Rahel Rosner had experience starting a summer camp program at a private school. So when she joined the Georgetown Day School in 2008 as the Director of Finance and Operations, she understood why her new employer was jumping into the business.

The goal of Georgetown Day’s summer sessions was to create a fresh source of revenue for the school, and despite the challenges facing the broader economy at the time, the project was relatively successful. Yet as Rosner reviewed the numbers more closely, she found they told a different story.

“When we factored in paying people to run the camps, their supervisors and nurses and healthcare professionals, the overhead costs really ate away at the marginal surplus,” says Rosner.

As a result, Georgetown Day decided to shift its summer strategy to a rental model. So instead of designing and staffing a broad slate of programs, the pre-K–12 school occupying two buildings in northwest Washington, D.C., now limits self-run extracurricular courses to those that address academic areas where school leaders see specific needs. Beyond that, the school rents out its unused classroom and meeting spaces to specialized camp operators, with offerings primarily in the technology arena. The result is a much healthier stream of income.

“Many schools do well at running summer programs as an auxiliary income source, although a number of them are boarding schools that are using their excess dorm room capacity,” Rosner says. “For Georgetown Day School, the rental model is better for generating a sustainable source of revenue without having to either staff, supervise, market, develop the programs or pay faculty,” Rosner says.

Enrollment’s effects on tuition revenues

Enrollment in private secondary schools peaked at just about 1.36 million in 2007 and has declined modestly since then to an estimated 1.28 million in 2017, according to the National Center for Education Statistics. Over the next eight years, however, the federal research department projects that enrollment numbers will slide to 1.15 million students.

According to research firm IBISWorld, competition from charter schools and an uncertain economy have chipped away at enrollment. Many private schools have responded to declining enrollment by increasing tuition. Although some independent school backers see the possibility of vouchers as a potential boost on the revenue front, IBISWorld anticipates that such programs could lead to greater regulations for private schools that accept the public funds.

This leads back to tuition, which generally covers 80–90 percent of an independent school’s budget. In the past, annual 6 percent tuition increases were the norm, Rosner recalls, but since the U.S. economy stumbled about a decade ago, she says it’s become tougher to pass along even 3 percent hikes.

“We were already acknowledging that 6 percent increases weren’t sustainable before 2008, and frankly now we’re acknowledging that 3 percent will be tough to sustain,” Rosner says. “So for most private schools, there’s a gap, which is solved by private philanthropy, auxiliary income and the endowment.”
Meanwhile, expenses keep rising. Over the past 15 years, Rosner has seen considerable rising demands for:

- **Technology** — up-to-date infrastructure requirements as well as in the need for specialists to oversee such networks and ensure that the educational technology truly enriches and individualizes the curriculum for students
- **Counselors and learning specialists** — dedicated instructors and staff who support students academically, socially and emotionally
- **Richer curriculum** — robust offerings that help differentiate private institutions from budget-strapped public schools
- **Security** — the safety of students, faculty and staff has only grown in importance

“The cost of education is increasing at a rate that is higher than the cost of living. In addition to faculty salaries, you need to invest in programs and specialized resources in order to fulfill the educational commitment of the institution,” says Rosner. “Plus, instruction is based on a student-to-teacher ratio. It’s not a manufacturing environment where you can add more widgets to the classroom.”

**Searching for alternative revenue sources**
Given the challenging landscape, sustainable non-tuition revenue sources are essential.

“When such a huge concentration of revenue comes from one source—tuition—you’re always looking for diversification,” says Jill Fields, a SunTrust Bank Commercial Relationship Manager focused on private schools and universities.

Philanthropy efforts at private secondary schools, however, are generally limited to the school’s annual fundraising campaign to current families and alumni. Endowments tend to be small, as well as susceptible to the swings of the financial markets.

For most independent secondary schools, the auxiliary revenues primarily revolve around summer and after school programs: courses that extend learning for current students and others in the community; camps that utilize classrooms, gyms, facilities and, for boarding schools, dormitories that are otherwise dormant during the summer; and unused space that may be rented to qualified outside providers who bring their own classes and students onto campus.

Some schools also own underdeveloped land, perhaps given to the school by a benefactor. Depending on the property’s proximity to campus, it may be developed for the school’s use or leased to a developer.

Like Rosner, Fields highlights the efforts of Georgetown Day School and the benefits of purchasing and using the two properties adjoining its current high school campus. Part of the land will be used to build a new K–8 school, which will replace its current facility located a couple of miles away. The rest will be offered to a developer to build a mixed-use project with a lengthy land lease. In addition, once the new K–8 school is completed, the institution will either sell the current remote facility or lease out the land underneath it.

“We’re talking about a 99-year ground lease, so the institution is almost permanently giving up use of the property, but creating a steady source of income,” Fields says. “Further, some schools will specifically earmark these revenue streams to fund financial aid so they will be able to more generously offset tuition with financial aid, which is critical given today’s trends.”

Back in the academic realm, given the cache associated with many independent schools, some explore developing online offerings. Considering the obstacles to creating courses, marketing them and competing with well-established competitors, Rosner advises peers to view such possibilities from the other side of the ledger.

“I don’t know of any schools that are truly focused on developing online content and are succeeding in using that as a revenue generation model,” she says. “Instead, I am looking at it from an expense reduction perspective. Because rather than run a class of two or three kids, which is financially unsustainable, I can use online course offerings to augment my curriculum through programs that are trusted and vetted by my faculty.”

**Due diligence critical**
Along with running a rigorous business case assessment on any non-tuition revenue opportunity, school officials are well-served to view their plans through the lens of the marketplace and of affected communities.

Just as Rosner determined that self-run summer camps generated modest returns at best for Georgetown Day, Fields has seen how community engagement and land management efforts have sapped time and energy from educational efforts at other schools. When such duties are handed to an already stretched administration team, the commitment can be challenging.

“More than likely, the school doesn’t have the needed expertise, so the question becomes how to structure the program with the right partnerships,” Rosner says. “We’re educators. We’re not looking to develop that expertise in-house.”

Separately, Rosner cautions school administrators to be aware of potential exposure to the unrelated business income tax, which the Internal Revenue Service can assess on tax-exempt organizations. Any income greater than $1,000 earned by an activity that is “not substantially related to the charitable, educational, or other purpose” of the school may trip the special tax. To that end, it’s essential that institutions adhere to their core mission no matter what revenue paths they wish to pursue.

“The ultimate question for auxiliary income streams is, what does the cost-benefit look like, both in the short-term and in the long-term?” Rosner says.

So while the mission should remain paramount at every independent secondary institution, it—and the finances needed to support it—must reflect the economic realities of the present.