

Fiducient Advisors, Nonprofit Investment Stewards Podcast

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How Independent Schools Navigate Challenges and Manage Endowment Funds — With Jeffrey Shields

[00:00:00] Welcome to Nonprofit Investment Stewards with Bob DiMeo and Devon Francis from Fiducient Advisors. Bob and Devon are passionate about helping nonprofit organizations prosper. Whether you oversee endowment, foundation or retirement plan investments, this podcast exists to help stewards improve performance, reduce costs and discover strategies that enable your charitable organization to prosper and advance its mission.

[00:00:26] Now onto the show. Hello, and welcome back to the Nonprofit Investment Stewards podcast. I'm Bob DiMeo, happy to be joined by co-host Devon Francis. Today, our listeners receive what we'll call a two for one episode. We'll dive headfirst into the nonprofit world of independent schools, but wait, there's more.

[00:00:49] Our guest leads an association with more than 1000 member schools. He is definitely an expert on independent schools. But also steeped in what it takes [00:01:00] to successfully run an association. This is going to be a terrific episode, but before we get to our guest, Devon, good to be with you. How are you today?

[00:01:09] Thanks, Bob. Yeah, I'm great today. I am so excited. We're joined by Jeffrey Shields. Jeff is president and CEO of the National Business Officers Association (NBOA). NBOA is the national association serving the needs of business officers and business operations staff at independent schools. Over the years, they have grown from 23 founding member schools to over 1400 US member schools, plus member schools in Mexico, Canada, and 20 other countries around the globe.

[00:01:40] Jeff is also a board member and a fellow of the American Society of Association Executives (ASAE). In prior roles, Jeff served as a trustee for One Schoolhouse, which is an online school offering to independent schools, and at Georgetown Day School in Washington, DC. Among other [00:02:00] accolades, Jeff has obtained a master's degree from the Ohio State University.

[00:02:04] So Jeff, thank you so much for being here with us today and welcome. Thank you so much. I'm really excited to be here and talk with you. Jeff, we're thrilled to have you here. And perhaps, we can start with you providing an overview of the National Business Officers Association, and also how your career ultimately led you there.

[00:02:23] Well, I think Devon did a great job of describing NBOA. We did, we started as 23 business officers in 1998, NAIS made a strategic decision that they were going to focus on governance and I and heads of school, and we're no longer going to serve the needs of business officers. And business officers don't often take no for an answer.

[00:02:45] So they said, okay, we'll get together and we'll form our own association. 23 schools got together and asked their school to commit \$3,000 for the next three years to create NBOA. And it was a good bet. So we're [00:03:00] 1400 plus schools. We have more schools that we serve around the globe. We're a \$6 million association with 20 staff working in Washington, DC, meeting the needs of business officers and business operations staff through professional development, original research.

[00:03:18] Our flagship magazine, net assets, webinars, online courses, you name it, we've really become a full-service association and really proud of not just the growth but the way that NBOA has, in concert with business officers, become more sophisticated, has elevated the importance of the role

of the business officer and business operations staff, and has also elevated the role of thinking strategically about your school's finances and how the business officer should serve as a leader, strategic partner, and really a catalyst for helping the school secure its long-term financial health.

[00:03:56] So really excited about the past 11 [00:04:00] years, where I've had the privilege to help lead as president and CEO of NBOA and just really proud of the staff, the outstanding board I work with. And then of course, the members I represent really just, it's almost my dream job.

[00:04:15] I got into it as most people do, you know, career happens and you have plans and then opportunity hopefully meets talent and you're ready for it. But I was, my education at the Ohio State University was in higher education administration. So I spent my early career on the campuses of USC, obviously Ohio State, and University of Maryland, Baltimore county.

[00:04:37] And then I moved to nonprofit association management, my first gig being at the National Association of Home Builders, which is one of the largest trade associations in the country. So I learned a little bit about everything associations can do for its members. From there, I moved to NACUBO. The National Association of College and University Business Officers, had a great 10 year run there.

