Financial viability: Is that educational program worth it?

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How does your school know if an educational program—a degree program, course-delivery model, innovative partnership—is worth it? Schools tend to look at the viability of programs in terms of the enrollments they attract or the educational benefits they offer, but how much energy do schools give to considering whether a program is economically viable? Is there a best way to approach this side of the equation?

As part of the *Organizational and Educational Models in Theological Education initiative*, ATS research staff hosted a set of conversations in February 2024 to develop a tool to assess the financial viability of any educational program in support of missional vitality. A group of 13 chief financial officers (the "CFO Cohort") met in New Orleans to unpack how their schools determine the cost of offering a program, with the goal of landing on a tool that schools could use to assess whether a program was worth the cost. Altogether, the persons within the CFO Cohort averaged more than 30 years in the financial world and totaled 125 years of experience within graduate theological education. ATS staff leading the group totaled an additional 35 years in nonprofit finance and 60 years in graduate theological education. Even with this august group, however, creating a tool that could cut across the variety of schools in this industry is more complicated than we expected. ATS is making headway and will reconvene the group in the coming months to vet a prototype.

How did the tool emerge?

The emerging tool is described below, but first are several challenges ATS research staff faced when deriving the prototype. Even with as few as 13 schools represented in the conversations, multiple possible approaches emerged, such as identifying costs distinct to an educational program (for example, the MDiv degree), dividing at a high level all costs by headcount or FTE or credit hour, or computing the direct costs per student and adding allocated indirect costs plus unique costs.

Philosophical differences also surfaced regarding which costs should be considered for determining if an educational program was economically viable. The larger group agreed that direct costs—those directly related to a course (instructional costs associated with faculty and support staff compensation, professional development, graduate assistants, language translation, etc.)—should be included in the calculation.

Agreement beyond this, however, was more elusive. Should indirect costs—those not directly related to a course—be included in the calculation of viability? How does a school determine what is or is not directly related to a course? For some in the CFO Cohort, costs related to student services, educational technology, IT, large-scale management systems (for example, learning or student tracking), and library are considered direct costs while for others in the CFO Cohort, they are not. For schools that do include these student-related costs in their direct-cost calculations, identifying the most appropriate approach to allocating across the different degree programs can be complicated. Is a simple "divide by headcount" the most appropriate? What if the school offers a program that predominantly attracts or targets students who do not expect or are unable to pay full tuition? What if certain programs are more expensive because of where they are offered or who tends to teach in them? Then there are the operational costs such as executive office, development office, or office of human resources—all of which play a part in the educational endeavor, though indirectly. Many other questions such as these can play into examination of cost and worth.

The key for any theological school is that these questions are being asked—either at a high-level or deeper into the details—about the financial viability of a school, degree program, course-delivery method, and so on. Such financial questions, then, lead to missional questions. Is this the program we want to fund out of the endowment? On what is the school willing to take a financial "loss" to address its mission *and* how will the school make up the gap? With which other program will the school make up the loss or gap? What are the ethics of this? Is this practice missionally aligned as well? Is this occurring strategically and with intentionality, or does it just happen without question?

The emerging tool

The main component of the current iteration of the financial viability tool is a set of critical action items that schools can use to collect internal information about the cost of an educational program, then make relevant interpretations about financial viability. This article discusses an important starting point for assessing the financial viability of an educational model—a degree program, a course-delivery model, and so on. As discussed within the CFO Cohort, a theological school must consider: (1) cost to educate a student, (2) net tuition revenue generated from a student, and (3) the revenue-cost gap per student.

1. COST TO EDUCATE A STUDENT

To begin the assessment of financial viability in support of missional vitality, schools should focus on the cost of providing education to an individual student. This would be known as *cost per student* and is different than what the student pays in tuition. The calculation could be done based upon headcount (HC) student, full-time equivalent (FTE) student, or credit hour sold—whichever is most beneficial for the school—but the CFO Cohort agreed that the key is to derive this important metric for evaluation.

