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Dealing with Institutional Financial Stress

by
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Introduction

The year 2008 brought turmoil to the world's financial markets: The real estate market collapsed, Wall Street firms disappeared, stock values dropped precipitously, banks were bailed out, and unemployment spiked upwards. Nearly two years later, the recovery continues to be slow and uneven, near- and long-term deficits loom, and the economy is fragile.

Independent schools, of course, are affected by these economic currents, with many feeling the reverberations by way of smaller financial portfolios, decreased admission applications and diminished giving. While some parts of the country have fared better than others, no school has emerged entirely unscathed. With this in mind—and an unsettled economic outlook projected for the foreseeable future—NAIS wanted to learn how independent schools faced the early stages of financial stress triggered by the 2008-2009 economic crisis and the process they underwent to recalibrate financial operations. This advisory focuses on four schools that derived a significant percentage of operating revenue from a major revenue stream (in these cases, endowment), which were quickly and deeply affected by the financial crisis.

I visited four independent schools—two day and two boarding—this spring to find out in what ways they have dealt with the decline in their endowment income. While they vary in size and locale, what they have in common is that 25 percent or more of their operating revenue comes from endowment.

These case studies form the core of this advisory, and in the conclusion there are a number of thoughts about the "lessons learned" for the independent school community. These lessons about planning and communications should apply to all independent schools in which a dominant source of revenue is under stress. One can readily substitute *tuition income* or *gift income* for the *endowment income* in these studies. When the revenue base decreases for the foreseeable future, the administration and trustees must reorganize the overall budget in a thoughtful way.

We extend our thanks to the four schools that opened their doors to this study. We appreciate greatly their willingness to share their inner workings for the benefit of independent schools everywhere.

Case Study: School A

"Early in the fall of 2008 I spoke with the president of the board of trustees. We immediately agreed we would do all we could to preserve financial aid."
– Head of School A

Setting

School A is a boarding school of 300 students which prides itself on the close connection with members of its community. The school's endowment revenue provides 50 percent of the $17 million annual operating budget.

From its founding, accessibility and financial aid have been at the philosophical center of the school, where 45 percent of the students receive financial aid. In 2009-2010 the aid budget was $4 million, which represented 33 percent of gross tuition income. A pamphlet from the financial aid office states: "Our policy is a commitment to the American belief in the promise of equal opportunity for all."

Financial Tremors

School A's endowment was over $200 million at the end of 2007. In the next 15 months, this valuation fell by 32 percent due to a combination of factors, including endowment draw, construction projects, and market valuations. Surveying the financial dislocation of 2008, the school knew that a considerable amount of financial restructuring was necessary.

The October 2008 board meeting focused on the school's five-year financial plan. In preparation for the meeting, the CFO sent the trustees a set of four cost-cutting proposals, which ranged from "soft" cuts (budget freezes) to "hard" cuts (five to 10 percent reductions). The trustees chose the "hard" end of the spectrum and gave the administration a time-frame of two years to meet the targets.

At the same time, the Finance Committee abandoned the three-year average endowment draw formula and opted for present value as the new draw basis. This shift was tacit recognition that a strong market rebound was unlikely. The school planned with the assumption that investment returns would be negative or flat during the next two years. These changes meant that endowment income needed to be reduced from almost $9 million down to $7 million.

Planning Process

School A was able to do considerable immediate belt tightening in 2008-2009. The previous spring, its Business Office had asked department directors to participate in a cost-reduction exercise. "If you had to reduce department spending by 10 percent, how would you do it and what would be its impact?" After the fall 2008 trustee meeting, the directors were asked to implement the previously hypothetical reductions. As a result, budget contingencies were not used that year and the school finished 2008-2009 with a balanced budget using an $8.3 million endowment draw rather than the planned $8.9 million.

Most of the budget planning was done by three individuals: the head of school and the two senior business officers. They met with faculty and staff to explain the need to tackle aggressively operating expenses. The theme of the meetings was along the following lines: "Here is what will happen if we use too much of the endowment. We are all in this together. Here is what we need to do to preserve the endowment and thereby the school's distinctive elements." This team formulated the basic financial plan over a period of four months.

