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# TUITION TRENDS IN INDEPENDENT DAY SCHOOLS

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# EXECUTIVE SUMMARY

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

Since the financial crisis, The National Association of Independent Schools, has increased its efforts to provide members with enrollment, budget, and financial aid trends across its member schools and has urged its member schools to consider ways to reduce costs and to increase alternate revenue sources in what it warns are unsteady enrollment trends and unsustainable tuition increases. At the same time, schools are reminded of the need for a clear value proposition and feel the pressure from parents to meet their high expectations in all areas of school life.

This Capstone Study examines how school leaders are responding to increased costs in a competitive marketplace.

## We focus on three questions:

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

We used a mixed-methods research model to approach these questions. We used twenty-five years of data in the NAIS database of financial and educational data called Data and Analysis for School Leadership (DASL), which provides a wealth of self-reported data from independent schools across the country. DASL provided the statistical foundation for identifying trends in tuition, salaries, and enrollment. We distributed two different surveys to heads of school and chief financial officers of independent day schools across the country. 551 heads of school and 538 chief financial officers responded to the survey, providing us information on schools’ tuition-setting practices, efforts to reduce costs, and their financial priorities. Finally, we interviewed heads of school and chief financial officers at thirteen independent schools ranging from less than 200 students to more than 700, and located in the East, Mid-Atlantic, Southeast, Southwest, and Midwest.

## KEY FINDINGS

- **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.** Average tuitions have been increasing steadily above rates of inflation at 2.6% to 4.1% per year. While net tuition revenue has grown along with the increased tuitions, the rate of growth of financial aid expenditures has been significantly greater. Per-pupil spending on administrative salaries has risen twice as fast as spending on teacher salaries over the past 25 years.
- **School leaders set tuition increases based on the school's academic program and on strategy, not based on inflation.** The link between tuition increases and salary increases is leading school leaders to continue increasing tuition, mostly above the rate of inflation.
- **School leaders feel they cannot remain competitive while limiting tuition increases to inflation.** School leaders are focused on delivering a high value product and believe limiting tuition increases to inflation will limit their ability to deliver the programs the market demands. Small schools were twice as likely as large schools to report they limit tuition increases to inflation.
- **School leaders prioritize the quality of the academic experience.** When it comes to attracting and retaining families, independent school leaders are focused on markers of value: prestige, the quality of the academic experience, and the unique offerings of the school. The value proposition is more important than the price.
- **School leaders are cautious about utilizing cost-saving measures that could negatively impact the quality of the educational program.** School leaders noted that much of the quality lies in the inefficiencies of the educational model. In already lean operations, there is not much to cut without impacting the quality of the educational program.
- **School leaders report auxiliary services are not a significant source of operating revenue.** Non-fundraising auxiliary revenue is primarily used to provide extra compensation for faculty and staff. School leaders were wary of the hidden costs of facilities usage, which sometimes outweigh revenues.
- **School leaders do not consider outsourcing or consortia to be cost-saving measures.** Food services and payroll/benefit services are the most commonly outsourced services. Few schools utilize consortium arrangements; those that do most often join for employee benefit plans. Outsourcing is used mostly to allow schools to focus on their core mission and are not typically seen as a cost-saving measure.

## RECOMMENDATIONS

Based on these findings, we offer recommendations for NAIS and for NAIS member schools.

- **Independent schools should not let the lessons from the recent closures of small liberal arts colleges pass without taking notice; 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 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, which begins 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 its impact on the value proposition.** Funds devoted to administrative salaries have significantly outpaced increases in those devoted to teacher salaries, growing 165% over the past 25 years. Administrative salaries have increased as well as number of administrative positions. The introduction of new programs can lead to 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.
- **NAIS should shift its focus from urging cost-saving measures to leading schools in thinking about educational models that will improve the quality of their educational programs.** School leaders report they already run lean operations heavily driven by tuition on the revenue side and people on the cost side. As long as we simply talk about sustainability and cost savings we will simply be, as one head of school noted in our interview, "fiddling on the margins." Substantive and meaningful changes to independent school cost-drivers will only be achieved with changes to the current educational model.

- **NAIS should pay special attention to the financial concerns of small schools.** The small schools that participated in our study were more likely to report less favorable levels of overall financial health, more difficulty meeting enrollment targets, and challenges providing competitive salaries.
- **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.



# INTRODUCTION AND CONTEXT

## INTRODUCTION

As national conversations about the costs of higher education have gained momentum, so too have conversations about the costs of K-12 independent schools. A *New York Times* article on January 27, 2012, “Bracing for \$40,000 at New York City Private Schools,” highlights statistics that show independent school tuitions have risen faster than Ivy League college tuitions. “Over the past 10 years, the median price of first grade in the city has gone up 48 percent, adjusted for inflation, compared with a 35 percent increase at private schools nationally – and just 24 percent at an Ivy League college” (Anderson & Ohm, 2012). In areas like New York City, where competition for coveted seats in Kindergarten is high, some might attribute the increases in tuition to basic dynamics of the market. The school leaders who responded to the article cited other reasons for increasing tuitions: “rising teacher salaries, ever-expanding programs and renovations to aging buildings” (Anderson & Ohm, 2012). On rising teacher salaries, the leaders noted both the need to offer competitive wages for teachers who historically earn less than their public school counterparts, and increases in the costs of benefits, including medical benefits, which have seen a “5, 10, or as high as 30 percent increase” (Anderson & Ohm, 2012). In addition to labor costs, the headmaster of one school noted, “Parents are just expecting more and more of independent schools. Trying to meet that demand, that expectation, is expensive” (Anderson & Ohm, 2012).

But these tuition increases are not keeping pace with rising costs. The “cost growth” of independent schools “has consistently outstripped reve-

nue growth year after year, for decades,” R. Scott Asen, a former Groton School trustee points out in his *New York Times* article “Is Private School Not Expensive Enough?” (2012). He reminds readers of the “gap” between the actual cost to teach each independent school student and the tuition schools charge. “At private day schools today,” Asen notes, “tuition receipts cover only 70-80 percent of costs” (2012). The remaining necessary funds come largely from fundraising. Therefore, “To the extent that any family with wherewithal is paying less than the full cost of the product it is buying through combined tuition payments and donations, that family is effectively being subsidized by other current and past donors” (Asen, 2012). Thus, Asen argues, independent schools should either increase tuition to reflect the full cost of attendance or ask all families to pay that full cost through a combination of tuition and donations.

In a recently featured article in *The Atlantic* titled “Why Private Schools Are Dying Out,” Charles Finn cites increasing costs as one reason “private education as we have known it is on its way out, both at the K-12 and postsecondary levels” (Finn, 2013). “Many independent schools...are having trouble filling their seats – at least filling them with their customary clientele of tuition-paying American students” (Finn, 2013). In “The Demise of Private Schools,” also in *The Atlantic*, Jon Marcus points out that declining enrollments and increased costs are forcing independent schools to diversify their admissions pools and to seek alternate revenue streams. Shattuck-St. Mary’s in Minnesota “added a campus in Beijing with 180 Chinese students, turned its former infirmary into an

inn, opened a school store, and two cafes, and expanded its golf course from nine to 18 holes and sold off house lots around it” (Marcus, 2015). Still others, such as Thornton Academy, have opened boarding facilities for international students to offset the low enrollment of local students. Since seats are empty, schools are turning to financial aid awards and marketing campaigns to fill them. “All of these things add to their expenses, which funnels into the admissions equation...Tuition has been rising for private schools, and families just don’t have the capacity to pay for it,” one interviewee in the article noted (Marcus, 2015).

With median private school tuitions reportedly up 50% over the past ten years (Marcus, 2015), attention has been drawn to the key differentiators between a private school and public school. Charles Finn notes in *The Atlantic* that, “In practice, their educational delivery model is practically indistinguishable, save for the accoutrements that the wealthiest of them can buy (trips to faraway lands, nifty technology, tiny classes, etc.)” (Finn, 2013). Alternative educational models that can potentially offer a more personalized educational experience at a lower cost, promise a different experience, and challenge the value of a private school education. “Micro-schools” are the most recent to gain national attention. Hailed as the “first innovation in the private system in the U.S. in a long time” (Prothero, 2016), micro-schools unbundle the traditional educational model by offering small classes. “Multiple ages learn together in a single classroom; teachers act more as guides than lecturers; there’s a heavy emphasis on digital and project-based learning...mak[ing] for a highly personalized education” (Prothero, 2016). These largely unknown, disruptive influences are perhaps the greatest threat to the sustainability of independent schools. The strong reputations of private K-12 schools

and colleges, “where the ‘chattering classes’ want (and can afford) to enroll their own daughters and sons,” are just a facade of private-sector vitality (Finn, 2013). “Behind it, however, like the Wizard of Oz’s curtain and Potemkin’s building facades, there is much weakness, a weakness that probably afflicts the vast majority of today’s private schools and colleges” (Finn, 2013).

## PROJECT QUESTIONS & PURPOSE

The National Association of Independent Schools (NAIS), concerned about increased competition and the potential unsustainability of tuition increases, has encouraged its constituents to make some hard, strategic decisions in order to contain costs and curb tuition increases (Bassett, 2010). Though it is clear independent school tuitions have been increasing faster than the cost of living, NAIS is interested in gaining a clear understanding of school budget drivers, what schools are doing to cut costs, and if schools are exploring alternative revenue streams or business models (Torres, 2015). We have partnered with NAIS in an effort to gain some insight into these areas. Our capstone project seeks to understand how independent day school leaders are responding to increased costs in a competitive marketplace.

NAIS member schools vary widely in size,

### **Our project is pegged to three guiding questions:**

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

mission, and type. Since day schools make up 82% of the NAIS member schools, and since boarding schools face a distinct set of financial challenges, we have focused our study on day schools, excluding any school with a boarding program. Our study employed a mixed-methods model in which we analyzed longitudinal data provided by NAIS' Data and Analysis for School Leaders database (DASL), interviews with twenty-five independent day school leaders from schools across the country, and a survey sent to every head of school and chief financial officer in the NAIS lists. Ultimately, the results of the study can be used by NAIS to refine the resources they offer independent school leaders and to support independent school leaders' efforts to craft mission appropriate responses to increased costs and competition.

## BACKGROUND AND CONTEXT

The National Association of Independent Schools, a non-profit membership association counting approximately 1,500 independent K-12 schools across the country as members, serves its members by providing analysis of trends and research, guidance on leadership and governance issues, and professional development (NAIS, 2015). NAIS member schools represent only a fraction of the total schools in the United States. According to the National Center for Education Statistics, 9.6%, or 5.3 million school-aged children attend private elementary or secondary schools (NCES, 2014). Of those, approximately 13%, or 671,000 students, are enrolled in NAIS member schools (NAIS, 2015). NAIS member schools therefore serve approximately one percent of school-aged children in the United States, but their quality and prestige reinforce a significant influence on K-12 education.

## Enrollment Trends

The National Center for Education Statistics (NCES) reports that private school enrollment steadily declined between 1995 and 2012, with the total share of students enrolled in private schools across the country decreasing 12% to 10% (NCES, 2014). Pre-K through 12th grade enrollments at private schools dropped 11% over the same period, and is projected to decrease another 5% by 2022, according to the NCES 2022 projections (Hussar, 2014).

Though NAIS member schools are a small and presumably elite share of private schools, they are not immune to the effects of this trend. NAIS notes that independent schools have on average maintained enrollment between 2006 and 2014. "To talk about the average is misleading," warn John Chubb and Constance Clark in "The Enrollment Outlook" chapter of the 2015-16 NAIS Trendbook. "Among NAIS member schools, nearly half of the schools in our sample have been losing students over the last decade, while a bit more than half have been growing" (Chubb & Clark, 2015).

Chubb and Clark examined enrollment information of 752 day schools between 2006 and 2014 and found that 55% of schools had increased enrollment - 23% saw more than a 10% increases, and 32% less than a 10% increases - while 45% of schools suffered declining enrollments - 22% saw declines of 10% or more, and 22% saw declines of 10% or less (Chubb and Clark, 2015). Though there is some variation in enrollment patterns by region of the country as well as local population and economy, the report asserts that no region is immune. "In every region, substantial percentages schools, a fifth to as much as a half, have been unable to sustain their enrollments" (Chubb and Clark, 2015).

## Concerns about Rising Tuition

According to reports from NAIS, median day school tuitions increased 196% between 1994 and 2015, not accounting for inflation (Chubb and Clark, 2015). Over the same period, Median Household Incomes increased 72% while households in the top 5% saw incomes increase 97% (U.S. Census Bureau, 2015). In his thought-provoking article, “A Game Changing Model for Financially Sustainable Schools,” past NAIS President Pat Bassett called on independent school leaders to realize that “this continued growth of tuitions cannot possibly be sustainable for much longer” (Bassett, 2010).

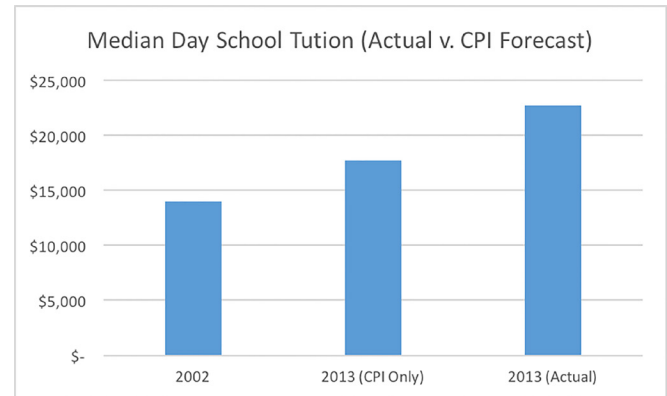
### Bassett outlines three “new realities”:

- Schools had hit or were hitting their “price-break point” at which they begin to see fewer inquiries, higher attrition, and increased demand for financial aid (Bassett, 2010).
- Increases in family incomes, even among the top 5%, are flattening, squeezing discretionary income. “Thus, the major factors that have permitted high tuition increases (parental demand for more of everything and parents’ willingness and capacity to pay for subsequent programmatic additions) may become intersecting - not parallel - lines” (Bassett, 2010).
- The “rule of thumb” of annual tuition increases at 2 or 3 percent above CPI may no longer be practical or prudent given the financial realities (Bassett, 2010).

These financial realities, combined with the emergence of less-expensive alternatives to independent schools, led Bassett to assert that schools must strongly consider slowing the pace of tuition increases so that they do not outpace CPI. A 2014 report of the National Business Officers Association compares the actual tuition

increase of day schools between 2002 and 2012 to what tuition would be if it had increased at CPI (see Figure 1). Between 2002 and 2013, the median day school tuition significantly outpaced CPI’s average annual increase of 1.96% (Shields, 2014).

Figure 1.



(Shields, 2014)

The aggressive tuition growth is not limited to schools experiencing a healthy admissions funnel. Instead, NAIS reports that “on an annual basis, in regions where schools were more likely to be suffering, tuition increases among struggling schools were within a half percentage point of schools facing easier times” (Chubb and Clark, 2015). This lack of attention to price as a way to manage enrollment, puts pressure on the value proposition, and according to Pat Bassett, schools can no longer overlook price as a fundamental variable in the value proposition equation.

Figure 2.

$$\text{Value} = \frac{\text{Perceived Outcomes}}{\text{Perceived Price}}$$

**“As the price goes up, unrelentingly beyond what’s ‘normal’ for most other goods and services (i.e. the rate of inflation), the perceived outcomes must go up for perceived value to remain the same”** (Bassett, 2010).

“NAIS has long argued that being the value leader is more strategic and better aligned with the historic purpose of independent schools than being the price leader,” Basset explains (Bassett, 2015), but the risk of the perceived value going down amidst the disruptive competition and current economic realities puts pressure on independent schools to be much more price sensitive. If families perceive that the multitude of less-expensive options “produce similar results to higher-priced independent schools, then the competition’s value proposition exceeds that of independent schools simply by the dynamics of the equation: lower cost with similar outcomes equals higher value” (Bassett, 2010).

In addition to considering tuition in relation to other educational options, recent conversations about tuition also remind school leaders to remember that independent school tuitions are considered a luxury. “Make no mistake,” Scott Looney states in his “Tuition Pricing” chapter of the NAIS publication, *Affordability and Demand: Financial Sustainability for Independent Schools*, “tuition is the hurdle. With the exception of a small portion of our prospective student market, our schools are viewed as a luxury. Luxury items are more price-sensitive than necessities. When gas prices go up, people complain but keep on driving their cars. When finances get tight, people will wait before buying that new sailboat” (Looney, 2009).

