



THE FEASIBILITY OF
REESTABLISHING
THE LENOX SCHOOL
IN SOME FORM



LSAA

WHITE PAPER # 2

(MARCH 2010)

OVERVIEW

Purpose

The purpose of this White Paper is to establish a Lenox School Alumni Association (LSAA) position on the feasibility and the associated effort required to reestablish the Lenox School in some form and to provide the related facts concerning any such decision.

LSAA Bottomline Position

The resurrection of a full-time, multi-year, boarding school of the size and sort we knew and loved would be a costly venture requiring the LSAA to provide both a multi-million dollar capital investment (\$58M plus financing as required, for a campus similar to Lenox, based upon existing schools of similar size and less for an initial/interim smaller school with fewer students and facilities at the outset) and on-going annual operating costs in the \$7.9M to \$8.9M range, with first year start-up costs of \$8.9M-\$11.9M. This is not presently a viable option.

There are two less expensive options: a summer-only session focused on the arts and/or a weekend conference center. Operationally these options would be more nearly self-sustaining, but would still require a substantial capital expense. If a facility were to be leased rather than purchased, then operating costs would rise proportionately, in part offsetting the capital savings.

All options would also require a significant and on-going investment of time by at least a subset of LSAA members that is beyond the capability and desire of the current LSAA leadership and historically that of the LSAA membership.

Thus, absent emergence of an endowment source and an increased willingness of LSAA members to commit their time and energy to the effort, we do not presently see a plausible scenario for proceeding with any of these options but, rather, recommend continued LSAA support of various youth education opportunities through existing schools and organizations that manifest “Lenox School-values”.

BACKGROUND

The Issue. For many years, the subject of a new Lenox School has been a sensitive topic eliciting strong opinions and even stronger associated emotions for one of two reasons.

Those in Support. Many alumni have felt that restarting a new Lenox School in some form would be the ultimate legacy for the LSAA, and that it had not been sufficiently pursued. Their hopes have been kept alive without accurately assessing and providing them with the exact costs and energy required to make this a reality. High dollar amounts (\$50M being the latest) offered as cost estimates were disregarded by some as unrealistic and simply attempts to discourage their efforts.

Those in Opposition. Others felt that since an effort to determine the feasibility of purchasing the original campus was made in the 1988-89 timeframe, and that at that time required alumni financial support was found lacking, that the matter is dead and should never be addressed again. They suggest that LSAA funds earmarked for education should be provided to existing schools with “Lenox School-values”, rather than being diluted by the overhead costs inherent in creating and operating a new Lenox School. In fact, they normally object to discussing the matter at all, no matter what shape the new school may take, and believe that any such discussion takes the LSAA focus away from more realistic pursuits.

LSAA President Directs Action to Resolve the Issue. Though agreeing that a new Lenox School would be the ultimate legacy, in 2009, the LSAA President, recognizing the polarized positions within the LSAA and that the cost and effort involved would be the greatest challenges, directed the Quo Vadis Working Group to address the issue. The objective was to affix actual 2008/2009 dollars to the effort in order to

once and for all make an accurate assessment of the costs involved and to address other related issues, therefore determining its feasibility. This White Paper provides the results of that effort.

METHODOLOGY

Two Quo Vadis Working Group members were dedicated to this effort, one having extensive knowledge of the New England preparatory school financial situation and the other who developed the various options to be pursued and was familiar with Lenox and the surrounding area. They had access to an itemized matrix of the actual 2008 average costs and revenues per boarder and day-student, to include overall replacement infrastructure costs, for 40 New England preparatory schools and one each in Ohio and Virginia. Thus, the various costs associated with purchasing and operating a boarding school, based upon the number of boarders and day-students, could be deduced directly from these figures and they could be manipulated to project costs and revenues for whatever size school was being considered. They also developed a detailed concept for an arts-themed summer school and conducted a thorough analysis of the costs and tuition revenue associated with it. A concept for a weekend conference center was also developed. Additionally, they obtained some current costs for available single and multiple buildings suitable for the summer school and weekend conference options (see below) and visited the Lenox area to inspect them in order to determine their suitability. They both should be commended for their outstanding efforts and analysis.