[00:05:00] [00:05:00] And when the original founding executive of NBOA decided she was going to retire and move to a full-time consulting role, I thought I was ready for the big chair. And so I went after it and I'm really fortunate. And like I said, I'm just really proud that I am able to work with, support, serve, and really count as my colleagues, individuals who serve a financial role and choose to offer that talent and that expertise and that knowledge to educational institutions.

[00:05:32] I really think schools, certainly independent schools, are much better for it. So I'm really pleased at the angle in which I'm able to support a world-class pre-K through 12 independent school education. That's great. Thanks, Jeff. What a storied career you've had. It's very impressive.

[00:05:50] So what would you say is the current state of independent schools and what do you see perhaps as the greatest financial challenges and maybe the greatest [00:06:00] opportunities? Yeah. I think obviously this past year has been like no other and I think it's really a testament. The one thing I'll really call out is that for many years there was this belief that independent schools couldn't be nimble.

[00:06:18] Couldn't be agile. Couldn't be responsive quickly to changing environmental circumstances and what I observed and give full credit to the talented leadership heads of schools, trustees, business officers, everyone at the independent school leadership team really proved quite otherwise and really responded to the pandemic quite ably.

[00:06:43] And I have two thoughts about where we are right now. One is that, how do we harness this muscle that we've developed to be agile, to be creative, to be innovative in under circumstances that I am not interested in repeating. And [00:07:00] I think I speak for everyone in that regard. But how can we harness that muscle we've developed and be more playful, resourceful, and really capture that creative, innovative spirit when we're not under duress, when we can have this freedom of thought and think about how best to use our resources, how best to serve our students and families, how best to support our faculty and staff in the years ahead.

[00:07:27] So I see the challenge we've been through was I don't want to sugar coat it at all. It was very challenging for all of our schools in many different ways. However, we unlocked some really positive things and I think heads of schools and business officers and trustees, I think they've observed that.

[00:07:48] And I think we have a real opportunity to move it, to move in that direction. So that's one area that I would speak to. I think the second issue that, that kind of brings us all in the room is [00:08:00] that there were financial challenges for independent schools way before COVID.

[00:08:05] And I don't know that most of those challenges have been mitigated or certainly disappeared. We still have a challenge with demonstrating our value and that mostly relates to providing access and affordability. Most people see the tuition price, at least the sticker price of our schools as challenging, as out of region, if they haven't had an experience with an independent school prior.

[00:08:35] I think that's becoming, that really is a challenge that we're all living with. Even though those of us who are familiar with independent schools really understand the high quality of the education that they are delivering. And that it's really not just a student and a school, it's really a family and a community when you make the choice to enroll in an independent school.

[00:08:50] But those are real challenges and the opportunity is, and [00:09:00] I think you, you may be aware of this, but COVID was very different from the great recession, which is really the other major crisis that I've kind of had to lead through during my time with independent schools.

[00:09:12] And unlike the great recession that really impacted our schools uniformly, endowments, and you, right, I'm speaking with you. So endowments, you know what happened with the endowment environment. You know it happened with enrollment, with faculty salary freezes, with changes to benefits, et cetera, et cetera.

[00:09:30] COVID has been quite different. COVID is really varied by region and there's been some positives and there's been some negatives. Boarding schools saw a really necessary improvement in enrollment. We know that lower schools have been under enrolled for many years, saw an increase as well. But when I speak to this and for folks that are listening to the podcast, it doesn't really matter if that hasn't happened at your school.

[00:09:56] It doesn't feel very good. But it has happened and I do think [00:10:00] it's worth noting. So I think the opportunity is that how do we retain these families? We always knew they were out there in the marketplace. And these are families that had the means to send their son or daughter to an independent school.