Discussion of school finances with staff became the norm. The head provided updates every month to the faculty, and the support staff was briefed after trustee meetings. There were also informal one-on-one conversations in the head's office. In addition, the head sent a series of white papers on the financial situation to school constituents. The school credits this full range of communications for generating essential buy-in from the school community.

Operating Plan

School A made adjustments throughout the institution. For example, professional development and sabbaticals were curtailed for a year and the Provision for Plant Replacement, Renewal, and Special Maintenance (PPRRSM) transfer to plant fund was lowered for the foreseeable future. The school store closed on Saturdays. Over a period of two years the teaching and administrative faculty was reduced by six FTEs. Most of this reduction came from departures and retirements, but a few individuals were given a year's notice that their contracts would not be renewed. The facilities staff was reduced by two positions following departures and workload modifications were made to assure that program scope and quality were maintained. Salaries over $75,000 were frozen in 2009-2010. Individuals with lower salaries were given a two percent increase, largely to offset that year's 15 percent increase in health insurance.

Some personnel changes involved the reduction, rather than elimination, of a position. An assistant administrator was reduced from 75 to 25 percent of an FTE and a departing teacher was replaced with a part-time teacher. When the admission yield in 2009-2010 surprised the school with 18 additional students, two interns were hired to help with the added work load. The head is mindful of overstretching faculty and staff with the personnel reductions. Throughout the reduction process, he has preserved the school's distinctive programs, one of which offers seminars and tutorials on the Oxford model.

With these changes, the endowment draw was reduced to $6.9 million in 2009-2010. This is more than 20 percent lower than the previous year. The draw will increase to $7.3 million in 2010-11.

Going Forward

School A will continue to increase tuition for those parents who have the ability to pay. It had a 3.5 percent tuition increase in 2009-2010, and a 6 percent tuition increase for 2010-2011. Applications and yield have remained strong and there has not been a spike in need-based financial aid as had been feared.

Hiring will be done only when absolutely necessary and there will be thorough scrutiny of the need to replace a departing teacher or staff member. When there is a departure, the administration will spend a great deal of time considering options. The head notes: “It is easier to say ‘no’ to things.”

The head is thinking about the financial construct of a small boarding school in the future. “We need to find a ‘paradigm shift’ in how we deliver so much education and support services to today’s students in an affordable manner.” Part of the answer, he thinks, may lie with a smaller administration and fewer specialists.

Long-term financial modeling will continue to be an important tool. One of the reasons the school was able to plan so quickly is that the senior administrators and trustees were familiar and adept with a five-year financial model. “Doing your homework is essential,” notes one of the business officers, “and good financial planning is a fundamental aspect of that.”

School A feels it responded well to the financial crisis, and it is positioned nicely to respond to more bumps in the road. A new level of communications has been established with faculty, staff, parents, and alumni.

Case Study: School B

“Rather than proceeding solely in a reactive fashion when employees leave, we need to set goals about where we are headed and plan a way that moves us towards them.”
– Head of School B

Setting

School B is a day school for grades 6-12 in a metropolitan area. It has a student body of over 1,000, and tuition was under $17,000 in 2009-2010. The school’s endowment revenue provides 33 percent of the $30 million annual operating budget.

The school has a strong commitment to financial aid, believing that every child who has the talent and motivation to be admitted to the school should be able to attend regardless of need. Need-blind admission and full-need financial aid have been at the heart of the school’s identity for decades.

Financial Tremors

School B’s endowment dropped by 36 percent between the start of 2008 and the spring of 2009. When the seriousness of the market tumble became apparent, the school looked for ways to lower the endowment draw as quickly as possible. It changed the three-year moving average draw formula to a present-value calculation.

Endowment contributed $13.6 million to the operating budget in 2008-2009, which was reduced to $10.6 million in 2009-2010. The draw is budgeted at $9.1 million for 2010-2011 and may need to be lowered even further in the future. This $4.5 million reduction over two years represents 15 percent of operating revenues.

While the endowment was shrinking, financial aid was increasing. The financial aid budget was $3.7 million in 2008-2009, providing aid to 302 students. It jumped to $4.5 million (an increase of 22 percent) in 2009-2010, with 348 students receiving aid.

