The Great Financial Crisis' Impact on Secondary Schools

Will History Repeat Itself?

HIRTLE CALLAGHAN & CO
Chief Investment Officers

The Great Financial Crisis (the "GFC") had a significant impact on secondary education. Schools were forced to adjust to endowment losses, budget cuts and enrollment declines. In this paper, we will explore what happened to secondary education after the GFC and what insight that provides for the current market environment. While schools are in a very different position today than they were twelve years ago, understanding these trends can help schools position themselves to tackle the challenges lying ahead and build programs for the future.

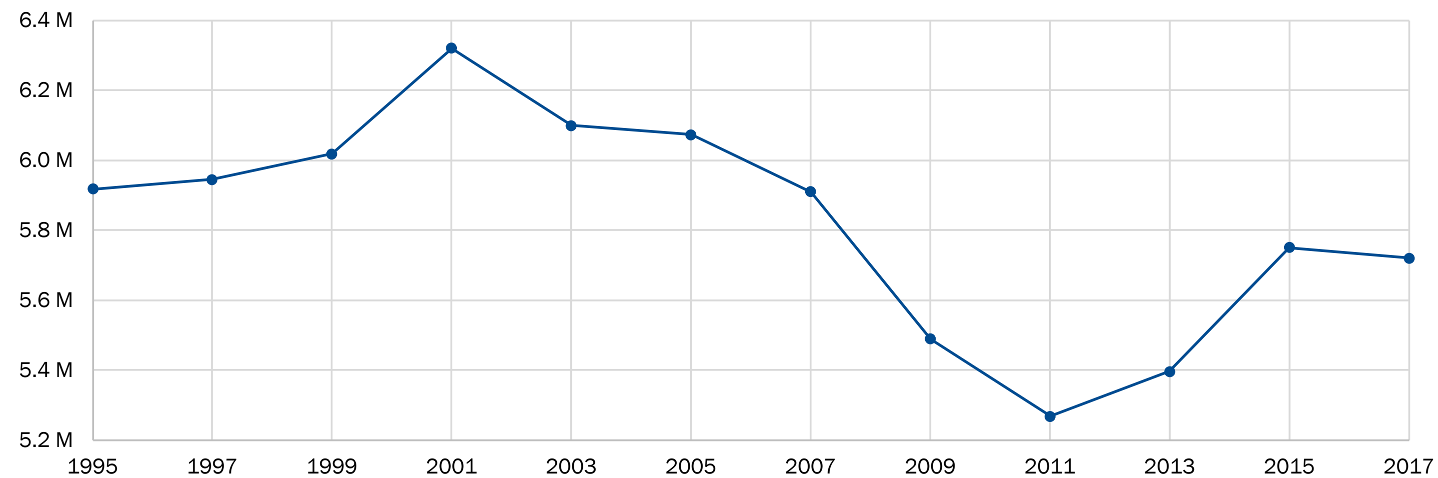
What Happened in Secondary Education After the Great Financial Crisis?

The recession took a toll on both public and independent schools -- but in very different ways. Public schools experienced a lack of funding, a need for budget cuts and an influx of students. Independent schools, on the other hand, struggled to maintain enrollment as families grappled with financial loss and high tuition rates. In this paper, we will address the trends that have affected independent schools since the GFC.

1. Independent School Enrollment Decreased

The GFC incited an exodus of students from independent to public schools. According to a Harvard University study, primary and secondary independent school enrollment decreased by approximately one-third during the GFC.[1] The decrease in enrollment was most pronounced for independent schools in wealthy districts where families had good public alternatives. Enrollment in less expensive faith-based schools or schools in neighborhoods with few good options remained relatively flat.[2] The U.S. Department of Education estimated public-school enrollment in the United States grew by about 1.5% from 2006 to 2010, while independent-school enrollment declined by 3%. In California, enrollment in independent schools dropped a whopping 5% in the 2008-09 school year alone.[3]

