

MEASURING SUCCESS

Steering your Jewish Day School Toward Financial Sustainability in an Unstable Economy

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Jewish day schools today are worried about the impact of the ongoing economic instability on school enrollment and financial sustainability for next year. Measuring Success, through our partnership with PEJE, has developed data-driven insights from the [Day School Peer Yardstick Suite of Tools®](#) for helping schools deal with the situation. Many of these insights come from our work with over 100 schools using the [Yardstick Strategic Financial Modeling Tool](#) at six financial modeling conferences, as well as our analysis of the "[Vicious and Virtuous](#)" financial cycles drawn from the [Yardstick Benchmark Report](#) data from over 175 schools.

A useful approach in these stressful financial times is to recall the Chinese symbol for the word "crisis," which consists of two characters: danger and opportunity. Though it is important to emphasize that nobody has the answers about how to deal with current financial uncertainties, and nobody can accurately predict what the enrollment effects will be, here are some dangerous pitfalls to avoid and some concomitant unique opportunities to act upon.

1. Do not let tuition slip much below cost per student.

The best way to maintain financial sustainability is to set tuition as close as possible to cost per student. You can achieve this by either scaling back costs per student or raising tuition. Scaling back costs can be dangerous (see below), but showing parents how tuition compares to your school's cost per student can justify your tuition (or potential tuition increase). The larger the gap between tuition and actual cost per student, the larger the burden on your development department to raise funds for operational expenses (instead of financial aid).

2. Do not keep tuition flat.

As tempting as it may be for your board to keep tuition flat, remember that there are inflationary pressures on the entire economy and on your school. Teachers, whose salaries constitute on average 63% of your costs, need raises, at least at the cost of living-

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-which has been on average 3.3% over the past five years. The cost of staff benefits also continues to grow sharply at 10-20% a year. Parents expect costs of services to increase, though they certainly are not happy about it. Unless the entire economy enters a period of deflation (in which prices get cheaper or stop growing), Jewish day schools should not overreact. Measuring Success has studied day school data for the past eight years, including the recession from 2000-2002, and our analyses have repeatedly indicated that there appears to be no association between the level of tuition increases and enrollment changes. Instead, we believe tuition and enrollment are both driven by another factor: your school's perceived value. Your tuition should be set to reflect the perceived value of your school, and your school's perceived value will drive enrollment. Certainly this is not the year to propose excessive tuition increases, but modest increases will be necessary for your school's financial sustainability. Test the effects of various tuition increases against growing costs by deploying the [Yardstick Strategic Financial Modeling Tool](#) in your school.

3. Have a clear understanding about how your school's value is perceived by current and prospective parents.

Many schools want to know how to measure their perceived value across the school. The [Day School Peer Yardstick® Parent Survey](#), already in use by 40 Jewish day schools, is a great tool for doing so. The Yardstick Parent Survey enables your school to understand how different parent segments--e.g. wealthy families, less observant families, or families who left the school--perceive your school, and how they will be affected by the economy and by tuition changes. Schools get a comprehensive report showing how they compare on perceived value to peer Jewish day schools, local competition (public, private, charter, and other local Jewish day schools), longitudinally over time, and among parent segments.

4. Do not increase the burden on your development department.

A crucial financial calculation to watch is a school's coverage ratio. Coverage ratio is net tuition (charged minus financial aid) divided by total expenditures. While the guideline for private schools is 85%, the average Jewish day school has a coverage ratio of only 64%. Every dollar not raised by "hard" tuition dollars must be recovered through "softer" development dollars. In this economy, Jewish day schools risk even lower coverage ratios, which is very dangerous. A common example we see from working with schools is that the board chooses to keep tuition relatively flat for next year, but the CFO anticipates significant increases in financial aid needs, and the school is not willing to scale back expenditures significantly. The result will be lower coverage ratios, and thus greater dependence on development dollars to cover the budget. However, development dollars are far more likely to be harder hit than tuition dollars in a weak economy, because they are discretionary. (To better understand the burden on your development

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department under various financial scenarios, try the [Yardstick Strategic Financial Modeling Tool](#).)