[00:10:14] But for whatever reason, didn't make that choice. COVID and the pandemic encourage them to take a second look and make that choice. So how do we retain those families now that they've experienced the value? They were drawn to us in many cases because we were able to offer high quality online learning, or we were able to offer five day a week face-to-face learning when many of the other options available to families were not there.

[00:10:41] So how do we retain those families? So I think that's the other side of this unique time we've gotten through. I don't know that we're through it yet. But certainly, I think I can speak for the entire NBOA membership that we're ready to put this school year to bed.

[00:10:57] And put a pin on it and look [00:11:00] forward to better days ahead and certainly in the next school year. And I think that statement applies not only to the NBOA members, but everyone in the world that's put this past year to bed. Absolutely. And I think Jeff, as you're describing sort of the before and after, frankly, it's what Fiducient Advisors, and so many organizations, we're going through our return to office plans.

[00:11:25] And frankly, we're trying to combine the best of pre-pandemic workplace environment with post-pandemic. And I hear you saying, hey let's take some of the good of the past with the present and combine that, and hopefully you've got a fighting chance of carrying that forward. So that's great. I wanted to ask you, we use an exercise which you're familiar with pretty much for all our non-profit clients.

[00:11:46] We call it the three levers exercise, where we examine inflows, things like tuition and donations and such, outflows of all varieties, and then required return from the endowment or reserve fund or whatever it may be. [00:12:00] And perhaps you can comment on the inflow side of things. Specifically, enrollment at independent schools.

[00:12:08] Well, I'm going to reach back to some of my earlier comments to say that it has been a mixed bag. And let me just give you some examples. So, you know what I'm talking about when it comes to enrollment. You know, Florida benefited from a migration of families from the Northeast, for as one example.

[00:12:25] New Jersey schools very quickly moved into five day in person education and families responded to that. Then you take a look at a state like California, which is actually the largest membership within NBOA. And they were under tremendous pressure from teachers' unions that even impacted independent schools and their ability to open, even if they could.

[00:12:48] And they were prevented from doing so. They also experienced a migration of families leaving the state for other educational options. So it really is a state and [00:13:00] regional phenomena on what schools are experiencing right now with enrollment. But our research shows that a number of schools met or exceeded their enrollment targets.

[00:13:11] However, the investments that they had to make, whether it was staffing or materials or technology related to responding to the pandemic, really drew down any surpluses. And that is a very unusual circumstance for our schools. One anecdote I'll share with you. If I see a business officer early in the school year, I ask how their enrollment numbers are and they'll tell me they're fully or almost fully enrolled.

[00:13:36] I know that business officer is going to have a year where they're going to strategically take a look at their resources, deploy them appropriately, perhaps advance initiatives that support the strategic plan, et cetera, et cetera. When I talked to that same business officer if they're under enrolled in a significant way, their year is going to be entirely different.

[00:13:54] Their year is going to be managing expenses. Their year is going to be putting more pressure on [00:14:00] fundraising. Their year is going to be putting more pressure on exhilarate programs and other non-tuition revenue streams. So it really is it, as your question points out, it really does come down to enrollment at the end of the day.

[00:14:14] And as I mentioned, you know, obviously, I think the biggest challenge right now is that if you've benefited from having an influx of new families, to retain them at this point in time, I think is key. But I think the other expense management problem, going back to your question, Bob, of what, what was true before the pandemic will be true after the pandemic is really managing FTEs.

[00:14:36] And that's always a challenge for schools because we are committed to delivering really a special world-class pre-K through 12 education. And we all know that comp and benefits is the largest expense line. And this certainly has been no exception. So managing FTEs will continue to be an area that schools need to take a serious look at if they're going to be able to [00:15:00] secure long-term financial health or financial sustainability.

[00:15:04] That's helpful, Jeff, and I, it leads to another question. I was reviewing really the terrific research and resources that NBOA has, and you publish quite a bit on tuition and tuition increases and its impact on enrollment demand.