The initial response to the financial situation was to hold back on discretionary expenses as best as possible in 2008-2009. Many department heads were asked to reduce department spending by 20 percent.

<u>Planning Process</u>
Starting in the summer of 2009, as the extent and duration of the financial downturn became apparent, the head of school conducted a series of structured meetings with different campus constituencies, including faculty, educational administrators, parents association, trustees, alumni council, and support services managers. The exercise was called "budgeting to the baseline" and was designed to "reset the school's business/education model."

At each meeting, the head explained the school's financial situation in detail and then led a discussion about the pros and cons of various budget and program changes. On the revenue side, nine measures were considered:

1. Increase tuition;
2. Increase fundraising;
3. Increase enrollment;
4. Develop new auxiliary enterprises;
5. Control financial aid growth;
6. Institute a three-year waiting period for remission;
7. Charge remission students for a small portion of the tuition;
8. Create fees for selected programs; and
9. Use tickets for selected performances and shows.

On the expense side, there were also nine measures for consideration:

1. Freeze salaries (or provide only modest increases);
2. Decrease staffing through attrition;
3. Offer a one-time retirement incentive program;
4. Undertake lay-offs;
5. Decrease program size – by downsizing all programs;
6. Decrease program size – by eliminating some entirely;
7. Reduce spending for deferred maintenance;
8. Cut capital spending; and
9. Change workloads and/or services provided.

At the end of the meetings, individuals were asked to rate support for each potential change from weak to strong using these descriptors: (a) under no circumstances, (b) as a last resort, (c) as needed, (d) as a first step, and (e) take immediate action. Results were tabulated on a spreadsheet and later distributed to participants. Each group could see the responses of other groups.

This was a two-way exercise. It educated the school about the financial problems being faced, and their implications. It also provided feedback for the administration to consider as it developed a plan to adjust the budget.

Operating Plan

The head announced the financial plan to the community in a message that accompanied the 2010-2011 operating budget. Preserving jobs, he stated, was of primary importance. Layoffs would be the *least* desirable step among the school's alternatives to managing the impact of the financial crisis. This was the point with the clearest consensus among all groups in the "budgeting to the baseline" exercise. "Jobs equate with hope," he wrote, and "this hope needs to be present for those working in the community as well as for our students as they head off towards uncertain futures."

There were no salary or wage increases in 2009-2010. Nor were any increases provided for in the 2010-2011 budget. There is the possibility of a small bonus for returning faculty and staff in August 2010, depending on the final budget results of 2009-10 and the final size of the salary pool in 2010-11.

The head announced a "hiring chill." Voluntary retirements and departures will be used to contain salary and benefit costs. The school has many older faculty members and anticipates a steady stream of retirements over the next five years. In addition, the school expects to consolidate positions as employees leave, which could result in larger class sizes and teaching loads for faculty. For the support staff, the school will look to opportunities for cross training the current employees rather than refilling open positions.

Other adjustments to the operating budget include:

- Lengthening the technology renewal cycle;
- Requiring greater parent contributions for out-of-state travel programs and exchanges;
- Changing employee eligibility for tuition remission to three years after hire;
- Striving for a five percent reduction in general, administrative, and maintenance costs;
- Seeking additional opportunities for academic department budget trimming beyond the 20 percent of non-personnel reductions taken in 2008-09;
- Deferring and reducing capital expenditures;
- Concentrating on facilities projects that maintain safety and preserve the value of the physical plant; and
- Increasing charitable gifts.

The job of every department director has been affected. For example, the plant director is not replacing two departing members of the facilities staff. He has looked at using school staff instead of contract services where possible, and has renegotiated better rates with service providers.

The biggest shift is that the school can no longer afford to offer unlimited need-based financial aid. Students currently receiving financial aid will continue to get 100 percent of need.

However, starting with the 2010-2011 year, the school will offer financial aid to a limited number of new students in each grade. Once the financial aid budget for a given grade has been expended, no additional monies will be awarded unless an aid student no longer needs assistance or leaves the school. The school hopes this new approach will be temporary, but recognizes it will be difficult to return to the previous policy.