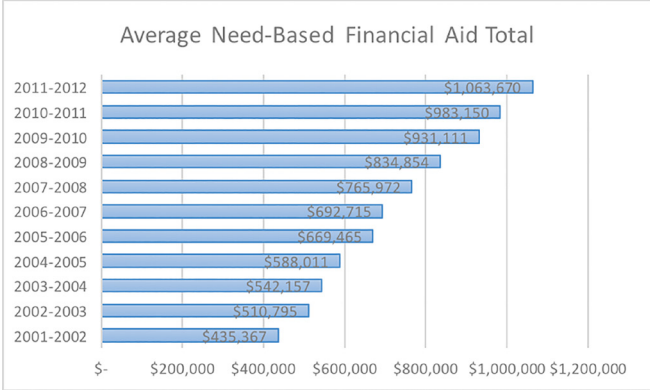
**Shifts in Financial Aid**

In a recent presentation, Mark Mitchell, Vice President of School and Student Services, a department of NAIS responsible for supporting schools and families with research and information on financial aid, noted two trends in school financial aid practices: total dollars devoted to need-based awards is rapidly increasing, and

an increasing proportion of families filing for financial aid are in the top income brackets (Mitchell, 2013).

According to Mitchell, the amount of money schools devote to need-based financial aid grew 144% (not-adjusted for inflation), between 2001 and 2011.

**Figure 3.**



A recent National Business Officers Association survey of 487 Independent Schools Association of the Central States (ISACS) member schools revealed that many of its schools are devoting large portions of their operating budgets to financial aid. In the 2013-14 academic year, schools in the 50th percentile of respondents supported 12.8% of their student body with an average award of \$11,000 - a total of \$962,829, 10.7% of their overall operating budget, and 12.0% of gross tuition revenues. Schools in the 90th percentile of respondents supported 43.7% of their student body with an average award of \$25,913 - a total of \$3,506,000, 22% of their overall operating budget, and 24.5% of gross tuition revenues (Shields, 2014).

As tuitions rise, so does the discretionary income families must have in order to afford the tuition. A 2012 NAIS report notes that a family must have an income of \$148,088 to pay one child’s \$25,000 tuition. In order for a family to pay for two children at the same tuition, it must



have an income of \$234,460 (Shields, 2014). As tuition increases to \$35,000, those numbers become \$182,000 and \$312,000 respectively (See Table 1).

**Table 1.**

Tuition	Full Pay Income (One Child)	Full Pay Income (Two Children)
\$25,000	\$148,088	\$234,460
\$35,000	\$182,000	\$312,000

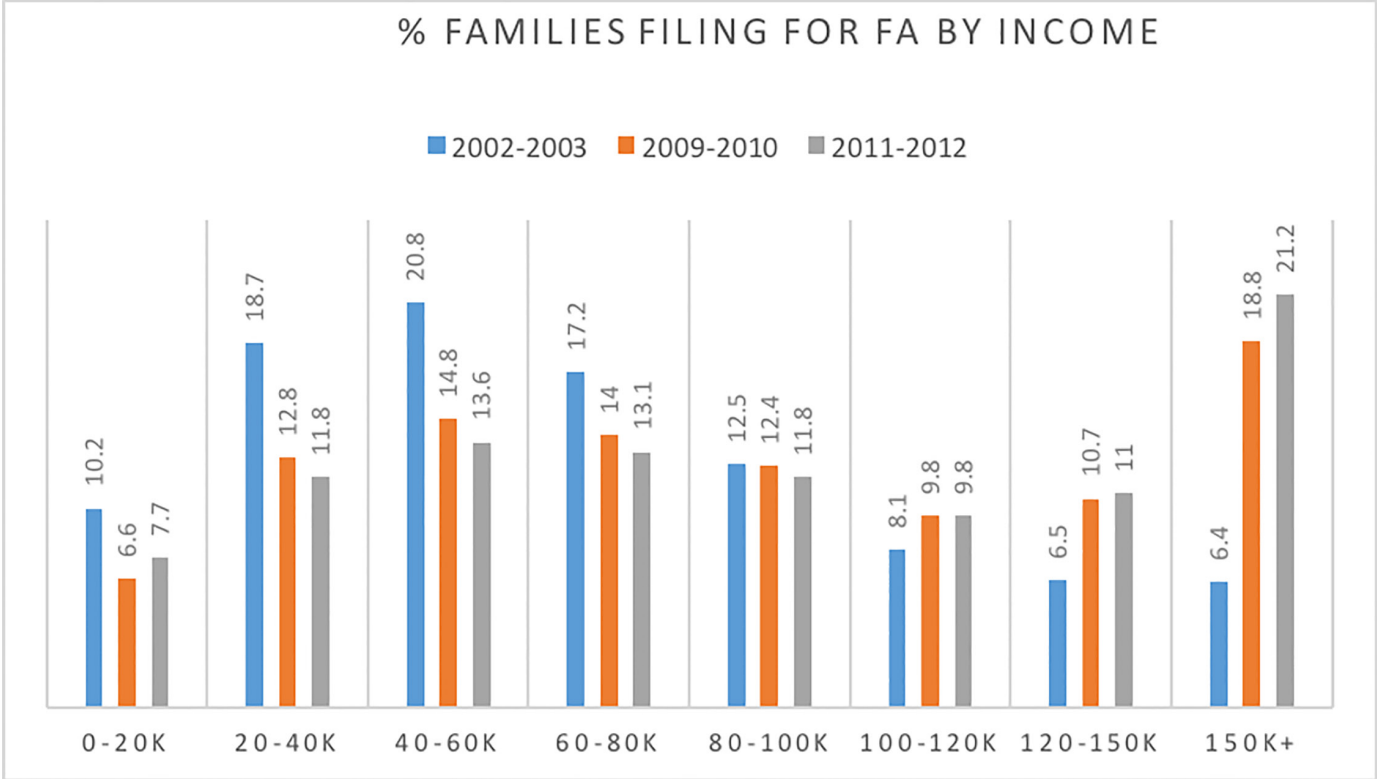
(Shields, 2014)

According to the 2012 U.S. Census, fewer than 5% of American households earn enough income to pay the full cost of a \$25,000 independent school tuition. In recent years, Mark Mitchell notes, schools have seen a shift in the income profiles of families filing for financial aid (see Figure 4).

Although 89% of all aid requests came from households with a total income of \$20,000 to \$80,000 in 2002, by 2012 42% of aid requests came from households with a total income of \$100,000 and up. 21% of the 2012 aid requests came from families in the \$150,000+ bracket. This shift in distribution raises questions not only about the sustainability of tuition increases, but also the purpose of financial aid. Do independent schools use financial aid primarily to create more socio-economic diversity in the student body, to fulfill their unique missions, or to fill seats?

The rapid increase in financial aid budgets and tuitions has led to the introduction of two new financial aid models. The first, the net tuition revenue model, is based off a common practice in higher education for the past thirty years. The bulk of financial aid, Looney points out in his guiding article “Pricing Tuition,” is not “real money,” but rather a tuition discount, “a mech-

**Figure 4.**



(Mitchell, 2013)

anism by which a school can adjust its tuition to account for fluctuations in the enrollment demand of the school (Looney, 2009). If a school has a waiting list with full-pay students, then offering a family financial aid would translate into a real cost, but in the majority of cases, schools that do not enroll a student at a discount because they have maximized their financial aid budgets, would lose on revenues the family would pay beyond the marginal costs to educate that child. For example, a school with a \$25,000 tuition offers a \$13,000 discount to a family, generating \$12,000 in revenue. If the incremental cost of educating that child is only \$3,000, the school will generate \$9,000 in net tuition revenue, and filled a seat, that it would not have had it turned the student away (Looney, 2009). Under this model, we would expect the total financial aid budget to increase as schools shift focus from the “cost” of offering a discount to focusing on offering reasonable discounts to generate net tuition revenue.

The “indexed tuition” approach has emerged as another alternative to the traditional financial aid and net tuition revenue models. In this model, tuition prices adjust with a family’s ability to pay. The model shifts the message from one of need to one of possibility. Whether a family applies for \$15,000 in aid on a \$25,000 tuition or qualifies for a \$10,000 tuition through the index amounts to the same thing financially. But psychologically it can have a positive impact on prospective families by softening “the sticker shock for some families” (Sullivan, 2015). Proponents of the model also claim it alleviates the “barbell effect” of enrolling families who can afford to pay the tuition, and high-need families who qualify for large aid packages while leaving out the middle class families who make too much to qualify for financial aid but too little to pay the full cost of attendance (Sullivan, 2015). According to a 2012 presentation at the CAIS

Trustee/School Head Conference, Borden and Riff demonstrate that the indexed tuition model has allowed Marin Country Day School “to extend allocation to families with mid-level effective income without disadvantage to the lower ranges” (Borden and Riff, 2012). Financial aid participation rates for families earning \$100,000 to \$159,000 grew from 11% to 29% between 2001 and 2011 under the model, helping to level out the school’s income distribution.

## NAIS and ISM: Diverging Value Formulas

In Bassett’s “A Game Changing Model for Financially Sustainable Schools,” NAIS outlined a series of steps schools should consider in order to help maintain or increase a school’s value. The value proposition equation he offers (see Figure 2), reveals how increasing prices put excess burden on perceived outcomes. “As price goes up, unrelentingly beyond what’s ‘normal’ for most other goods and services (i.e., the rate of inflation) the perceived outcomes must go up for the perceived value to remain the same” (Bassett, 2010, p. 10). Given the new economic realities and increased competition from other educational models, schools must abandon “the old assumptions that high tuition increases are necessary to expand program and staff while simultaneously sustaining both small class sizes and competitive faculty salaries” (Bassett, 2010, p. 10). That “old normal” is “predicated on the belief that families in the top 5 percent income bracket will always be willing and able to pay whatever we ask” (Bassett, 2010, p. 10). Schools should instead adopt a “new normal” in which “budgeting starts with an economic assessment of the community’s capacity to pay... and a realistic assessment of the school’s relative strength in the market based on five-year admissions funnel trends” (Bassett, 2010, p. 10). With an eye toward containing annual tuition

increases to better reflect demand and capacity, schools should also turn their attention to increasing non-tuition revenues and decreasing costs “without sacrificing quality or core programming” (Bassett, 2010, p. 10).

One way to decrease costs, NAIS suggests, is to increase efficiency without decreasing quality. Some of the suggested methods for increasing efficiency, such as increasing class sizes, are indeed “game changing” since they run contrary to often-cited wisdom and practice in independent schools (Bassett, 2010).

- Commit to increasing enrollment without increasing staff;
- Adopt a “sunset provision” of retiring an old program when introducing a new one so no net staffing increases are needed;
- Right-size to assure that mission, program, and staff are aligned;
- Reconsider class size or workload or the number of teacher specialists and assistants;
- Set a policy that devotes a third of each fund-raising dollar to endowment.

By seeking increased efficiency in those ways, increasing non-tuition revenues, and limiting tuition increases to levels in line with the community’s capacity to pay (while keeping an eye on tuition growth in relation to CPI growth), Bassett argues, schools should be able to alleviate the price pressure on the value proposition equation.

In a series of three white papers titled, “Full Steam Ahead,” Independent School Management (ISM), a consultant and provider of research and support services to independent schools, argues that “Tuition is no more or less sustainable than they have ever been. Competition in the marketplace is certainly fiercer than it has ever been, but the difference-makers

are not about pricing schools out of the market, inflation, and family incomes.

### **“...The changing nature of schooling - not price - is the controversial element of sustainability”**

(ISM, 2010, Part 1).

Two main beliefs guide the ISM recommendations: tuitions will always outpace inflation and are no more a sign of struggles ahead than they were thirty years ago, and value proposition rests in the quality of a child’s educational experience. “ISM concurs that there is a game-changer in private education and that this game changer will be evidenced in the finances of schools - but the finances of schools are the wrong focus for understanding what change is” (ISM, 2010, Part 1).

ISM cites the economic theory of “Baumol’s Cost Disease” to argue that “schools cannot use the CPI as the primary justification for tuition increases” because unlike other sectors of the economy, labor-intensive sectors like education cannot increase efficiency (ISM, 2010, Part 1).

All businesses fall into one of these business types, progressive or stagnant. Manufacturing jobs are, generally, progressive - over time, technological advancements create labor efficiencies, and therefore increased wages are affordable. Examples of stagnant business units, on the other hand, include education, healthcare, and personal care (like hair stylists). In the stagnant sector, output per worker rises slowly, if at all, however wages must increase at a similar pace as wages of other workers to remain competitive (ISM, 2010, Part 2).

The overall market allows consumers to pay more for services in the stagnant sector because through inflation and technological efficiencies, they pay less for goods from the progressive sector.



Baumol uses the example of the automobile. In 1908, the average worker labored around 4700 hours to buy a model-T Ford. A century later, the average worker labors 1365 hours to afford an automobile. This means that everything in the stagnant sector will be, in today's thinking, alarmingly more expensive, but everything in the progressive sector will be equally less expensive...The problem is not the cost disease, says Baumol. The problem is our knee jerk reaction to it (ISM, 2010, Part 2).

According to this logic, the rapid rate of tuition increases well beyond inflation is not the challenge to sustainability NAIS reports it to be. While schools must be prudent with budgeting, they should not force themselves to link tuition increases with CPI. Quite to the contrary, ISM argues, schools must increase tuitions at least 2% above the CPI in order to make up for their inability to become more efficient without sacrificing quality. "And while it may be a distressing or unpopular idea, ISM has long held to it because it is the only way a school can continue to deliver value" (ISM, 2010, Part 1).

During his presentation at the 2010 NBOA Institute for Advanced Financial Management, ISM executive consultant Terry Moore noted that even though there is "no persuasive, verifiable evidence that schools are pricing themselves into extinction" schools need to consider whether they are a price, product, or process school in order to determine how important price is to their value proposition (NBOA, 2010). The categories he presented were summarized by NBOA, and include the following characteristics. **Price** schools, which charge an average tuition of \$7000, differentiate themselves on price alone by being the low-cost alternative in the local market. When something new is proposed in a price school, the leadership asks, "What will it do to my price?" **Product** schools assure that nearly all their graduates will go on to highly selective college and universities. When something new is proposed in a product school, the

leadership asks, "What will it do to my college admissions?" **Process** schools, have programmatic uniqueness, have small student-teacher ratios, and have curricular and co-curricular programs specifically tailored to individual student needs. When something new is proposed in a process school, the leadership asks, "Does it make our program richer or more valuable to a wider market?" (NBOA, 2010)

While all schools should make prudent decisions around costs, ISM maintains that schools must develop 21st century educational models that clearly break from the old 20th century "factory model" of education. These shifts will necessarily challenge current delivery models, shifting teachers into coaching roles and devoting more resources to individualized instruction. "Under this new model, Moore predicts that the average faculty salary will be \$70,000, and that teachers will go from teaching four classes a day to two, to allow them time to create an individualized learning plan for their students" (NBOA, 2010). These changes may well cost schools even more, causing tuitions to rise.

Our capstone project seeks to uncover how independent school leaders are responding to the realities of rising costs and today's competitive market. Both NAIS and ISM have discussed the importance of creating value, but each has emphasized a different way of achieving and maintaining it – NAIS by urging schools to limit tuition increases and right-size; ISM, noting the inevitability and necessity of rising tuitions, urges schools to create value by delivering quality educational programs that make students and parents want to attend.

# DESIGN AND METHODS

This study employs a mixed-methods approach that combines quantitative analyses of historical data, two quantitative surveys of independent school leaders, and qualitative interviews with individual school leaders. The analyses of historical data provide an important quantitative context for discussions of school operating expenses, sources of income, tuition and salary levels, and the impact of financial aid. The surveys provide perspectives on competitive advantage, programmatic quality, and financial viability from two sets of independent school leaders: heads of school and chief financial officers. The interviews add richness and depth by allowing exploration of the individual perspectives of some of these leaders on those same topic areas in a more conversational setting.

For our survey sample, we have chosen to examine all private day schools in the United States appearing in the NAIS database. In our historical data, we removed all responses from any school listed as having a boarding program, listed as having nonzero boarding enrollment, or located outside the fifty states and the District of Columbia. In our survey, we implemented screening questions to enforce the same exclusions; we also asked respondents to confirm that their institution is a private school, not a public or charter school. Any respondent not fitting those limitations did not continue in the survey. We did not have any means of determining whether schools are current NAIS members, nor did we separate schools of special purpose (such as schools for students with learning disabilities) or schools with atypical organizational structures (such as schools that function as part of a university) from the larger sample.