Private School Enrollment



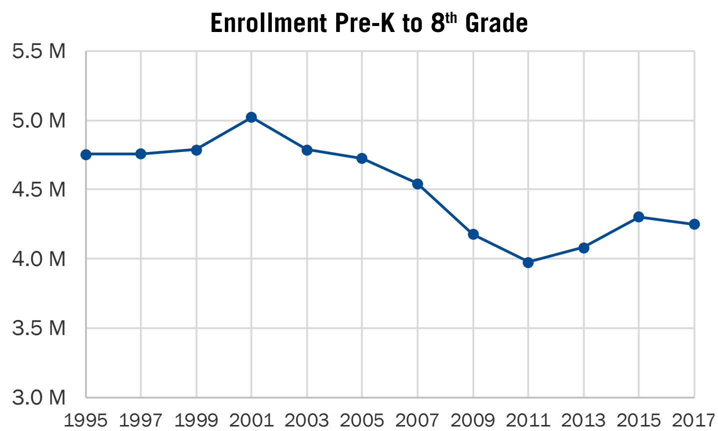
Source: National Association of Independent Schools.

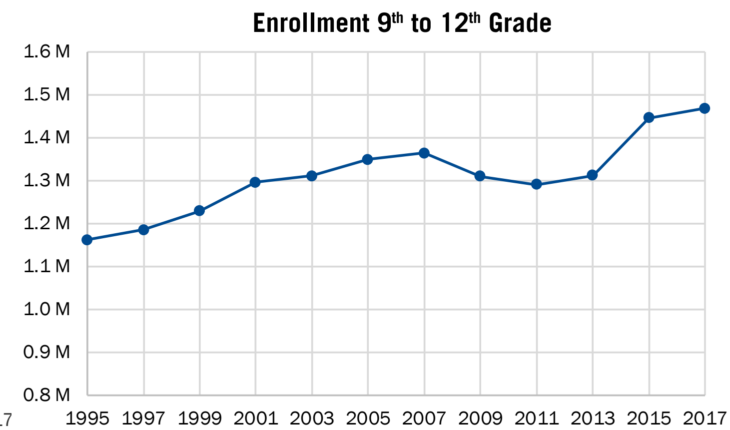
[1] Lamb, Anne T., and Preeya P. Mbekeani. "Private School Choice in the Wake of the Great Recession." aefpweb.org, 1 Feb. 2017, aefpweb.org/sites/default/files/webform/42/Lamb%20&%20Mbekeani_AEFP.pdf. Accessed 29 Apr. 2020.
[2] Ibid.
[3] Mieskowski, Katharine. "Private School Refugees: The Recession-driven Exodus of Students from Private to Public School." Slate.com, 2 Mar. 2010, slate.com/human-interest/2010/03/because-of-the-recession-kids-are-leaving-private-school.html. Accessed 29 Apr. 2020.

The overall decline in independent secondary school enrollment can be attributed to a host of factors:

1. Families were forced to reevaluate their expenditures after the GFC
2. More affordable Catholic schools had closed
3. Traditional public schools had improved their programming
4. Charter schools and other alternatives expanded

Enrollment in pre-K through 8th grade suffered the worst declines according to a National Association of Independent School study. From 2007 to 2011, enrollment in pre-K through 8th grade programs went down by 12.5% compared to 4.5% for high school students.