OPTIONS LOOKED AT AND ASSOCIATED COSTS

The Working Group looked at three possible options to reestablish a new Lenox School in some form.

A Fulltime Boarding School. First was establishing a fulltime boarding school of the sort that we knew and loved, perhaps by purchasing an existing or recently defunct school.

Estimated Costs. A survey of existing private schools reveals that the cost of operating a fulltime boarding school with a modest 200 boarding students and 40 day-students runs about \$11.5M a year (\$10.1M for boarders/\$1.4M for day-students). On average (as detailed below), only 60% of that cost will be met by tuition revenue (\$29,000 per boarder and \$19,500 per day-student). The rest must come from annual giving since the LSAA lacks an endowment that is also used as a source of revenue by other schools. This estimate of course, does not provide a campus or any of the other necessary physical plant, most of which must be in place on Day One. Assuming the availability of adequate long term mortgage financing for the plant and a 20% down-payment of \$11.6M, based upon a campus cost of \$58M, first year start-up costs of \$8.9M-\$11.9M would not be out of line, with a slightly smaller amount necessary each year thereafter, which as mentioned above, lacking an endowment, presumably would have to come from annual giving. These subsequent annual costs of \$7.9M-\$8.9M would be in addition to tuition revenue and address both operating (\$4.6M-\$5.6M) and annual capitalization (\$3.3M) costs (details provided below). The \$1M fluctuation in annual operating costs reflects periodic capitalization projects, one-time non-capitalization infrastructure expenses and the need to maintain a reserve for additional unforeseen expenses.

A Summer School. Second was a summer school that would incorporate the values of Lenox while focusing on the arts which abound in the Berkshires. It would consist of a single or perhaps two buildings; have an academic curriculum; incorporate non-team sports; and stress practical experience by leveraging the various artistic venues in the Berkshire area (e.g. Shakespeare & Company/Berkshire Playhouse (drama), Jacob's Pillow (dance), Tanglewood (music) and the Norman Rockwell Museum (art)).

Estimated Cost. Operating costs for a summer session for 50 students in two tranches of four weeks each would be significantly less expensive than a fulltime boarding school, about \$400,000 assuming a prior and significant down payment had first been made on an appropriate facility. A tuition of \$4,000 per student compares favorably with similar existing summer arts schools. Tuition revenue would come close to meeting operating costs and a small percentage may even be applied towards annual

capitalization costs, as explained below. In the Lenox tradition, the students would be expected to contribute some labor. Given the stresses of the present recession there are a number of plausible properties available in the Lenox area to house a modest sized summer school. The price tag begins a little under \$2M, which equates to a \$340,000 down-payment and annual capitalization costs of \$96,500, and goes up from there (details provided below). That does not include any alterations that would be needed to meet various health and safety codes, as well as the special requirements a different usage would necessitate. The upkeep and how to utilize the property throughout the remainder of the year would also be an issue.

Weekend Conferences. Third, was a series of weekend student conferences which would try to give a taste of the School's tradition through activities, seminars and other appropriate forums.

Estimated Costs. A series of themed weekend conferences would be the least expensive option. Depending on what activities were included, a Friday evening to Sunday afternoon weekend for 50 students would run between \$15,000 and \$20,000. A tuition of \$400 per student would be competitive with comparable existing programs, but not significantly cheaper. Again, as with the summer school, tuition revenue would likely cover a majority of these operating costs and perhaps some capitalization costs as well. It might be possible to combine the summer session and the weekend conference programs under a single roof, assuming we had a roof, thus minimizing or possibly eliminating capitalization costs. At some future date such a calendar could possibly grow into a fulltime program. Or not.