[00:15:21] What can you tell us about that? Well, we've done a lot of work with, I think the study you're citing is the work that we did with both ISM and a group called Measuring Success several years ago. And what it showed us was this, and it was, Bob, in all honesty, it was one of the hardest messages to get across.

[00:15:40] And it was, I just, I distill it down to this. If your value proposition, your perceived value within your marketplace is high, you have more elasticity than you're likely using when it comes to how you set your [00:16:00] tuition pricing. If your perceived value is low or inconsistent with the price, the sticker price.

[00:16:10] Let's just say that to keep it apples to apples, the sticker price you're charging for tuition, you need to think long and hard about offering a price point that better aligns with the perceived value and the market you're serving and the program you're delivering. So that was, that's what we were trying to cut through because, and anyone who's been around independent schools knows the mantra that, oh my gosh.

[00:16:38] If our tuition goes above 25,000, there goes the independent schools. If we go above 35,000, there goes independent schools. We have schools that are charging over 50,000 and I'm talking about day schools and not, and then you look at boarding schools, which is a very different price point.

[00:16:54] My point being that if the perceived value meets [00:17:00] the, is in alignment with your marketplace and what you're delivering, then the price point will follow suit. And so the point of that research was to help schools understand that and look more deeply into how they set tuition beyond, the school down the street is going to raise tuition 3%, I guess we'll raise tuition 3%.

[00:17:24] Or as someone who sat around the trustee table, the more maddening conversations are, should we raise tuition 2% or should we raise it two and a quarter? I mean those conversations are so divorced from looking at the, really the macroeconomics of independent schools, the market you're serving, the value, what you're delivering, et cetera, et cetera.

[00:17:45] So that's, those are my key takeaways and we were proud of that research. And if I may, we've just recently done a tuition discounting report that we modeled after my former friends and colleagues at NACUBO. And we see that while [00:18:00] higher ed is discounting at a rate of 53% on average, our discount rate at this point in time, based on our research, is 18%.

[00:18:10] So set a different way, we're doing much better than higher ed. However, we're trending in an increasing direction. And that should be a bellwether for all of us to think about where we're going with not only tuition pricing, but how steeply we're discounting our tuition and fees. That's really interesting to think about the disparity in approach between higher ed and independent schools.

[00:18:40] So as you know, Bob and I spend most of our time talking about endowments. So let's talk about endowments with you and what you're seeing there. First off, to what extent did independent schools rely on endowments to not only survive, but also to thrive? Well, we always talk about endowments. We show a [00:19:00] pie chart of the various revenue streams that contribute to a school's overall budget.

[00:19:04] And so our data shows us from our, we have a data collection platform called BIIS, it's Business Intelligence for Independent Schools. And independent schools for a while have been consistently drawing about three to 4% from their endowments to support their operating budgets. Now there's a couple of things going on with that.

[00:19:24] And as I'm sure you're well aware, in some cases, some other individuals within the learning community have a very inflated sense of how much an endowment is even able to contribute to a school's operating budget because of the regulations, restricted gifts, et cetera, et cetera. So, so that three to 4% may be a surprise to some people who are less aware of the independent school, the traditional independent school business model.

[00:19:51] But, well, well, that's not significant. What is significant is that those dollars do help fill the gap. And the gap is the [00:20:00] actual cost it takes to deliver education and the amount we charge or the amount we discount for students and families. So without that contribution from the endowment, like I often say, the money has to come from somewhere.

[00:20:14] So it's very valuable in the overall scheme of things. I do think often that individuals within school communities where they know that there is a larger endowment or a well-developed, a well-funded endowment, I think they have an exaggerated sense of what that contribution financially is to the overall school finances.

[00:20:37] So I do think it's kind of a super valuable. We, those, that money coming from that particular resource is valuable. But you have to right-size it with tuition, exhilarate programs, fundraising, et cetera, et cetera. That's interesting, that three to 4% number. And I wonder, I'm just thinking [00:21:00] based on your previous response about how higher ed client or, you know, higher ed institutions are discounting their tuition more substantially.