## Data Analysis for School Leadership (DASL) Surveys

The National Association of Independent Schools maintains a database known as Data Analysis for School Leadership (DASL). DASL contains responses from annual surveys of NAIS member schools on a variety of topics; responses are almost entirely quantitative in nature, and are grouped into categories such as operating income, operating expenses, enrollment, financial aid, teacher salaries, etc. The purpose of DASL is to provide opportunities for member schools to engage in benchmarking and other forms of peer comparison; from time to time, NAIS provides researchers access to DASL for studies such as this one. In many cases, questions have been maintained as consistent for over twenty-five years, allowing longitudinal analyses such as ours.

**Time frame.** Based on the availability of DASL responses, we decided to use the 2013-2014 academic year as our most recent point of reference. Since some DASL variables relate to the current academic year, while others relate to the previous academic year, the 2013-2014 academic year was the most recent year for which we could obtain a complete statistical picture. For historical context, we also looked at five-year intervals going back twenty-five years, examining the academic year data for 2008-2009, 2003-2004, 1998-1999, 1993-1994, and 1988-1989. Most variables of interest were available for the entire twenty-five year period; in a few cases, all of which are indicated by “no data,” some variables were not available in some of the more distant years.

**Inflation adjustments.** All dollar amounts throughout the study have been adjusted for inflation and are expressed in October 2013 dollars. Prior studies of tuition and salary increases over time have chosen to make use of nominal dollars, but our belief is that the clearest and most accurate observations may be found when monetary values are adjusted for inflation. As our metric of inflation, we used the Consumer Price Index for Urban Consumers (CPI-U), as calculated by the Bureau of Labor Statistics. NAIS convention assumes that all survey data collected is current as of October of the given academic year; for example, dollar amounts for the 2008-2009 academic year have been adjusted using the CPI-U ratio between October 2013 and October 2008. This, in turn, means that all increases expressed as percents are increases above the rate of inflation; they are increases expressed in October 2013 dollars, not nominal dollars.

**Tuition calculation.** Any study that focuses on independent school tuition must make choices about how tuition amounts are calculated. Since many schools charge varying tuitions at different grade levels, they report to DASL the posted tuition rates at several selected grade levels; NAIS tends to report average tuition at one specific grade level for purposes of comparison. Our goal was to examine tuition trends over time, including schools with varying grade spans, rather than to look specifically at tuition at a set grade level. For this reason, we chose to take a school's highest tuition charged as reported to NAIS as our tuition reference for overall tuition increases. Since other calculations capture rates of net tuition revenue, which would account more closely for average tuition paid after financial aid and other forms of tuition discounting, we believe that this construct for highest tuition is a good proxy for schools' general trend of increasing tuition.

**Statistical techniques.** Tuition trends were examined using arithmetic means, using quartiles, and at the level of the individual school. For arithmetic means and quartiles, we analyzed all available tuition levels for every fifth year of the 25-year interval (2013-2014, 2008-2009, 2003-2004, etc.). For individual school analyses, we looked at each school's tuition level in both 2013-2014 and a prior year, calculating an individual percentage increase for a 5-year interval, a 10-year interval, etc., up to 25 years. Because the group of schools reporting a tuition level in each of those years is different, none of these calculations are based on exactly the same population of schools. In all cases for years before 2013-2014, tuition levels were adjusted to October 2013 dollars to facilitate easy calculations of percentage of growth above inflation. Percentages over a multi-year period were annualized using the formula  $((1+P)^{(1/Y)})-1$ , in which P is the percentage over a multi-year period (expressed as a decimal) and Y is the number of years of the multi-year period.

**Share calculations.** Another set of calculations from DASL served to examine the shares of operating income and operating expenses devoted to various categories of school activity. It is important to note that DASL treats net tuition revenue as a category of operating income, implicitly placing financial aid under operating income as a type of income foregone, rather than placing it under operating expenses. Since schools conceptualize various types of financial aid in different ways, we consider the DASL construct to be the most consistent way to understand the data. Several of these variables were not available for the entire 25-year period of historical interest, but were kept for their utility in understanding contemporary budgetary priorities.

## NAIS School Leader Surveys

Based on our review of the literature and our discussions with NAIS, we developed two surveys to gather observations from independent school leaders. NAIS shared with us two lists of names and email addresses for independent school leaders: one for heads of school, the other for chief financial officers. School leaders serving in these roles often have varying job titles; for the sake of consistency, we use head of school (head or HOS) and chief financial officer (CFO) throughout this study to refer to survey and interview groups.

We developed our survey questions based upon our own review of the literature, our conversations with NAIS about their interests regarding tuition increases, and extant surveys from both NAIS, NBOA, NACUBO, and Inside Higher Ed. The three major conceptual framework categories that informed our survey development were competitive advantage, programmatic quality, and financial viability. For all three of those, our own experience as teachers and leaders in independent schools served as a starting point for the development of relevant questions. Questions of competitive advantage were influenced heavily by recent studies of competition and financial aid policies in higher education, whereas questions of programmatic quality were drawn from recent studies and current issues in K-12 education, especially private and independent schools. Financial viability questions were, in part, direct requests on behalf of NAIS; others were drawn from prior surveys distributed by NAIS, NBOA, NACUBO, and Inside Higher Ed (2013).

All surveys began with obtaining informed consent and a set of demographic questions; some of these demographic questions also served as screening questions to verify eligibility based on school status (private only) and school

location (anywhere in the fifty United States or the District of Columbia). These demographic questions also allowed us to stratify results by region, enrollment, single-sex or coed status, grade levels served, and religious affiliation.

After demographic questions, surveys contained questions based on the three major divisions of the conceptual framework: competitive advantage, programmatic quality, and financial viability. We developed a common set of questions for both sets of school leaders. Question A asked leaders, "How do you expect your school's tuition next year will compare to your school's tuition this year?" Question B asked leaders to rate aspects of the school's overall health. Questions C and D asked leaders to register agreement or disagreement with items relating to tuition, financial aid, and enrollment goals. Questions E and F asked leaders to evaluate the importance of potential means of increasing revenue and decreasing costs.

After those common questions, we posed particular questions to heads of school only or chief financial officers only (See Appendices A & B). For heads of school, Question H asked heads of school to evaluate the importance of certain school characteristics in marketing the school. For chief financial officers, Question J asked about outsourcing of services, Question K asked about participation in consortia, and Question L asked about auxiliary sources of income. For each of these items, we felt that these might be more germane to the specific role in question; we also felt that, given the high-profile nature of these leadership positions, it was crucial to keep surveys as brief as possible to help boost completion rate.

We used Qualtrics to send surveys by email, using the lists provided by NAIS. Members of the panel not responding within a week received an email reminder. Each email contained an indi-

vidually generated link, thereby ensuring that no one could respond more than once. For the head of school survey, we sent 1,947 emails; 704 (36%) of these emails led to a participant opening the survey link, and 551 (28%) of them resulted in usable survey data. For the chief financial officer survey, we sent 1,605 emails; 538 (34%) of these emails led to a participant opening the survey link, and 442 (28%) of them resulted in usable survey data. We considered any survey usable that contained information beyond agreement to informed consent and response to demographic questions. Non-response rate for each question ranged from 1% to 8%, with greater attrition toward the end of the survey, but we chose to include these incomplete surveys in our analyses.

After the close of the survey, all data were exported from the Qualtrics platform into SPSS. The data sets were cleaned to remove responses not meeting consent or demographic standards outlined above. Basic descriptive statistics were calculated for each question. Since response rates for all questions were relatively good, percentage values for responses to each question were taken as a share of that particular question's responses. For questions that were common between both surveys, responses to the two surveys were reported separately.

We sought to identify trends in the survey results based on demographic characteristics of the respondents' schools, but the only significant findings related to the size of the school. (Throughout the project, p-values less than .05 were used as the threshold for statistical significance.) No correlation or significant difference of means could be located related to the school's region, grade levels, or coed vs. single-sex status. Many questions did have significant correlations (using Pearson's correlation) and differences of means (using t-tests) based upon the

size of the school; these are discussed at greater length in the findings.

We also sought to find correlations between the first two non-demographic responses on the survey and later items in the survey. The first two questions were Question A, in which school leaders were asked about their expectations for next year's tuition, and Question B1, in which school leaders were asked about the school's overall health. Since these two responses were the most general assessments of the leader's perspective, we compared other questions against those items to seek correlations. We found several items that were significantly correlated (again using Pearson's correlation) with expectations of next year's tuition and assessments of overall school health; again, these are discussed at greater length in the findings.

## School Leader Interviews

We designed our interview protocol with reference to the same conceptual framework as the survey (competitive advantage, programmatic quality, and financial viability) to complement the quantitative results with qualitative insights. While the survey results are intended to identify the most prevalent perspectives and reveal the relative interest in various financial and managerial decisions, the interviews are intended to illustrate those trends and explore their relevance in conversation with individual leaders. Though the interview protocol was drafted at the same time as the survey, actual interviews took place after the close of the survey, and interview practices were strongly influenced by initial results garnered from the survey responses. Interview protocols for heads of school and chief financial officers were identical, but as anticipated, certain topics were of greater



interest to leaders in each role, and we explored those at greater length in conversation.

We sought to identify a sample of schools and then, from each of those schools, to interview both the head of school and the chief financial officer. Our sample was a sample of convenience, though we sought variety in school size, coed vs. single-sex status, and grade span. We included schools in five of the seven regions designated by NAIS: East, Mid-Atlantic, Midwest, Southeast, and Southwest. We were unable to include a school in the two remaining regions (Northwest and West). Review of the literature suggested to us that schools in “competitive markets” (cities in which families choose from multiple independent school options with broadly similar offerings) might have different concerns than schools not located in those types of markets, and to that end, we sought to include schools in both types of markets.

Our intention was to conduct all interviews in person and to record them. After obtaining informed consent, we conducted each interview in private while recording on a portable electronic device; either the researcher or the subject was allowed to stop the recording at any time to take given remarks off the record, and subjects were asked again at the end of the interview if they had any concerns about being quoted anonymously. For reasons of privacy and validity, each interview was conducted in a private space with only one researcher and the subject present; at each school, heads of school and chief financial officers were interviewed separately. It is our practice throughout the study to illustrate quotes with relevant information about the speaker, and that information is accurate when it appears; aspects of the speaker’s identity that are not germane to the context of the quote are omitted.

The initial plan called for 26 in-person interviews, representing both the head of school and the chief financial officer at 13 schools. Due to changes in leaders’ schedules that occurred on short notice, two interviews had to be conducted by telephone, and one interview ultimately proved impossible to schedule in time. At the end of the interview phase, we had recorded interviews with 25 school leaders from 13 different schools.

After all interviews were conducted, we followed a three-stage protocol for the analysis of the qualitative data. Each interview was reviewed first for an overall sense of content and scope. A second review was to highlight important themes and recurring motifs, while a third review allowed us to transcribe specific illustrative quotations. We developed a matrix based on our conceptual framework that allowed us to organize the leaders’ insights around the same framework explored in the survey.

## Limitations

The most consequential limitation of the survey is our choice to consider only independent day schools who are members of NAIS. Prior studies of private schools have utilized different criteria for the inclusion of schools in their samples. We differ from other studies of private schools generally because our responses are all drawn from NAIS databases, which would exclude private schools lacking any affiliation with NAIS. We differ from other NAIS studies in that we excluded all schools with boarding programs from our sample. It is therefore crucial to note that our results can only be generalized to independent day schools in the United States. The concerns of boarding schools, international schools, and the types of private schools not typically represented by NAIS may be very different.

All results based on historical analysis of DASL data must be considered in light of the overall reliability of that data set. Schools respond to DASL (and responded to its precursor surveys) on an entirely voluntary basis; they may report incomplete or even inaccurate results to the database. Though we removed data points that were obviously erroneous, we have no check on the completeness or integrity of the data. The longitudinal analyses rely either on the entire group of schools that responded in a given year, or on those individual schools who responded in both years at either end of a particular span of time. In both cases, this means that the group of schools represented in each case is not identical. A typical DASL analysis from 2013-2014 contains about a thousand responses, while a typical analysis from 1988-1989 contains slightly more than half that many. This might suggest that more recent figures have stronger claims to validity than do figures from the earlier years under study.

Threats to the validity of the survey center on response rates and on the degree to which respondents reflect the larger population under study. We believe our response rates of 28% for both surveys reflect strong levels of participation for a voluntary email survey. Examination of the respondents by school size, region, and grade span suggest that our respondents are drawn from a variety of schools similar to those represented by NAIS as a whole. We did feel that our number of responses from single-sex schools was so small that we chose not to conduct any analyses based on that group of respondents; given existential threats to single-sex private education, this may be an important avenue for future research. Finally, survey results may have been shaped by the assumptions used to construct the questions. No single set of survey questions can capture the multitude of paradigms that schools use to consider decisions about tuition and spending. Several participants

emailed us to express disagreement with certain questions, most often having to do with the conceptualization of tuition decisions and financial aid practices. Though it would be impossible to represent the great diversity of school management paradigms in one survey, we would recommend that future surveys on independent school finance attempt to accommodate multiple perspectives wherever possible.

Threats to validity of the interviews center on the representativeness, or lack thereof, of our respondents. Since we utilized a sample of convenience, we cannot generalize from these interviews alone what the concerns of the larger population are. We do believe that, to the extent these observations reflect the quantitative results from the historical analyses and the survey responses, they are valid elaborations of those stated issues. We believe our interview protocol allowed generous opportunities for participants to identify issues as important, whether or not those issues were present in our original conceptual framework, and our results reflect that freedom. Some participants in surveys may have been guarded in their responses due to the fact that they knew they were being recorded, or out of a fear that certain quotes would make their position clearly identifiable in the final product. We worked hard to ensure respondents that we would manage these risks, but we cannot be certain that our subjects were comfortable enough to be fully candid. That said, we are grateful for the insightful and candid remarks, and we are confident that what interviewees did choose to share reflects their priorities and perspectives faithfully.

# KEY FINDINGS

Based on our analysis of the school financial, enrollment, and employment data available in DASL, our survey responses, and our interviews, we identified seven key findings.

## Project Questions

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

**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 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 time period and method of calculation, average rates of tuition increase range from 2.6% per year to 4.1% per year.
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 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 teacher salary spending; 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 twenty-five years have steadily increased. When adjusted for inflation, we found mean day school tuitions grew 97% from 1998 - 2013, increasing from an average \$11,837 to \$23,372 (see Figure 5).

