Interesting economic trends continue across ATS member schools

By Chris Meinzer

The Annual Report Form data from fall 2022 has been finalized, providing insightful statistics and benchmarks on expenditures, revenues, and operating results across the ATS membership.

Expenditures

In reviewing Chapter 4 of the Annual Data Tables, expenditures across the last five years have fluctuated in ATS schools. Expenditures exceeded $2 billion in total in fall 2018 (fiscal 2018) and remained there until fall 2021 (fiscal 2021). With some adjustments made due to COVID-19, school expenditures retreated below $2 billion in fall 2021 (fiscal 2021) only to shift back above $2.1 billion in the most recent year. This certainly reflects the changes made beginning in March 2020 as the pandemic hit North America; however, these changes would not have impacted fiscal 2020 much. The most significant impact was on fiscal 2021, as schools were able to reduce travel and other programmatic costs.

	EXP/FTE	Exp/HC	Exp/TCH
All ATS	$42,100	$26,300	$3,800
Evangelical	28,100	16,500	2,700
Mainline	75,200	52,400	5,800
Roman Catholic/Orthodox	61,400	45,700	5,300
US	41,900	26,400	4,000
Canada	46,000	24,700	2,200
Freestanding	46,200	27,700	4,200
Related	34,000	23,000	3,000
FTE 1-75	65,500	38,300	4,300
FTE 76-150	56,000	36,500	4,500
FTE 151-300	45,400	31,400	4,600
FTE > 300	31,900	19,100	3,100

The median total expenditures across ATS schools went from $4.1 million in fiscal 2020, to $3.9 million in fiscal 2021, and back to $4.1 million in fiscal 2022. Perhaps a more meaningful measure and benchmark is spending per student. The table to the left shows average spending per full-time equivalent student (FTE), spending per head count student, and spending per total credit hours sold during the last five years by different cohorts.

For example, schools with full-time equivalent enrollment of between 1 and 75 students spend

$65,500 per FTE student, $38,300 per HC student, and $4,300 per total credit hour sold. These cohorts can be useful comparisons for you as you compare your spending per student. If you are higher than relevant cohorts above, you should ask yourself why that might be and whether those levels are sustainable. You can compare your “Expenditures” and “Spending per Student” by reviewing your SIR Figure 1-13. You can also review IPPR Table 3.2 to compare your school against selected peers to see how expenditures within categories are similar and different. This may give some indication where your spending is higher or lower than peers and may provide some clues as to where adjustments could or should be considered.

Revenues

The four major revenue streams among ATS schools are from (1) endowment, (2) giving, (3) net tuition, and (4) auxiliary and other. "Giving" represents all unrestricted giving for operations during the year, "net tuition" is gross tuition revenue net of scholarship expense, and "auxiliary and other" reflects revenues from auxiliary activities and other sources. To calculate endowment draw, ATS uses a prudent calculation of 5% of long-term investments reported. A detailed analysis of how ATS calculates these revenue components can be found in your SIR Figures 1-8 and 1-9, where the actual calculation for your institution is shown.

The table to the right shows the relative percent of revenues from each of these core four revenue sources for all ATS schools as well as for various cohorts. These averages are from the last five years.

The table gives some insight into the relative significance that one revenue source plays versus the other revenue sources. For example, across all ATS schools, endowment (when assumed at a 5% draw) and net tuition are relatively similar followed by giving, and auxiliary and other generate a relatively smaller portion of overall revenues. The different cohort segments shift in terms of dependence in particular areas. Evangelical schools are more dependent on net tuition, mainline schools are more dependent on endowment, and Roman Catholic and Orthodox schools are mostly dependent on net tuition and giving. You can use this cohort chart to compare your revenue sources reflected in SIR Figure 1-9.

	Net Tuition	Giving	Endowment	Aux & Other
All ATS	29%	24%	29%	18%
Evangelical	43%	27%	14%	16%
Mainline	12%	19%	51%	18%
Roman Catholic/Orthodox	32%	28%	19%	21%
US	29%	23%	30%	18%
Canada	30%	36%	15%	19%
Freestanding	26%	29%	27%	18%
Related	35%	14%	33%	18%
FTE 1-75	25%	34%	24%	17%
FTE 76-150	24%	26%	32%	18%
FTE 151-300	25%	22%	32%	21%
FTE > 300	36%	21%	27%	16%

If your revenues are different than your related cohort, you should ask why that is and whether it is intentional and sustainable. An ATS school could use its IPPR or SIR to compare its revenue sources against other peer institutions or broad categories of schools above. A major difference between the school and the data below might indicate a potentially untapped revenue source. The context and history of the individual schools will matter and will likely impact what revenue sources are utilized, but a quick comparison against peers might raise questions as to what is possible.

Additionally, you should work to understand the blessings and challenges of your revenue streams as you ask questions about sustainability. If you are highly dependent on a revenue source, how are you nurturing that revenue for long-term sustainability? If you are heavily dependent on net tuition, how are revenue trends impacting your ability to generate sufficient and sustainable revenues in support of the missions?