5. Make sure full or nearly full payers do not disproportionately leave the school. In our experience, this is one of the hardest lessons to internalize. While Jewish day schools seek to serve the needs of the entire Jewish community, we tend to overlook serving the needs of the families of greater financial means, for whom high quality of education is typically the top criteria in choosing a school. Already, only 65% of day school parents are full payers, and without them, schools cannot be financially sustainable. If your school suffers a drop of enrollment, you can ill afford to lose full paying or nearly full paying families. Your school will be affected on two fronts: First, coverage ratios will drop because there will be fewer full payers and your school will be more reluctant to raise tuition to cost (since few will be able to pay it). Second, your school will have lost the base of families you rely upon to make charitable contributions to help provide financial assistance for less wealthy families, making it less likely your school can raise enough money to cover your expenses, thereby forcing cost cuts. The changing economic environment gives you an opportunity to have a conversation with families about your school's perceived value.

6. Encourage middle-income families paying full tuition to take financial assistance and stay in the school.

Your school needs to retain middle-income families who are now paying full tuition but whose financial situation is not strong. School leaders report the psychological barriers that must be overcome to get a family making an income \$200,000 a year to apply for financial assistance; many of these families state that they would prefer to send their children to a public school rather than submit themselves to the embarrassment of applying for financial assistance. Leverage the current economic crisis to encourage and reassure these middle-income families that asking for financial assistance is safe.

The key to having middle-income parents ask for assistance may be in the marketing and structure of the process. The concern may be the embarrassment of opening up their family financials to a committee and learning at the end of the process that the family does not merit assistance. One process currently being experimented with in several communities with whom Measuring Success has worked includes letting families know in advance how much financial assistance they can expect if they meet certain income criteria. For example, a middle income family with three kids in Jewish day schools that knows they are eligible for, \$4,000 per child in assistance may be more likely to stay in the school and take the aid. To minimize discomfort, the confidential and objective process should be outsourced, and family financial details should not be shared with a board committee. And use a tool like the [Yardstick Strategic Financial Modeling Tool](#) to

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ensure that your school's financial aid allowances are realistic and sustainable.

7. Attend diligently to your current families as well as your admission pipeline

If you are worried about enrollment levels for next year, proactively prevent attrition and keep a focused eye on the progress of your new student applications. Your school can reduce attrition by speaking with all parents in the school now about how the year is going and addressing fixable problems they raise. Do not wait until after a family withdraws to find out what they did not like. Even if the concern is about money, the more you know the greater your opportunity to act. Another, more quantitative, approach is to use the [Day School Peer Yardstick® Parent Survey](#). In a tough economic period, you need to show even more attentiveness and value to your customers to keep them happy. Listening well to parent feedback goes a long way to re-enrollment next year.

Keep a careful eye on your new student applications as well. Do you know at the end of each week or each month how many inquiries, interviews, and applications your school has for next year? Can you identify where shifts are occurring in the sources of your applicants? You should. The [Yardstick Admission Tracker](#) is an inexpensive, simple online service to track your entire admission process, produce automatic analysis and presentable reports, and encourage best practice. We designed it with admission directors and PEJE coaches, and it integrates with other databases that your school is already using. If your admission director does not have a system or is struggling with a cumbersome one, consider the [Yardstick Admission Tracker](#) already being used by 36 other Jewish day schools.

8. Do not make cuts across the board; cut selectively in areas outside of the core school mission.

If your school needs to tighten its belt on expenditures, do not cut across the board, because it will undermine perceived value and morale among your entire school community. Instead, cut selectively in areas which are not your school's strengths, but keep your school's distinctive competencies strong (or even bolster them further). Now is the opportunity for your school to justify making difficult decisions, and focus resources in those areas where you can excel and attract more students. For example, if your school's mission is to provide excellence in Judaics, mathematics, and science, then keep investing there to stay cutting edge, while perhaps minimizing the number or sections of foreign languages or art programs you offer. It is always better to make cuts proactively and strategically in anticipation of a tighter budget than to find out that your school has run out of cash and needs to make cuts reactively and without notice - resulting in a perception of deep crisis.

