

Independent Schools on the Brink

**A Confidential
Webinar for Schools
Struggling to
Survive the COVID-
19 Pandemic**

April 21, 2020

Panelists: Debra Wilson, Ari Betof,
John Gulla, Jim Hulbert & Kristen Power



A collaboration of thirty-three state, regional, and national associations in support of their member schools.





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Welcome & Agenda

- The viability crisis: context, leadership, & governance
- Identifying viability issues and then what?
- Financial sustainability & organizational stewardship
- Enrollment management, net tuition revenue, & financial aid in a COVID-19 world
- Will the CARES Act (or future funding) save us?
- Strategic communication in times of vulnerability
- What to do when there is no path forward?
- Questions
- Closing thoughts



The Viability Crisis: Context, Leadership, & Governance



John Gulla

President

The Edward E. Ford Foundation

What happened?

- Epochal event- magnitude still unknown- not 9/11 or 2008-09 in scale but much larger- akin to WWII in global effect
- From 3% of American children being homeschooled to 100% going to school at home overnight
- K-16 educational ecosystem- what group has managed this transition most successfully?
- All that this experience has revealed about us

What will happen?

Depending on the scenario, normal operations may not resume for US higher-education institutions until summer 2021.



Rapid and effective control: virus contained

Online learning predominates through spring and summer 2020; face-to-face instruction resumes in fall 2020

Programs are disrupted through summer, hurting major auxiliary revenue streams; 2020–21 school year operates almost normally, but new health controls stay in place; there is some disruption to international-student enrollment



Effective response but (regional) virus resurgence: virus recurrence

Online learning occurs through fall 2020; face-to-face instruction resumes by January 2021

Programs start 2020–21 school year online, resulting in major decline in auxiliary revenues; programs with strong brands and online capabilities stand to gain enrollment amid spike in attrition and switching



Broad failure of public-health interventions: pandemic escalation

Online learning occurs through 2020; face-to-face instruction resumes as late as fall 2021

Programs operate online only for at least first full semester of 2020–21 school year; there is continued switching to schools with strong online capabilities; there is significant disruption to international-student enrollment

What we have learned so far

- Independent School teachers, leaders and staff deeply committed to students and their profession
- Facilities arms race - school is not the buildings
- “Plans are worthless, but planning is everything”
- Tools of technology are powerful

What are the challenges?

- “Third great extinction” of schools was already underway B.C., pandemic won’t have caused, only accelerated
- Demographic, economic, competition and psychology
- Head, Board & Governance challenges issues of honesty, issues of structure
- How difficult is it to close schools?
- VUCA world on steroids

What are the opportunities?

- Time for BIG, IMPORTANT questions
 - What is the purpose of school?
 - Why are we so wedded to the agrarian school calendar?
 - We had a factory model. We're now in a hastily created, physically distributed, networked cyber academy. What do we go back to?
 - 3 financial levers, 3 buckets

Schools with significant financial and/or reputational capital, and/or admission demand are relatively immune from many of the current challenges.



Schools that recognize the challenges and threats and that are actively, creatively attempting to change.



Schools that are continuing with "business as usual" without recognition, or at least a meaningful plan, to adapt to a changing landscape and that are most at risk.



Identifying
viability issues
and then what?

LOST

CONFUSED

UNSURE

PUZZLED

Debra Wilson
President
SAIS

Viability... Or a lack thereof

- Cash flow issues
 - Using next year's deposits to pay for this year's expenses
 - Perpetual saving by an "angel donor"
 - Endowment / restricted gifts used inappropriately
 - Opting for paying penalties over meeting debts
 - Beyond credit limit, unable to secure additional credit
 - Repeat of same board conversations around shuffling money, reducing staff, delay of needed work
- Conditional audit
- Ongoing enrollment issues – attrition, application decline, yield issues
- Demographics would seem to support enrollment



General Approach: Three Horses

Continuing the mission

- Back to basics: Revisit mission and business model
- Hard conversations and distinct decisions
- Identify path to sustainability
- Often radical – tuition reset, mission reset, can close for a year
- Can include a shift to charter or some other model

Finishing the mission: Responsibly closing the school

- Involves very real timelines:
 - When will decisions have to be made?
 - Holding to the timeline
 - Notice for staff and families well in advance (ideally at least winter of the year before)
- Ultimately shifting board from working board to closing board (smaller, distinct focus)
- Close-out of remaining assets, records, etc.