Going Forward

The school had a tuition increase of 4.4 percent in 2009-2010 and an increase of 5.9 percent in 2010-2011. It remains to be seen whether the community can sustain these increases in the future.

The head is clear and consistent that jobs are not on the line. "Preserving the community" is paramount. The school will continue its intense budget work for the foreseeable future. The effort will look for ways to remove the salary freeze and maintain a robust needs-blind admission policy. It will seek to consolidate teaching positions and cross-train the support staff. While the school has lowered its endowment draw significantly, it will need to be lowered further.

Case Study: School C

"Financial aid is sacrosanct."
– Head of School C

Setting

School C is a rural, grades 6-12 day school of 250 students that was established in the 19th century to educate coal miners in the evening, and their children during the day. It has an operating budget of $3.5 million with 2009-10 tuition under $12,000.

Even with a modest tuition, the school believes firmly in financial aid, which represents over 30 percent of gross tuition. There is a strong institutional belief that parents "have skin in the game," so the maximum award in 2009-2010 was $7,500. This helps to extend the financial aid budget to a greater number of students.

On a visit to the school, it is not readily apparent the operation is facing financial challenges. Earth movers are busy creating athletic fields, planning for a new library is underway, and the school is in the silent phase of a capital campaign. Behind the scenes, however, a considerable amount of work has been underway to recalibrate the operating budget. Over the years the school has learned to scramble periodically to make its finances work.

Financial Tremors

Three years ago, the school's endowment was over $20 million. It fell to $15 million in the spring of 2009, a decline of 27 percent. Endowment income provides 25 percent of operating revenues, and historically, the income has covered the financial aid budget.

The school uses a draw formula that averages the values of the prior 12 quarters. Using this method the school projects a 10 percent or more decrease in endowment income over the next several years. While this equates to a $100,000 decline in income or three percent of the operating revenues, it is an important piece of an already tight budget. The school expects demand for financial aid will continue to grow, so the linkage between endowment income and the financial aid budget will grow increasingly tenuous.

Planning Process

Smallness lends itself to informal and often impromptu communication. There are relatively few committees at the school. The head regularly meets with individuals in the hallways or converses with staff via email. These provide opportunities to exchange ideas and provide the head with feedback. The head gives three state-of-the school presentations to the faculty and staff over the course of the year, each of which now includes a budget update.

The school started to hold formal departmental budget reviews in 2008-2009. These start in the fall for the coming fiscal year. Each department (admission, academics, athletics, business, and development) uses previous year expenditures to baseline the coming year budget. Each department creates three budgets: Baseline, 5 percent reduction, and 5 percent increase. “This exercise keeps the departments focused on prioritizing each activity so they know the activity they can cut should we not make budget or the next activity they would like to add. I do not believe in across-the-board cuts, so this is a way for us all to track what we think is important for the school,” explains the head. Each department sits in on other budget presentations so everyone knows what the other is planning. “We are too small to not involve every department in the budget process.” Additionally, the school keeps an “unfunded list” of items each department would like to buy if year-end money is available. This allows them to take advantage of unexpected savings or late donations that exceed budget expectations.

Long-range planning is done by the head and the business manager. It was clear during my visit that they work with the same set of numbers. The school’s five-year plan includes operating budget, endowment, construction, capital campaign, and debt. The plan was updated in the spring of 2010 for a $4.5 million debt issue.

Operating Plan

On the revenue side of the operating plan, the school expects to grow by 28 students (a 10 percent increase) over the next four years. While the administrative structure is in place to handle this growth, additional teachers will eventually need to be hired. Class sizes will grow by one or two students per section in order to increase teacher productivity.

The school has worked hard to retain its current students. A few years ago, the head spoke with faculty members about their enrollment management responsibility. Teachers are not only teachers; they are also partners in ensuring student satisfaction with the school, and therefore in student retention. The results of this approach are marked. Several years ago almost 40 students were lost in one enrollment cycle. Last year, student attrition was only seven students. Particular attention has been paid to the student experience at the Grade 6 entry level. In addition, the school’s confidence in itself and the area market resulted in a 3.5 percent tuition increase in 2009-2010, and a 3.4 percent increase in 2010-2011.

