those features of their educational experience that drive the recruitment and retention of families. If price increases without a corresponding increase in perceived outcomes, schools run the risk of decreasing their perceived value.
- **School leaders should be mindful of increasing administrative costs and the impact of increasing costs on the value proposition.** Funds devoted to administrative salaries have significantly outpaced increases in those devoted to teacher salaries, growing 165 percent over the past 25 years. Administrative salaries have increased, as well as the number of administrative positions. The introduction of new programs can lead to hiring new administrators. Before devoting resources to new programs and new personnel, schools should be sure the new program and staffing will increase the school's quality and value.
- **Further studies are needed to determine how schools can rely on cost-saving measures and auxiliary revenue sources.** Though there has been a good amount of recent literature on potential auxiliary revenue sources, few of the schools in our study see them as generating enough revenue to offset tuition revenue shortfalls. Schools may need more guidance on how to effectively monetize their potential auxiliary services. Further research also needs to be done on ways schools might effectively cut costs without decreasing the quality of their programs.