To The Point

Practical ism® strategies for private school leaders

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Dollars & Sense

Reduce budget compromises: Strategies for maximizing income

As the Board and Management Team tackle each year's operating budget, they struggle with the challenge of supporting quality, mission-appropriate programs with finite resources. The budget development process is about compromises. In your search for effective ways to maximize income and ensure financial stability, ask these 11 questions.

1. Does tuition reflect the full cost of educating our students?

With tuition as your school's main source of revenue, the closer tuition dollars come to covering the actual cost of educating students, the greater the school's financial stability and flexibility.[1] Review the school's most recent year-end financial reports and calculate the difference between tuition income and expenses. Is there a shortfall? Even if the gap is growing by only a fraction of a percentage point a year, you are setting an unhealthy trend. Build a correction into your strategic financial plan that is designed to close the gap quickly.

2. Do we adhere to a specified allocation for financial aid?

In each year's operating budget, a specific dollar amount is dedicated to financial aid. Usually all of these funds are awarded before summer. Allocating additional "discount dollars" for late applicants will have an adverse effect on the bottom line, right?

Wrong! Offering enrollment to a late applicant, even at half tuition, actually increases income. View financial aid as revenue rather than as an expense. From that perspective, additional assistance – awarded after the budget is set and to fill a vacant seat – is unexpected (and welcome) income.

3. Do we set tuition at a single level across all grades?

This concept is based on the fact that your school offers a complete educational program rather than a series of discrete, grade-by-grade experiences. The benefits of an education at your school are realized over the full scope of the program. And so are the costs.

A number of the students who start your school's program will not complete it. As a result, you actually lose revenue by undercharging at the entry grades and increasing the cost as the student progresses. Flattening tuition eliminates this risk.

You also eliminate the "double whammy." When parents are faced with a major between-divisions jump in tuition, in addition to the basic grade-to-grade increase, this "double whammy" may make them pause and reassess whether your school is still worth the cost. Flat tuition eliminates this challenge and allows families to plan their budgets more effectively.

One downside to flat tuition is that your starting cost may be higher than what competing schools are charging. You must be prepared to explain the long-term benefits of this approach, educating parents about the breadth of your program and the value of experiencing all aspects of it from the first grade to the last.

4. Do we give automatic tuition discounts to families with more than one child in the school?[2]

As a way to encourage families to enroll multiple students (as long as they are mission-appropriate), you may charge full tuition for the first and offer discounts to siblings. Your goal is to make your school more affordable to families who might struggle financially. However, consider that you are also extending this benefit even to wealthy parents who could easily afford the tuition. Does subsidizing your school's education for these families constitute fiscal responsibility?

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Budget compromises (continued)

If you decide to eliminate multi-child discounts, grandfather in those who currently receive them and discontinue the program. For families who cannot afford to pay full tuition for their enrolled children, offer need-based financial aid.

Again, you face a marketing challenge if you are working hard to build enrollment. If prospective parents weigh a competing school's automatic discount against your complex financial aid form, which will they choose? Check with other schools in your area. They may be just as interested as you are in switching from subsidies to financial aid. Or you might take intermediate steps, such as reducing the amount of the discount and/or offering a reduction only after the first two siblings have enrolled.

5. Do we automatically give our faculty tuition remission for their children? [3]

The same logic that applies to the multi-child discount applies here. You subsidize your school's education for faculty who can afford the tuition. In addition, you provide a substantially more lucrative compensation package for all teachers whose children are enrolled with you.

The costs of educating a student do not change; the issue is need. The most effective strategy is to give teachers priority and guarantee financial aid, up to 100% of demonstrated need, for the mission-appropriate children of all teachers who qualify.

This decision constitutes a challenge if tuition remission plays a key role in your ability to recruit and retain good teachers, particularly in today's challenging market. However, take a close look at how many teachers it currently affects, and for how long. Consider how many applicants ask about tuition remission. The consequences of "retiring" this program may not be as severe as you anticipate.

If you do not want to eliminate tuition remission entirely, one approach would be to gradually reduce the percentage so that teachers receive, for example, 80% remission next year, 60% the following year, and so forth until the program is phased out.[4]

6. Do we require payment of all tuition prior to the beginning of the school year?[5]

Sending tuition bills and collecting payments once a year makes the accounts receivable function in the Business Office more efficient. It also guarantees that you receive the full tuition from every student, even the one who withdraws in the middle of the year.