Mergers & Partnerships

● Mergers

- Good mergers take time to ensure cultural fit
- Can gain scale (work to maintain it)
- Greater staffing depth
- Embraces less supply

● Partnership

- Share staff (language, specials)
- Cross-over programming
- Leverage facilities
- Reciprocal tuition remission
- Alignment for feeder patterns
- If appropriate, can also gain scale

Financial Sustainability & Organizational Stewardship



Ari Betof

President
Organizational Sustainability Consulting

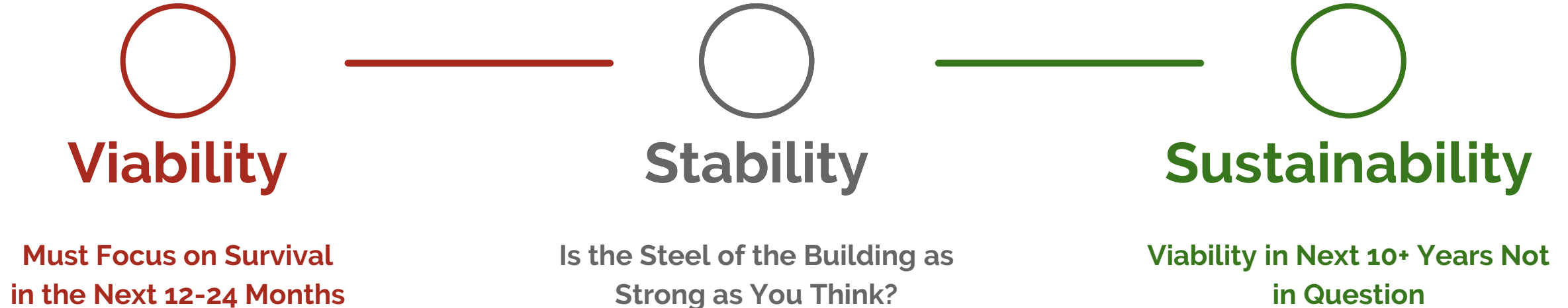
Spectrum of Financial & Organizational Health



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Spectrum of Financial & Organizational Health