On the expense side, cost reduction has been pursued in many areas. There has been tighter budget discipline for all of the departments throughout the school. Partly in response to electric rates increasing 32 percent, an energy management effort led to the replacement of every lighting fixture in the school. The result was the school's electric bill went up only 10 percent.

Cost sharing has been implemented in health insurance. Previously, the school paid 100 percent of individual employee and family premiums. Recently, it shifted to a high-deductible health plan with an HRA in which the individual employee pays the first $500 of the $1,500 deductible. The employee with family coverage pays the first $1,500 of the $4,500 deductible. In an effort to rebalance the healthcare program, the school has added dental and vision plans that is fully covered. With these changes the school will reduce its overall healthcare costs by 15 percent in the year ahead.

The school, which has a total of 34 FTEs, has reduced personnel by 10 percent. The faculty has been reduced by two FTEs and the current staff has consolidated to fill in the reduction. The clerical staff has been decreased by 1.5 FTE, due to a variety of efficiencies including becoming a paperless work environment. The daily schedule, for example, is now distributed in electronic form.

Additional savings in the future will come from employee turnover. The school has an older faculty and there will be retirements during the next five years. Careful hiring will be used to fill positions as needed and new faculty and staff will fill multiple roles. A preview of this strategy is apparent in the recent business office staff hire. With the retirement of the controller, the school initially decided not to fill the position. But, when a candidate appeared who could serve as controller *and* teach Chinese, she was hired. Small schools have always relied on employee versatility and this will be especially true in the future.

<u>Going Forward</u>

Was there any anxiety at the school from budget cuts and personnel reductions? "Yes, there was some worry when we let two teachers go," the head says. "This will abate when we begin hiring teachers who are not replacements."

The head is confident in the school's financial plan. While the institution is shoring up its operating budget, this is not preventing it from moving ahead with new programs and facilities. Financial aid for almost two-thirds of the student body has been a key part of the school's commitment to the community and this will not change.

Case Study: School D

"As we have struggled with budget reductions, our main objectives have included a fierce commitment to maintaining the school's academic distinction while avoiding, as much as possible, reductions in personnel."
– Head of School D

Setting
School D is a large boarding and day school, which in recent years has funded 50 percent of its operating budget with endowment draw. As with the other three schools discussed in this advisory, the school has a strong commitment to financial aid.

Financial Tremors
The school's endowment suffered significant losses as a result of the economic downturn. The school uses a five-year financial model to forecast its budget and the outlook was for an operating deficit of almost $2 million in 2010-2011 and upwards of $7 million to $9 million by 2013-2014. It takes four years for the model to reach a deficit of this magnitude because of the school's endowment draw formula, which is designed to respond slowly to market swings. The formula uses 70 percent of the prior year's draw as the starting point for the next year's draw. This is then multiplied by the Consumer Price Index plus 1.5 percent (an approximation of the Higher Education Price Index). The other 30 percent of the draw is based on a four-quarter average valuation of the portfolio that is multiplied by 4.5 percent. This formula is designed to serve as a buffer to stock market gyrations by slowing the decline in endowment spending at a time of a shrinking endowment, and by slowing the increase in spending at a time of rising values.

Planning Process
Meeting in the fall of 2008, the trustees charged the administration with finding ways to reduce operating expenses by $6 million over the next several years. The team of top administrators, comprising about 15 people, worked together to find ways to meet the reduction target.

By December 2008, the head of school sent to faculty and staff an explanation of the need for "significant belt-tightening." He announced a series of immediate steps to save money, which included: eliminating non-essential professional development, minimizing required travel, evaluating all contracts and services, reducing costs related to entertaining, printed materials, publications and mailings, closely evaluating all open positions, and eliminating non-essential overtime.

In the spring of 2009, the head of school and trustees determined that engaging a broader segment of the community would enhance the process and ensure that all voices would be heard. Department meetings were held to review expenses, the input of the student council was solicited, and focus groups of different school constituents were conducted. A suggestion box was placed in the school post office for employees and students who preferred to offer their ideas anonymously.