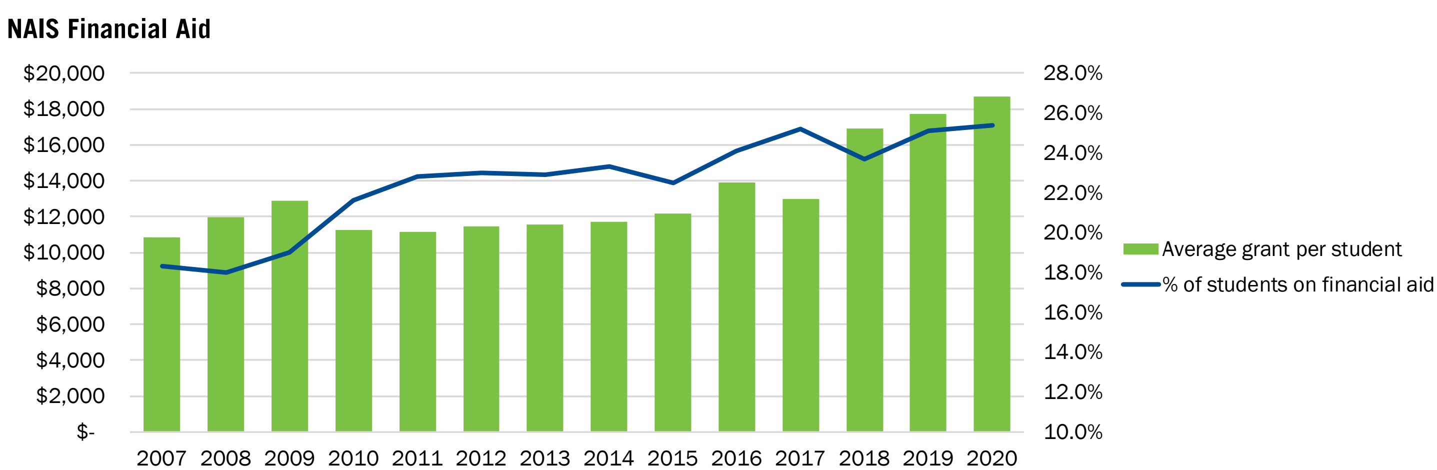


Source: National Association of Independent Schools.

Additional detail on the school enrollment trends for nonsectarian and Catholic schools can be found in the appendix of this paper.

2. Need for Financial Aid Grew Considerably

Responding to declining enrollment, independent schools offered financial aid to more families. The National Association of Independent Schools reports that almost 25% of independent school students got financial aid in 2020, compared to 18% in 2008. While the average grant size per student decreased after the GFC, it has now surpassed pre GFC levels. As schools compete to attract students, they are driving up their tuition discount rates, decreasing their revenues and placing significant pressure on operating budgets.

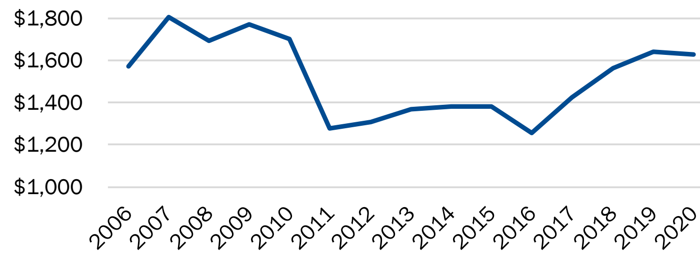


Source: National Association of Independent Schools.

3. Charitable Giving Fell

The GFC had a significant impact on charitable giving. In the "Effects of the Economy on Independent Schools Fundraising," Campbell & Company concluded that 59% of the schools that they surveyed experienced a material drop in fundraising during the GFC. According to the National Association of Independent Schools, total giving per student peaked in 2007 to $1,806 per student and fell to $1,256 by 2016. It still has not recovered to pre GFC levels.

Total Giving Per Student



Source: National Association of Independent Schools.

4. Some Independent Schools Closed, Merged or Affiliated

The GFC exposed the weak financial health of many independent schools and led to school closures, mergers and acquisitions. The total number of independent schools in the U.S. dropped from 35,054 in 2005-2006 to 30,861 in 2011-12.[4] This represents more than a 12% decrease in independent schools.

What Do These Trends Mean for Today?

The environment for secondary schools today is very different than it was before the GFC. Faced with rising tuition discount rates and increased competition from low-cost educational alternatives, independent schools were already in a very tough spot. Now with COVID-19, schools have to grapple with the realities of virtual education, shutdowns and social distancing. How will they compete for each incremental student while simultaneously addressing further enrollment declines and an increased need for financial aid? Below we discuss the key trends schools confronted in 2008 and explore what they might mean for schools today.

Maintaining Enrollment is Critical

Enrollment is the most important component of a school's financial health. While enrollment declines like we saw in the GFC are likely to repeat themselves in 2021 and beyond, the real question is what will be the magnitude of these declines? And what can schools do to counteract this trend? Will some independent schools actually benefit from the push to online education if the public options in their area are unable to provide an adequate online curriculum?

First and foremost, we believe that schools need to develop a comprehensive enrollment strategy that accounts for the new economic and demographic realities of the COVID economy. The strategy should address the following critical questions:

- Is the population projected to grow in the areas where you have traditionally recruited students?
- Do you need to target new zip codes or regions?
- Should you consider establishing new programs to attract students, such as early childhood education or after-school care?
- Is the racial and ethnic composition of the population in your draw area changing?
- What new strategies can you develop to forge ties with underrepresented communities?
- Is the household income in your area changing?
- What are the implications for your financial aid program?
- What is the right size for your school?