**Figure 5.**

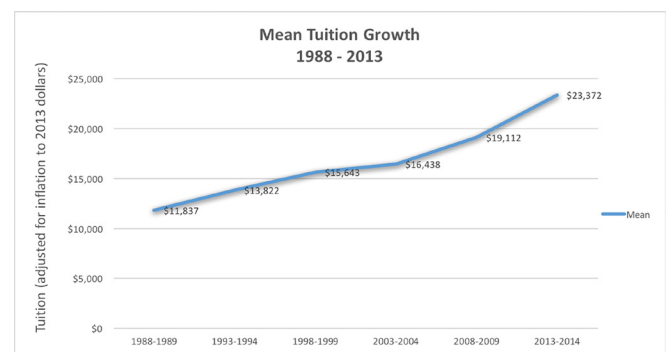
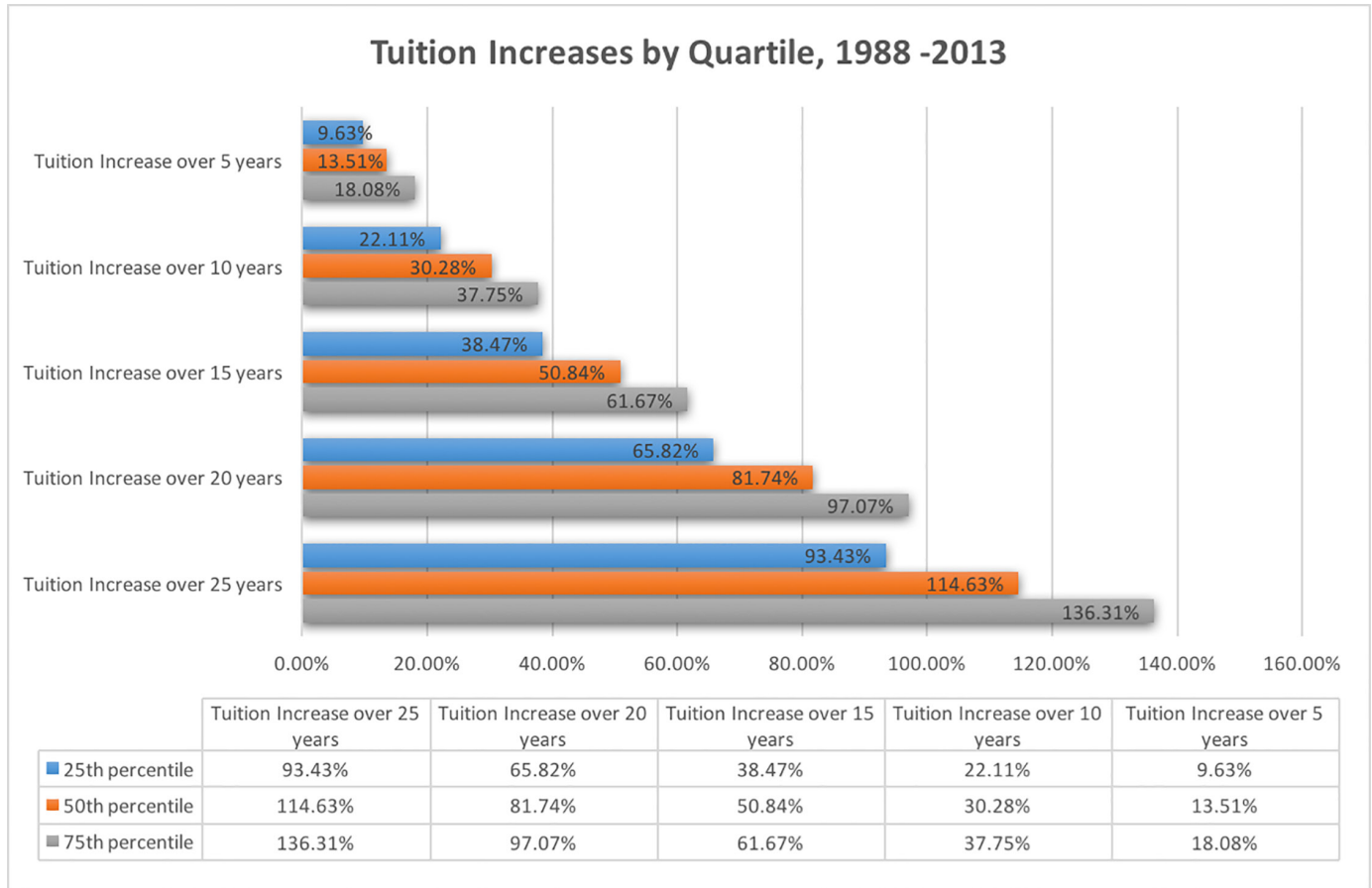




Figure 6.

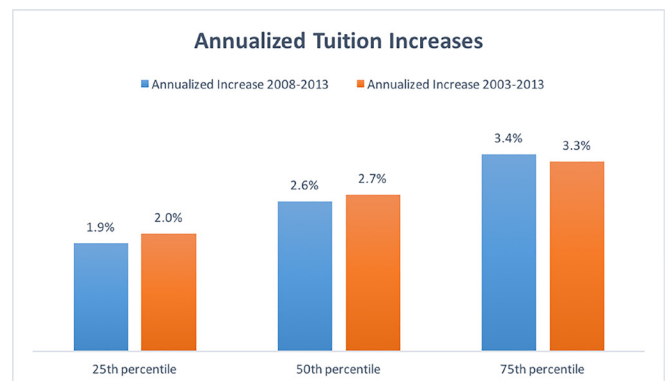


The average tuition has grown 42% in real dollars in the past ten years, moving from just over \$16,000 to just over \$23,000. Looking at the distribution of tuition increases across schools, we found that

***over the past ten years, 50% of schools increased tuition 30% or more in real dollars, almost all schools have doubled their tuitions in real dollars over the past 25 years*** (see Figure 6).

The annualized rates of tuition (Figure 7) increases reveals that 25% of schools increased tuition at least 2% beyond inflation, 50% of schools at least 2.7% beyond inflation, and 75% of schools at least 3.3% beyond inflation between 2003 and 2013. Rates remained fairly consistent between 2008-2013.

Figure 7.



## The Growing Expense of Financial Aid

The expense of financial aid programs has increased much faster than any measure of tuition. In 1988-1989, 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.

**Table 2.**

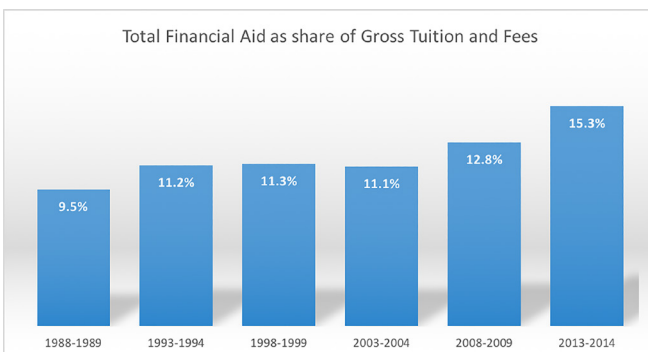
	Gross T&F revenue	FA expense	Net T&F revenue
1988-1989	\$10,908	\$1,067	\$9,900
1993-1994	\$12,443	\$1,442	\$11,099
1998-1999	\$13,748	\$1,578	\$12,215
2003-2004	\$16,199	\$1,810	\$14,429
2008-2009	\$19,683	\$2,592	\$17,117
2013-2014	\$22,115	\$3,239	\$18,963

**By 2013-2014, this average had increased to \$3,239 per student, an increase of 203.6%.**

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% but an annualized increase in net tuition revenue of only 2.6%. The same period saw an annualized increase of 4.5% 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.**



Another way to examine this same trend is to consider total financial aid spending as a share of other crucial school financial indicators. Schools in 1988-1989 on average devoted to the financial aid budget 7.9% of total income, and 10.5% of net tuition revenue; by 2013-2014, the financial aid budget averages had

shifted to 15.0% of total income and 19.2% 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 thirteen grades. It is our fastest growing item in the budget.” Other leaders have noted the expansion of financial aid: “Enrollment has become more challenging in the earlier grades because of the financial commitment for thirteen 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. “You can’t expect to spend your total financial aid budget when you come in under the enrollment target.” Nearly every school leader agreed financial aid budgets have increased in an effort to retain and attract families. “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% or nothing.” Of course, as one CFO noted, “Even if you increase enrollment, it’s only a temporary fix.”

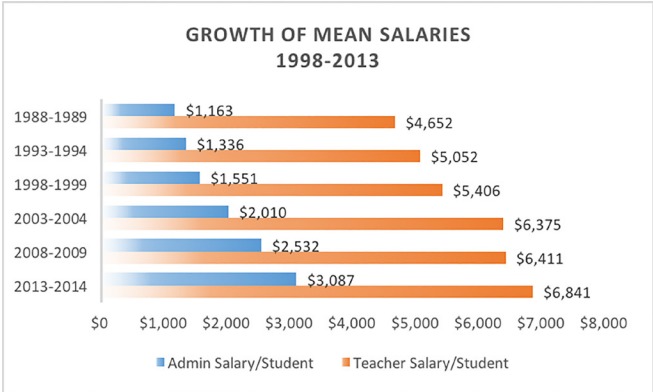
### The Rising Costs of Compensation

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 70-80% 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 1988-1989, 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 2013-2014, 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% and 19.2% respectively are far below increases in tuition revenue

or total school income; in fact, they reflect growth of less than 1% 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% increase above inflation over 25 years. 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 and/or teaching load. Still, this figure of 1.3% 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. When considering total faculty and staff salary spending per student, the average school has increased from \$6,907 in 1988-1989 to \$12,054 in 2013-2014, an increase of 74.5% after inflation over 25 years. This annualized increase of 2.3% 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 1988-1989, schools spent an average of \$1,163 per student on administrative salaries (adjusted to 2013 dollars); by 2013-2014, that average had increased to \$3,087

per student (see Figure 9). This 25-year growth of 165.4% equals an annualized increase of 4.0% 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, but in either case, the shift from faculty pay to administrator pay is clear.

***In 1988-1989, for every dollar spent on teacher pay, schools spent 25 cents on administrative pay; by 2013-2014, 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% to 32%, administrative salaries as a share of total spending rose from 10% to 14%.

**Finding 2: School leaders, particularly of larger schools, plan to continue increasing tuition above the rate of inflation.**

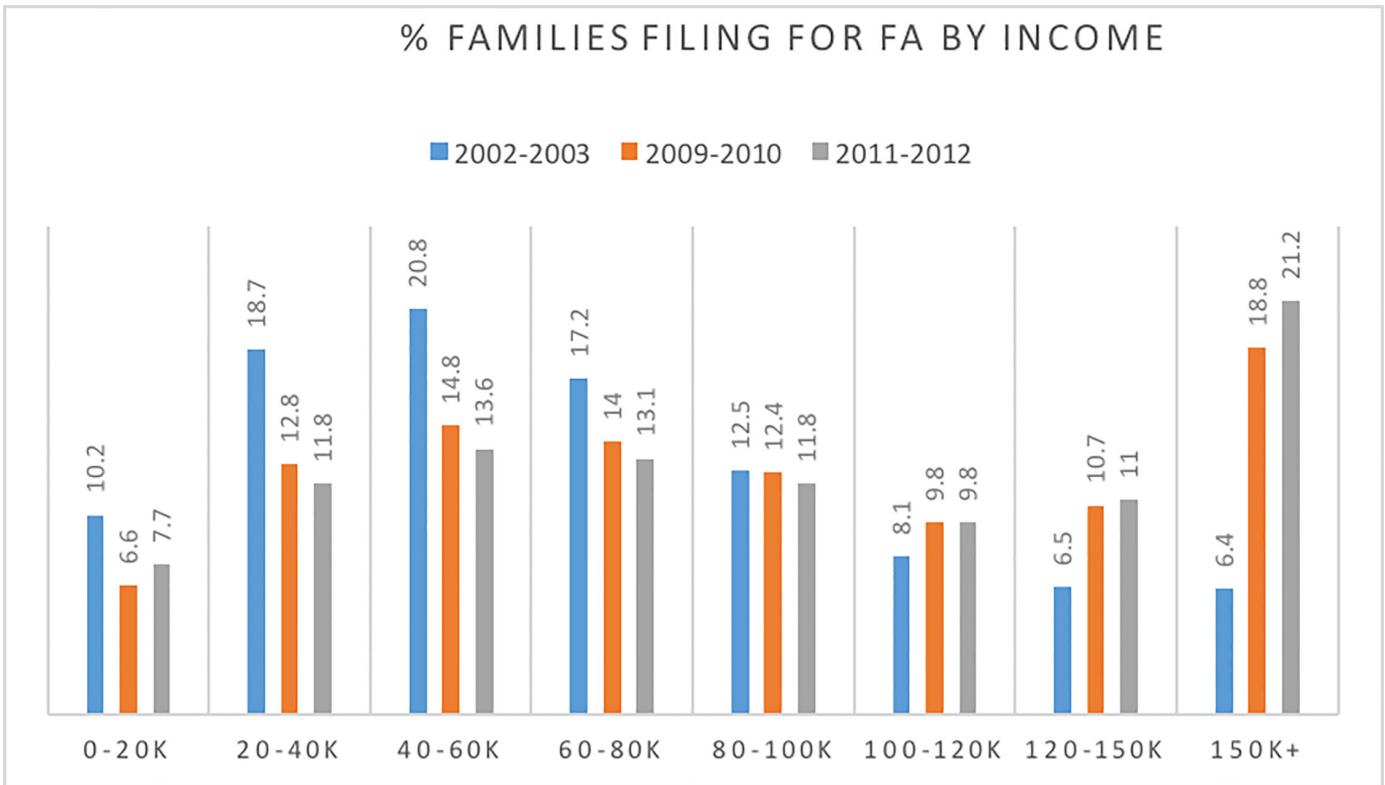
Eighty-one percent of heads of school and eighty-nine percent of chief financial officers (CFOs) indicated next year's tuition would increase at a rate equal to or higher than CPI ( $r=.297$ ,  $r=.295$  respectively). Overall, more than half of heads and CFOs surveyed indicated tuition increases will be slightly more than CPI. Interesting differences emerged relating 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) agreeing most.

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

Table 3.

Question A: How do you expect tuition next year will compare with tuition this year?	HOS	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 (CPI).	25%	17%
Next year's tuition will increase somewhat more than the rate of inflation (CPI).	52%	62%
Next year's tuition will increase much more than the rate of inflation (CPI).	4%	10%
Total Responses	551	442
Correlation with size of school	.297	.285
Sig.	P<.01	P<.01

Table 4.



assessments of financial health, a greater ability to offer competitive salaries, and a stronger capacity to fund professional development.

There were negative 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.

The school leaders we interviewed saw tuition increases 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% of the public school salaries." School leaders feel the pressure not to limit annual raises even when that most certainly means tuition will increase 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 eighty-two percent of CFOs disagree or strongly disagree with the statement, "We set tuition so that we do not outpace inflation (CPI)." HOS 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 while limiting 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 while limiting tuition increases to CPI." Sixty-six percent of heads and seventy-seven percent of CFOs either disagreed or strongly disagreed with the idea that they would be able to offer the best education program and remain competitive while limiting tuition increases to inflation.

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

Figure 10

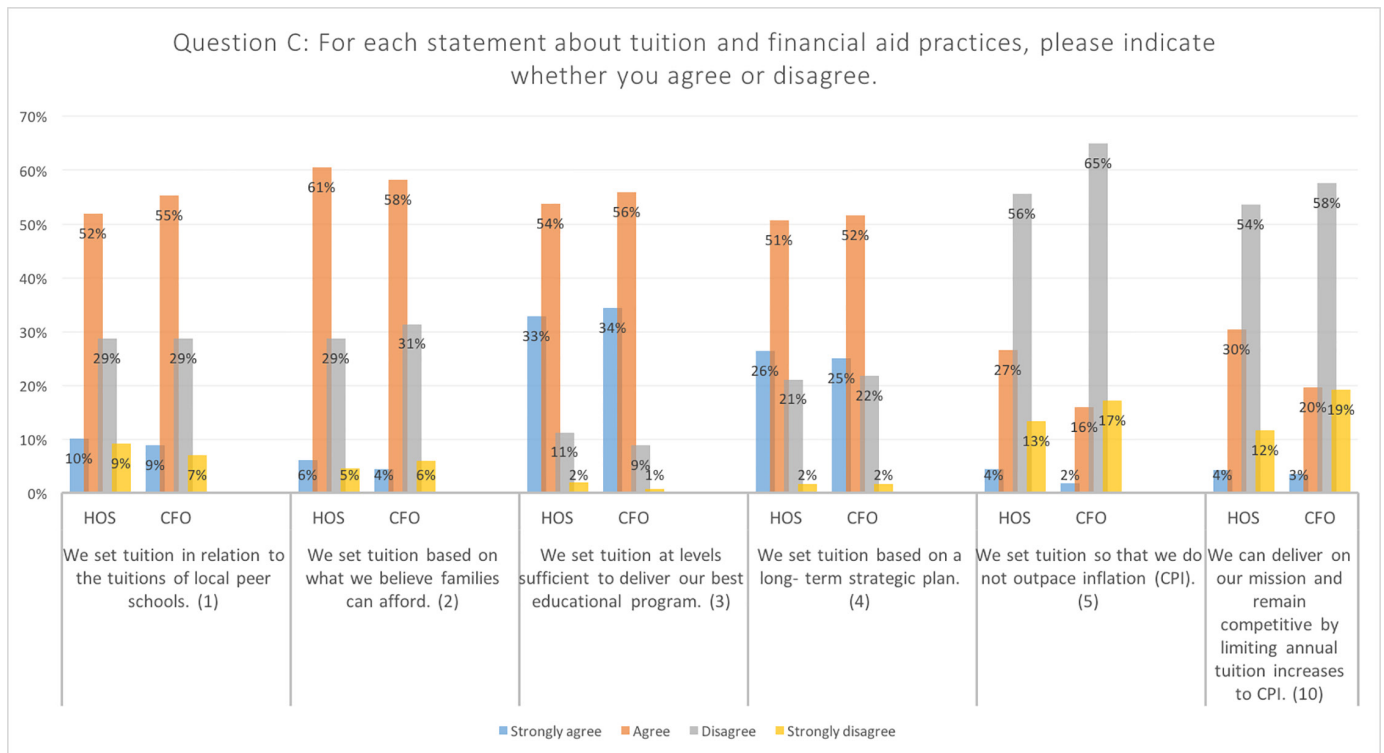
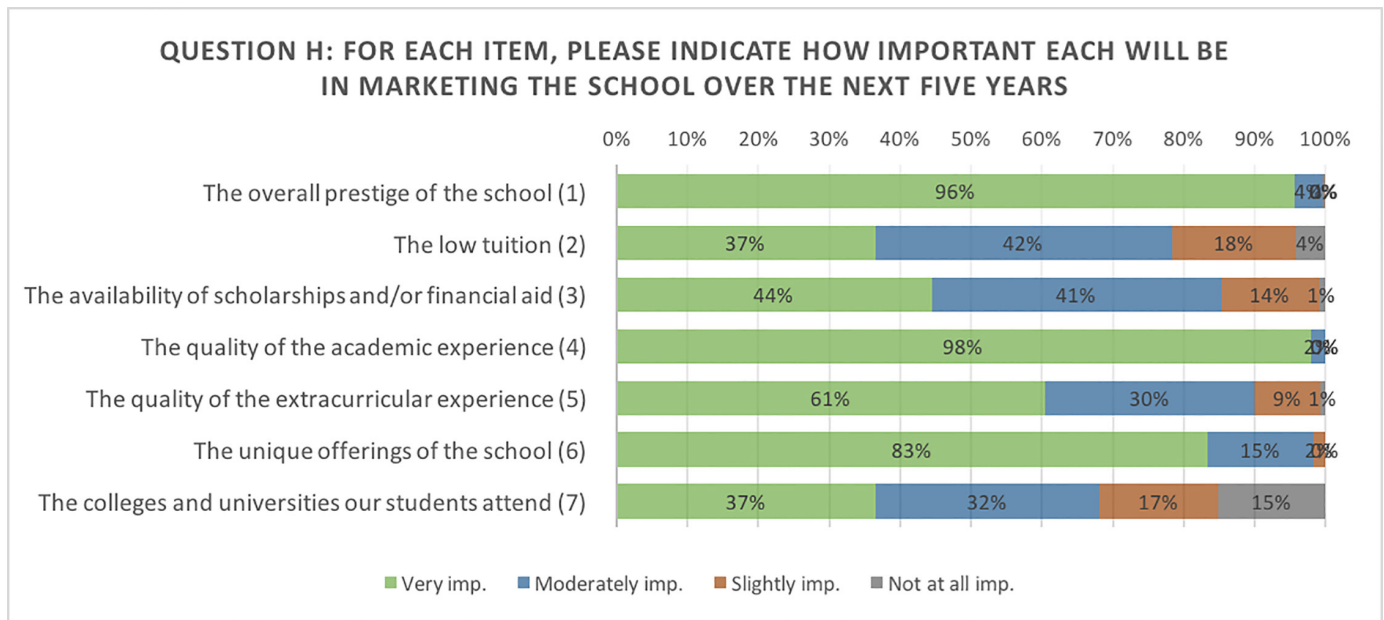


