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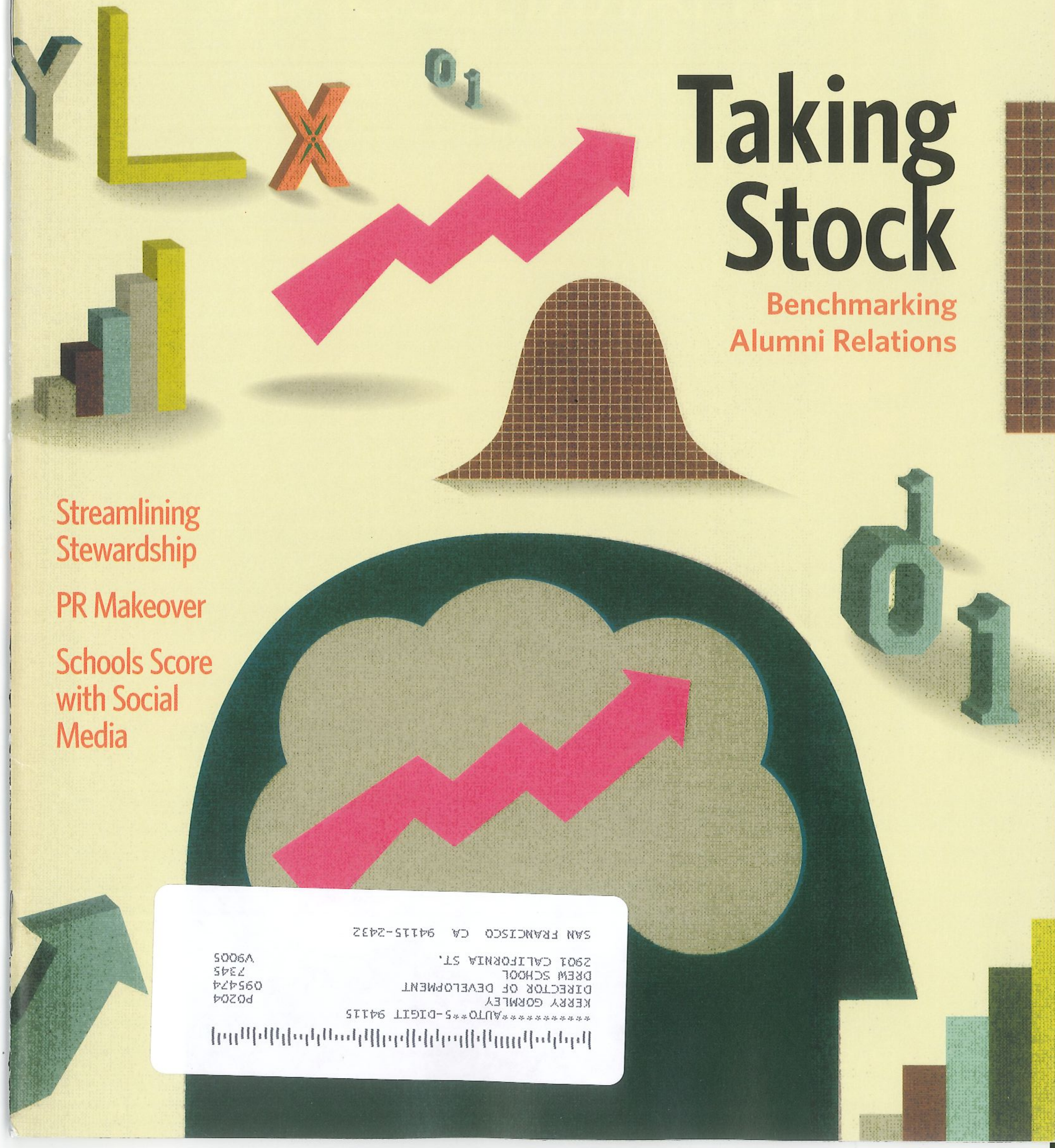

Taking Stock

Benchmarking Alumni Relations

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Schools Score with Social Media

Tuition Makeover

One independent school's response to rising costs

By KERRY S. GORMLEY

San Francisco's Drew School began this school year with a guarantee to its ninth-grade class: For the four years of your high school careers, your annual tuition will remain the same as it is today.

The germ of this new plan—branded "YES Tuition," which stands for Year of Entry Set Tuition—came from a parent's conversation with Linda Riff, Drew's director of finance and operations. Riff recalls: "A parent called and said, 'My older son is going to college, and they can guarantee me the same tuition all four years. Why can't you do that?'"