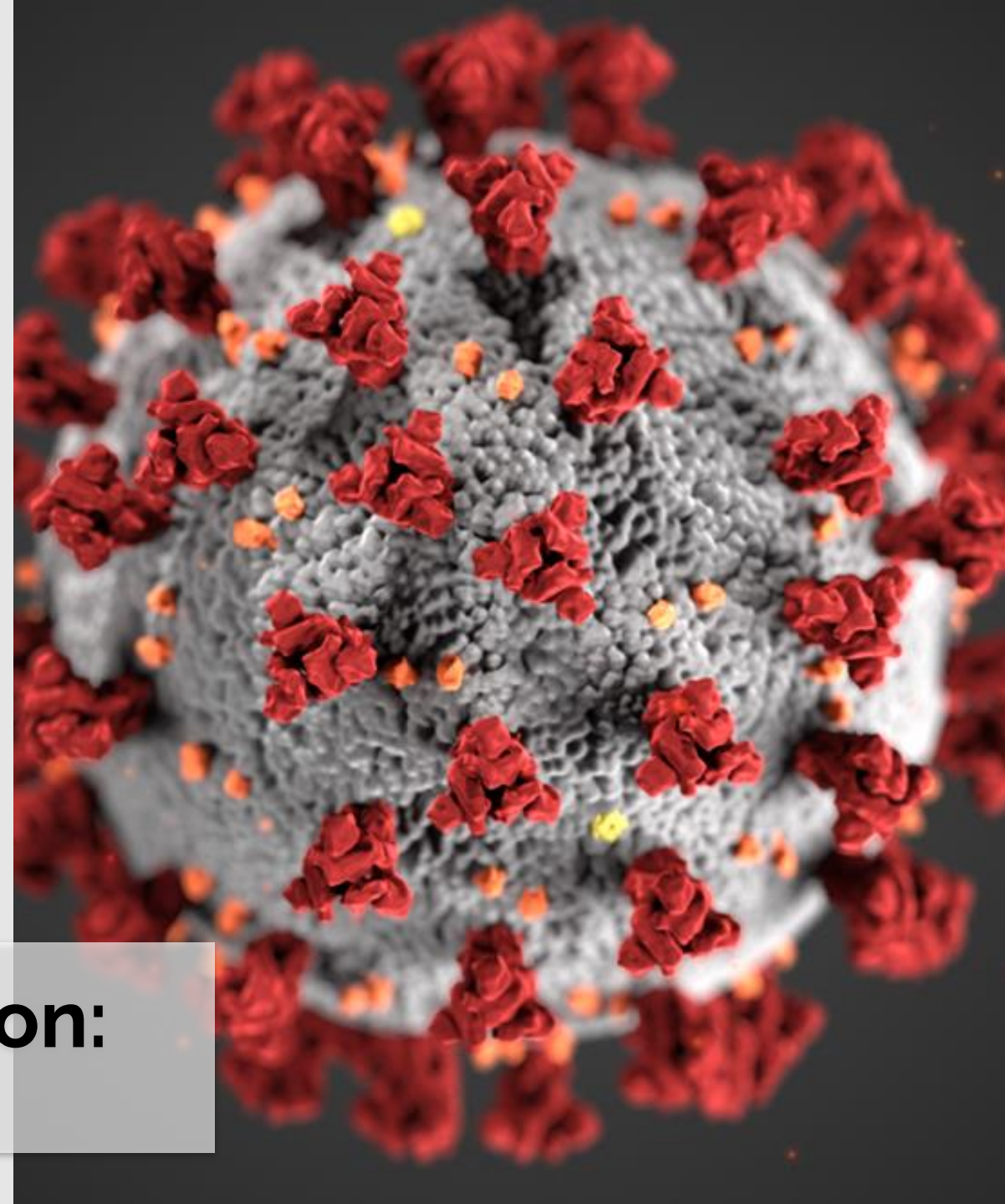


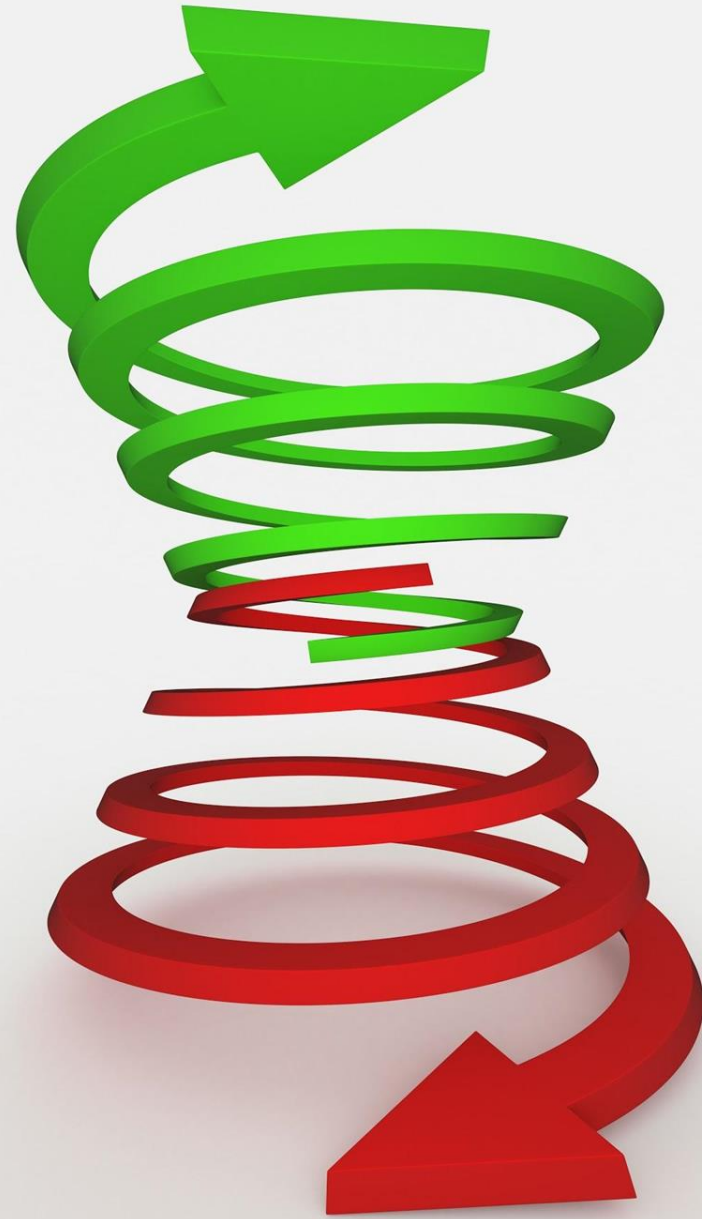
Our Fukushima Disaster:
What Can We Learn from Compounding Crises?



COVID-19 vs Great Recession:

How do these two crises compare?





