

## Planning a Strategic Response to COVID-19 Fallout

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The history of our country shows during times of severe economic downturn a number of independent schools existing on the margin meet their demise. Most current heads and Boards of Trustees may not have experience to manage schools under such challenging economic conditions. The purpose of this article is to suggest strategic considerations, priorities, and decisions to allow your school to survive, sustain and then possibly thrive during COVID-19 crisis and its fallout. It is offered so your school can best respond rather than react to the pending challenges.

In 1989, during “Black Friday” and the ensuing recession, I was Miami Country Day’s (FL) headmaster. In 1989, MCDS had 525 students K-12, significant long- term debt, no cash reserves, and \$250,000 endowment. Most facilities were dated and in need of replacement or totally inadequate. For example, the library was housed in a doublewide trailer. The upper school, struggling for credibility and increased enrollment, was added in 1982.

In 1989, the recession hit certain regions of our country harder than others. Miami, Florida was one of them. The city’s economy went into a free fall. Economic forecasts looking ahead 2-3 years yielded little reassurance, like today, that the economy would soon correct itself. Given the school’s meager financial resources, long-term indebtedness, and almost exclusive dependence on annual tuition to cover operating expenses, reality required an immediate meeting with Board leadership. Although the school was operating efficiently under a 5-year financial plan and a campus master plan, we needed to realign priorities and quickly. For example, next year’s reenrollment and faculty/staff contracts were soon due.

The leadership’s conversation focused first on determining certain assumptions. Despite the potentially dire financial forecast, it was

decided to make decisions assuming that the school was needed in the community, sustainable, and strategies would be developed and, if necessary, repositioned again to successfully navigate the recession. Assumptions were prioritized as follows:

1. Mission
2. People
3. Program
4. Finances
5. Facilities

Without question leadership agreed the educational program had to continue to meet and advance the school's mission. Agreement followed that the integrity of the educational program would not be compromised. Central to ensuring that integrity was maintaining the quality and appropriate number of faculty and staff. As we looked at the budget, this became a daunting challenge. Personnel costs were 65%+ of the operating budget.

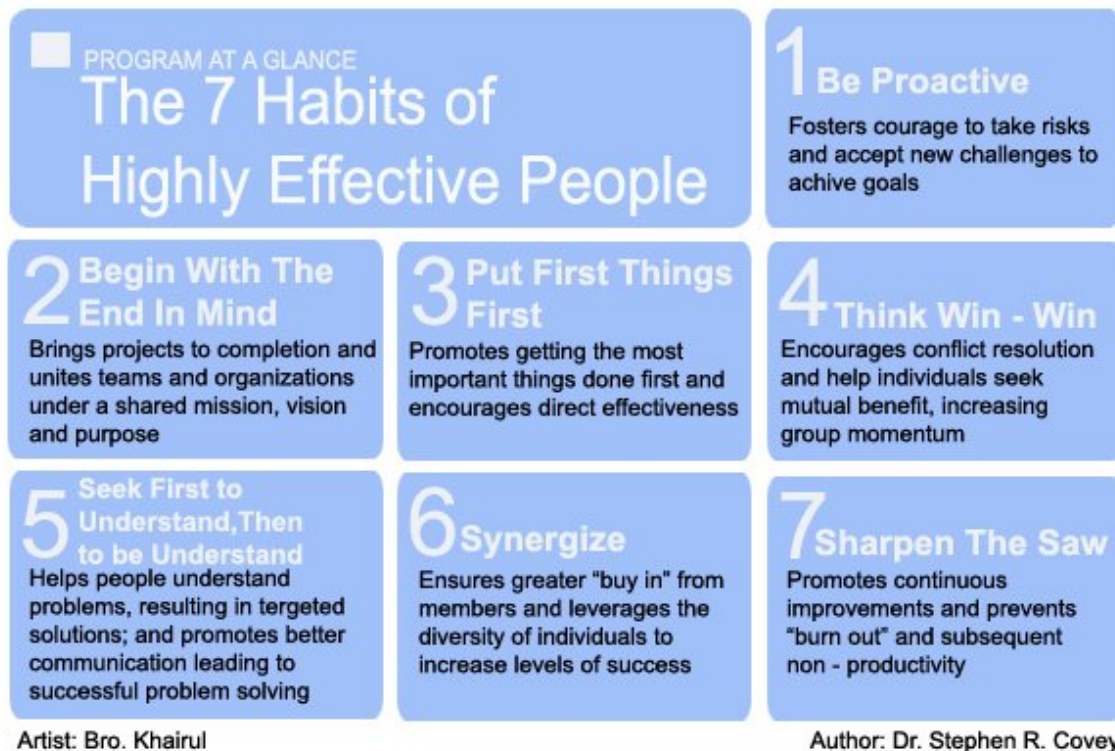
On the income side of the operating budget, we projected that net enrollment would drop 10%. It turned out to be 8%. The 10% number translated into 53 students and their tuitions. -\$675,000 and 9% of the budget. Some departing students freed up financial aid. However, it was understood more financial aid would need to be budgeted to prevent a greater increase in attrition. The large part of our financial aid budget, like in many of our schools, was an expense line item in the operating budget. Endowment income funded a small portion of the financial aid offered.