The question fueled the launch of an ad hoc board committee study in 2006 and the eventual development of the YES Tuition plan, which the school rolled out for all new students, including ninth graders and transfers, in the 2009–2010 academic year. Head of School Sam Cuddeback considers the program an extension of Drew's guiding philosophy. "At Drew, we listen carefully," Cuddeback says. "When one of our parents spoke about the annual tension and frustrations that accompany the tuition-increase announcement and asked about a better way, we heard the concern."

Now in its 101st year, Drew is a college-preparatory high school that enrolls 250 students, approximately 40 percent of whom receive financial assistance—one of the highest proportions among Bay Area independent schools. The average grant made to assisted students is 60 percent of annual tuition. The school does not have a significant endowment (board-designated reserves are just under $1.5 million), but it is committed to helping talented students attend Drew. This creates annual pressures on budgeting for the school. Furthermore, each tuition increase brings uncertainty, especially for families receiving significant financial assistance.

"It was a drag every year to send out those letters in January informing parents of tuition increases," says Cuddeback. "We listened, we heard, and we did what Drew is known for, which is to be a forward-moving school with a strong commitment to our students and their families."

Cuddeback points out that John Sheehan Drew founded the school in 1908 with a mission that prized integrity and individuality. A student recently summed up this mission with a phrase Cuddeback often quotes: "At Drew, each kid counts." The new tuition program, Cuddeback says, "makes each family count, too."

GETTING TO YES

Drew was quite deliberative in developing the YES Tuition program. Board members and school leaders began the study by identifying the most significant challenges facing the school and its students and families. Rising costs were at the top of the list of challenges. Drew must maintain competitive faculty salaries in an area that has one of the highest costs of living in the United States. Raising tuition to deal with these costs increased families' concerns about whether they could afford the school. Drew's long-term financial sustainability also had to be part of the equation. Despite the school being in the middle of a capital campaign, the board and leadership dove headlong into an intensive process to investigate and answer these challenges.

