Capital Allocation Issues in Independent Schools

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Strategic Issues to Consider:

**Facilities** → 10-15% of operating budget expense

**Debt financing** → 50% of NYSAIS schools have borrowings

**Taxes** → not yet an issue but looming

**Technology** → negative return?

**Teachers** → a school’s most important asset
FACILITIES AND DEBT FINANCING
NYC Private K-12 Schools Go on a Billion-Dollar Building Spree

Officials say the campus upgrades are key to their missions; skeptics see it as an amenities arms race to compete for students
If a school is serious about what facilities cost, then the following calculation should be considered:

i. PPRRSM Reserve: (CASH) relating to current median value: 3% of $46.27 million
   = $1.4 million

ii. Median maintenance backlog = $850,000 (assume cost phase in over five years)
    =$170,000

iii. Median maintenance spending (day schools) = $1.2 million

Median Theoretical Annual Total = $2.77 million

Mean Bonds and Notes Payable
NYSAIS Member Schools

- 2016-2017: $12,953,165
- 2017-2018: $13,300,336
- 2018-2019: $15,429,007
- 2019-2020: $16,237,610
TAXES
Why should rich universities get huge property tax exemptions?
Economic Distortions Caused by Tax Exemption:

Currently, independent schools are exempt from:

- Property tax (facilities)
- Income tax (net surplus becomes net income after taxes)
- Capital gains tax (endowment)
- Sales tax (8.875% on every $1.00 of purchase)
- Plus, interest on financing is generally tax-exempt, significantly lowering cost (37% taxable equivalency)

What if independent schools had to pay taxes?
One Calculation of Property Tax in New York City:

1. Average property tax rate in New York City is 0.9%
2. Assessed values run about 50% of market value
3. Just on recent $1 billion add to facilities, property taxes would be $4.5 million
ENDOWMENT MANAGEMENT
Some Colleges Bail from TIAA, Objecting to Increase in Fund Fees

Groups in Wisconsin, Virginia combine members’ retirement assets to gain scale after TIAA raised fees on small clients
Warren Buffett’s $1 Million Charitable Wager

- In 2007, the “Sage of Omaha” bet hedge fund Protégé Partners that an index fund based on the S&P 500 would outperform a basket of hedge funds over a 10 year period.
- Buffett’s premise was that 80% of fund managers underperform their index (which is true).
- Buffett won this bet: the index fund returned 7.1% compounded annually, while the hedge funds returned an average of 2.2%.
S&P 500 Index and Barclays Hedge Fund Index

Year


S&P 500 Index

Barclays Hedge Fund Index

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For mean NYSAIS school endowment of $25 million, spread between compounded return of 7.1% versus compounded return of 2.2% over 10 years is approximately $12.5 million in foregone return.
Buffett’s View on Expenses:

- High fees exacerbate phenomenon of lagging returns on actively managed funds
- Buffett: “Investors wasted more than $100 billion over the last decade on expensive advice”
- Expenses matter: the negative compounding effect of fees associated with mutual funds and managed accounts versus index fund
TECHNOLOGY
At Waldorf School in Silicon Valley, Technology Can Wait
TEACHER COMPENSATION
MEDIAN TEACHER COMPENSATION LEVELS VS. MEDIAN COMPENSATION FOR B.A. AND M.A. NYSAIS MEMBER SCHOOLS

- Teacher - Highest Salary
- M.A. - Median Salary
- Teacher - Median Salary
- B.A. - Median Salary
- Teacher - Starting Salary

Klingenstein Center
Teachers College Columbia University
Allocation to Human Capital:

Percent Change in Mean Tuition and Fees and Mean Teacher Salary
NYSASIS MEMBER SCHOOLS

- % Change: Mean Teacher Salary
- % Change: Mean Tuition+Fees


% Change: Mean Teacher Salary: 4.3% 2.7% 3.3% 2.9% 2.9% 1.3% 8.8% 0.5% 2.4%

% Change: Mean Tuition+Fees: 5.5% 1.6% 3.3% 2.9% 0.2% 4.2% 8.6% 7.9% 3.3%

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