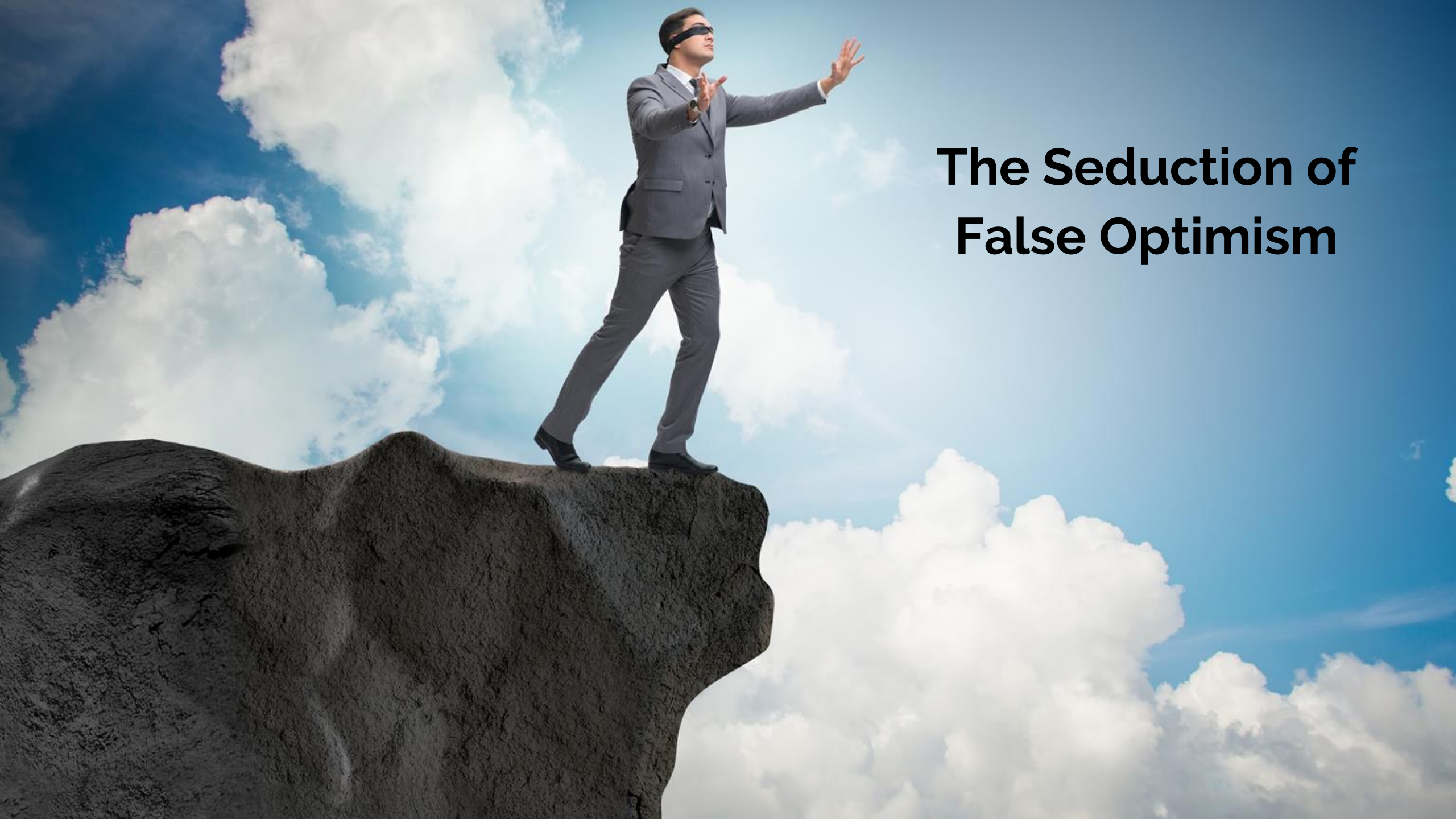
A Model for Decision-Making



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The Seduction of False Optimism



Modeling

In support of mission-driven, community-centered, data-informed decision making

Iterative data modeling gives us a clearer picture of what could happen in times of uncertainty