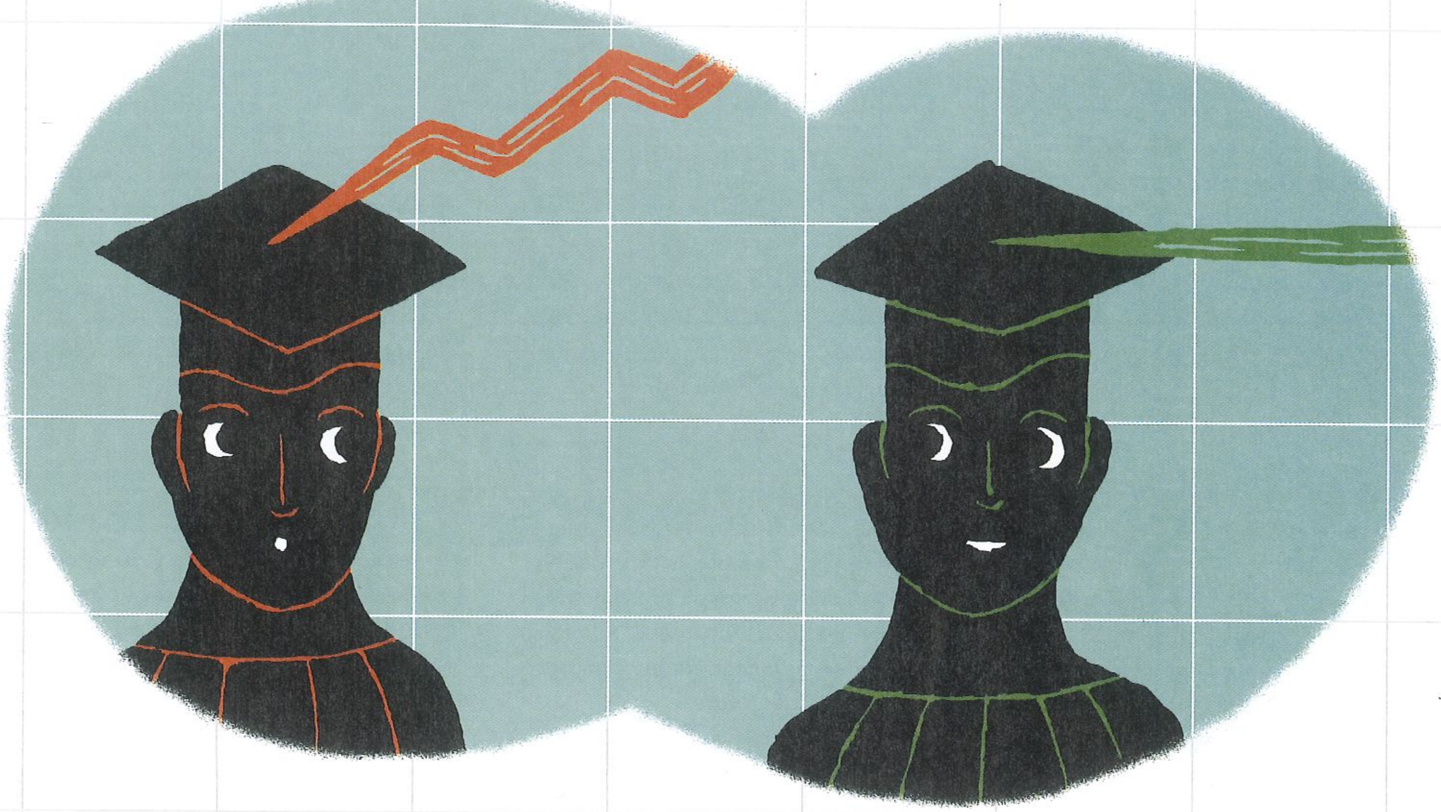


ILLUSTRATION by ADAM McCAULEY for CASE

Riff and Cuddeback approached the board's finance committee with the goal of finding a financially sound "better way" for Drew's families. The committee worked with Cuddeback and Riff to examine a Drew-specific set-tuition model.

"We really wanted to introduce the discipline of four-year financial planning and revenue-based budgeting," Riff says, noting that the plan has internal benefits for Drew as well. "We are looking at what is coming in and profiling our expenses to fit within our revenue."

REAL DOLLARS

A key finding of the finance committee's intensive study was that Drew's average net tuition, known as ANT, had recently flattened, even though annual tuition had risen by varying degrees annually. Riff breaks down the concept of ANT: "Imagine a school with 100 students and tuition of $10,000. Total revenue from tuition is $1,000,000. However, you have some students who receive financial aid totaling $200,000, so your true tuition revenue is only $800,000. Divide that $800,000 by the 100 students and you have an average net tuition of $8,000." In the past, tuition and ANT increased at about the same rate. (See Figure 1.)

Figure 1. **Normal ANT Growth**

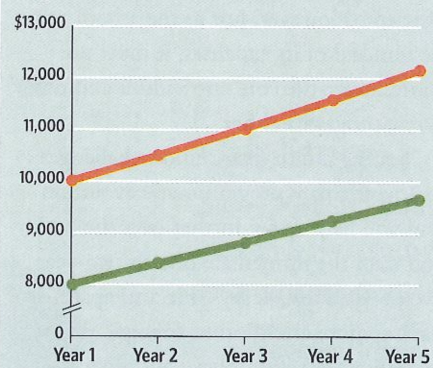
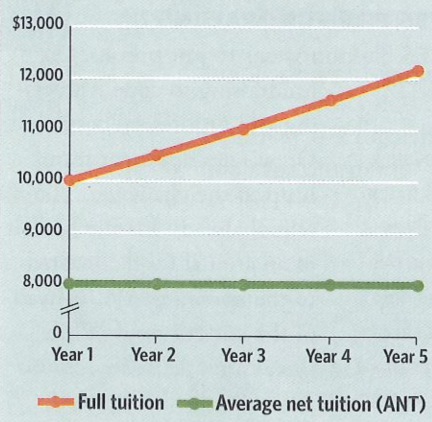


Figure 2. **Flat ANT Growth**



But this pattern changed in recent years, Riff says. As tuition rose, the need for financial aid increased even more. "So our ANT had been essentially flat since 2004," says Riff, "even though expenses such as faculty salaries continued to rise and tuition continued to rise." (See Figure 2.)

Some call this phenomenon "net tuition discounting." As National Association of Independent Schools President Pat Bassett noted in his May 2009 blog post, "Net tuition discounting is simply the practice of using variable pricing to fill all the seats .... I've recently come to the conclusion that our long-held practice of believing that the financial aid budget is fixed and enrollment variable is exactly the opposite of what our practice should be: The financial aid budget should be the flexible variable and enrollment the fixed variable."