Again, look at the broader picture. Payment plans set your school's educational program up as a pay-as-you-go proposition. However, the cost of educating a student is all but fixed, from teacher's salaries to utilities; those expenses do not change if a student withdraws, and you lose money if you cannot fill the vacancy. While you may decide to grant a refund under certain circumstances, the school, not the parent, needs to be in charge.[6]

The best possible scenario is to collect all tuition by early August. Parents who cannot afford prepayment can take advantage of loan programs.

If you do not want to completely eliminate payment plans, reduce the number you offer to one or two. Collect a substantial percentage of the tuition as early in the year as possible, and do not allow subsequent payments to stretch out until the end of the school year.

7. Do we levy penalties for late tuition payments?

Late tuition payments cost your school money. Personnel must review the accounts receivable, send additional bills, and record the payments when they are received, disrupting the normal time sequence. Institute a late fee that fully covers the costs (both hidden and obvious) associated with collecting late payments. If your fee was set several years ago, make sure it covers the current costs.

8. Do we make the most of our school's cash balance?

When you receive significant tuition income prior to the beginning of the academic year, there are times when the cash balance far exceeds cash flow needs. What happens with those funds? Are they being invested? Is their interest income potential being maximized without exposing the school to risk? Work with the Board's Finance Committee (and/or Investment Committee) to explore possible safe investment vehicles and determine which ones are most productive for your school.[7]

9. Do our auxiliary programs provide reasonable returns?

No auxiliary program (food service, extended day, summer program[8]) should operate at a loss. Review the full cost of each one, including hidden expenses such as utilities and wear and tear on the facility.

If a program is not profitable, restructure it so that it makes money or discontinue it. If it is turning a profit, ask these questions: Are we realizing maximum income from this program? Can the program be enhanced? Expanded to serve more people?

For example, the kitchen generally is used only a fraction of the school day. Could breakfast be served to students and their parents? Could the kitchen staff cater (and charge for) meals on nights when there are parent meetings? Could parents order box dinners to get when they pick up their children? Could the kitchen cater off-campus events?

10. Do we rent our facilities?

School buildings can sit unused for portions of the day, both during the school year and the summer.

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Budget compromises (continued)

Renting the auditorium to the community theater, the gymnasium to a recreational basketball league, or the chapel to alumni/ae for weddings can generate significant income. In calculating overall profitability, remember to include in the expense column the costs of insurance, increased utilities, custodial personnel overtime, and impact on the facility.[9]

11. Are certain grade levels underenrolled?

Somewhere in the middle of a division, there may be a grade that has vacancies. These spots can be difficult to fill because families are not likely to consider changing schools prior to the division break. However, you can make an effort to reach new families and those who are dissatisfied with their current school, public or private.

Ask your marketing specialist to develop an advertisement that targets that specific grade level. ("Join the third-grade readers, writers, actors, math whizzes, painters, and all-around great kids at The Point School. Only a couple of spots left!") The hidden bonus is that you'll attract applicants for other grades as well.

You may need to allocate additional need-based financial aid in conjunction with this effort.

Budgeting is a series of compromises, as you balance program needs and desires with financial realities. When you adopt some or all of these strategies for maximizing income, you help ensure that the compromises you must make will be relatively minor ones. *TTP*

[1] See "Base your price on need," *To The Point*, 2-2-9.

[2] See "Tuition assistance: How much does it really cost your school?" *TTP*, 8-1-1; "Align tuition assistance policy and philosophy with your goals," 8-4-23; and the *Financial Aid and Tuition Remission* compendium, available online at isminc.com/index?M=mpubkfa The compendia are collections of articles from ISM's management advisory letters, *To The Point* and *Ideas & Perspectives*.

[3] Again, see the *Financial Aid and Tuition Remission* compendium.

[4] See "Announcing changes in financial assistance: A letter from the Board," *TTP*, 2-11-63. (Also included in the *Financial Aid and Tuition Remission* compendium.)

[5] See "Collecting tuition in advance: Aim for 100%," *TTP*, 5-9-51.

[6] See "Enrollment contracts set responsibility for tuition liability," *TTP*, 4-10-57.

[7] See "Sensible cash management: Strategies for investing short-term funds," *TTP*, 3-10-57.

[8] See the *Summer Program* compendium.

[9] See "Facilities rentals yield benefits – just make sure you cover costs!" *TTP*, 6-4-19.