As a starting point, determine the total expenditures from the prior year. For a freestanding ATS school, this would be the total expenditures from the most recent audit. For an ATS school related to a college or university, this would be the direct costs associated with the ATS-accredited entity. In both cases, freestanding or related, this would be the total expenditures reported to ATS in the most recent Annual Report Form (ARF) FF-1 Finance Form.

The next data point required is the number of students enrolled and educated for which the spending was incurred. As mentioned above, use whichever model or approach makes sense—HC enrollment, FTE enrollment, or per credit hour sold.

Finally, calculate the actual cost per student a school is spending to educate a student. The table below shows the cost to educate a HC student. If the school spends a total of $2 million in a year and educates 100 students, the cost to educate a student is $20,000 ($2 million divided by 100 students).

Total Annual Expenditures	$2,000,000
HC Students Enrolled	100
Cost per HC Student	$20,000

Action: Calculate the cost to educate a student at your school, which is the total spending for the year divided by the number of students that were enrolled. You can ask someone in your school for the information or you can find your school's total expenditures and head count enrollment using the ATS Data Visualization tool (click "by School" options for Expenditures and Enrollment buttons).

Further Analysis: In 2023, across ATS, the cost to educate a student averaged $30,600 per HC, $51,000 per FTE, and $4,700 per credit hour sold. How does your school compare to the ATS averages? If you want to take your analysis further, you can compare your cost to educate a student to other ATS schools by using the ATS Data Visualization tool. If there are significant differences, what might be the reasons? Perhaps going deeper in your analysis will help, such as doing the calculation of cost to educate a student within degree programs, course-delivery methods, location, etc.

2. NET TUITION REVENUE PER STUDENT

Once you have determined the cost to educate a student, calculate the *gross tuition revenue* and the *net tuition revenue* generated per student. Gross tuition is the revenue derived from the full amount charged to students for the classes or programs they are taking before any scholarship or aid is applied. Net tuition is the amount actually charged to the students after scholarship or aid is applied. Scholarship and aid include that which is funded through endowment or gifts as well as unfunded and offered through a discount. If you are unfamiliar with the concept of funded and unfunded scholarships, it would be beneficial for you to talk to someone in the financial aid office or business office to ask them to explain the concept *and* to discern which approach your school uses. There are blessings and challenges to both, but unfunded discounts are notably challenging in the long run.

To begin the calculation, identify the gross tuition revenue and scholarship expenses from the prior year. For a freestanding ATS school, this would be the gross tuition revenue and scholarship from the most recent audit. For an ATS school connected to a college or university, this would be the direct revenue and scholarship associated with the ATS-accredited entity. In both cases, this would be the items reported to ATS in the most recent ARF FF-1 Finance Form. Net tuition revenue generated is equal to gross tuition revenue less scholarship expenses.

Next, divide gross tuition and net tuition amounts by HC enrollment, FTE enrollment, or per credit hour sold—whichever makes the most sense to the school. The key is to use the same approach (same denominator) used to determine cost to educate a student. The example below uses HC student. If the school receives a total of $1 million of tuition revenue in a year and educates 100 students, the gross tuition revenue per student is $10,000 ($1 million divided by 100 students). If the school utilizes $200,000 in scholarship funds, then the net tuition would be $800,000 ($1,000,000 – $200,000), and the net tuition per student would be $8,000.

Gross Tuition Revenue	$1,000,000
Scholarship Expense	$200,000
Net Tuition Revenue	$800,000
Head Count Students Enrolled	100
Gross Tuition per HC	$10,000
Net Tuition per HC	$8,000

Action: Calculate the gross tuition revenue and the net tuition revenue at your school as shown above. You will need to ask someone in your institution for the information, as it is not publicly provided. The data needed can be found in the most recently completed fiscal year (ARF FF-1) and the enrollment data is for the fall semester (EF-1).

Further analysis: In 2023, the gross tuition per student across ATS averaged $10,800 per HC, $18,000 per FTE, and $1,650 per credit hour sold. In 2023, the net tuition per student across ATS averaged $6,800 per HC, $11,300 per FTE, and $1,050 per credit hour sold. How does your school compare to the ATS averages? If there are significant differences, what might be the reasons? Perhaps going deeper in your analysis will help, such as doing the calculation of cost to educate a student within degree programs, course-delivery methods, location, and so on.