United States of America ▼

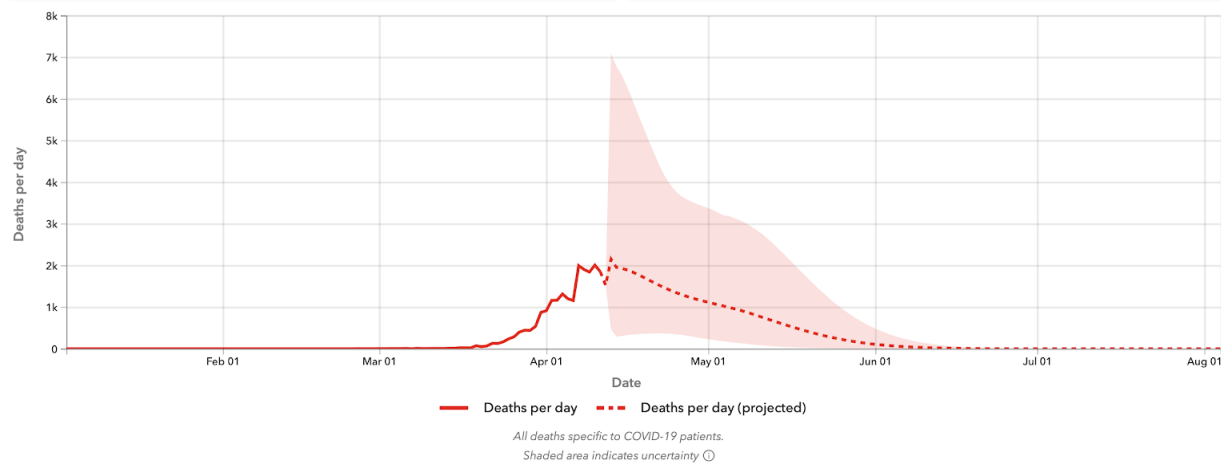


Deaths per day ⓘ

1 day

since projected peak in daily deaths

2,150 COVID-19 deaths
projected on April 13, 2020

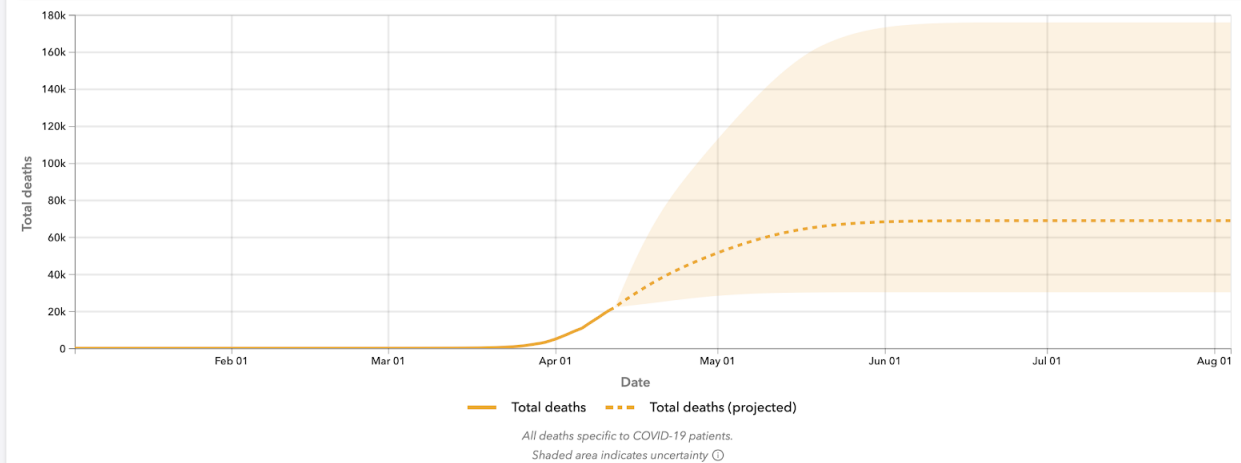


United States of America ▼



Total deaths

68,841 COVID-19 deaths
projected by August 4, 2020



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APRIL 20, 2020

Coronavirus Models Aren't "Wrong." That's Not How They Work.

Scientific models of disease don't predict the future. They're just one tool to help us all prepare for it. NPR global health correspondent Nurith Aizenman explains how scientific models of disease are built