When projecting enrollment, it is important to be realistic not aspirational. Enrollment plans are critical at this juncture.

Need for Financial Aid Will Persist

Financial aid demand will certainly increase as families grapple with financial loss and tuition rates that continue to rise. As schools devote more and more money to financial aid, it is important to be mindful of net tuition rates and to have a clear understanding of the resources necessary to sustain financial aid.

Student Retention is Paramount

Schools need to do all they can to retain their existing student body. This is particularly true for institutions with lower schools. Enrollment trends during the GFC illustrated a preference to pay for high school compared to elementary and middle grades. Schools need to develop curricula and cost structures that attract and retain students across all grade levels to ensure the financial health of the school over the long term.

[4] McCluskey, Neal. "Private Schools Face an Existential Threat." Cato.org, The CATO Institute, 13 Apr. 2020, www.cato.org/blog/private-schools-face-existential-threat. Accessed 29 Apr. 2020.

The quality of the online experience could be the single most important determinant for student retention in the COVID economy. Families will struggle to pay for an online experience that is not vastly better than what they receive from public alternatives. Secondary schools need to maintain academic rigor and engagement in an online forum in the chance that schools will be virtual for the 2020-2021 academic year.

Overcoming the Gifting Shortfall

Total gifting will most likely decline for 2020 and beyond. Schools need to consider additional ways to secure revenue and maintain operating budgets. Potential additional sources of revenue could include alumni initiatives, summer camps and programs, tutoring services, facilities rentals, teacher training institutes, online classes or dual degrees with colleges. On the cost side, schools should consider where they can make cuts and what functions they can automate or outsource. Are there ancillary programs that you could cut? Are there online platforms that could supplement more costly educational offerings?

Merge, Affiliate or Shut down?

Many independent schools have yet to recover from the GFC. The current recession will push their operating models to the brink. Schools will need to evaluate their financial staying power. Is there an oversupply of secondary education in your region? Are there synergies to be gained by merging or affiliating with another local school? Should you consider adding a boarding component to your institution to target higher paying students? What changes do you need to make to continue as a going concern?

Concluding Thoughts

Independent schools across the United States are re-examining their missions to determine what is core to their institutions, and what needs to change to make them financially sustainable and relevant for students in the 21st Century. However, this change is not happening quickly enough. The current environment will accelerate the prevailing negative trends in secondary education. Enrollment trends will remain unsteady and tuition increases are unsustainable. Fundamental change takes time and money. Many organizations need to start dramatically reforming themselves today.

Make the hard decisions now to safeguard your institution for the future!

At Hirtle Callaghan, we engage in extensive planning and financial modeling to help schools understand the trade-offs and opportunities that lie ahead. We welcome the opportunity to partner with you to help you evaluate these tough choices and to pave the way forward for the next 100 years.

John Griffith, CPA

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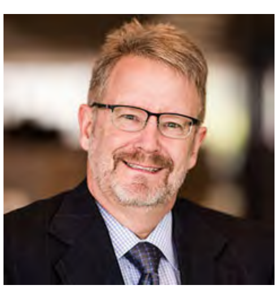
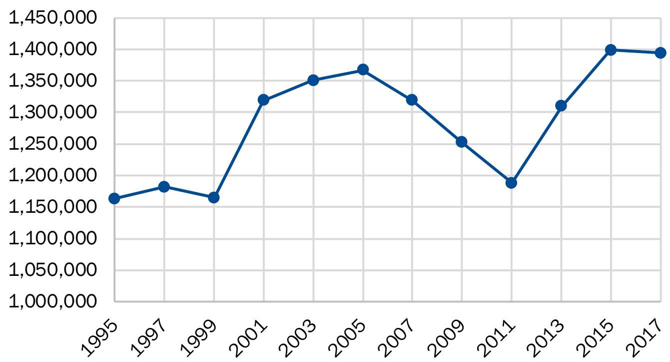


John is a Vice President and Endowment Specialist with Hirtle Callaghan. He has over 28 years of higher education experience. From 2003 until 2014, he was the Chief Financial Officer and Treasurer of Bryn Mawr College before joining Hirtle Callaghan. As the Treasurer at Bryn Mawr, he oversaw an $850 million endowment, managed cash, issued debt, and was responsible for budgeting and strategy planning. At Bryn Mawr, he assisted in modernizing and diversifying the endowment. During the Great Financial Crisis, Bryn Mawr was one of only a few colleges whose debt rating was upgraded. Prior to Bryn Mawr, John spent 15 years in various financial roles at the University of New Hampshire. John started his career at Coopers & Lybrand. He earned a Masters in Finance from Bentley University and a B.A. in Business Administration from the University of New Hampshire.