Figure 11.



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 strongly agree/agree with the practice of limiting tuition increases to inflation or less so 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 both “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 prestige, overall educational experience, and unique offerings of a school were more important to prospective families than tuition rates or financial aid policies (see Figure 11). 98% of heads of school responded that “the quality of the educational experience” was “very important” when asked to identify the school features that would be most important to attracting families to the school in the next five years. 96% responded that “the prestige of the school” was “very important” and 83% reported that “the unique offerings of the school” were “very important.” 61% 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% of respondents reporting “the availability of scholarships and/or financial aid” and 31% 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. 87% of heads of school say they “strongly agree” or “agree” that they

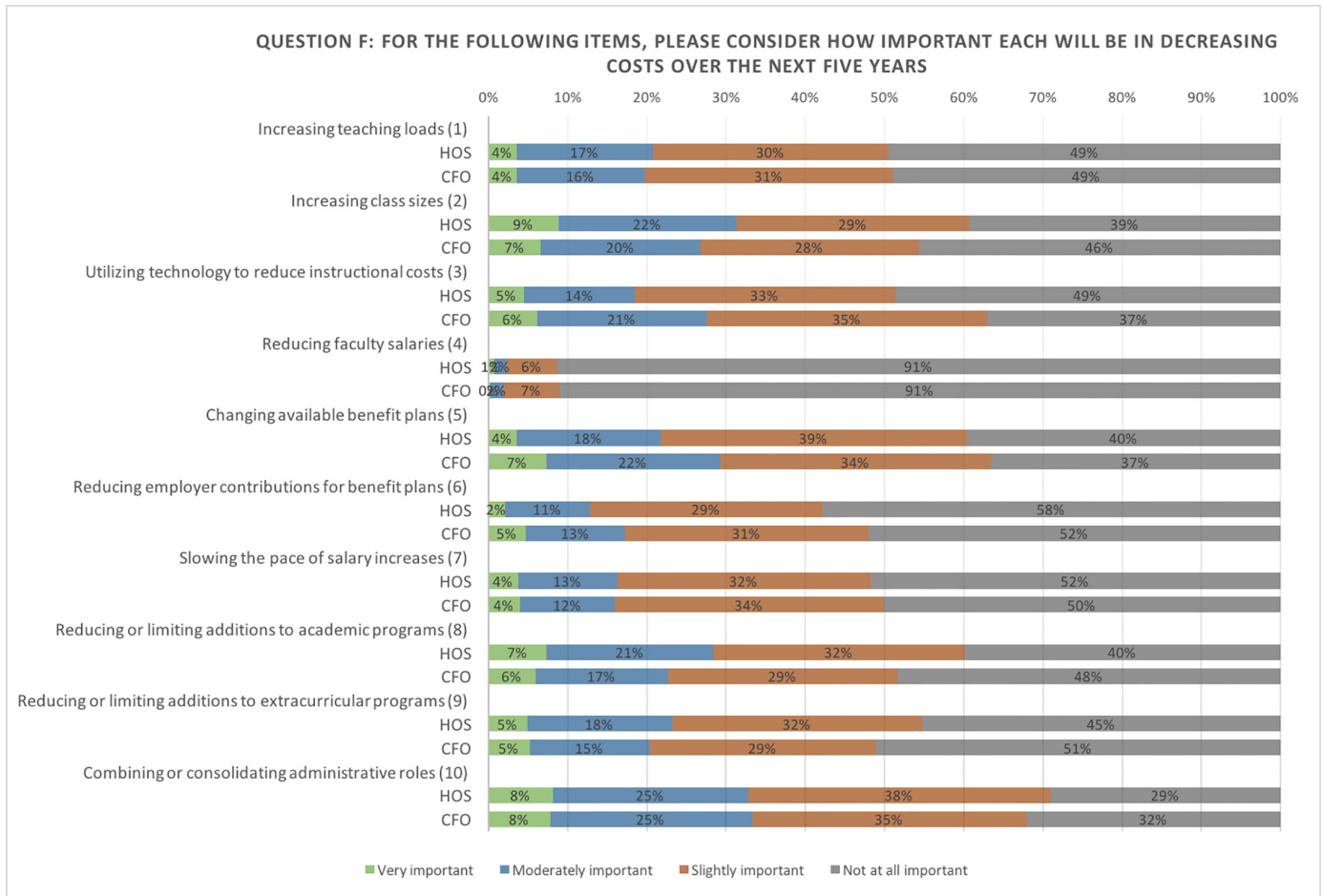
“set tuition at levels sufficient to deliver the best educational program.” We found a statistically significant correlation between heads of school who agreed that the school set tuition at levels sufficient to deliver its best educational program and heads of school who highly rated their school's 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 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.”***



Figure 12.



**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 “slightly” important (see Figure 12).

Since independent schools on average dedicate 75-80% 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% 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 (see Figure 12).

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 experi-

ence 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 benefit, 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 serve 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.

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% identified “increasing class sizes” and 20% identified “increasing teaching loads” as “very important” or “somewhat important” to cutting costs in the next five years (see Figure 12). 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 have not dealt 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% 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 for the school (see Figure 12). Nonetheless, CFOs still

indicate that they expect to increase income in summer programs (75%), after-school programs (48%), and facilities rentals (41%). The majority of those schools that already identify auxiliary programs as a significant source of revenue report they want to increase revenues over the next five years (see Figure 13). 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 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.

Figure 13.

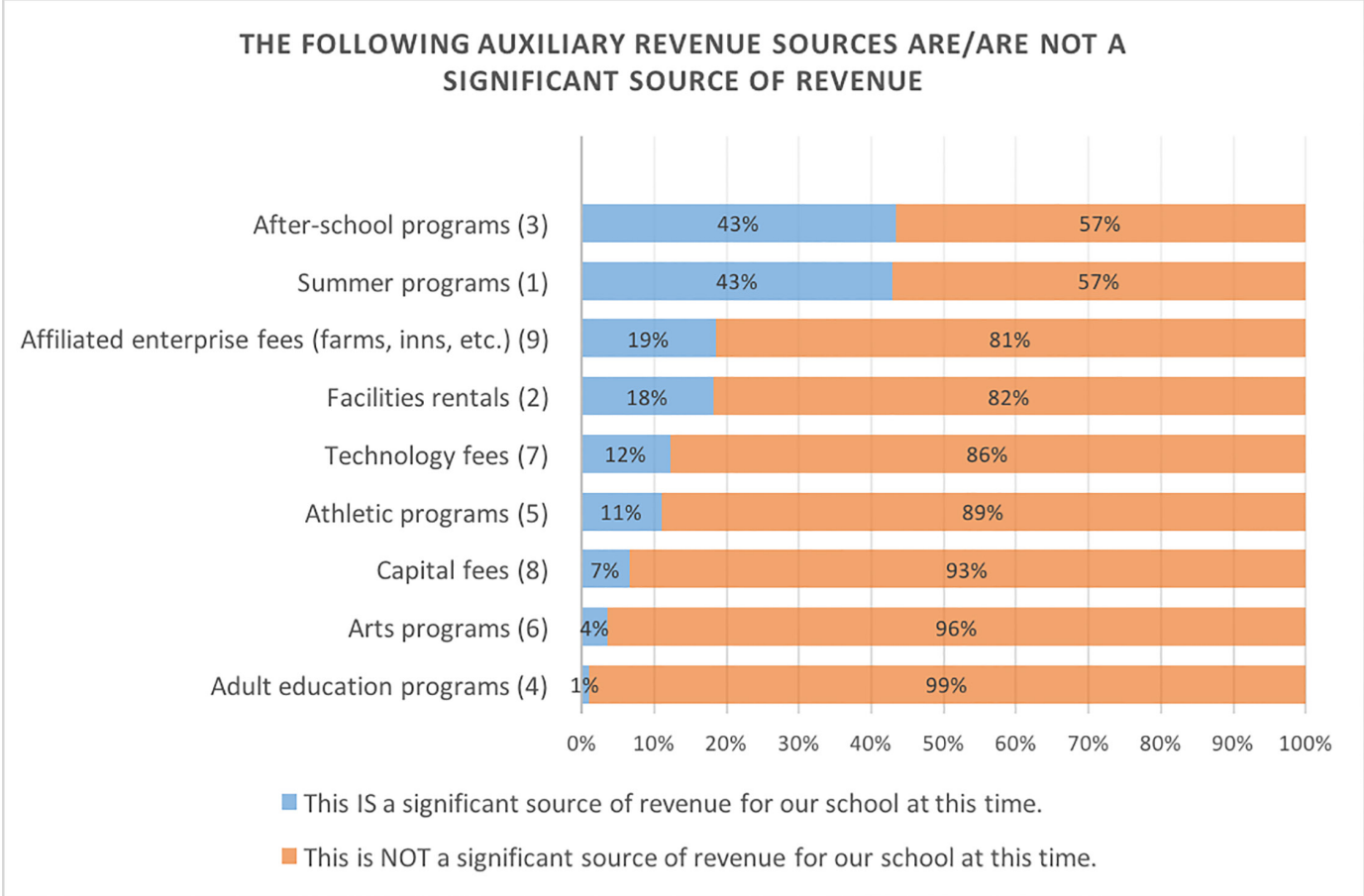
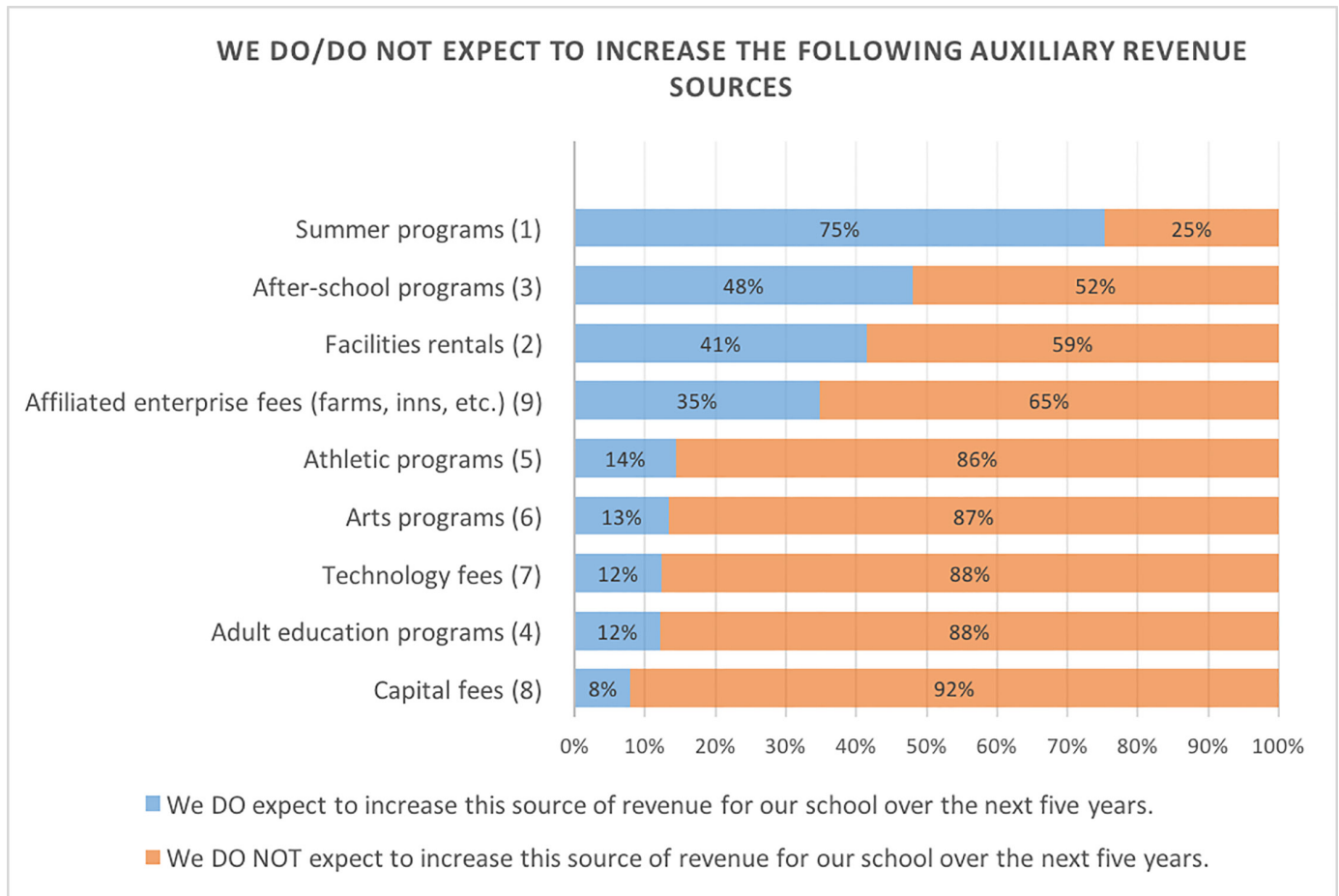


Figure 14.



