SHORT TERM SOLUTIONS CAN LEAD TO LONG TERM PROBLEMS

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In these unprecedented, highly uncertain and stressful times, boards are pressing heads for answers to these questions: “Should we cut tuition? Should we cut staff? Should we refund tuition and/or fees? Should we freeze salaries and benefits?” Parents, faculty and staff obviously are eagerly and anxiously awaiting the responses.

Heads find themselves caught in the middle. Do they reopen school and risk spreading the virus from contagious but asymptomatic students to highly susceptible adults, older staff or those with compromised immune systems? Might the school be risking a potential lawsuit? Or, do heads push back against opening school completely, offering other options like staggered schedules thereby potentially facing attacks for not being “tough” enough or incurring the wrath of local, regional or national governments for not following public school guidelines to open up?

Here is what one Head wrote about her dilemma:

“With the exchange rate, we are being killed in terms of budget. The Board initially asked me to cut $2.8 million (local currency) from the budget (faculty and staff). I’ve been arguing this, stating the reasons of staff morale, need for more not less people with having to group students differently, hurting our international reputation, etc. And, I was able to bring that figure down by 50%, with the Board agreeing to tap into our emergency fund, just a little. The fund is at 9 months of operational expenses, and my first and constant suggestion is to cover all shortfalls from this fund, just for one year.

In the end, we compromised on a more equal approach to balance the budget (slight tuition increase, some staffing cuts, and some money from the fund). But if we covered it all with the fund, it would only be 10% of the fund.”

This Head rightly states that slashing the budget for faculty and staff salaries will likely hurt staff morale; impact the School’s ability to respond adequately and safely to the challenges of the pandemic; and possibly damage the School’s international reputation and its recruiting efforts. The place to start is to trim operations and delay non-essential projects.

Here are other points to consider regarding this critical financial time for our schools.

In the US recession of 2008 to 2010, there were winners and losers in the independent schools world. The schools that kept their tuitions and their tuition hikes as announced and beefed up substantially their need based financial aid budgets, "carried" their wounded families along until the economy stabilized and jobs returned and these folks dropped off the aid they had received. These schools had created no long-term expectation that they would reduce tuition for everyone even for those who were able to pay for it fully without aid.

The schools that cut tuition or refunded parts of it or switched positions on their announced tuition increases by and large created a class of parents who for several years going forward pestered administrations to keep tuitions low or with no increases at all. Down the road, these same schools THEN found themselves having to bump tuition by 10% or more for several years in a row just to make up for lost ground. That created a new furor.

A similar scenario happened with capital campaigns. The schools that continued them even at a more modest level in 2008-2010 saw their campaigns jump forward towards meeting their goal when the recession was over because their campaigns were already well planned and partially funded. Those schools that abandoned their campaigns and waited three years to restart them were way behind the giving curve and the local competition.

Be careful of what appears to be the easy solution now but will become a problem in the next few years.

The Head mentioned above had done the best that she could. Given that the board/head relationship is so critical at this time, it was wise for both to compromise in order to find a solution. But a school that has a cash reserve of 9 months of operations and if using only 10% of that reserve would mean no reduction in force and no loss of benefits and salaries for a year or two until the economy comes back, is actually in a relatively healthy financial position. A school would have been well advised to tap into that reserve to the tune of 10%. This virus is the biggest threat since the last World War. It constitutes a threat of the kind for which cash reserves are designed.

Boards are often conservative fiscally, as they should be. But wise boards know the difference between insightful stewardship and anxiety-based decisions that often react too quickly to parent demands and board members' own worries.

Remember that most boards of international and independent schools are made up of current parents who are understandably anxious about their own professional and personal lives. It is always challenging for some of them to take off their "parent hats" but it is never more important than now to do so and think long-term and strategically.