ADDITIONAL CONSIDERATIONS

Tuition and Acceptance Standards. None of the options would be free. Lenox wasn't free. But every effort would be made to make them affordable, perhaps including redirection of the scholarships now provided by the alumni association for students at other schools to "our" students or the allocation of new additional scholarships from new LSAA fundraising efforts. Acceptance standards would conform to the criteria used at Lenox and continued in the ongoing scholarship program.

LSAA Oversight. An LSAA Board of Directors will be required to oversee any effort. It would consist of members of the LSAA and some knowledgeable and useful non-members, as deemed necessary by the LSAA, to provide required expertise. The Board would hire a manager and then back-off and let him manage the effort, exercising only such oversight as necessary to safeguard the integrity of the undertaking. As with any corporation, the manager and Board of Directors would ultimately report to the shareholders (LSAA membership) at the annual meeting (Reunion).

The Pluses and the Minuses. Those were the general ideas. Each comes with its own set of challenges and opportunities and all shared certain pluses and minuses. The biggest plus was our collective memory of what a good start in life a rigorous, but caring school can give a young person and a general sadness that the institution that served us has not continued to serve subsequent generations. The biggest minus, as detailed above and below, is the cost of acquiring a campus and operating it.

Types of Costs. When detailing the specific costs involved in the various options, it is important to understand the basic types of costs and different categories of revenue used by existing private preparatory boarding schools to meet these costs. Generally, costs are separated into capital investment costs for buildings and infrastructure, broken down into an up-front initial 20% down-payment and annual capitalization costs; and operating costs, consisting primarily of student costs that include faculty and staff salaries and wages. Up-front costs, required before any tuition revenue is received, include the down-payment and a percentage of the annual capitalization and operating costs required to get the initial school-year started (details are provided in The Truth About Operating Costs section below).

Sources of Revenue and Income. Sources of revenue include student tuition, endowments and annual gifts. Since the LSAA has no endowment, its revenue options are limited to tuitions and gifts. The Working Group also looked at an innovative method of spreading the costs among all "active" LSAA

members, in order to stress just what a financial commitment such an undertaking would incur. The specific details of this method are provided below.

What Would Be Required of the LSAA to Ensure Success. As mentioned above, on average, only about 60% of operating costs will be met by tuition income. The rest must come from an endowment and/or annual giving. The Lenox School lacked the former and proved insufficient in the latter leading to its demise. It will take serious money to launch any of these projects. And it will take time and energy. In the past and recently, the LSAA's desire to further pursue any such options, as evidenced in terms of a firm commitment of cold cash and warm bodies, has not existed or surfaced.

THE REALITY OF COSTS ASSOCIATED WITH THE EFFORT **(WHAT YOU NEED TO KNOW)**

During the analysis process, several realities quickly became apparent, almost all having to do with the costs required to accomplish the various options. These are addressed below under capital investment costs and operating costs, as well in the short explanation of the tasks involved in the LSAA's oversight responsibilities.

THE TRUTH ABOUT CAPITAL INVESTMENT COSTS

Capital Investment Costs. The greatest LSAA cost is the capital investment required to purchase a location (building/infrastructure) for the school, adjust it for its intended use, ensure that it meets appropriate health and safety codes, and is adequately furnished for its intended purpose. These costs will be significant, even when considering simply the initial 20% down-payment required to secure a loan. The down-payment will have to be provided by the LSAA at the very start of any effort and certainly before any faculty or students are selected or significant operating costs incurred. Tuition revenue will never be applied towards this initial down-payment or any of the subsequent annual capitalization costs (mortgage and capital improvements) for the fulltime school since, as explained below, tuition revenue doesn't even meet operating costs. As previously mentioned, some annual capitalization costs may be met by tuition revenue in the summer school and weekend conference options.

Determining the Cost of the Campus for the New Lenox School.

What Is Provided. Outlined below are the cost (replacement value) of the campus for the current average-size New England preparatory school; the projected cost (replacement value) of the campus for a school the same size as Lenox, based upon similar existing schools; and an estimate of what it would cost to buy the entire or portions of the former Lenox School campus and to bring it to student-ready condition.