9. *'Right-size' your student body to keep per student costs down.*

Many Jewish day schools are financially unsustainable simply because enrollment by grade is completely inconsistent. For example, this year your kindergarten might have 30 kids, first grade has 43, second grade has 25, etc. Some grades have half-empty classrooms, while other grades need multiple teachers to handle the load, creating an inefficient staffing model that has to be shuffled around each year. These economic times may lead you to consider capping enrollment in order to run full classrooms. If your elementary school decides that the largest classroom is 20 students, and you need one teacher and one teacher aide per 20 students, then consider setting enrollment per grade at 20 or 40, but do not accept a grade of 30 which requires two classrooms and two sets of teachers and significantly increases your cost per student. The same principle applies to high schools, where there is more complexity due to teacher course-loads, course choice for students, and part-time teachers. Your school may have to reconsider offering AP Latin if there are only three kids in the class.

How can you "right-size" your classes? Either accept fewer students or proactively recruit full grades. Being selective in admission may seem scary for a small school, but it is important to remember that accepting every applicant could result in financial instability and the closing of your school. Yes, many schools have a goal to serve all Jewish children, and this is a real tension if you cap enrollment, but if your school shuts down because it is not financially sustainable, you will not be serving any Jewish children at all. Running a sustainable school with fewer students but full classrooms may enable your school to weather the current financial instability, improve its perceived quality, and be poised for strong enrollment growth once the economy recovers. Once again, the [Yardstick Strategic Financial Modeling Tool](#) provides a module to help your school focus on right-sizing.

10. *Share costs with other schools*

While your school can right-size your teaching staff, administrative and support staff is harder to adjust because there are more fixed costs regardless of number of students in the school. For example, you need a CFO whether you have 200 kids or 400, and it is very difficult to hire a high quality half-time CFO. One way to deal with this situation is to combine some administrative and support costs with other schools. Back office functions and facilities support can be merged between several schools, as the recent AVI CHAI grant has encouraged and as some federations are starting to promote to their schools. If you consider these mergers, however, be sure to use the [Yardstick Strategic Financial Modeling Tool](#) to track your costs in each operating unit, including the allocation of the merged back office functions, to ensure that price is set correctly.

Your school may also choose to share specialized personnel with another Jewish day

school, public school, or private school to reduce cost. If your school insists on having a great school psychologist but cannot afford a full time person, share them with other institutions. Other ways to share costs are through partnering with other institutions like universities, hospitals, and sports teams. Their valuable core competencies can help your school create centers of excellence at low cost. For example, if your school can arrange to enroll academically high achieving students in a local college, your school gains the prestige of the college, while saving the cost of operating under-enrolled advanced courses. The college, in turn, can add your student into their under-enrolled or high-capacity classes at little marginal cost, and can benefit from an enhanced reputation among your school's parents and thereby generate more applications.

11. Take the opportunity to recruit kids from public schools

Public schools get their funding from local tax dollars (which are largely generated from property taxes, a segment of the financial markets most impacted). Thus, public schools will likely see relatively greater impact on their budgets than Jewish day schools. Public schools are likely to manage their costs by putting even more students in each classroom. Thus, day schools have an opportunity to position themselves more competitively against and recruit students away from public schools. Relatively smaller class sizes is one advantage: twenty kids in a day school classroom instead of twenty-seven in a public school is already a sizable difference. If you are worried that tuition increases will drive parents to public schools, remember you can never compete on price with public schools since they are free. However, you can compete with public schools on perceived value, which if it can be demonstrated as distinct, justifies paying for a Jewish day school education even in a bad economy.