The senior administrative team discussed the collected ideas. At one point, it was working with a 52-page document of expense reduction suggestions and concepts. This process of campus collaboration, which required many people to speak out and to listen to each other, took many months. Yet the process clearly helped to support the decisions that were eventually made.

Operating Plan
The cost reduction plan was communicated to the school community early in the 2009-2010 academic year. The head laid out a remarkably comprehensive list of changes in programs and

services to address the operating deficit. It covered the whole gamut of school life such as: admissions, athletics, dining services, facilities management, faculty expenses, information technology services, the mailroom, multicultural affairs, publications, receptions, and events. The four pages of changes included, for example, adjusting schedules and consolidating travel for athletic teams, reducing the use of bottled water, reducing solid waste pickups to twice per week, moving many paper publications online, scaling back parents' weekend, and reducing the use of freelance writers and photographers.

Most importantly, the head's communication set forth the concept of "controlled hiring." He explained in a white paper to the community that "When a position has become vacant it is reviewed to see if the school needs to refill it or not. If it is deemed necessary to find a replacement, we will first look to reallocate qualified employees from within. If we are unable to fill from within, we look will externally."

For the most part, the school has been able to move towards a reduction in workforce using retirements and voluntary departures. However, a small personnel reduction was a painful but necessary part of the expenditure reduction plan. There were no salary or wage increases in 2009-2010, and the school's three highest-paid positions took a publicly announced 10 percent salary reduction. The salary and wage increases for 2010-2011 are 3 percent.

It was decided not to change the benefits package in any way. This signifies the school's commitment to the long-term well being of its employees, which the head terms "our greatest and most appreciated strength."

<u>Going Forward</u>
At this time, the school has found about $5 million of the target $6 million in cost savings. The remaining $1 million will be achieved through controlled hiring. The senior administrative team regularly discusses where each department stands in relation to its particular goals. Most of the departments met their non-personnel targets in the first year of implementation.

There has been a great deal of discussion and collaboration within the school as changes were considered. The process took a considerable amount of time and energy. The school feels the extra time and transparency was well worth the effort. Along with careful consideration and extensive communications, there have been, and will be, no surprises for the school community.

Conclusion

The four schools in this advisory responded to the global recession in 2008 and the ensuing stress on their institutions in different and yet similar ways. Here are some key take-aways that leadership teams and boards should consider when a significant revenue stream for the school is jeopardized.

1. <u>Ascertaining the Nonnegotiables</u>. Early on in the financial crisis, each school defined its nonnegotiables, those core attributes that it needed to preserve at all costs. Arising from their particular culture and history, the schools included having a distinct academic

program, ensuring access to financial aid, maintaining jobs, and preserving the quality of relationships within the school community, among others.

Each school appears to have sensed its fundamental qualities almost reflexively. Discussions and surveys within the community may have been used to validate and refine financial decisions, but the head and board chair identified right from the start the permanent cornerstone(s) at the given school.

2. Establishing Time Frames. Each school determined two time frames. The first was for planning and the other for implementing the required changes. Cost reductions started immediately in every case. The larger schools took more time to plan and used a more community-driven process. "With a large school," a head explains, "it takes a long time to turn the ship around."

3. Participation in the Planning Process. The two small schools used the administrative team and a relatively informal process to develop their financial response plans. A range of meetings with departments and individuals were held to educate about the issues and to solicit consensus. This approach to planning took several months of concentrated effort.

   The two large schools used a more structured approach. Each made a conscious decision to involve all possible members of the community in the process. One school set up meetings with six major constituent groups to discuss the same 18 ideas for revenue enhancement and cost reduction. The other school held dozens of meetings and focus groups with employees, alumni, and students as a way to solicit the best thinking of the community. A number of administrators sorted through the suggestions and developed an action plan. Both schools took the better part of a year to formulate a plan.

   Whether formal or informal, all four schools encouraged a great deal of community participation. One purpose of this was to educate the school. Discussion helped people to understand how the different pieces of the school's operation are tied to and affect other pieces. This is particularly true in the financial area where short-term decisions can have long-term implications.