The debate has raged for years regarding tuition "elasticity" and how far tuition could ultimately stretch or continue to rise. This is an especially germane question in San Francisco, a city where a disproportionate number of families choose independent schools as their high school option over perceived weaker public options. But constantly rising tuition has led to what is often referred to as the "barbell effect" for the middle class—a family finds itself stuck in a position in which it can neither pay full tuition nor qualify for enough financial aid to make tuition affordable. The result, in effect, prices the family out of many independent school markets.

While the program can't eliminate this strain on the middle class, it does clearly reinforce Drew's commitment to socioeconomic diversity in its student body.

"Such a commitment is critical to educating leaders of tomorrow," says Cuddeback. "Students will need to respect and lead people with diverse experiences and backgrounds."

ON MESSAGE

Though the program is new, Drew has already seen some advantages. Drew's marketing and admissions professionals have a kinder, gentler angle to use when they broach the tricky topic of tuition. The marketing of the YES Tuition program was initially tested early in 2009 during the admissions process for the Class of 2013. Elizabeth Tilden Baier, director of marketing and enrollment, has been on the forefront of families' reactions to the YES program.

"The typical response from prospective families is extremely positive, but somewhat confused. 'How can you do this?' is a common reaction," Baier says. "However, families soon understand that it is not only a model for the long-term financial sustainability and stability, but also an indication of the attentiveness and caring nature of the school's leadership and culture."

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Baier emphasizes to prospective families that YES Tuition should not be the deciding factor as they evaluate which school to attend. "The right fit between a student and his or her school is the key to the student's success and happiness, and to student retention," Baier notes.

ON BUDGET

It became clear that YES Tuition created benefits for Drew for budgeting purposes. For example, with a more stable multiyear revenue projection, the already-disciplined board and administration are better able to monitor expenses and plan for the future.

Drew has worked hard to avoid what NAIS's Bassett calls "administrative creep," the cause of many schools' burgeoning expenses in the past decade. While there is precious little fat on the Drew budget skeleton, the heightened discipline caused by this new model makes the school more efficient. However, just as the school must be mindful of its expenses, it must not shortchange the core curriculum and other Drew programs either.

"Setting a four-year tuition challenges us to anticipate programmatic evolution and will help us see further over the horizon than the immediate one-to-two-year cycle," Cuddeback says. He anticipates paying more attention to strategic thinking, accreditation action plans, and financial sustainability for many years in the future.

YES FOR FUNDRAISING?

YES Tuition seems to put pressure on fundraising to cope with rising and unforeseen costs, but Drew's development team is up to the challenge. The school already has the benefit of an annual fund allocated to the *upcoming year*, instead of the current year. While this is a model some schools are trying to shift toward, it is one key to ensuring the stability of the budget every year, because this portion of the year's revenue is based upon funds the school *already has raised.*

ONLINE ONLY:

Drew School is innovating in other areas besides tuition. Check out CURRENTS at *www.case.org* to find out about Drew's partnership project with the village of Keur Sadaro in Senegal and a new LEED-Gold-Certified campus building.

In addition, YES Tuition presents opportunities in two funding areas. First, Drew can approach wealthier families in the school community and show directly what their four-year tuition would have cost in the pre-YES era. This gives them an opportunity to support the school with a generous gift equivalent to what would have been additional tuition—but instead becomes philanthropic tax-deductible "tuition" dollars. Second, Drew has more flexibility to continue annual fund and capital campaign asks and fundraising events from January through March—months development used to avoid in part because of families' sometimes negative reaction to the tuition-increase letter sent during this time.

UNIQUE PROGRAM, FOR NOW

Drew believes it is one of very few schools—if not the only member of NAIS—offering a guaranteed stable tuition level for four high school years. The school does not propose that the YES Tuition plan is a model for all schools in a similar situation. "Rather its lesson is that the process itself of evaluating challenges from an unorthodox perspective has been extremely valuable to the school and its students," says Cuddeback. "Time will tell how well YES Tuition will work for Drew."

In an era of financial flux and tumult, Drew families are grateful for the constancy in their educational planning. Cuddeback says that families have expressed their thanks to the school for "both the practical help the program offers and the philosophical partnership they feel with the school. Both are critical to our school's ongoing leadership and success in San Francisco."

Kerry S. Gormley is the director of development and alumni at Drew School in San Francisco.