Our lunch program brings in money, so does our after school program, and we’ve thought about ways we can use our facilities and ground 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 sched-

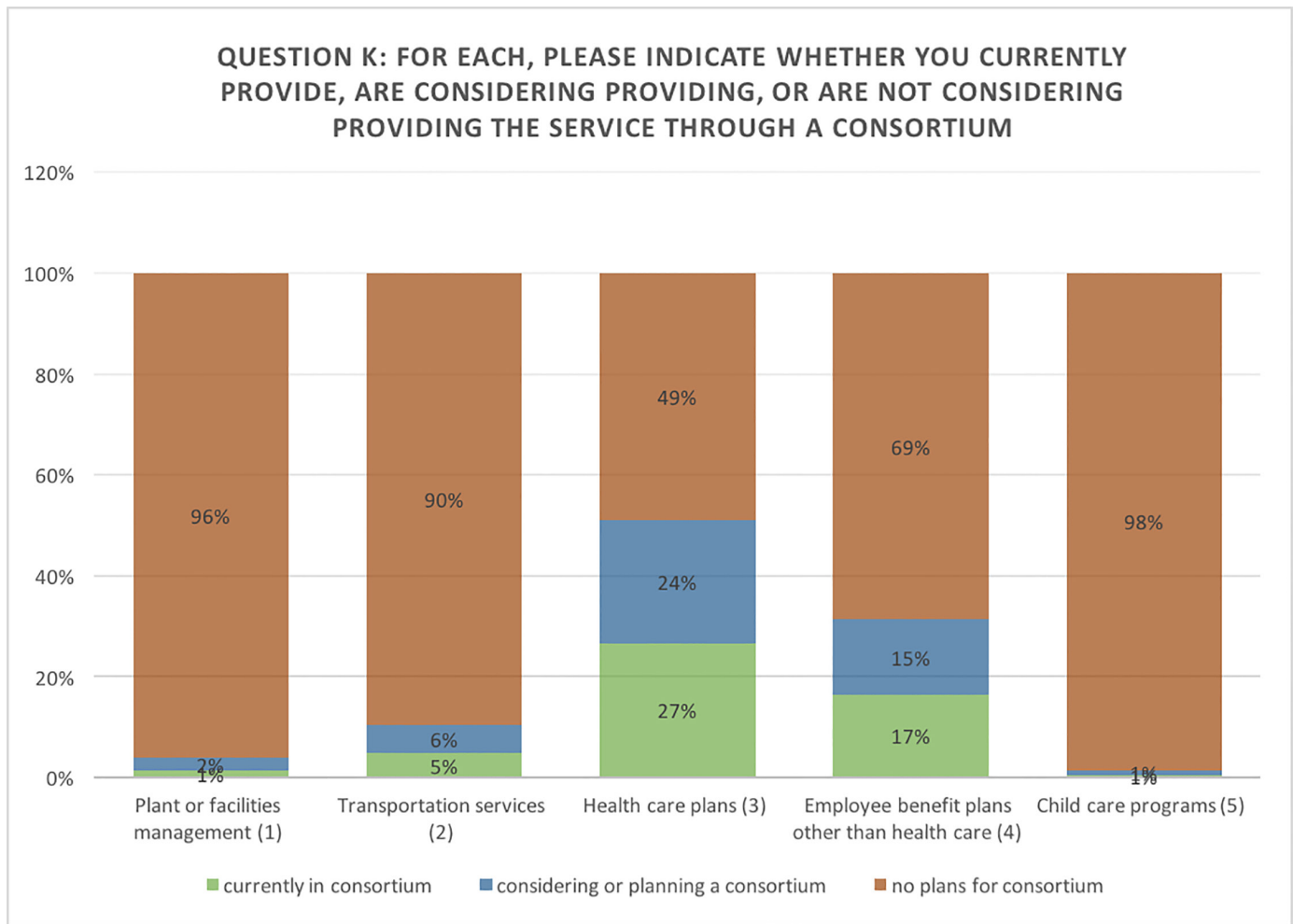
ules; it took a lot of their time - and my time.” Others were concerned about the unintended consequences of devoting too many resources to develop a relatively minor income stream.

***“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 outweighs 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

Figure 15.



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 four hundred thousand dollars 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.’” Considering 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 those 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%) and payroll/benefit services (64%). Approximately half reported outsourcing student transportation services. The share of respondents who currently outsource textbook services, facilities maintenance, and child care programs is much lower. Less than 10% 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, consortia (see Figure 15). Schools who are participating in consortia are mostly sharing purchasing power for health care plans (27%).

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,” reported a CFO from the Midwest, “with legal and human resources issues that we ultimately decided to hire a local company to provide those services. 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 have been 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 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 working independently 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 who 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.

# DISCUSSION

The analysis of our data reveals independent school financial models have more in common with private higher education than the financial structures of K-12 public education. The reliance on tuition, sources of revenue, market awareness, enrollment management, costs, and programmatic quality are closely aligned to the concerns, policies and practices of private higher education. There remains little peer-reviewed literature specific to the financial practices of independent schools. Indeed, the extant research literature in this field focuses almost exclusively on the financial practices of private higher education.

Much of the literature on financial practices focuses on the relationship between enrollment management and cost of attendance. As Ehrenberg (2000) notes, students now have expectations that include an experience that stretches beyond the classroom, including support services and extracurricular activities. While there is a wealth of research on admissions and financial aid, much of the literature seems to invert Howard Bowen's (1980) "revenue theory of cost" (also known as cost maximization). Bowen posits non-profit organizations (i.e. most of private higher education and independent schools) are primarily interested in educational excellence, prestige, and influence. In pursuit of this goal, organizations raise all the money they can, and, by virtue of their non-profit status, must spend all that they raise. Bowen concludes his theory by identifying this process of revenue generation as an ever-increasing expenditure. By examining tuition and financial aid, programmatic quality, and financial viability, we aim to illustrate independent school leaders would do well to focus on their value proposition (i.e. Bowen's

educational excellence, prestige, and influence) so as to account for rising costs. Inverting the value proposition-revenue relationship has led families to question the cost of independent education. Hanna Gray, former President of the University of Chicago highlights this point: "The single most serious problem of our universities is their failure to adhere steadily to their own purposes." Former Yale University President, A. Barlett Giamatti echoes, "No university is strong if it is unsure of its purpose and nature" (Axtell, pp. 213-214). Independent schools, now more than ever, must be clear as to their purpose, and their purpose has to be more than revenue generation.

The term "enrollment management" marks the shift of admissions offices as gatekeepers to salespeople. Hossler (1986) describes enrollment management as "an organizational concept and systematic set of activities with the purpose of exerting influence over student enrollments." In practice, enrollment management brings marketing, admissions, publications, academic advising, counseling, and financial aid in communication with one another. Their overarching goals are recruitment, retention, and graduation of students. Leslie and Brinkman's (1987) seminal study, *Student Price Response in Higher Education*, reviewed the relationship between price and student enrollment. They found, contrary to market theory, as tuition increased so too did the number of buyers, noting that the cost of higher education, while increasing in nominal dollars, decreased in real dollars. They noted, "Demand is known to be affected not only by price but by the money income of the buyer, by tastes and preferences, and by the value of the good from a consumption or an investment perspective" (1987, p. 200).

## Competitive Advantage

***“You worry about the frog in the boiling pot. If you increase the temperature right away, he’ll either jump out or die. If you increase it incrementally, he’ll get used to it.”***

*– a Southeastern head of school*

**Tuition rising.** Ehrenberg (2000) highlights an “arms race of spending” at selective private institutions, which encompasses not only improvements to academic quality, but also student experiences. Our research finding indicates tuition continues to serve as the primary source of revenue for independent schools, and employee compensation remains the largest expenditure. Even through the recent recession, independent schools have consistently increased tuition while increasing teacher compensation. In this way, independent schools have stayed true to their academic quality; however, spending on administrative compensation has increased at a far greater rate. While some school leaders may rightfully claim administrative compensation relates to the academic quality, others note increases in administrative spending are a sign of an enhanced student experience. In many cases, an independent school administrator may also serve as a classroom teacher. On the other hand, school leaders also note increased demands for student support services, as well as the need for more technological and extracurricular staff. Of course, Ehrenberg (2000) also highlights the relationship between spending and enrollment: “As long as lengthy lines of highly qualified applicants keep knocking at its door and accepting its offers of admission, no institution has a strong incentive to unilaterally end the spending race.”

**Financial aid rising.** While independent schools have increased tuition and spending, they have also increased their financial aid budgets. Ar-

chibald and Feldman (2011) formulate financial aid in terms of tuition discounting, or the institutional aid per student over the total cost of attendance. Our research found that while independent schools have consistently increased tuition, they are also increasing the amount of money they are awarding in financial aid to both retain current families (who are applying for financial aid at growing rates) and attract new families (who may be reluctant to invest in private education). Archibald and Feldman (2011) note two reasons for extending financial aid to students. For schools with a competitive admissions process (usually signaled by having more applicants than spots available and waitlists for enrollment), financial aid can be a way to solidify the most qualified student body. For under-enrolled schools, financial aid can be a way of enticing a student who may either be questioning the value of independent education or exploring other educational options (e.g. other private schools, charter schools, or traditional public schools). In this way, under-enrolled schools may use financial aid to avoid losing revenue, as an empty seat is worth less than a student enrolled on financial aid. McPherson and Shapiro (1999) address the arms race concern as it pertains to financial aid, specifically calling for limits on merit-based aid. The combination of tuition rising and alternative educational options (i.e. a competitive educational market) has led school leaders to expand financial aid spending. Since no indicators point to a decrease in the rate of tuition increases, financial aid spending is also likely to continue growing at a faster pace.

**Remaining competitive.** As has been noted, school leaders plan to continue tuition increases and believe they must do so in excess of CPI to remain competitive. Ehrenberg (2000) notes the difficulties small schools face when considering tuition increases. Smaller independent schools were more likely to report tuition increases at



or below CPI than larger independent schools. With a smaller enrollment may come a greater dependency on tuition as revenue. Further, smaller schools that are under-enrolled may need to limit tuition increases to retain and attract students. As Bowen (1980) writes, “The unit costs of particular institutions are thus determined in large part by the amount of money they are able to raise, not necessarily by some rational determination of the minimal amount needed to provide services of acceptable quality. There are Cadillac institutions and Pinto institutions. Just as Cadillacs and Pintos both provide acceptable transportation, albeit with differing degrees of comfort and prestige, so rich and poor institutions may both provide acceptable education, likewise with differing degrees of excellence and prestige” (22). Bowen (1980) cites a number of factors in setting “educational revenue,” including market comparisons, simulation studies, budgeting formula, and institutional mission. It is this last characteristic that is most important to independent school leaders. Overwhelmingly, respondents saw the ability to deliver quality educational programming as the focal point of tuition setting.

## Programmatic Quality

***“It’s not a financial challenge; it’s a value proposition challenge. It’s making sure what we’re offering is really worth it.”***

*– a Southeastern head of school*

Mayhew (1979) states, “budgets are really a statement of educational purpose phrased in fiscal terms” (54). Both survey results and interviews revealed school leaders found offering their school’s best educational programming as the top priority when considering tuition increases. In fact, this emphasis was further supported when asked to address cost-saving

measures. Again, both data sources indicated school leaders were cautious when considering cost-saving measures due to a real or perceived impact on educational programming. In light of Mayhew’s comment, school leaders recognize spending is one manner by which an institution lives its mission and indicates its priorities.

In reference to the “arms race” mentioned in Tuition Rising, Ehrenberg (2000) notes, for an institution to maintain its status, each institution has to spend more. Winston (2000) cites an analogy from Alice in Wonderland, where the title character has to “run very, very fast, indeed, just to stay in the same place.” Critics of the “arms race” have used the term “gold plating” to refer to what they see as a competition of socially wasteful spending (Ehrenberg, 2000). Zemsky, Wegner, Massy (2005) described the arms race as “mutually assured destruction,” or a process by which no party wins in a contest void of a definitive ending. The result of ever-increasing demands for academic quality and student experience lead to increased spending.

While much of the focus of our research has centered on revenue, costs, and spending, school leaders were quick to note value in independent schools should not concentrate solely on the financial aspects of education. One risks a myopic perspective on a nuanced concept. Ehrenberg (2000) highlights the drive for school leaders to maximize value. In this sense, value can be seen in the manner school leaders provide students the highest quality programs in every aspect of school life. Often, an indication of program quality can be seen in resource allocation. As a head of school stated, “We now spend more time educating on tuition as investment versus as expense.” As such, school leaders put priorities on programs to illustrate to families how their tuition is being invested in students. Bowen (1980) notes “excellence” or “quality” are com-

monly evaluated by examining student-faculty ratios, faculty salaries, educational qualifications of faculty, range of facilities, and academic achievement and goals of enrolled students. Further, Bowen comments each of these criteria are resource inputs, which costs money (even recruiting goal-oriented students has a cost), not necessarily outcomes as a result of the educational process. As such, the pursuit of “excellence, prestige, and influence” has not been acted upon by incentives of efficiency. There appear to be no systematic guidelines for what education ought to cost (to provide the minimally acceptable service) (Bowen, 1980). That is, the cost and benefit of education is not regulated by public interest, but rather by the students and families.

## Financial Viability

***“It’s like moving deck chairs on the Titanic. You have to do so much of that to put a dent in the operating budget.”***

*– a Southeastern head of school*

The National Business Officers Association (NBOA), a trusted voice guiding the practices of many independent schools, notes, “Financially healthy schools have the resources to sustain their operations for the long term, relative to their individual missions. These schools have successfully developed and implemented financial plans for both operations and facilities funded in part by tuition and fees while maintaining cash reserves to cover their short-and long-term obligations” (52). Much like the caution school leaders voiced when discussing cost-saving measures’ impact on educational programming, heads of school and CFOs are equally reserved on the impact auxiliary income and outsourcing can have as cost-saving measures. Johnstone and Marcucci (2007) have noted cost-saving measures, such as increasing class size and teaching

load, deferring maintenance, and/or dropping under-enrolled programs, can be problematic, especially when such decisions conflict with a school’s value proposition.

School leaders indicated on both survey responses and interviews that traditional auxiliary revenue sources—summer programs, after school programs, facility rentals, and school store—do not “move the needle” relative to the operating budget. Further, independent schools often do not thoroughly account for the operating costs (e.g. maintenance, electricity, etc.) associated with auxiliary revenue sources. That is not to say there is no value in these auxiliary sources to independent schools. Several school leaders noted auxiliary sources of revenue can be beneficial to individual teachers and give prospective families access to campus (and the possible value of the independent school). Likewise, outsourcing initiatives (e.g., maintenance, dining services, distance education, etc.) are not seen as significant cost-saving measures, but may provide marginal value. Outsourcing maintenance and dining services can often allow a human resource manager to more effectively spend time and attention on other school priorities; offering students opportunities for online courses may be of value on a small scale, but would not necessarily be reflective of a major programmatic change. In light of comments from school leaders, major programmatic change would not necessarily involve adjustments to the operational budget. As one Head of School noted, “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. 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 the 21st century 40% disposable income goes towards education.” A programmatic change is not an adjustment to a financial model, but rather an overhaul of the educational model.

# RECOMMENDATIONS

Based on our findings and literature review, we offer the following recommendations to NAIS and member schools.

**Recommendation #1:**  
**Independent schools should not let the lessons from recent closures of small liberal arts colleges pass without taking notice; as schools devote more and more money to financial aid, they must watch their net tuition revenues closely.**

Our analysis of long-term growth in income and expenses point schools toward a collision course. Increases in net tuition revenue slightly lag increases in tuition, but increases in financial aid expenditure dwarf increases in tuition. This leads, over time, to financial aid spending representing an increasingly large share of net tuition revenue. This suggests one of several tipping points: schools could decide to increase tuition even more sharply, to reduce the scope of financial aid programs, or to reduce expenditures in other areas.

No matter what strategies schools employ to balance costs and revenues, the relationship between tuition and financial aid is of key importance. Increases in tuition above the rate of inflation will likely continue to stoke demand for financial aid, as well as limit access to the school's programs among non-wealthy families. Any decision to increase tuition above the rate of inflation should include a decision about the

increase in resources that will be devoted to financial aid. Whether school leaders utilize a net tuition revenue model or consider financial aid as a budgeted expenditure, they must develop an understanding of how their own tuition increases will impact their financial aid program and enrollment management strategy.

The past ten years has seen an increase in closures of small liberal arts colleges, whose business models most directly mirror those of independent K-12 schools, largely because of steep increases in tuition discount rates. The National Association of College and University Business Officers reported that the average tuition discount rate for freshmen at private colleges hit 48% this year, meaning that colleges only received 52 cents for every tuition dollar charged (Woodhouse, 2015). These rates suggest that aid expenditures may in fact overtake revenue generation; a dangerous reality for tuition-dependent schools. The effective use of unfunded financial aid has been shown to increase net tuition revenue for schools, but its effectiveness is not without limits. A 2010 study of tuition discounting practices at private colleges suggest that unfunded financial aid expenses begin to erode marginal increases in tuition revenues when the rate reaches 13% (Hillman, 2010). Independent schools should undertake studies to identify the rate at which marginal increases in tuition revenues begin to decline with continued increases in unfunded financial aid expenditures and then employ strategic enrollment management strategies to ensure effective and efficient use of financial aid expenditures.