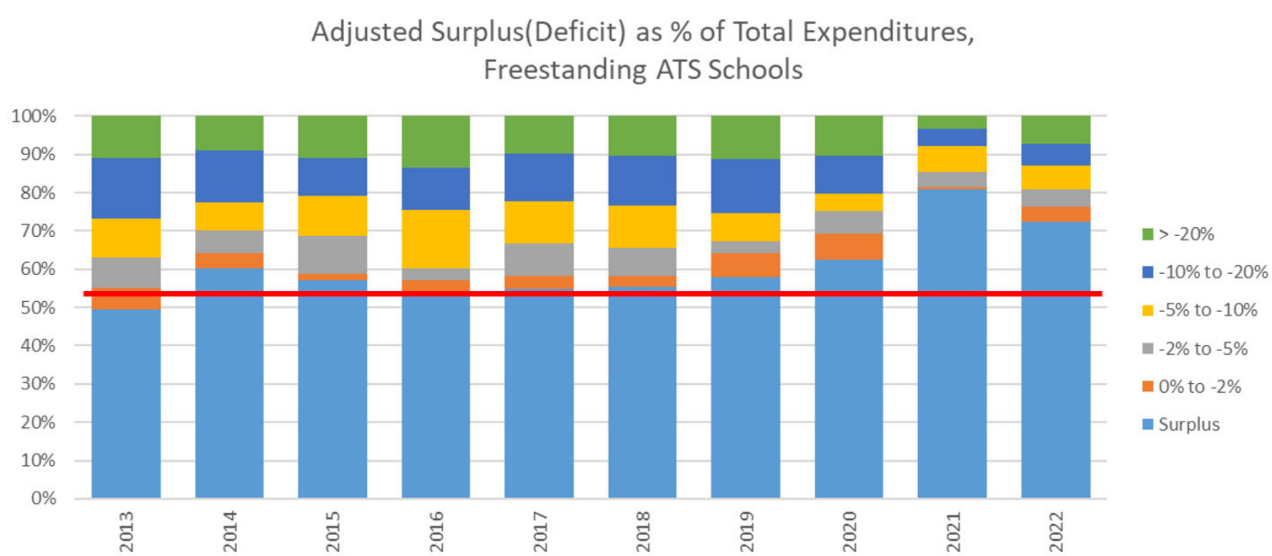
Operating results

ATS has developed a high-level approach using the financial data reported each fall to measure operating results across ATS schools. Within the SIR, an adjusted revenue number has been calculated by adding unrestricted and temporarily restricted revenues, backing out market gains and losses reported in the financials, and adding back a 5% draw on long-term investments. This calculation is shown for each school in its SIR Figure 1-8. This adjusted revenue number is compared to reported expenditures to arrive at an adjusted surplus or deficit that is also shown on SIR Figure 1-8.

Historically, ATS schools have struggled with ongoing operating deficits. The graph below shows that about 45% of ATS freestanding schools have had operating deficits, and those deficits have been deep. A review of the last decade shows that 20% of ATS freestanding schools are estimated to incur operating deficits of more than 10% of their expenditures. In other words, one-fifth of ATS freestanding schools would have to increase their revenues or decrease their spending by about 10% just to get close to balancing their revenues and expenditures—those levels are not representative of a sustainable business model. ATS schools related to a larger entity are dependent on the largesse of their sponsoring institutions. The blessings and challenges of the economics of the larger entity will impact the economics of the ATS school. The pressures across higher education are also being felt by the related ATS schools.

In the graph, you can also see that something interesting occurred in the last few years. In fiscal 2021 and 2022, it is estimated that about 80% and 70%, respectively, of ATS freestanding schools generated a surplus. These surpluses are most likely due to an influx of governmental funding related to COVID-19 as well as significant foundation giving through Lilly Endowment Inc. via the *Pathways for Tomorrow* Initiative. For example, in fiscal 2021 and 2022, ATS schools reported $160 million more in foundation giving when compared to averages of the previous five fiscal years. Some of this foundation giving went to smaller ATS schools, where a $1 million grant would have a significant impact on their financials.

These noteworthy and important resources are reflected in unrestricted and temporarily restricted revenues among ATS schools but are also not sources of revenue that will remain beyond these two years and (perhaps) fiscal 2023. As a result, it is anticipated that future operating results will likely return to patterns shown in fiscal 2013 to fiscal 2020. ATS schools will need to seek more



sustainable business models that attend to stable and sufficient revenues, appropriate levels of expenditures and spending per student, and operating results that are positive to support the long-term viability of their missions and resources.

Next steps

The ATS standard reports—Annual Data Tables, Institutional Peer Profile Report (IPPR), Strategic Information Report (SIR)—were sent to member schools in early March. These reports provide an opportunity for schools to benchmark their resources against others in theological education. Understanding where your school is similar to and different from others can be a solid starting point toward your strategic analysis of mission and resources.

- Review your revenue patterns (SIR Figure 1-9) and spending patterns (SIR Figure 1-13). How are those patterns changing during the last decade? Are those changes intentional? What portions of revenues and expenditures are a blessing and what portions create challenges?
- Review your adjusted operating results in SIR Figure 1-8. Is your institution running operating surpluses or deficits? Talk to those in your school who have more of the economic details and find out if the school's internal reporting is showing operating surpluses or deficits. Have a discussion regarding which components of revenues and expenditures are helping or hindering the school's operating results.

ATS has several resources that can assist you in understanding the landscape of North American theological education and how your school is similar to and different from your industry peers. Certainly, the SIR and IPPR are reports that can be used in your own strategic assessment. In addition, ATS can provide you with a conversation partner through the 5-Phase Approach to Discovery. Finally, ATS is developing resources to help member schools in "solving for sustainability," and these resources will be rolled out through the early fall.

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