



CONFIDENTIAL

**To:** G-4  
**From:** Chip Hughes  
**CC:** John Baione, Russ Roselle, Allison Cleveland  
**Date:** April 14, 2010

As we've mentioned before, the FY2011 budgeting process will be unlike prior years. The process will allow you greater latitude in the decisions you make about key assumptions for your schools. These guidelines are not absolutes, and you may propose alternative assumptions/initiatives providing you meet or exceed your respective goals. These goals were discussed at the recent Head of School meeting and are listed at the end of this memo. In addition, at the meeting each of you were asked to take on the role of a "general manager" as we move into 2011 this year's budget process will support you in further taking on that role.

### **Budget guidance**

The purpose of this memorandum is to summarize the budget guidance and key assumptions for FY2011. I will schedule a call with you for next week to answer any questions you may have.

I will address three general topics in this memorandum: teacher costs, enrollment, enhancing revenue and margins, and other cost management items. Please also note that any change from the guidance provided herein will require an Initiative Worksheet.

### **Teacher costs**

As in FY2010, we have classified schools into 4 categories for purposes of establishing regular student to teacher ratios (see attached). This guidance applies only to schools that do not have mandated ratios or equivalent penalty provisions ("Fixed Ratio School" or hybrids).

- Surplus Schools: Schools who have a surplus or are/can be near surplus
- Category 1: Contribution per student above \$4000
- Category 2: Contribution per student above \$3000 and less than \$4000
- Category 3: Contribution per student below \$3000

For the "hybrid" schools, the focus should be on finding ways to adapt the instructional model to enable the schools to run the highest teacher ratios possible without jeopardizing student achievement and learning coach / student satisfaction.

For the "fixed ratio" schools, the focus should be on other, non-ratio aspects of teacher costs as well as other non K12 school costs. The other relevant issue as it relates to teacher ratios is the pattern of hiring teachers.

Moving from the subject of teacher ratios to teacher compensation, please see the attached guidelines for returning teachers and new hires. As noted last year, "We should take advantage of the shift in supply and demand. Absent any regulatory constraint, new teachers should be making at least 10% less than new teachers made last year." Your goal should be to lower overall average teacher salaries by at least 5% especially in schools that are growing. Average levels of teacher compensation should also come down to the extent that the schools address poor performance among existing teachers. To the extent a relatively expensive but poor-performing returning teacher can be replaced by a relatively inexpensive potentially high-performing new teacher, this replacement is favorable on all dimensions.

Finally, as mentioned last year, we need to continue our move to a compensation package with a significant portion of that package based on performance. More specifically, we should be targeting total cash compensation for new teachers to be 80% base salary and 20% incentives. As we began last year, we are also looking to move returning teachers over time to that same proportion.

When it comes to non teacher labor costs each school should take a close look at reducing teacher related non labor expenses. These costs vary significantly by school and need to be managed closely

### **See attachments to this memo re: Teacher Assumptions and Hiring Guidelines**

#### **Enrollment**

For FY2011, the schools and regions will have the ability to make changes to the Marketing enrollment case subject to the provisions below:

- Schools cannot change their 10/1 enrollment number or their in-year enrollment number unless:
  - The school brings forward new information and
  - Obtains both RVP and Marketing agreement to the change

If Marketing doesn't agree to the proposed change the item can be escalated to me for final resolution.

- Schools can change in-year retention numbers (presumably because of initiatives planned to reduce withdrawals) provided such change:
  - Improves the school average enrollment for the year,
  - Increases the 3/1 enrollment number from the Marketing case and
  - Thereby increases FY2011 revenue.
  - We assume that many of the initiatives put forward by the schools will be "paid for" via a planned increase in retention

#### **Managing revenue and margins**

Generally speaking, revenue is set by the funding provided by a state and any available grant funds. However, there are opportunities to improve revenue and contribution. Some examples are listed below and should be considered by the school and the impact quantified within the budget.

- For schools with capped enrollment, AND a situation where margins vary by grade level (either because funding varies by grade level, or teaching costs vary by grade level, or for some other reason), we should be reserving more of the available slots to the grade levels that provide the highest margins.
- We should provide a status on SB740 in CAVA and quantify the expected impact, if any.
- We should provide a status on the plan to hire teachers and other previously discussed changes in WAVA. The impact of these changes should be quantified as well.

## Other elements of cost management

Finally, some thoughts on cost management in general:

- New administrative staff positions will be very difficult to approve in existing schools. For each new staff member you want to propose to hire in FY2011 you will need to complete an Initiative Worksheet. Regarding new schools, the proposed staffing should be accompanied with a compelling argument for its approval.
- As in FY2011, money will be very tight and pressure on margins will be high, so please think hard/creatively about making the highest and best use of our resources. Just because something is in place does not mean we should continue it if we doubt its impact/value.
  - In particular, please think carefully about travel budgets. Within that category, please think very carefully about plans to attend conferences, etc. Even more specifically, please be very judicious about who plans to attend iNACOL.
  - Further on travel budgets please plan on a VALT meeting once a quarter, and a HOS meeting once a quarter, thus G-4 members are traveling to Herndon twice per quarter in all.
  - Where possible use Elluminate or other WebEx tools to minimize travel.

