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Is Private School Not Expensive Enough?

By R. SCOTT ASEN

ANY parent of a private-school child will tell you that tuitions are painfully high — and getting worse every year. Many New York City schools are approaching the $40,000 mark. And it's not just New York: charges at many private secondary boarding schools are now touching $50,000. Outrageous, many say.

But I would argue that, if anything, charges may be too low. At least for some of the customers.

Virtually every private-school parent has heard about "the gap" — the difference between tuition dollars received by the school and the actual costs of operating the institution. This information is usually delivered by the development (read fund-raising) office, along with a heartfelt plea to help plug that gap with a donation.

Fund-raising activity has become central to the life of these schools. Annual fund drives routinely run into the low millions of dollars for schools of fewer than 500 students. And endowments in the hundreds of millions of dollars are common at the more prestigious secondary boarding schools.

But the development model is beginning to fray. Cost growth has consistently outstripped revenue growth year after year, for decades. At private day schools today, tuition receipts often cover only 70 to 80 percent of costs, while at boarding schools it is not unusual for tuition to cover 50 percent or less of actual costs.

For 10 years, I headed the development committee of the board of trustees at Groton School, a secondary boarding school in Massachusetts, and ran two major capital campaigns there. I can attest that expenses have so far outstripped revenues that no amount of cost-cutting at such schools, healthy as that may be, can come close to solving the problem. We need to also look in the revenue side for solutions.

At private schools, the population of families paying full tuition contains a broad array of financial capabilities. Many are struggling just to pay the stated price. But a meaningful subset of families has the resources to pay substantially more and, in a good number of cases, the "full" cost of the product they are buying (that is, the actual cost of operation on a per-student basis).

In a perfect world we might hope that those with larger capability would voluntarily make up as much of the gap with donations as their resources allow. The problem is, they usually don't come close.

This brings us to a troubling conclusion: To the extent that any family with the wherewithal is paying less than the full cost of the product it is buying through combined tuition payments and donations, that family is effectively being subsidized by other current and past donors. Not only is this ethically unsupportable, but ultimately, it is also financially unworkable.

My proposal: Supplement the traditional development model with a new pricing model. During the admissions process, along with quoting the stated tuition, the school should inform all families of the real costs of operation on a per-student basis and, further, tell them that they will be expected to fill as much of the gap between tuition and cost as they are able with a donation. To determine this number, the same level of financial disclosure currently asked of financial-aid applicants will be asked of them, and a means-testing exercise will be used to determine capability. Any family not willing to provide such disclosure would simply be told that the school expected the full gap to be met with a donation.

It is commonplace today for schools either to claim a "need blind" admissions policy or to aspire to one. I recommend replacing the term "need blind" with "means based." (One school in New York City, the Manhattan Country School, is using such an approach.)

The numbers are purely speculative, but I have created a model using conservative assumptions that indicates that, for a small school like Groton (where tuition last year was $49,810), the impact of the change I am recommending could be a net annual revenue gain of $2 million. (And assuming a 5 percent draw rate on endowment principal, this would be the equivalent of raising an additional $40 million of endowment.) Of course, the bump in revenue would be larger for larger schools.

A critic might worry that such a policy would drive applicants to competing schools offering the more forgiving standard tuition structure. But many of the more prestigious private schools routinely have applicant pools that are many times larger than the number of slots available. (For day schools, this is largely a result of a stunning increase in affluence in many of the areas they serve. Boarding schools now market themselves to families not only across the United States, but worldwide.)

Given the strength of the educational product offered by these prestigious schools, not to mention the prestige itself, I think that for every affluent family scared off by the new policy, there would be another of equivalent means — with an equally desirable child in tow — willing to pay full cost.

Would this spell the end of traditional fund-raising? I don't think so. I have been on the receiving end of many pitches. If I heard that the playing field had been leveled and that each family was paying its fair share according to its means and that the institution I cared so much about still needed help — well, I would be inclined to give more, not less. I think others would join me.

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