12. Take the opportunity to catch up on perceived value with non-Jewish private schools with whom you compete

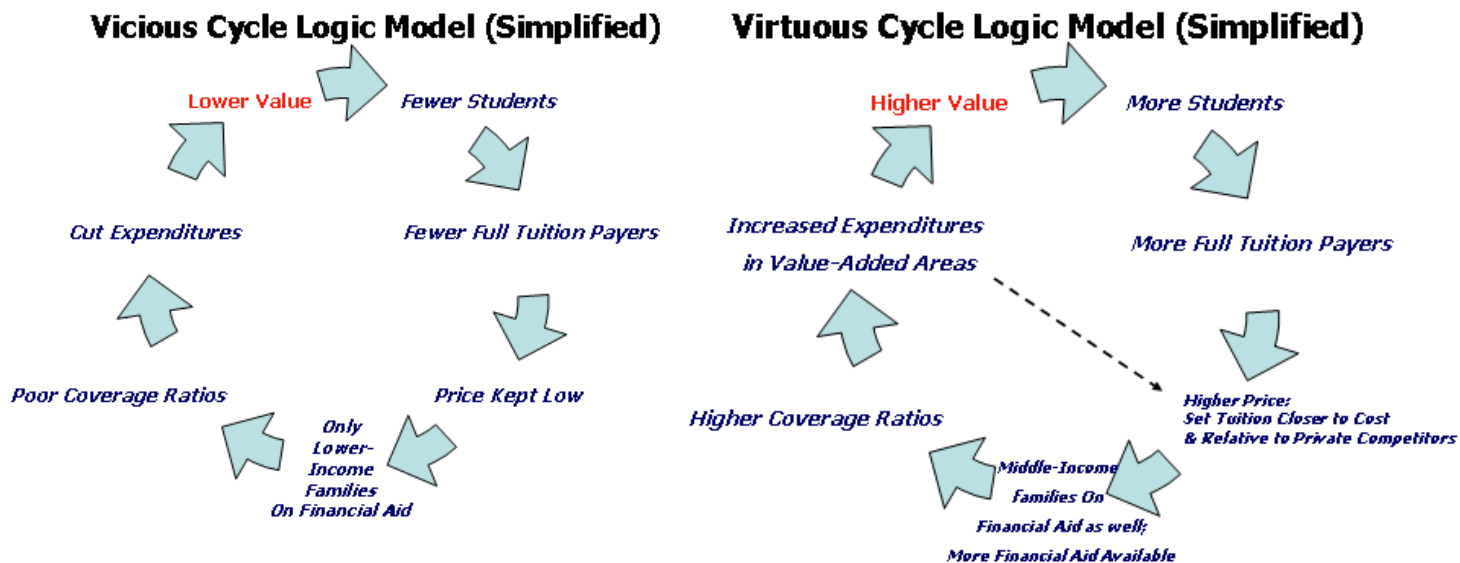
Private schools that rely heavily on endowment income are likely to see an impact on their budgets (due to drops in asset values sometimes as much as 50%). Many Jewish day schools rely primarily on annual contributions, which, ironically, may experience lower rates of decline than endowment assets. Plus, Jewish day schools (where tuition averages 81% of competing local private schools) may be able to grow tuition at a higher rate without hitting the market price set by the private schools (whose rate of growth will likely now slow down). This presents a unique opportunity for Jewish day schools to improve their perceived value to parents in comparison with competing non-Jewish day schools. Close the gap between the perceived quality of your school and local private schools by investing in and marketing the strength of the core programs in which you can compete favorably. Recall that your school cannot afford to be great at everything, so chose wisely.

Summary

The dangers and opportunities discussed above are perhaps best summarized by the [vicious and virtuous financial cycles](#) identified by the [Yardstick Benchmark Report](#). These cycles have plagued Jewish day schools even in strong economies and threaten to force some Jewish day schools to close down unless corrective actions are taken now to move the school toward a virtuous cycle. The key to avoiding the vicious cycle is to never lose sight of maintaining or increasing the perceived value of your school while also maintaining financial sustainability. To do so, you must:

- Keep tuition close to cost and competition
- Maintain right sized enrollment
- Attract and retain full-paying families
- Get middle-income families to apply for assistance instead of leaving the school (or preventing the school from raising tuition)
- Keep coverage ratios up to avoid burdening your development team with more fundraising needs in a tough economy
- Selectively invest funds in areas of the school that are mission-aligned and that generate high perceived value

None of these factors should be considered on their own, since each financial driver is intricately linked with the others, and must be considered over a several year horizon, a process you can experience by using our [Yardstick Strategic Financial Modeling Tool](#).



Author Information

Sacha Litman (sacha@measuring-success.com) is the Founder and Principal Consultant of Measuring Success. Sacha holds his M.B.A. with highest distinction from Kellogg (Northwestern), an M.P.A. from Harvard's Kennedy School, and a B.S. in applied mathematics, *summa cum laude* and *Phi Beta Kappa*, from Yale University. He is a recipient of a Wexner Graduate fellowship, Dorot fellowship, and attended the Pardes Institute. Sacha has worked for McKinsey & Company and Credit Suisse, and was director of strategy and consulting for an international non-profit organization.