3. FINANCIAL GAP PER STUDENT

With cost to educate a student, gross tuition per student, and net tuition per student in hand, you can now calculate the *financial gap per student* that must be covered by other sources. For this purpose, financial gap per student is calculated as cost to educate a student minus net tuition per student. It is an indication of the "gap" that then must be covered by other revenue sources. Historically among ATS schools, the cost to educate a student has not been fully paid for by the student in the form of tuition, but the financial gap has continued to grow over the years. Consequently, schools have had to find ways to increase giving, endowment draw, or other ancillary sources.

In the examples used above, the cost to educate a student was $20,000 and the net tuition per student was $8,000. As a result, the financial gap per student is $12,000, and this gap must be covered by other sources. In reality, on average, the gap is much larger in ATS schools. As noted in the ATS school data above, the average cost to educate a head count student is $30,600 and the average net tuition per head count student is $6,800, which means the financial gap based upon the average is nearly $24,000. This gap must be filled by giving, endowment draw, ancillary revenues, or other sources in an ever-expanding width. The gaps across ATS schools can be smaller than these averages but, in many cases, are much larger than the average. A summary of data for ATS schools by percentile rank from fiscal 2023 is shown above.

The financial gap analysis is a way of discerning the financial viability of schools in service to missional vitality. The approach taken here is at a high-level for the

	Financial "Gap"
10th percentile	$ 5,600
25th percentile	$11,200
50th percentile	$24,500
75th percentile	$50,800
90th percentile	$80,300
Range	$0 - $245,000

institution but could also be undertaken at a more detailed level either in terms of degree program, course-delivery method, or other institutional stratification. The key is to make the calculation of the financial gap, identify the trend in the gap, and then determine what factors are most impacting the gap by reviewing both the cost to educate and tuition revenue sources. Financial gap analysis allows schools to move beyond the simple approach that they just need more revenues.

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Theological schools must look at both their cost structures *and* their revenue streams to ascertain the financial viability of the institution, degree program, course-delivery method, or other approach. By looking at the cost to educate a student, net tuition sources, and the remaining gap, leaders can ask compelling questions about the width of the gap and if it is financially possible to close the gap, fill the gap with other sources, or if alternative ways of educating and operating need to be pursued. The purposes of theological schools are significant to the world and require ongoing, robust, and honest assessment of both missional vitality and financial viability.

Action: Calculate the financial gap and compare it to some of the ATS averages, percentile ranks, and relevant peers. Determine if the financial gap is growing or shrinking and what factors are impacting the trend. Ask hard questions about whether it is even possible or good stewardship to fill the financial gap with other sources. Given this analysis, discern whether the current approach to educating and operating is financially viable in the long-term in support of the mission.

Type of school matters

While the CFO Cohort discussed this emerging tool as a large group, analysis of the CFO Cohort focus group discussions showed differences by type of school. The heat map below shows the relative frequency that a topic was discussed (boldest being most frequent). To discuss the unique questions that school type raises for this project, the group of 13 were distributed into smaller focus groupings by the following:

- Size of expenditures (small to large)
- Main revenue source (endowment, tuition/giving, and combination)
- Structure-denominationality (freestanding-denominational, freestanding-independent, and embedded).