[00:21:10] Yet independent schools are kind of trending towards more discounting. I wonder if eventually the endowment will be relied on more heavily. That's just, I'm sorry, there's potential for that. I think, I think in some cases, we didn't see it as frequently as we thought we would, in some cases, during the pandemic, we saw schools increase the draw to help mitigate some of the unexpected costs that were driven by the pandemic.

[00:21:41] So we did see boards making those decisions in real time. I think the other issue that we observed at schools that may be of interest to your audience, is that what we saw was that the schools had very little [00:22:00] accessible or liquid funds. And that was really a challenge because they needed cash.

[00:22:05] And they needed cash in a hurry. So it's really kind of this balancing act of what's restricted in the endowment. Where do they have investments and what level of cash reserves, reserves that they have on hand? I do predict that schools will be rethinking that portfolio, if you will, in the future should something like this happen again.

[00:22:26] Many schools were really challenged by quickly accessing the liquid funds that they needed to address this. Jeff, we advise and manage many endowments, board designated, variety of names, different schools, independent schools will use, but you get to see a number of different committees, investment committees and such in place.

[00:22:49] What can you offer up in terms of maybe structure or best practices that other investment committees and oversight bodies can consider? Well, [00:23:00] I really appreciate that question because I do think ultimately, governance is key to our independent schools. Just government's key to any successful nonprofit entity.

[00:23:11] And so we see that with schools without exception. And so I really, when it comes to the endowment and endowment management schools, I really, what I've observed is, well-managed endowments are really supported or framed by an overall strategy, clearly articulated investment policy. What is the purpose of these resources?

[00:23:31] What is our long-term goal for these resources? And as I mentioned, together, endowments, investments, reserves, however that portfolio overall is managed has to be aligned with the mission of the school and available for the primary purpose to advance the school's long-range strategy. So this could include, you know, program enhancements or physical plan, or increasingly other innovation initiatives on the program [00:24:00] side that will, I believe enhance the school's opportunity to generate non tuition revenues.

[00:24:05] So I think well-managed endowments or endowments and investment committees that are serving their schools well, I think are really in tune with not just the structure of how their investments are performing, but really they're in alignment with the strategy of the school, certainly the mission of the school and how these resources advance the school and secure its future in perpetuity.

[00:24:31] So I think that's, I think that's asking investment committees to wear a lot of hats, but we do see that's where that alignment best serves the school. And I think that's why it's so important to have investment committees that include members that are trustees and are aware of this direction that the school is taking and not singularly focused on the portfolio.

[00:24:56] So the last one, the thing that we wanted to ask you about is [00:25:00] environmental, social and governance, ESG, as well as diversity and inclusion. So obviously those are issues that are gaining a lot of momentum among many charitable organizations and their endowments. What are you seeing in the independent school space in terms of those issues and how you see things evolving?

[00:25:20] Well, I certainly think that the DEI lens is something that is front and center within independent schools, particularly that's the one I really, I hear most about, think most about. And I'm really proud of the role that NBOA is trying to play in that space, where long before some of the unrest and the really horrific circumstances of the last year came to a head, the board was visionary enough, if you will, to identify a statement around its DEI values.

[00:25:59] And it wasn't [00:26:00] on behalf of schools. It was really on behalf of the organization, on the role we wanted to play. We wanted to support business officers. And if they're going to be leaders at their schools or going to have a more developed and appreciation for DEI, and then of course we have a lot of play with human resources professionals.

[00:26:18] So we thought it was important that we don't remain silent on those issues, but I think that any aspect of an independent schools operations at this point in time, whether it's the choices they're making around, financial investments allocating resources to various programs, allocating resources to support both students.