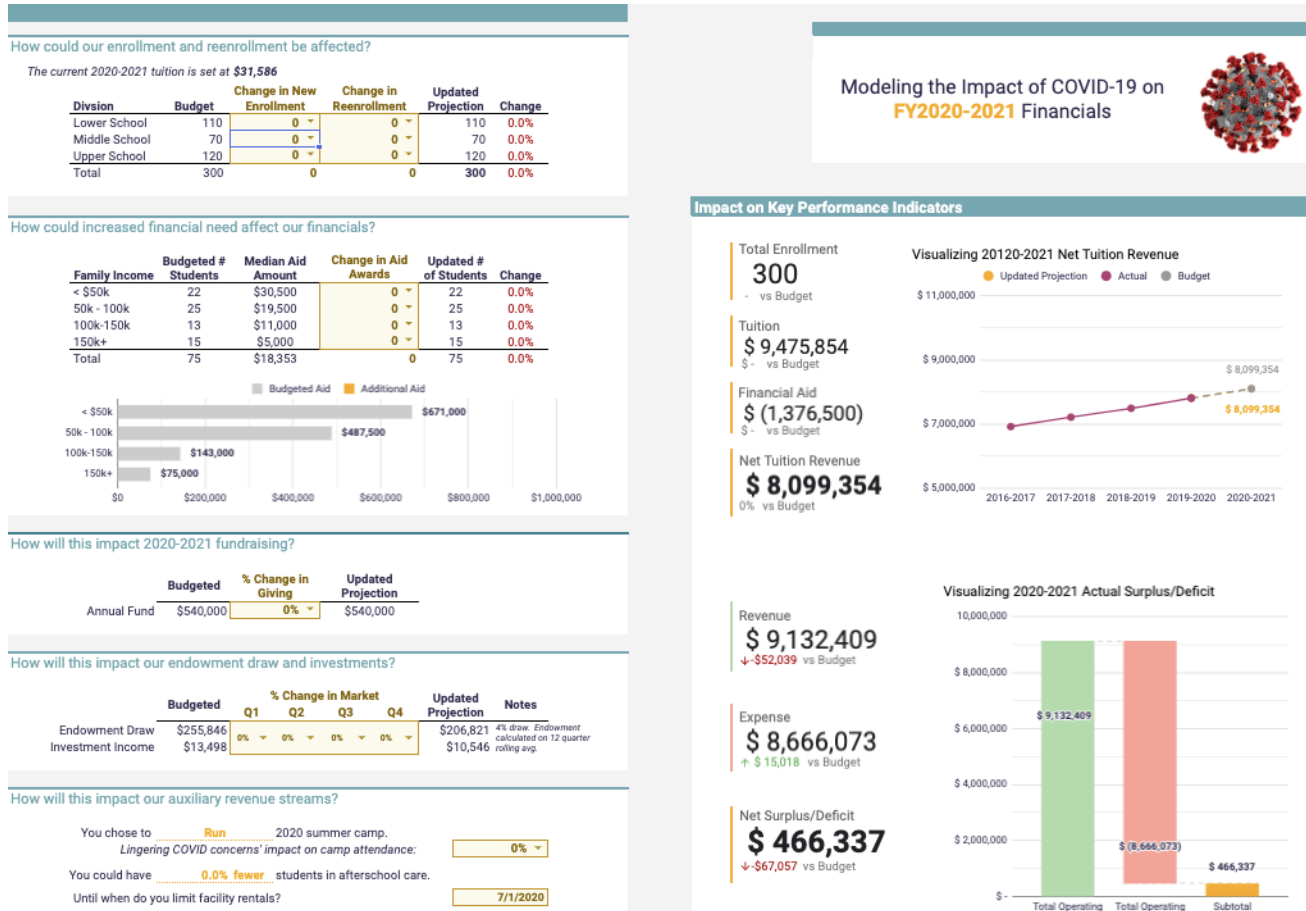


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Financial Modeling

In support of mission-driven, community-centered, data-informed decision making



Iterative data modeling gives us a clearer picture of what could happen in times of uncertainty

Organizational
Sustainability
Consulting

actionable
institutional research & data

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Introducing Our Model School:

Corona School

"Causing havoc since December 2019"

- 300 student
- K-12 school
- \$31,586 tuition
- 25% students on finaid
- \$18,353 avg finaid grant
- \$5MM endowment

Visualizing Liquidity Position



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Modeling the Impact of COVID-19 on Independent Schools

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Enrollment Management, Net Tuition Revenue, & Financial Aid in a COVID-19 World




Kristen Power

Senior Director of Membership & Business Development
The Enrollment Management Association (EMA)

A cluster of approximately 12 plus signs in various colors (blue, orange, purple, teal) arranged in a loose, upward-pointing arc in the top right corner of the slide.

6 in 10 Americans have lost
jobs, hours, or income.

Americans who have filed initial jobless
claims to around **22 million**, or roughly
13.5% of the labor force, since March 14.

A cluster of approximately 12 plus signs in various colors (blue, orange, purple, teal) arranged in a loose, upward-pointing arc in the top right corner of the slide.

Since March 1, EMA has connected
with over 3,000 enrollment leaders
and with nearly 400 prospective
parents.

Here's what we've learned...

Enrollment leaders are under pressure.

- Delayed contract return dates
- Increases in financial aid requests
- Tuition remission?
- Future predictions is less reliable
- Enrollment leaders are uncertain how to assess new prospects without traditional tests/assessment tools (all divisions)

Enrollment leaders are under pressure.