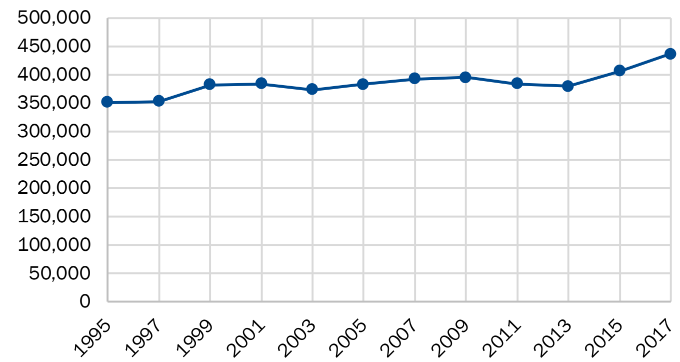
Appendix

Source: National Association of Independent Schools.

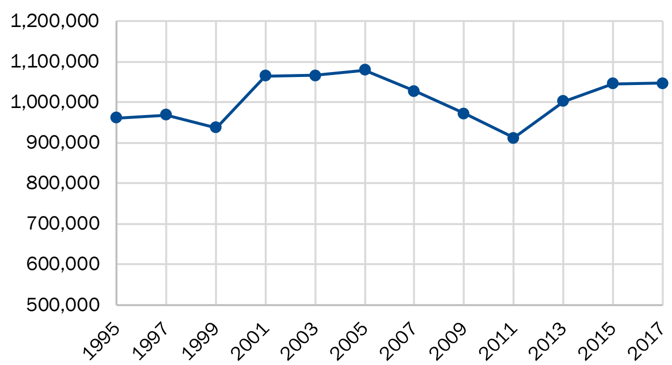
Nonsectarian School Enrollment



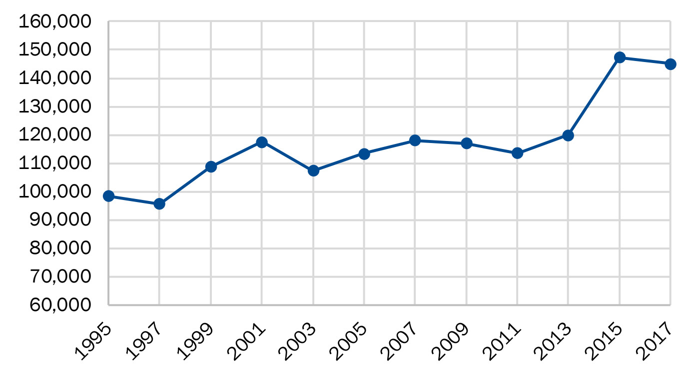
Catholic School Enrollment



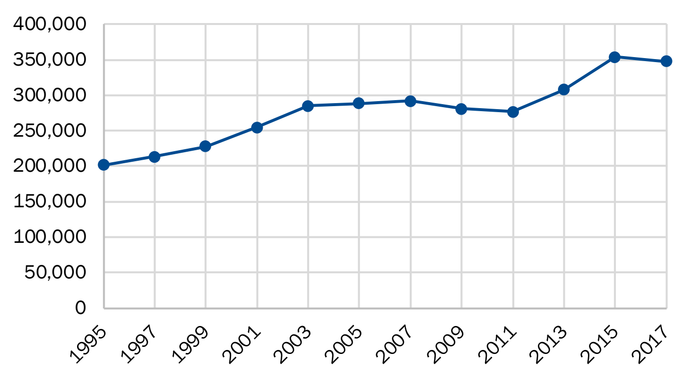
Nonsectarian School Enrollment Pre-K to 8th Grade



Catholic School Enrollment Pre-K to 8th Grade



Nonsectarian School Enrollment 9th to 12th Grade



Catholic School Enrollment 9th to 12th Grade