4. Learning about School Finances. There was generally a point during the 2008-2009 economic crisis when each of the heads asked their chief financial officer for a lesson in School Finance 101. The head is inevitably the point person for key issues facing the school and an extremely good understanding of the school's finances is now an essential feature to the head's job description.

5. Long-range Financial Model. Three of the schools use a five-year financial model. The model allows them to see if the component parts of the school's operation are moving the institution toward or away from the ideal of "financial equilibrium." The five-year financial model has been an important tool for the school's leadership team and trustees.

   One of the schools is not as wedded to financial modeling. It is concerned that tactical flexibility may be lost in the process and that it is important to stay nimble.

6. Fairness. Each school made sure that the budget cuts and reductions in service were implemented throughout the organization. The premise here is that pain and inconvenience are more acceptable when the experience is shared with others. This also plays to a basic sense of fairness.

7. Transparency. One of the most striking, and probably enduring, changes in these schools is the financial transparency that has developed over the last two years. Prior to 2008, the heads or chief financial officers typically gave a 15-minute budget update to the faculty once a year. Faculty members were generally not interested in hearing any more financial information than a brief top-level overview. Now, however, the heads at our case study schools reported that they give quarterly or monthly financial updates to the faculty, as well as periodic presentations to the support staff. The audiences are far more attentive today to financial reporting. There is greater financial literacy throughout the school, as well as heightened interest in the financial well-being of their employer. One of the schools is posting the audit and annual financial report on its website.

8. Hiring. To the extent that their financial plans share a common thread, all four schools are determined to maintain a slow and cautious approach to future hiring. This is especially true because payroll is the largest single expense at any school. Is it necessary to replace a departing faculty member? Is it possible to consolidate positions? Can a replacement be found within the school? When a replacement hire is needed, does the person have the versatility and expertise to work in two departments? Can the new hire be cross-trained to cover several functions?

9. Long-range Strategic Initiatives. It is striking that each of the schools is moving ahead with its major long-range strategic initiatives. This may be a new building, the teaching of a new foreign language, or an increase in the financial aid pool. True, they need to constrain their operating expenses to deal with reduced revenues. Yet they have a clear eye as to what is most important for their school's future and how to get there.

10. New Perceptions. New circumstances can produce new ways of seeing a school's operation. For example, at one school the need to preserve the long-term value of the endowment (and the accessibility that the endowment affords) resulted in a new appeal for the annual fund. "Every dollar to the annual fund is a dollar saved for the endowment," he wrote to constituents. *Sotto voce*, the message was: "Please help us to preserve financial aid."

    Even while paring operating expenses, one head believes in maintaining a reserve fund for innovative projects. "Some of the best ideas come along in the middle of a budget cycle," he says. "The school should be able to fund a worthy project to capture the spirit of the moment." The ability to support innovation is particularly important in the climate of budget constraint.

    Another head looks back over the past decade and ponders the "arms race" between schools to add administrative and support positions. This is similar to the campus facilities race of the 1990s. Now that the economy has slowed down and may remain in the doldrums, perhaps the trend towards a larger administration will be reversed. A school will feel more comfortable reducing the number of staff positions if its neighbor school is doing the same.

11. An Example of Stability in a Volatile World. The leadership at each of these schools was able to reassure its community of the essential stability and longevity of the institution. This was in marked contrast to the volatility in the global and domestic financial markets. Each school realistically portrayed itself as a well-run ship with firm ballast. This stability was communicated on many occasions and in many ways. It played an important role in the lives of its students, parents, alumni and employees.

12. School Culture. One common denominator connecting the four schools and how they managed institutional stress brought on by the financial crisis of 2008 is the enduring value of their school culture. This includes their mission and style of collaboration and decision-making. The schools in this study pursued a common effort to plumb the nooks and crannies of the organization to respond thoughtfully and appropriately to the financial storm. While each school has taken a somewhat different path, it is a path that lies firmly in the school's culture.

Every independent school that finds its major revenue source(s) threatened—tuition, giving, or investment income—will do well to consider the examples of the schools in this study. Financial planning is continual. Financial restructuring, when needed, takes even more time and effort.

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Additional Resources

- For more information about financially sustainable schools resources, please visit www.nais.org/go/finance.
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