Why It's Provided. These replacement values and estimate provide hard figures based upon current costs for established schools and in the case of the former campus, previous purchase prices and current "for sale" prices, rather than solely upon assumed figures based on pure conjecture. These values and estimate indicate the cost to the LSAA of a mature school and campus, which is the ultimate goal. The values and estimate are provided in order to: create a frame of reference for possible required costs in case anyone believes that this can be done cheaply; to answer questions that are likely to come to mind; to address the possible costs of purchasing existing or recently defunct schools; and to show that the projected cost for a Lenox School-sized campus, though significant, is not unrealistic in the scheme of things. We are certainly not trying to compare apples and oranges by comparing an initial new Lenox School to well-endowed and long-established schools. We are simply trying to establish the frame of reference, as mentioned above, and provide a realistic figure for the cost of a mature campus.

The Cost of Possible Interim Configurations. It's acknowledged that a new Lenox School would not have to have all 240 students or a campus with all desired facilities on the day it first opens. In

fact, it could evolve from a summer session and weekend conferences into a school of less than 240 students that would evolve over time into its full-sized final version. Therefore, there could be numerous initial and interim variations in size, configuration and associated costs, based upon a multitude of variables as the school evolves over time. However, all costs will be significant. The three options described in detail in this White Paper and the information below, provide those hard figures from which realistic cost estimates for an interim new Lenox School of any size can be computed. However, we should never lose sight of the overall cost to the LSAA of the final mature version of the new Lenox School campus.

Replacement Value of the Campus for the Average-Size New England Preparatory School. Based upon an analysis of 40 New England preparatory schools the replacement value of the land and buildings for the “average-size school” campus is \$147M. The “average-size school” is a school of 491 students (365 boarders and 136 day-students), which is more than twice the size of the school we’re considering.

Estimated Replacement Value of the Campus for the New Lenox School. Using the same analysis mentioned above, the projected replacement value and thus the cost for the land and buildings for a school the size of a new Lenox School of 240 students (200 boarders and 40 day-students) is \$58M. Ironically, this is just a little more than the LSAA President’s 2008 guestimate of \$50M.

Buying the Former Lenox School Campus. Buying the former campus or portions thereof offers no bargain and sufficient space for required playing fields may be limited without buying the entire campus or additional construction. If the entire former Lenox School campus was available to purchase in its current condition, which it is not, it would cost well in excess of \$10M, based upon previous purchase prices, perhaps significantly more, in the \$15M-\$20M range when considering the improvements made by Shakespeare & Company (S&Co); the Kemble Inn (Bassett Hall); its Carriage House; the Walker House Inn (Jones House); and the two private homes built on playing fields. If just the S&Co portion of the campus (the southern half) was purchased, it would be well in excess of \$7M and require significantly more new buildings than if the entire campus was purchased. In either instance, significant additional funds will be required because there are really no dedicated classroom facilities; there is insufficient student and faculty housing; several buildings would have to be totally rebuilt; and any of the existing buildings to be utilized would have to be upgraded for their intended use and to meet existing health and safety codes. In the end, the cost incurred to bring the campus to school-ready condition would easily be in the \$25M-\$35M range and perhaps more, thus bringing the total cost of a school-ready campus to possibly near \$58M, which is the projected value/cost of the new Lenox School campus referenced above.

Buying Currently Available Properties in the Lenox Area. The Working Group looked at two currently available properties in the Lenox area: the former Bassett Hall (now the Kemble Inn) and the former Episcopal Church youth conference center, Bucksteep Manor, in nearby Becket, MA, which is presently being operated as a private inn. They were for sale at \$1.7M and \$2.3M respectively, though both would need considerable upgrading. An initial 20% down-payment would be \$340,000 and \$430,000 respectively, with annual payments of \$96,540 or \$130,608.