[00:26:41] And also an area that we are very engaged in, which is the identification, recruitment and hiring of a diverse faculty and staff administration. This DEI lens should be prevalent in all of those ways and be consistent with these policies and [00:27:00] at the end of the day, and I don't mean to sound cliché at the end of the day.

[00:27:04] That's what's good for the overall learning community. That's what's good for the students, faculty and staff that are part of an independent school. So, I'm pleased to hear that as you speak

with your clients, that this is a topic that's coming up and that this is a conversation again, that may stretch an investment committee a little bit out of their comfort zone.

[00:27:26] But it's very important. And you know, some of this work makes all of us uncomfortable, but it's moving us in the right direction. And I really think investment management firms like yours should really help inform and support those types of discussions going forward.

[00:27:41] We, we could not agree more, Jeff, that's terrific. So you've provided invaluable insights. Anything else you'd like to share with leaders of independent schools at this point, as we wrap things up? I just want to emphasize the importance that I think governance plays for independent schools and how investment committees, like you said, really [00:28:00] need to have their fingers on the pulse of the school's financials need.

[00:28:04] Financial needs, not just today, but in the future. And so, I really appreciated what you said about the diversification of investment committees. Absolutely, schools need and benefit from talented financial expertise from the trustees or within their learning community. But it has to be married with the programs, the aspirations, the future strategy of the school as well.

[00:28:33] So I just wanted to punctuate that point because I do think it's so important. And maybe people are surprised to hear that from me in the position I play. But I do think it's critical for not just business officers, but the trustees they work with have a holistic view of the entire school and that finances are a critical part of it.

[00:28:53] But they're not divorced from the program, the mission, the strategy of the school. Absolutely. Couldn't agree more, Jeff. So [00:29:00] before we close the episode, we'd like to hear a bit more about you as a person. So, what do you enjoy doing outside of work and your volunteer efforts? Well, I'm very fortunate.

[00:29:12] I live in Washington, DC, NBOA is based in Washington DC, but I'm very fortunate to be able to spend my time, certainly this season, this time of year, summer, in Rehoboth beach, Delaware. And I will be spending my time on the Delaware beaches watching my 15-year-old daughter play in a summer soccer league.

[00:29:31] And I have to say, I love the four seasons of Washington DC but summer is definitely where I live, where I really just get excited and recharge my batteries, which interestingly enough is why I think I've been attracted to education my entire career. Because of the calendar of the school year.

[00:29:51] And I'm not saying that, there's certainly plenty of work to be done over the summer, but the tempo of the summer, and as it aligns with independent schools is something that [00:30:00] really connects with me. So, and I would want to, also want to share that I not only am on the ASAE board of directors, but I'm also a trustee with The Enrollment Management Association, which has really been hopeful.

[00:30:10] Because I think the partnership between business officers and enrollment leaders at schools is really critical as we've spent some time talking about the enrollment issues that schools are having. Absolutely. Well, Jeff, thank you so much for joining us today. You've really provided such wonderful insights.

[00:30:27] If listeners want to learn more or access resources, where would you suggest they go? I would suggest they go to nboa.org. Start there. Excellent. We are so appreciative of your time and your expertise. So thank you very much for joining us. Thank you very much. Jeff. This has been

wonderful. I've always thought of education as such a noble profession and what NBOA and you are doing is just advancing that in a terrific way.

[00:30:55] So thank you. And thanks so much to our listeners. For you nonprofit leaders [00:31:00] out there, we recently added a blog post titled Four Smart Moves for Investment Committee Members. You'll find it at fiducientadvisors.com. And we'll also add a link in the show notes. So to all you good stewards, thanks for investing your time to help your nonprofits prosper.

[00:31:18] We'll connect with you soon on the next episode. Thank you for listening to the Nonprofit Investment Stewards podcast. Click the subscribe button below to be notified of new episodes and visit fiducientadvisors.com for more information. The information covered and posted represents the views and opinions of the guests and does not necessarily represent the views or opinions of Fiducient Advisors.

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