## **Recommendation #2: Schools should develop budgets founded on a clear value proposition and price accordingly.**

Schools must articulate a clear and compelling value proposition in order to attract and retain families. School leaders consistently reported a need to increase tuitions faster than inflation in order to deliver excellent programs to compensate outstanding faculty. Schools need to ensure that every dollar they spend on each aspect of their program contributes to the value proposition. Schools should resist the temptation to simply add to their programs by clearly understanding which features of their educational experience drive the recruitment and retention of families.

Both survey and interview results suggest that schools can continue to increase tuition above the rate of inflation while meeting the competitive demands of market forces. But schools must be careful that every dollar increase contributes to an increase in quality. If price increases without a corresponding increase in perceived outcomes, schools run the risk of decreasing their perceived value. Families opting for independent school education have generally demonstrated a willingness to commit substantial amounts of money to supporting the school's educational enterprise. Since the majority of school leaders in our survey reported an intention to increase tuition above the rate of inflation, such a position does not put most independent schools at a competitive disadvantage with each other. Changes in the role of for-profit schools and charter schools may alter this balance in the years to come, but most independent schools operate in a local market context where competition is based on quality, not price.

In order to deliver the perceived quality families demand, schools should engage in market research that seeks to clarify why families choose to attend and choose not to attend. If an emphasis on global programming, for example, is proposed internally, a school should not devote resources to it unless market research reveals that adding the program will increase perceived quality among current and prospective families.

## **Recommendation #3: School leaders should be mindful of increasing administrative costs and its impact on the value proposition.**

Our study shows consistent support from school leaders for the idea that caring, well-qualified employees are the core of any school's value proposition. As salary and benefit costs continue to increase much faster than inflation, these forces will continue to exert an upward pressure on tuitions. A school's ability to maintain a well-qualified faculty, minimize turnover, and cultivate a culture of excellence are all dependent on a salary and benefit model that can retain employees over the long term. This is supported by long-term trends showing schools' increasing their per-student spending on faculty and staff spending even above the rates of tuition increase. These employees are the most important facet of programmatic quality, which lies at the heart of the school's value proposition to families. Given these constraints, it is reasonable to expect that increasing personnel costs will continue to drive increases in tuition.

However, schools must be careful to ensure that each dollar spent on salaries goes toward enhancement of the instructional program and perceived quality. Funds devoted to administrative salaries have significantly outpaced

increases in dollars devoted to teacher salaries, growing 165% over the past 25 years. As administrative positions increase, school leaders must ensure that the positions are necessary to deliver the best educational program. Some school leaders we interviewed discussed the tendency to add without ever taking away, which in turn leads to the belief that any new program must be led by a new administrative hire. Any new program requiring the hire of a new administrator should have an overwhelming impact on the school's value proposition.

**Recommendation #4:  
NAIS should shift its focus from urging cost-saving measures to leading school in thinking about educational models that will improve the quality of their educational programs.**

A consistent theme throughout surveys and interviews is that school leaders believe that educational quality far surpasses all other characteristics in determining a school's success. A school's prestige and its unique offerings bring families and students to the community; tuition levels and financial aid practices are seen as less important to the school's core constituencies. Affordability of tuition and accessibility of financial aid are central to a school's identity, and these practices are deeply meaningful as a matter of social justice and community engagement. That said, quality matters more, and independent schools exist to provide a superior educational experience to families who have chosen to make significant financial commitments. This insight is key to understanding all decisions about tuition.

Survey and interview results indicated repeatedly the ways in which education is a "people business." New practices impact the work, but

the core technology is unchanged: a caring, qualified adult in a room with a group of young people. As personnel costs increase, this basic model will grow more expensive, but independent school leaders and the families they serve have little interest in disrupting it. At the same time, because personnel costs consume the lion's share of school spending, efforts to cut costs in other areas are limited in impact.

Substantive and meaningful changes to independent school cost-drivers will only be achieved with changes to the current educational model. School leaders need help identifying effective, alternative educational models and implementation strategies. NAIS would benefit its member schools most in this area by positioning itself as a thought-leader in this area, researching alternative models, and highlighting ways schools could start to implement alternative models without decreasing perceived quality.

**Recommendation #5:  
NAIS should pay special and specific attention to the financial concerns of small schools.**

Our surveys overwhelmingly indicated that smaller schools have concerns distinct from larger schools. Leaders of smaller schools are much more likely to be planning smaller tuition increases than their counterparts at larger schools. They report less favorable levels of overall financial health; they have greater difficulties funding salaries, benefits, and professional development; and they are less likely to have met enrollment targets and tuition revenue goals. These differences are both statistically significant and large in size. All of our analyses are vulnerable to "survivorship bias" related to school size; any school with enrollment diffi-



culties that ultimately caused it to close would not appear in our most recent results.

The market forces that place pressure on small schools are deserving of further study. It is unclear to what extent there is parent demand for the type of experience that small schools can provide; the sense of community that comes from small scale may be desirable, but increases in the cost of staffing and the demands for programmatic quality may be problematic. The ability to provide important support services and the potential existence of diseconomies of scale should also be explored. Though our survey did not show greater interest among small schools in cost-saving measures or auxiliary income streams, the relative importance of those practices among small schools with an existing interest may be greater.

Our study does not adequately capture the issue of a school's enrollment in relationship to its enrollment goals and overall financial condition. Some small schools likely seek to remain small for mission-driven reasons or to serve a small geographical or religious community, but others are likely smaller than they would prefer to be. Seems an interesting and important issue! The extent to which increasing tuitions and questions about the ability maintain high-quality programs on a smaller scale are impacting the financial and managerial practices of small schools is still unknown. Since continuing trends in tuition and financial aid will increase the existing pressures on small schools, it is important for NAIS to provide them with useful guidance and concrete strategies for financial sustainability.

## **Recommendation #6: Further studies are needed to determine how schools can rely on cost-saving measures and auxiliary revenue sources.**

All independent schools are largely tuition-driven institutions; the average school receives more than three-quarters of its total income from net tuition revenue. In turn, the average school devotes almost three-quarters of its expenses to the salaries and benefits of its employees. The role of cost-cutting measures apart from reduction in personnel is consequently a minor one. In turn, auxiliary revenue sources must be derived from little or no increase in staffing, lest they become cost drivers themselves.

Since programmatic quality is central to how schools understand their own missions and how families make choices about private school enrollment, it is vital that potential cost-saving measures and auxiliary revenue sources do not threaten the school's ability to deliver a high-quality educational experience to students. Our survey reveals that most schools are uninterested in cutting programs, increasing teaching loads, or reducing salaries; interview subjects identified these as threats to the school's core value proposition. There is some interest from both surveys and interviews in trying to control the manage of benefits, especially health care; these costs, as a function of larger trends in the nation's health care system, are largely outside of schools' control. Schools' interests in outsourcing and membership in consortia for cost-sharing is small at this time, but may grow in the future.

The value of auxiliary revenue sources lies at the nexus of financial considerations and each school's understanding of its core mission. By



far the greatest interest in auxiliary revenue lies in summer and after-school programs, but interviews consistently indicate that the value of these programs rests primarily in their worth as supplemental salary opportunities for faculty, enrichment offerings for existing families, and recruiting efforts for community engagement. NAIS could take a leadership role in helping schools to start new programs or monetize their existing programs in these areas. Other sources of auxiliary revenue each represent a relatively small share of schools; NAIS could assist schools in identifying which of these would be the best fit for each school's existing mission and programs.

# CONCLUSION

Ultimately, our research revealed a certain degree of institutional isomorphism amongst independent schools. That is, many schools echoed “common models of good practices” (DiMaggio and Powell, 1983). Those common practices start by relating institution health with annual tuition increases beyond CPI and a significant reliance on tuition as the primary revenue source. As such, recent increases in financial aid are meant to both retain and attract new families, while articulating the school’s value proposition in term of programmatic quality. Possibly the strongest indication of isomorphism may be the presence of auxiliary revenue sources and outsourcing at nearly every school, while admitting neither has “moved the needle” in practice.

While there are clear and substantial trends in tuition increases, costs, and spending, there remains an existential tension for independent schools. Some feel the focus on cost is timely and justified as the priority school leaders must address. Others see this perspective as, at best, tangential, at worst misleading. Instead, the topic most worth addressing is one of value. As one private school leader observed:

“I think independent schools have gotten fixated on tuition and costs. My sense is, that train has left the station. It’s not like you’ve priced out the middle class... heck, you’ve already priced out a lot of the upper class. If you look at organizations who price the way we (independent schools) do, 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. They’ll figure out the price, and the school can help them. Independent schools talk about we will one day price out. Well, we’ve already priced out. It’s not a someday kinda thing.”

We agree.

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# APPENDIX A

## NAIS Chief Financial Officer Survey

You are being asked to take part in a collaborative research study between the National Association of Independent Schools and Vanderbilt University. The purpose of the study is to understand how schools approach the challenge of increasing costs in a competitive market. The following information is provided to inform you about the study and your participation in it. Please read this information carefully; if you have any questions, feel free to contact our lead investigator, Will Hester, at xxx-xxx-xxxx or our faculty advisor, Dr. Claire Smrekar, at xxx-xxx-xxxx. You may print this consent information if you wish to keep it. You are being asked to complete this survey because you are a senior administrator at an independent school. All you have to do to participate is complete the following online survey, which takes approximately 10 minutes. You can withdraw from this study at any time by closing this window and/or deleting the survey email. We believe that our study will help independent school leaders develop frameworks for decision-making around tuition and costs. You will not receive any direct benefit for participating. There are no discomforts, inconveniences, or risks that can be reasonably expected as a result of participation in this study, and there are no consequences for withdrawing from study participation at any time. All efforts, within reason, will be made to keep your responses confidential, but total confidentiality cannot be guaranteed. All data collected from the surveys will be accessible only to the research team and to our faculty sponsor at Vanderbilt. Data analysis will be performed on password-protected computers and/or a secure online data management platform that are only accessible to the research team and our faculty sponsor. Your information may be shared with Vanderbilt or the government (such as the Vanderbilt Institutional Review Board or the federal Office for Human Research Protections) if someone is in danger or if we are required to do so by law. If you want additional information about giving consent or your rights as a participant in this study, or you want to discuss problems, concerns, questions, or you want to offer input, please feel free to contact the Vanderbilt University Institutional Review Board Office at xxx-xxx-xxxx or toll free at xxx-xxx-xxxx. If you consent to the conditions above, and freely and voluntarily choose to participate, please click "yes" below. You may also choose to contact us with questions and return to this survey at a later time. Clicking "no" will end your participation in this study.

- Yes, I have read this informed consent information, and I freely and voluntarily choose to participate. (1)
- No, I do not choose to participate at this time. (2)

*If No, I do not choose to part... Is Selected, Then Skip To End of Survey*

### **Q1 Please choose the option that best describes your school.**

- My school is an independent school (or private school) with day students only. (1)
- My school is an independent school (or private school) that has boarding students. (2)
- My school is a public school or charter school. (3)
- None of the above. (4)

*If My school is an independent... Is Not Selected, Then Skip To End of Survey*



**Q2 In which region is your school located?**

- East: New Jersey, New York (1)
- Middle Atlantic: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia (2)
- Midwest: Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia, Wisconsin (3)
- New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont (4)
- Southeast: Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee (5)
- Southwest: Arizona, Arkansas, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas (6)
- West: Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming (7)
- None of the above. (8)

*If None of the above. Is Selected, Then Skip To End of Survey*

**Q3 Which of these categories best describes your school's total enrollment?**

- fewer than 201 students (1)
- 201-300 students (2)
- 301-500 students (3)
- 501-700 students (4)
- more than 700 students (5)

**Q4 Is your school coeducational or single-sex?**

- coed school (1)
- boys school (2)
- girls school (3)

**Q5 Which grades does your school serve? Please check all that apply.**

- K-3 (1)
- 4-6 (2)
- 7-8 (3)
- 9-12 (4)

**Q6 If your school has a religious affiliation, please identify the affiliation here. If your school has none, please leave this question blank.**

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**A Please rate each of the following items in relation to your school at the present time.**

	Very good (1)	Good (2)	Fair (3)	Poor (4)
1. School's overall financial health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. School's capacity to offer competitive salaries and benefits for faculty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. School's capacity to fund faculty professional development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. School's ability to articulate a value proposition to families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. School's ability to meet the demonstrated financial need of families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The overall sustainability of the school's business model	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**B For each statement about tuition and financial aid practices, please indicate whether you agree or disagree.**

	Strongly agree (1)	Agree (2)	Disagree (3)	Strongly disagree (4)
1. We set tuition in relation to the tuitions of local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. We set tuition based on what we believe our current families can afford.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. We set tuition based on what we believe new families can afford.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. We set tuition at levels sufficient to cover our operating costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. We set tuition based on a long-term strategic plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. We have changed our financial aid practices in relation to the aid practices of local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. We have changed our financial aid practices due to increased demand from current families.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. We have changed our financial aid practices to attract new families.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. We have changed our financial aid practices to enroll more students with aid offers from local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**C For each item, please think about your school over the past five years and indicate "yes" or "no"**

	Yes (1)	No (2)	Don't know/ Not applicable (3)
1. School has outsourced instructional services or programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. School has outsourced non-instructional services or programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. School has entered into a consortium agreement with other schools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. School has expanded the availability of need-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. School has expanded the availability of merit-based financial aid (or other aid not based on need)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. School has generally met enrollment targets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. School has cut programs to lower costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. School has had difficulty in recruiting and retaining "full pay" families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. School has met annual net tuition revenue goals	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. School has launched a capital campaign	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**D For each statement about tuition and financial aid practices, please indicate whether you agree or disagree.**

	Strongly agree (1)	Agree (2)	Disagree (3)	Strongly disagree (4)
1. In five years, non-fundraising auxiliary revenue sources will be an important part of the school's business model.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. The school presently finds non-fundraising auxiliary revenue to be a significant component of the operating budget.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. The school has seen significant increases in revenue from non-fundraising auxiliary sources.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. The school has enhanced or developed non-fundraising auxiliary revenue sources in the last five years.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. My school's annual salary increases exceed the net revenues we generate from annual tuition increases.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. In the past five years, we have increased draw on endowment to cover the gap between net tuition revenue and operating expenses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. In the past five years, we have increased annual fundraising efforts to cover the gap between net tuition revenue and operating expenses.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. In the past five years, we have increased fundraising efforts to make our school more accessible to families in need.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. We determine the amount and number of need-based aid awards in reference to our financial-aid budget.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. We determine the amount and number of need-based awards in reference to our net tuition revenue goal.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**E Below is a list of services schools may choose to outsource. For each, please indicate whether your school currently outsources it, is considering or planning to outsource it, or presently has no plans to outsource it.**

	We currently outsource this. (1)	We are considering or planning to outsource this. (2)	We presently have no plans to outsource this. (3)
1. Food services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Student transportation services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Textbook and/or supply purchases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Physical plant and/or facilities maintenance	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Payroll and/or benefit services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Child care programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**F Below is a list of services schools may provide as part of a consortium. For each, please indicate whether you currently provide, are planning or considering providing, or are not planning or considering providing the service through a consortium. (This is ambiguous to me--are we asking whether the school PROVIDES it in a consortium, or GETS it through a consortium?)**

	In a consortium (1)	Considering or planning a consortium (2)	Not considering or planning a consortium (3)
1. Plant or facilities management	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Transportation services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Health care plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Employee benefit plans other than health care	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Child care programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**G Below is a list of potential cost-saving measures. For each measure, please indicate whether your school has already implemented it, is about to implement it, is considering implementing it, or is not considering implementing it.**

	Already im- plemented (1)	About to implement (2)	Considering implement- ing (3)	Not consid- ering imple- menting (4)
1. Increasing teaching loads	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Increasing class sizes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Reducing salaries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Slowing the pace of salary increases	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Reducing the total number of faculty (in FTE terms)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Reducing or limiting additions to academic programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Reducing or limiting additions to extracurricular programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Reducing school expenditures on employee health care plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Reducing school expenditures on employee retirement plans	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Limiting or reducing funds for faculty professional development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Limiting or reducing tuition benefits for faculty/staff dependents	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Limiting or reducing total dollars devoted to need-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13. Limiting or reducing total dollars devoted to merit-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# APPENDIX B

## NAIS Head of School Survey

You are being asked to take part in a collaborative research study between the National Association of Independent Schools and Vanderbilt University. The purpose of the study is to understand how schools approach the challenge of increasing costs in a competitive market. The following information is provided to inform you about the study and your participation in it. Please read this information carefully; if you have any questions, feel free to contact our lead investigator, Will Hester, at xxx-xxx-xxxx or our faculty advisor, Dr. Claire Smrekar, at xxx-xxx-xxxx. You may print this consent information if you wish to keep it. You are being asked to complete this survey because you are a senior administrator at an independent school. All you have to do to participate is complete the following online survey, which takes approximately 10 minutes. You can withdraw from this study at any time by closing this window and/or deleting the survey email. We believe that our study will help independent school leaders develop frameworks for decision-making around tuition and costs. You will not receive any direct benefit for participating. There are no discomforts, inconveniences, or risks that can be reasonably expected as a result of participation in this study, and there are no consequences for withdrawing from study participation at any time. All efforts, within reason, will be made to keep your responses confidential, but total confidentiality cannot be guaranteed. All data collected from the surveys will be accessible only to the research team and to our faculty sponsor at Vanderbilt. Data analysis will be performed on password-protected computers and/or a secure online data management platform that are only accessible to the research team and our faculty sponsor. Your information may be shared with Vanderbilt or the government (such as the Vanderbilt Institutional Review Board or the federal Office for Human Research Protections) if someone is in danger or if we are required to do so by law. If you want additional information about giving consent or your rights as a participant in this study, or you want to discuss problems, concerns, questions, or you want to offer input, please feel free to contact the Vanderbilt University Institutional Review Board Office at xxx-xxx-xxxx or toll free at xxx-xxx-xxxx. If you consent to the conditions above, and freely and voluntarily choose to participate, please click "yes" below. You may also choose to contact us with questions and return to this survey at a later time. Clicking "no" will end your participation in this study.