- Boarding school enrollment leaders are concerned about the return of international students (in some cases, international student enrollments represent between 40%-60% of operating revenue.)
- School leaders report challenges in online learning with synchronous systems and international students?
- School leaders report feeling unclear about their school's value proposition with distance learning; replication of the same experience seems daunting
- Pre-existing questions about the school's financial model are more acute

Enrollment leaders are pivoting



- Virtual events, revisit days, welcome days
- Remote teams
- Same mission & value proposition... different tools to share it
- MAIN QUESTION: How do we demonstrate the value of our unique online learning program & our community?

Families under pressure



- Lost a job?
- Working from home?
- In a directly affected industry?
- How much can students replicate?
- Uncertainty about the future, how to make big financial decisions?
- How to hold synchronous learning with students in different time zones?
- Unclear value proposition if I'm the 'teacher' at home

Financial Aid: Have we been here before?

- After the 2008 financial crisis according to NAIS's DASL data:
 - Number of FA applications went up 16.7%
 - Number of students receiving aid went up 17.8%
 - Total FA spending per student went up 21%
- This crisis won't be better

Increased FA Requests

How many financial aid requests are you seeing this year compared to last year?

Data from April 9, 2020

Significantly fewer.

2.9%

Somewhat fewer.

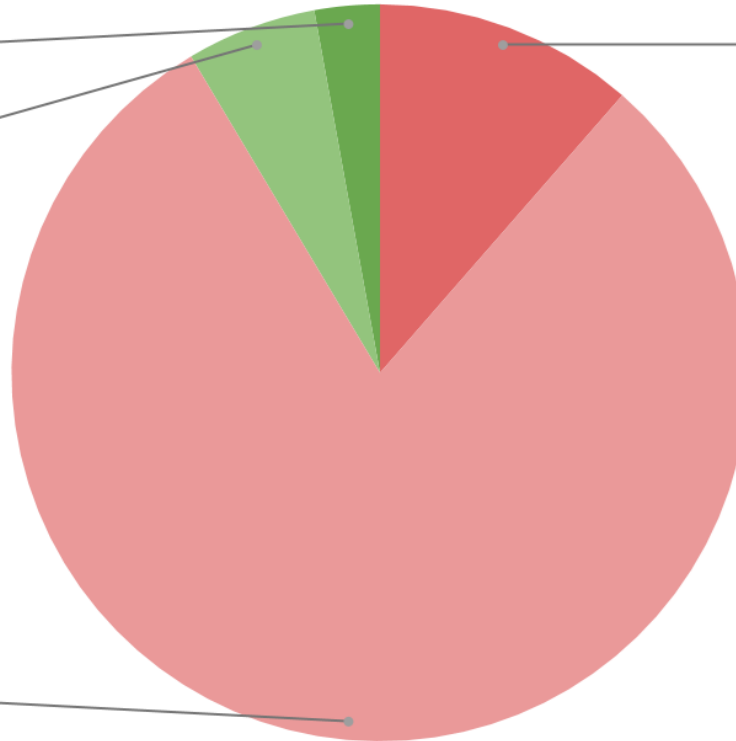
5.7%

Significantly more.

11.4%

Somewhat more.

80.0%





“This is a period of radical uncertainty,
an order of magnitude greater than
anything we’re used to.”

-Adam Tooze, Columbia University

Recommended Actions - Communication

- Connect & share with your peers
- Hold multiple virtual events
- Leverage community: reading buddies, afternoon clubs, driveway takeover, parent reception
- Are they going to fault you for trying?
- Become a values-driven storytelling machine
- Put humans and values in front

Recommended Actions - Enrollment

- Work with board / finance
- Develop three tier projection
 - 10% attrition
 - 20% attrition
 - 30% attrition
- Set three price points (in-person, online, hybrid)
- Aggressively explore serving expanded student base (online classes, language, sports, enrichment programs?)

Recommended Actions: Financial Aid



- Prepare for an increase in FA applications through the summer
 - From current full-pay families
 - From current families already on aid
 - From families prospective families
 - From faculty/staff
- Are you able to create a FA emergency fund to cover your families requesting aid?
- Create a policy for new FA inquiries due to COVID-19, and think about the following:
 - Will you have them complete the standard form? If not, what will your baseline be? Monthly income and expense statement?
 - Families who haven't yet lost their job will be concerned they and may ask for FA - what will your stance be?
 - Set guidelines - should a family receive aid and then go back to work, clearly define your positioning and expectations

● Plan and budget for the future - lessons learned from 2008

Examples of COVID Communicators

- Comprehensive website
 - Lakeside School
 - Georgetown Day School
- Virtual Handbook
 - Salisbury School
 - Lawrenceville "VirtualVILLage"
- Updated Financial Aid Webpage
 - The Alexander Dawson School
- FAQ page
 - Choate Rosemary Hall

Will the CARES Act (or future funding) save us?