Given our assumptions and projections, it was understood a balanced budget would be austere. Our bank had two requirements – annual audit and balanced operating budget - for the school's long-term note. Providing flexibility for tuition payments would require activating the school's line of credit. A balanced budget was paramount.

You begin to appreciate even more the challenges, dynamics and complexities for sustainable school operation the "Black Friday" recession created. I believe similar challenges in the aftermath of COVID-19 crisis await you and your school. Below find topics, examples, and questions to help your school to navigate through economic turmoil. Leadership will be key in the weeks and months ahead. Be proactive, positive, optimistic and decisive.

## Strategic Reordering

The 7 Habits of Highly Effective People is one model for approaching the strategic reordering process. Each leader has a model that works best for him/her.



## People

### School Community

- *Well Being of School Community* - Acknowledge the human condition (See Maslow's Hierarchy of Needs). Remember that each person's set of circumstances is different. The social, emotional, and economic pressures of a recession may magnify issues for the individual and for his/her family. What resources, information, and discussions may be shared to heighten a sense of security, understanding, and skills to cope better?

- *Communication* - Messaging needs to be proactive, informative, strategic and reassuring. When necessary, remember unlike a good wine, bad news does not get better with time.

## Students

- *Wellbeing* – Students need to feel safe, secure, and cared for. School should be an oasis away from the din and concerns in the other parts of their lives.
- *Parents Response* – If parents believe school is providing safety, stability, and growth for the child, most will sacrifice much to keep the child enrolled.

## Faculty and Staff

- *Board President* – Addresses faculty/staff to acknowledge their importance and recognize their key role in managing this crisis. Gives assurances on behalf of the Board.
- *Face of the School* – Remind faculty/staff they are for many the school's barometer. Publicly, the message should be positive and optimistic. Should highlight integrity of the program and confidence in the school's strategies to confront the crisis.
- *Student Retention and Recruitment* – Especially during crisis, everyone is an admissions officer. Given the opportunity, current students should be encouraged to return and prospective students to seek admission.

## Trustees

- *Critical Messenger* – Like faculty and staff, school community measures carefully individual trustee comments about the school's situation and strategy.
- *Leadership* – Appeal to every trustee to accept and meet the Board's challenge. Call on trustee to increase, to extent he/she can, time, talent, and treasures.

- *Attrition* – May have one or more trustees resign for personal reasons or lack of commitment.

### Parent Association

- *Focuses on Key Targets* – Work with its leadership to help accomplish goals for student retention, increased admissions pool, fund raising, and educational program support.
- *Used Books and School Supplies* – Conduct used books donation program. Make available basic school supplies and used books for students receiving financial aid.