- Yes, I have read this informed consent information, and I freely and voluntarily choose to participate. (1)
- No, I do not choose to participate at this time. (2)

*If No, I do not choose to part... Is Selected, Then Skip To End of Survey*

### **Q1 Please choose the option that best describes your school.**

- My school is an independent school (or private school) with day students only. (1)
- My school is an independent school (or private school) that has boarding students. (2)
- My school is a public school or charter school. (3)
- None of the above. (4)

*If My school is an independent... Is Not Selected, Then Skip To End of Survey*



**Q2 In which region is your school located?**

- East: New Jersey, New York (1)
- Middle Atlantic: Delaware, District of Columbia, Maryland, Pennsylvania, Virginia (2)
- Midwest: Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia, Wisconsin (3)
- New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont (4)
- Southeast: Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee (5)
- Southwest: Arizona, Arkansas, Colorado, Kansas, Louisiana, New Mexico, Oklahoma, Texas (6)
- West: Alaska, California, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, Wyoming (7)
- None of the above. (8)

*If None of the above. Is Selected, Then Skip To End of Survey*

**Q3 Which of these categories best describes your school's total enrollment?**

- fewer than 201 students (1)
- 201-300 students (2)
- 301-500 students (3)
- 501-700 students (4)
- more than 700 students (5)

**Q4 Is your school coeducational or single-sex?**

- coed school (1)
- boys school (2)
- girls school (3)

**Q5 Which grades does your school serve? Please check all that apply.**

- K-3 (1)
- 4-6 (2)
- 7-8 (3)
- 9-12 (4)

**Q6 If your school has a religious affiliation, please identify the affiliation here. If your school has none, please leave this question blank.**

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**A Please rate each of the following items in relation to your school at the present time.**

	Very good (1)	Good (2)	Fair (3)	Poor (4)
1. School's overall financial health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. School's capacity to offer competitive salaries and benefits for faculty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. School's capacity to fund faculty professional development	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. School's ability to articulate a value proposition to families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. School's ability to meet the demonstrated financial need of families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. The overall sustainability of the school's business model	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**B For each item, please think about your school over the past five years and indicate "yes" or "no"**

	Yes (1)	No (2)	Don't know/ Not applicable (3)
1. School has outsourced instructional services or programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. School has outsourced non-instructional services or programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. School has entered into a consortium agreement with other schools	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. School has expanded the availability of need-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. School has expanded the availability of merit-based financial aid (or other aid not based on need)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. School has generally met enrollment targets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. School has cut programs to lower costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. School has had difficulty in recruiting and retaining "full pay" families	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**C For each statement about tuition and financial aid practices, please indicate whether you agree or disagree.**

	Strongly agree (1)	Agree (2)	Disagree (3)	Strongly disagree (4)
1. We set tuition in relation to the tuitions of local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. We set tuition based on what we believe our current families can afford.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. We set tuition based on what we believe new families can afford.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. We set tuition at levels sufficient to cover our operating costs.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. We set tuition based on a long-term strategic plan.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. We have changed our financial aid practices in relation to the aid practices of local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. We have changed our financial aid practices due to increased demand from current families.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. We have changed our financial aid practices to attract new families.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. We have changed our financial aid practices to enroll more students with aid offers from local peer schools.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**D For each item, please rate its current importance at your school in recruiting and retaining students and families.**

	Very important (1)	Important (2)	Not very important (3)	Not important at all / Not applicable (4)
1. Quality of faculty and staff	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Quality of facilities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Quality of the overall academic program	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Advanced academic offerings (AP, IB, etc.)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Academic support services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. College advising and college placement	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Athletic programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Arts programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Community service programs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Affordability of tuition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Availability of need-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12. Availability of merit-based financial aid	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**E For each item, please think about your school over the next five years and indicate your agreement or disagreement.**

	Strongly agree (1)	Agree (2)	Disagree (3)	Strongly disagree (4)
1. School is likely to outsource programs or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. School is likely to enter into a consortium agreement to deliver programs or services	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. School is likely to increase class sizes or teaching loads	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. School is likely to use technology to reduce instructional costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. School is likely to limit tuition increases to remain competitive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. School is likely to increase financial aid to remain competitive	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. School is likely to continue increasing tuition to maintain financial health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. School is likely to continue increasing tuition to keep the academic program strong	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. School is likely to rely more on alternative sources of income (i.e., not tuition)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

# APPENDIX C

## Interview Protocol

### Ice-Breakers

1. How long have you been in your current role?
2. What academic preparation or prior work experience did you have in education and/or business?
3. What do you enjoy most about your current role?

### Competitive advantage: Admissions, financial aid, and local market forces

4. How would you describe your school's niche in the local market? (Probe on distinctive programmatic offerings, special religious or cultural preferences, for-profit/non-profit distinction, public/private/charter distinctions, and price point.)
5. How would you describe your school's business model? (Probe on net tuition revenue model vs. traditional financial aid budget model.)
6. To what extent has your school been meeting admissions and financial aid goals over the past five years? (Probe on yield, retention, need-based aid, merit-based aid, and tuition remission.)
7. Have increases in tuition (over the last five years) impacted your ability to meet admissions and financial aid goals?
8. Have increases in tuition (over the last five years) affected the competitiveness of your school in the local market?

### Programmatic quality: Choices about growth of programs and services

9. Over the last five years, in what areas has your school significantly increased spending? (Probe on facilities, instructional programs, financial aid programs, auxiliary programs, and faculty salaries/benefits.)
10. To what extent have these spending increases influenced tuition increases?

11. Have there been areas over the last five years in which your school wanted to increase spending, but could not because of revenue limitations? (Probe on same areas as #9.)
12. Has your school considered outsourcing services or joining consortium arrangements in order to offer (or continue offering) certain programs or services? If so, please describe.

### **Financial viability: Measures to cut costs and increase revenues**

13. How has your school decided on the size of recent tuition increases? (Probe on inflation/CPI/cost-of-living, peer school benchmarking, admissions targets, financial aid issues.)
14. Have cost-saving measures played a role in limiting tuition increases? If so, how? (Probe on teaching loads, class sizes, programmatic changes, salary/benefit limits.)
15. Has your school made efforts to increase non-tuition revenues? If so, please describe those efforts. (Probe on alternative business models, auxiliary programs, endowment draws, fundraising goals.)
16. Do you believe that your school's recent trend of tuition increases is sustainable? (Probe on both the revenue side and the competition side.)
17. What do you believe is the most important challenge to your school's long-term financial viability?
18. What do you believe is the most important challenge to financial viability facing independent schools in general at this time?



# APPENDIX D

## Survey Results

**Question A: How do you expect your school's tuition next year will compare to your school's tuition this year?**

	HOS	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 (CPI).	25%	17%
Next year's tuition will increase somewhat more than the rate of inflation (CPI).	52%	62%
Next year's tuition will increase much more than the rate of inflation (CPI).	4%	10%

**Question B: Please rate each of the following items in relation to your school at the present time.**

		Very good	Good	Fair	Poor
School's overall financial health	HOS	42%	37%	17%	3%
	CFO	47%	37%	13%	3%
School's capacity to offer competitive salaries and benefits for faculty	HOS	26%	42%	24%	7%
	CFO	38%	39%	19%	4%
School's capacity to fund faculty professional development	HOS	40%	34%	22%	4%
	CFO	42%	39%	16%	3%
School's ability to articulate a value proposition to families	HOS	46%	41%	11%	1%
	CFO	48%	38%	12%	2%
School's ability to meet the demonstrated financial need of families	HOS	25%	47%	25%	3%
	CFO	29%	48%	21%	2%
The overall sustainability of the school's business model	HOS	24%	48%	23%	4%
	CFO	32%	47%	18%	3%

**Question C: For each statement about tuition and financial aid practices, please indicate whether you agree or disagree.**

		Strongly Agree	Agree	Disagree	Strongly disagree
We set tuition in relation to the tuitions of local peer schools.	HOS	10%	52%	29%	9%
	CFO	9%	55%	29%	7%
We set tuition based on what we believe families can afford.	HOS	6%	61%	29%	5%
	CFO	4%	58%	31%	6%
We set tuition at levels sufficient to deliver our best educational program.	HOS	33%	54%	11%	2%
	CFO	34%	56%	9%	1%
We set tuition based on a long- term strategic plan.	HOS	26%	51%	21%	2%
	CFO	25%	52%	22%	2%
We set tuition so that we do not outpace inflation (CPI).	HOS	4%	27%	56%	13%
	CFO	2%	16%	65%	17%
We have changed our financial aid policies in an effort to remain competitive with the aid policies at local peer schools.	HOS	7%	26%	55%	13%
	CFO	4%	28%	54%	14%
We have changed our financial aid offers to compete with offers from local peer schools.	HOS	4%	16%	61%	19%
	CFO	2%	17%	61%	19%
We have changed our financial aid practices due to increased demand from current families.	HOS	14%	49%	31%	6%
	CFO	12%	50%	32%	6%
We have changed our financial aid practices to attract new families.	HOS	16%	40%	38%	6%
	CFO	12%	45%	34%	9%
We can deliver on our mission and remain competitive by limiting annual tuition increases to CPI.	HOS	4%	30%	54%	12%
	CFO	3%	20%	58%	19%

**Question D: For each item, please think about your school over the past five years and indicate whether you agree or disagree.**

		Strongly agree	Agree	Disagree	Strongly disagree	Not applicable
School has generally met enrollment targets	HOS	35%	38%	22%	5%	0%
	CFO	34%	41%	21%	4%	0%
School has cut programs to lower costs	HOS	2%	15%	48%	19%	2%
	CFO	1%	10%	48%	38%	4%
School has had difficulty in recruiting and retaining "full pay" families	HOS	7%	30%	42%	19%	2%
	CFO	6%	24%	45%	23%	2%
School has met annual net tuition revenue goals	HOS	34%	45%	17%	3%	1%
	CFO	34%	46%	16%	3%	0%
School has met goals related to annual giving	HOS	35%	47%	15%	2%	1%
	CFO	33%	45%	18%	3%	2%
School has met goals related to one or more capital campaigns	HOS	20%	32%	12%	3%	33%
	CFO	20%	35%	14%	5%	26%

**Question E: For the following items, please consider how important each will be in increasing revenue over the next five years.**

		Very important	Moderately important	Slightly important	Not at all important
Increasing enrollment	HOS	56%	19%	11%	14%
	CFO	50%	21%	11%	18%
Increasing enrollment of international students	HOS	4%	12%	20%	64%
	CFO	6%	13%	18%	63%
Increasing fundraising revenues	HOS	58%	31%	10%	2%
	CFO	53%	33%	12%	2%
Developing or augmenting non-fundraising auxiliary revenues	HOS	30%	40%	24%	6%
	CFO	26%	33%	33%	8%
Relying more on investment income	HOS	9%	23%	41%	28%
	CFO	8%	23%	41%	27%
Increasing the endowment	HOS	44%	27%	19%	11%
	CFO	42%	28%	19%	10%
Reducing the number of students receiving any form of financial aid	HOS	2%	14%	24%	59%
	CFO	6%	11%	24%	59%
Reducing the average financial aid award amount per student	HOS	4%	17%	28%	51%
	CFO	6%	15%	28%	51%

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

		Very important	Moderately important	Slightly important	Not at all important
Increasing teaching loads	HOS	4%	17%	30%	49%
	CFO	4%	16%	31%	49%
Increasing class sizes	HOS	9%	22%	29%	39%
	CFO	7%	20%	28%	46%
Utilizing technology to reduce instructional costs (blended learning, online courses, etc.)	HOS	5%	14%	33%	49%
	CFO	6%	21%	35%	37%
Reducing faculty salaries	HOS	1%	2%	6%	91%
	CFO	0%	2%	7%	91%
Changing available benefit plans	HOS	4%	18%	39%	40%
	CFO	7%	22%	34%	37%
Reducing employer contributions for benefit plans	HOS	2%	11%	29%	58%
	CFO	5%	13%	31%	52%
Slowing the pace of salary increases	HOS	4%	13%	32%	52%
	CFO	4%	12%	34%	50%
Reducing or limiting additions to academic programs	HOS	7%	21%	32%	40%
	CFO	6%	17%	29%	48%
Reducing or limiting additions to extracurricular programs	HOS	5%	18%	32%	45%
	CFO	5%	15%	29%	51%
Combining or consolidating administrative roles	HOS	8%	25%	38%	29%
	CFO	8%	25%	35%	32%

**Question H: For each item, please indicate how important each will be in marketing the school over the next five years. (HOS only)**

	Very important	Moderately important	Slightly important	Not at all important
The overall prestige of the school	96%	4%	0%	0%
The low tuition	37%	42%	18%	4%
The availability of scholarships and financial aid	44%	41%	14%	1%
The quality of the academic experience	98%	2%	0%	0%
The quality of the extracurricular experience	61%	30%	9%	1%
The unique offerings of the school	83%	15%	2%	0%
The colleges and universities our students attend	37%	32%	17%	15%

**Question J: Below is a list of services schools may choose to outsource. For each, please indicate whether your school currently outsources it, is considering or planning to outsource it, or presently has no plans to outsource it. (CFO only)**

	We currently outsource this.	We are considering or planning to outsource this.	We presently have no plans to outsource this.
Food services	74%	4%	22%
Student transportation services	48%	4%	46%
Textbook and/or supply purchases	34%	5%	61%
Physical plant and/or facilities maintenance	21%	9%	70%
Payroll and/or benefit services	64%	5%	31%
Child care programs	2%	1%	96%

**Question K: Below is a list of services schools may provide to employees and/or families through a consortium. For each, please indicate whether you currently provide, are planning or considering providing, or are not planning or considering providing the service through a consortium. (CFO only)**

	In a consortium	Considering or planning a consortium	Not considering or planning a consortium
Plant or facilities management	74%	4%	22%
Transportation services	48%	4%	46%
Health care plans	34%	5%	61%
Employee benefit plans other than health care	21%	9%	70%
Child care programs	64%	5%	31%
Child care programs	2%	1%	96%

**Question L: Below is a list of auxiliary income sources. For each source of income, please answer both questions. (CFO only)**

	This is a significant source of income for our school at this time.		We expect to increase this source of income for our school over the next five years.	
	Yes	No	Yes	No
Summer programs	43%	57%	75%	25%
Facilities rentals	18%	82%	41%	59%
After-school programs	43%	57%	48%	52%
Adult education programs	1%	99%	12%	88%
Athletic programs	11%	89%	14%	86%
Arts programs	4%	96%	13%	87%
Technology fees	12%	87%	12%	88%
Capital fees	7%	93%	8%	92%
Affiliated enterprise fees (farms, inns, etc.)	19%	81%	35%	65%