## FY2011 Budget Process

### Teacher Assumptions and Guidelines

- **No salary increases for returning school teachers and school support staff**
- **Salary increases for K12 staff:**
  - **Assume we will handle it here on a consistent basis with the rest of the company. Therefore, you should NOT put in a salary increase in your submission, although that does NOT mean there will not be one.**
- **Average salaries for new teachers should be 10% lower than those in FY2010.**
  - Average teacher salaries should be down at a minimum of 5% YOY
- **Student : Regular Ed Teacher Ratios (includes leads and masters)**
  - **Surplus Schools:** The ratios should be set at a level that yields a balanced or surplus budget by a) using the enrollment case; and b) assuming a reasonable reserve e.g. 2% of total non-K12 cost.
  - **K-8**
    - Category 1: >4000: 60:1
    - Category 2: >3000 < 4000: 65:1
    - Category 3: >2000 < 3000: 72:1
  - **HS**
    - Category 1: >4000: 225:1
    - Category 2: >3000 < 4000: 245:1
    - Category 3: >2000 < 3000: 275:1
  - **HS - Advisor**
    - Category 1: >4000: 175:1
    - Category 2: >3000 < 4000: 200:1
    - Category 3: >2000 < 3000: 225:1
  - **Counselor**
    - Category 1: >4000: 375:1
    - Category 2: >3000 < 4000: 410:1
    - Category 3: >2000 < 3000: 450:1
- **Teacher related non-labor costs (to include benefits) should be reduced by 10% YOY.**

## FY2011 Budget Process

### Teacher Hiring Guidelines

The School Finance budget model (tab Teacher FTE & Salary Inputs) will calculate the monthly student to teacher ratios using the Marketing enrollment case and your teacher count inputs count.

Your teacher input should be based upon:

- The number of returning teachers you will have and the month in which their respective contract begins and
- Planned new hires and the month in which they will be hired.

Your goal is to meet the school's targeted ratios by the start of the school year as well as maintain that ratio or higher throughout the school year.

Throughout the enrollment season you should use the teacher tab to input the actual number of teachers on board or committed to as well as approved enrollments; the model will provide you with the resulting ratio to track to your target. Each RVP and HoS is expected to continually monitor approved enrollments, pending enrollments, and the number of teachers on board. This is not a science and will require some thought before making an offer. Some items to consider before offering teacher contracts:

- Based upon historical retention/registration rates most schools will have as many as 50%+ more teachers than necessary on July 1. Consequently, you can add a significant number of new enrollments before you need to hire an additional teacher.
- The Marketing case for FY2011 enrollment is a projection and not an absolute.... teacher hires are an absolute once made.
- Schools should use a letter of intent and not a binding contract in order to maintain levels of interest for candidates.
- Schools who do not have "in year" enrollment or will have a decrease in total enrollment throughout the school year should consider contracts less than 1 year e.g. 6 month contracts with a possible renewal, etc.
- Schools where HS enrollments will be small and do not require full time teachers we strongly encourage you to use the K<sup>12</sup> Educator Group as a staffing solution (keeping in mind that you must confirm teacher availability for courses/certifications with Julie Frein before assuming that KEG can meet your need).

As a change from last year, we will not prescribe a set hiring plan. This year we're asking each school to consider its unique situation and prepare a plan which you can monitor, adjust and amend throughout the enrollment season and school year to achieve your targeted ratios.

**Regardless of the hiring plan/guideline you adopt it is expected that the schools will meet their target teacher ratios.**

**GOALS DISCUSSION**  
**MARCH, 2010 HOS MEETING**

**1. “Enabling” goals**

- a. Good “structure” e.g. no enrollment cap, no onerous regulations (like mandated low student-teacher ratios), no count date (i.e., can be paid for midyear enrollments), fair and decent funding
- b. Regulatory compliance
- c. Strong Board relations

**2. “Contributing” goal**

- a. Retention—contributes to academic performance goal (for school as a whole and for individual students), revenue growth goal, margin expansion goal

**3. “Ultimate” goals**

- a. Economic
  - i. Growth
  - ii. Profitability
- b. Strategic
  - i. Strong position vis-à-vis competitors
  - ii. Position from which to adapt within the core business and diversify outside of it
- c. Mission
  - i. Academic excellence
  - ii. Addressing our whole audience (i.e., making K<sup>12</sup> available to all who want it)