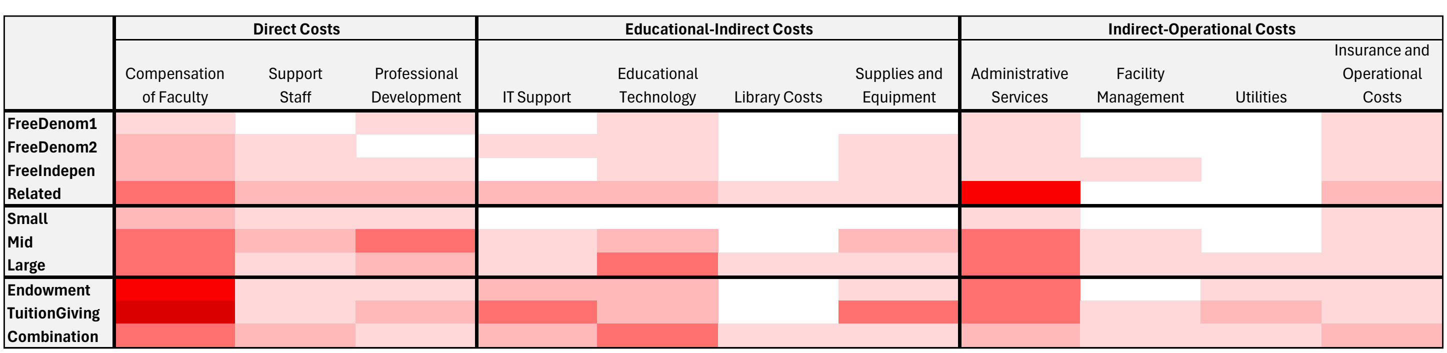
While each school's heat map will look different, analysis of focus group discussions of these 13 schools yielded notable patterns and provided a richer understanding of topics that are important to schools. Compensation of faculty and administrative services were the most frequently discussed themes, no matter the school grouping. Library costs, facility management, and utilities emerged the "coolest" on the map. This makes sense given that faculty and administrative services are the drivers of the educational endeavor.

A few findings by school type stand out. Indirect-operational costs, such as administrative services, was a frequent topic for schools related to another entity (for example, those embedded in a larger university) and not frequent for schools with small expenditures. This may be related to the difficulty that embedded schools have in knowing the larger university's operational costs and determining their expected contributions. This raises the question about what embedded schools pay for versus what they receive from the arrangement.

The situation is different for smaller schools, as stated by one CFO, "There's an advantage to being small, as you can understand with specificity. A good example…we can actually understand exactly what the cost of health insurance is compared to our total expenditures. We can also get everybody in a room to talk about the cost of health insurance." For schools with smaller expenses, costs can be more evident to all because the analysis can be done as a community.

Interestingly, the conversation where schools were grouped by their main revenue source stimulated the most balanced distribution of topics across the three cost types—direct, educational-but-indirect, and indirect-operational. It is unclear exactly why topics in this conversation were discussed with about equal frequency, but the reason may be related to the fact that conversation partners were from similar schools in terms of revenues and allowed for better connection of revenue to costs.

Also notable is the finding that, while this group of CFOs discussed financial issues most frequently, issues related to mission were raised more than one-third as many times as any of the most frequently discussed topics. This is a good indication that, even in conversations of CFOs



designed to be financially focused, mission naturally and necessarily emerges as a partner topic.

Principles learned so far

The initial CFO Cohort provided several principles already guiding the development of the financial viability tool. Additional focus groups will expand this list of principles:

1. *One size does not fit all*, but some questions cut across all schools—namely, questions and calculations about direct costs.
2. *Context matters*. After addressing the set of critical action items indicated above, schools should attend to questions that relate specifically to their contexts—in other words, indirect and other costs.
3. *It is important to consider carefully and strategically who should take part in decision-making or informing decision-makers at the school.* Financial rationale for initiating or retiring a program is as important as educational rationale. Schools and their leaders need conversation partners from both spheres. Both are needed to determine the "worth" of a program, and both need concrete ways to assess worth.
4. *Trust needs to be earned.* It requires intentional communication. As one CFO stated, "As we move the focus away from graphs and toward the narrative of our decisions, we begin to clarify the confusion….It is our job as a financial officer to simplify the information in a way that tells a story, hopefully one that aligns with our mission….I do not believe we need to be taught how or what we should be spending our money on; we do need to understand the entire impact of our decisions. Through this pursuit of understanding we will grow together!"

Next steps

This prototype of the financial viability tool is currently being completed and will be vetted by the CFO Cohort in February 2025. The group will test and refine the tool on several educational models in which their schools have been engaged. Then, during the next year and a half, the tool will be tested on selected educational models with other groups of schools that have a range of experience with the given educational model. The ultimate outcome is a final tool or set of tools that schools can use to apply on any educational program to determine its financial worth. Stay tuned for another article on the development of the tool and how varying constituencies might use it.

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