Measuring Success, founded in 2003, is dedicated to developing quantitative tools and models to help nonprofit management teams and boards measure and enhance their organizational effectiveness. Measuring Success' goal is to shift our clients' culture from anecdotal to data-driven decision making. Measuring Success is proud to have a team comprised of consultants, quantitative analysts, and technology experts from top schools and organizations. We have served schools, foundations, universities, community centers, as well as fundraising, humanitarian relief, student, and leadership organizations worldwide, and from individual institutions to enterprise-based ("chapter") movements. Our combination of skills in consulting, quantitative analysis, and technology development enables us to identify with a client's mission and culture while providing the most cost effective, customized, and impactful measurement tools available. Measuring Success has offices in Boston and Washington, DC.

Solutions

Measuring Success with PEJE offers the Day School Yardstick Suite of Tools combined with our coaching services to help your school address the issues raised above.

The Yardstick Suite of Tools currently includes:

- **Strategic Financial Modeling Tool:** Allow your school to develop dynamic financial models while providing instant feedback on the impact of your decisions using a set of benchmarks or industry standards. Learn to position your school for stability and growth over multiple years by aligning your vision and mission with a plan for the resources your school needs to raise and spend. For further information contact financialmodel@yardsticksuite.org.
- **Parent Survey Tool:** Enable your school to understand how parents value the educational and community experiences provided by the school, especially as compared with other options (public, private, other Jewish day schools). The Jewish Day School Parent Survey Report will help school leaders in identifying

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specific areas for improvement. For further information contact parentsurvey@yardsticksuite.org.

- **Admission Tracking Tool:** Help your school to organize your admission process and reach your enrollment goals. The Admission Tracker manages data on all prospective students and families from inquiry to admission using simple software that promotes best practices in admission. For further information contact admissiontracker@yardsticksuite.org.
- **Benchmark Tool:** The "heart" of the Yardstick. This tool is designed to capture year-end data on key school activities that are associated with enrollment growth and financial stability. Custom reports are provided to each participating school comparing your school's performance to similar and best practice Jewish day schools elsewhere in the country, and against your school's own longitudinal trends. For further information contact benchmark@yardsticksuite.org.

We offer several packages of Yardstick tools bundled with coaching services:

Yardstick Strategic Financial Modeling Tool (SFMT) Packages:

Each package includes a license to the Yardstick Strategic Financial Modeling Tool (for one year) and training. Each package results in several financially and strategically sustainable scenarios for a 5-year horizon, tackling the key levers of enrollment, expenditures, tuition, financial aid, development, and savings.. Each package differs in timeframe and in the number of stakeholder groups that we can bring through the process.

- **City-cruise:** if your school can coordinate schedules with other geographically proximate schools through your BJE or federation, we can serve you more efficiently and hence reduce cost. Your school will receive 2 days of consultation and work with several stakeholder groups.
- **Intensive 3-day on site:** great for schools that want to focus on making decisions within a tight timeframe. We will take key stakeholder groups through a tight decision making process to tackle all key levers, and complete several scenarios.
- **Retainer:** this package works best for schools facing more complex situations and thus need help on-demand over the course of the year to work with and influence difficult stakeholder groups to gain buy-in for financially sustainable options. Your school will receive a total of 8 days of consultation over the remainder of the school year.

Full Yardstick Suite Package:

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- All tools deployed in your school this year: financial modeling, parent survey, admission tracking, benchmark. Comes with full consulting services and support from a Measuring Success and PEJE-trained coach.
- Benefits:
 - Projection of future enrollment and identification of segments for growth
 - Multi-year financial plan that is financially sustainable and market-tested for your parent population:
 - Multi-year budget setting through data-driven analysis of areas of school in which to invest and cut back based on perceived value
 - Recommended right-sizing of staff and student bodies
 - Tuition-setting recommendation based on analysis of parent ability to pay
 - Financial aid allowance recommendation based on parent finances
 - Benchmark all key financial ratios and enrollment indicators against peer schools
 - Presentations to board and donors of several financially sustainable scenarios for school
 - Ongoing consultation services including several on-site visits (10 days total)
 - Capacity for school to operate tools on their own going forward

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