Debra Wilson

President

Southern Association of Independent Schools (SAIS)

CARES Act

- Loans – Paycheck Protection Program (PPP) and Economic Injury Disaster Loan (EIDL)
 - Certifications
 - Receipt of federal financial assistance
 - Personal guarantee on EIDL (over \$200k)
 - More \$\$s underway
- Other provisions: Charitable giving (\$300 above the line and unlimited AGI for itemizers), unemployment benefits above state levels, access to retirement funds



State Grants

- Equitable services calculation
- Do not trigger federal financial assistance (as long as not tangible \$\$s)
- May provide access to funding or services for students with limited internet access
- May increase special ed support

PR Note

- Families asking about schools receiving funding
- Just because you can, should you?
 - If truly facing viability issues, yes.
- Long grey area between having trouble meeting payroll now and might have some issues in November but have a lot of reserves
- What kind of runway do you have?

What might save you...

- Now is the time to negotiate
 - No bank actually wants your school
 - Renegotiate services contracts
 - Renegotiate payment plans
 - Renegotiate debt to creditors (including government agencies)
 - Renegotiate terms of restricted gifts
- There are giving incentives in the mix
 - Particularly for high income, large gift donors
 - Increase of itemization from 60% of AGI to 100%

A man in a blue suit is hanging from the edge of a large, brown, textured rock formation. He is positioned vertically, with his arms extended upwards, gripping the rock. The background is a bright, cloudy sky. The overall image conveys a sense of risk, challenge, and the need for strategic communication in vulnerable situations.

Strategic Communication in Times of Vulnerability

Jim Hulbert
Partner
The Jane Group

Twenty years. Twenty-five countries. One Jane Group.



Thank you for trusting us as we've grown and flourished.





Written in Chinese, the word crisis, is composed of two characters. One represents danger and the other represent opportunity.

(John F. Kennedy)

Guideposts: 3 Cs of Communications

Calm...Clear...Consistent

“Clarity and candor are essential in crises – and so is generosity of spirit.”

Jon Meacham

Now Let's Talk About Money

- High level of transparency of process regarding a school's decision making on tuition or refunds – provide specific reasons for making the decision.
- Be clear that the reasons communicated for financial decisions are not just about dollars and cents but speak to mission, values, and the entire community.

Strategic Points

- As you create financial and operations plans (continue, close, merge/partnership)
- 2nd Plan – strategic communications plan
- Should not communicate in a vacuum – what have you said before?
- Timing of announcement
- Don't get a second chance to make a first impression

Timing – A Pain Point

- Don't go out too early without a plan; yelling "fire" in a crowded theatre.
- There is a fairly predictable roadmap for closing.
- A key issue on closing a school is to schedule the announcement so that students/families and staff/faculty have ample time to secure placement and employment in other independent schools.
- Optimal time to announce is early November.

Your Crisis Communications Toolbox

What should be in it?

- Holding statement
- Community letter (as determined by leadership) for entire community regarding the crisis
- Q&A for Head and Board that focuses on the tough questions and pivot points
- Talking points for:
 - Faculty in response to parent inquiry
 - Leadership in response to alumni inquiry and others
 - Board of Trustees in response to colleagues, parents, others
- Media policy
- Draft a timeline with flexible dates (live document) – Deadline Manager

Refunds and Tuition Issues

- Control the narrative.
- Acknowledge the issues, even if you have not made decisions yet.
- Educate your community on your school's financial reality.
- Evaluate possible rebates for ancillary fees.
- Follow up with non-renewals.

Alumni Reaction

- Anticipate alumni reaction.
- Alumni may have expectations that they can save the school.
- What is the nature of the sustainability challenges at your school?
- Will an infusion of money, in and of itself, solve the sustainability and enrollment issue?
- While you focus on existing parents, don't forget the alumni.

Thank You!

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What to do when there is no path forward?



Closing...

- Will need help: lawyers, accountants, other schools
- Timeline is crucial: students, families, & staff
- Processes to support community through transition
- Communications vital: donors & alumni
- Celebration of the history of the school
- Lots of process and fiduciary oversight going on beyond final year
 - State filings, custodian for records, final distribution of assets, etc.



Questions?

Final Thoughts...



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*On behalf on all thirty-three state, regional, and
national associations...
...thank you!*