Distributing the Cost Among the LSAA Membership. In order to demonstrate the level of commitment required to fund even the relatively modest down-payment investment for one or two of the buildings described above, the Working Group looked at distributing this down-payment cost among the “active” LSAA members. For 200 “active” members, the cost per member would be \$1,700/\$2,150, while if only 100 members were deemed to be “active”, the cost would rise to \$3,400/\$4,300 per member. Whether there are actually these numbers of “active” members and whether they would be willing to assume this level of financial burden is highly unlikely and remember, this only covers the initial 20% down-payment cost.

THE TRUTH ABOUT OPERATING COSTS

Student Tuition Simply Doesn't Meet Operating Costs. It is surprising how little of a school's operating costs are met by the student tuitions and this startling reality is why so many schools are experiencing financial difficulties in recent years. Most would assume that tuition revenue would come close to meeting operating costs. In reality, tuition revenue covers only about 60% of a school's operating costs. Therefore, every student is actually receiving aid. On the average, existing endowments provide 28% of the operating costs, while annual gift giving funds cover another 12%. As tough financial times reduce the value of schools' endowments, those schools that debt-financed their building projects will soon have problems meeting their debt covenants and won't be able to use their endowment funds because they are already at state-imposed withdrawal limits and those withdrawals are being used to meet operating costs.

Tuition Realities. The average gross tuition (the money required to meet expenses) for the sample New England preparatory schools was a staggering \$37,941 for boarders and \$27,286 for day-students. This amount is adjusted by the schools so that student boarders pay \$29,000 and day-students pay \$19,500, with the difference from the gross tuition paid for by annual gifts and endowment income. Additionally, schools attempt to provide some degree of financial aid to 20%-25% of their students, though this amount is dependent on both endowment and annual giving income, each of which may fluctuate. A new Lenox School desiring to offer a "more-affordable" tuition, as was its tradition, would incur responsibility for an even greater percentage of the operating costs than the 40% average offset by gifts and endowment income in existing schools. If unable to provide the additional required funding, the School's inability to provide "more-affordable" tuition or more scholarships would likely reduce the diversity of the student body, and diversity was something the Lenox School was proud of. Likewise, if the School fails to meet its planned enrollment level (e.g. 170 boarding students instead of 200), and thus the anticipated tuition revenue, the LSAA costs will increase.

Up-Front Operating Costs. When computing the cost of running a fulltime boarding school, summer school or weekend conference, it's assumed that a percentage, if not the majority of the operating costs in the latter two cases, will be met by tuition revenue as described above. However, some additional operating costs will be required up-front to get the initial year/session going, before any tuition revenue is available to offset them. In other words, costs don't start with the arrival of the first student, but months before. Thus, these costs would have to be paid entirely by the LSAA, in addition to the up-front capital investment down-payment. These up-front operating costs would include expenses such as the cost of advertising; required monthly capitalization costs to open the campus; associated upkeep maintenance costs; the teacher/student search and selection process; initial salaries and wages; essential costs not linked directly to students, such as meals; and initially required books, supplies and classroom/athletic equipment.

THE TRUTH ABOUT THE LSAA OVERSIGHT RESPONSIBILITIES

Despite the envisioned decentralized hands-off approach for the LSAA's oversight role, there will still be a significant amount of front-loaded tasks and energy required to ensure that the desired Lenox School-based values and approaches are factored into the design of the school, its curriculum, extracurricular activities, overall experience and selection of faculty and students. Additionally, the great amount of fundraising required to sustain any effort will still be undertaken by the LSAA and not the manager/Headmaster responsible for creating and operating the school. This will be another task requiring quite a bit of energy and due to the uncertain and challenging financial times, will produce great pressure and angst. All of these factors combine to make the oversight function more involved than at first may be envisioned. Finally, while we may well ask how many years the LSAA leadership will be available and capable of undertaking and sustaining such a challenging endeavor, we must also recognize that if we do not do something to replenish our thinning ranks, in time the answer will be self fulfilling.