### Program

- *Zero Based Budgeting* – Faculty and department heads (all, including admissions, athletics, advancement, etc. as well as academic) expected to rank priorities understanding the school's expected financial restraints. Ranking completed in three categories – essential (integrity of program), necessary (advance program), enrichment (special enhancements). Purpose of this approach is to identify and fund in the operating budget all the essential and as many of the necessary items. Unfunded items in the necessary and enrichment categories become a range of fund raising possibilities - matching donor interests to school needs and priorities. Ranking process useful for planning, creating and supporting case for operating budget, 5- year financial plan and campus master plan.
- N.B. – Each individual, including department heads, completes a ZBB form. Individual input goes to the department head and then, individual and department forms are submitted to Business Manager for compilation, evaluation, and possible clarification before priorities go into operating budget process.
- *Communication* – You need to explain the 'Why'. Why is one's additional investment of his/her time and input essential to the school's finances and planning? Many faculty and staff indicate

little economic interest and understanding in a school's finances – other people's responsibilities. An explanation of the school's financial challenges is required. Faculty and staff should know to expect personal sacrifices, i.e. suspension of TIAA contributions and restrictions on school resources and program. Give other examples.

## **Finances**

- *Tuition Payment Schedule* – Tuition payment schedule may need to be flexed. Two tuition payment schedules 60%(August) and 40% (January) did not work for all families. Flexible payment schedules for certain families had to be arranged. Added more work for Business Office, but tuition steadily came in. Created cash flow issue.
- *Tuition Payment Default* – Net tuition income should include a calculation for projected uncollected tuition at end of fiscal year.
- *Long-Term Bank Note* – Payments (line item expense – no pledge payment income) need to be made to demonstrate school's solvency and to activate a Line of Credit.
- *Line of Credit* - Given flexed tuition payments, Line of Credit is critical.
- *Major Facilities Project and Educational Program Enhancements* – temporarily postponed. Revisit when appropriate. Financial flexibility critical. Bank lending is frozen currently.
- *Business Manager* – Should be included in all budget discussions with Board.
- *Amount of Financial Aid* –An unfunded line item expense, it requires a great deal of discussion and debate. Board (MCDS) did step up. Solicited itself for two priorities – ensure that all enrolled or accepted children of faculty enrolled or accepted children of faculty continue at the school and ensure all rising seniors be able to continue and graduate. The Board raised over \$100K in the first year for these priorities and pledged 50% of the first year donation for year two. Because of personal circumstances all trustees did not participate.

- *Faculty/Staff Salaries* – May consider freezing salaries or minimizing any increase.
- *TIAA/CREF* – TIAA/CREF contributions may have to be suspended or reduced for first fiscal year to help balance the operating budget.
- *Medical Insurance* – Should be last of benefits to consider cutting.
- *Zero Based Budgeting* – See “Educational Program”.
- *Fixed Costs* – Review and verify.
- *Maintenance* – Consider to defer any maintenance not related to health and safety.
- *Contingency Fund* – Unexpected needs or expenses may occur.
- *Used Books* – Text and supplies donated for families receiving financial aid.
- *Fund Raising* – Heighten competition for charitable donations during a recession. Solicitations should be ASAP and specific about needs and priorities. See leadership donors first.

## **Facilities**

- *Maintenance* – Defer any maintenance not related to health and safety.
- *Capital Projects* – Scrutinize very carefully any unfunded or underfunded construction programs and capital purchases. Remember-liquidity is king.

## **Final Thoughts**

Other considerations will remain unstated for each school has its own set of circumstances. The hope is you now have a useful framework to begin the process for developing your school’s strategic response to the fallout of the COVID-19 virus. Let me conclude with a summary.

- Identify Assumptions
- Define Challenges & Needed Resources
- Set Realistic Expectations

- Get School Community Buy-In
- Accomplish Prioritized Goals
- Require and Evaluate Feedback
- Communicate for Reinforcement, Accomplishments, Updates

“Commitment not to just to make a difference but to leave a legacy.”



