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Dream Big Academy Charter School (A)

On March 4, 2002, Jennifer Stone, the principal and executive director of Dream Big Academy Charter School (DBA-CS), met with the board treasurer, Betsy Mitchell, and the school's chief financial officer, Gabe Schneider. The moment had come for her to decide how to close the anticipated \$232,000 budget gap for the following school year. For the first time in her ten-year career as an educational leader, Stone could not identify an acceptable solution to a crisis at hand.

Background

Dream Big Academy was a highly successful Midwestern charter school that had received national recognition for its strong performance outcomes, organizational capacity, and institutional culture.

However, the charter school movement was in its adolescence and was mired in controversy. Charter schools, which are “publicly funded schools of choice,” have distinctive characteristics:

Charter schools are public schools that are granted a specific amount of autonomy, determined by state law and/or the specific charter, to make decisions concerning the organizational structure, curriculum, and educational emphasis of their school. Charter schools are granted waivers from certain regulations that typically bind public schools. In return for this additional autonomy, charter schools are held accountable for the academic achievement of [their] students . . .¹

Proponents believe that through their autonomy and associated accountability, charter schools:

- Increase opportunities for learning and access to quality education for all students
- Create choice for parents and students within the public school system
- Provide a system of accountability for results in public education
- Encourage innovative teaching practices
- Create new professional opportunities for teachers
- Encourage community and parent involvement in public education
- Leverage improved public education broadly²

¹ Joyce Ley, “A Profile of the Leadership Needs of Charter School Founders” (September 1998), http://www.nwrel.org/charter/Workbook/profile_guide.pdf.

² US Charter Schools, “Overview,” http://www.uscharterschools.org/pub/uscs_docs/o/index.htm.

Opponents of charter schools, on the other hand, believe that they create a financial drain on under-resourced school districts and engage in anti-union activities (as charter schools are generally free from district-union collective bargaining agreements). As a result of the controversy, donors, the media, and politicians continuously question whether or not to support the charter school movement.

Since opening its doors in August 1995, DBA-CS had become one of the poster children of the charter school movement. DBA-CS's mission was to provide urban middle school and high school students with the same quality education that their wealthy suburban counterparts received. DBA-CS's student population consisted predominantly of underprivileged minority children entering middle school with reading and math test scores in the bottom quartile. Despite these challenges, DBA-CS boasted college acceptance rates and test scores that rivaled the best public schools in the country.

Stone was a charismatic leader who built an environment that was truly teacher- and student-focused. She attributed much of the school's success to its inspiring vision and culture. Stone's passion was contagious, and the school's cultural norms were universally adopted by teachers, students, parents, administrative staff, and external partners. The school culture focused on the following guiding principles:

- *Small Class Size*, which promotes intimate and supportive learning environments and enables teachers to engage in meaningful, ongoing communication with parents
- *Academic Rigor*, which holds students, teachers, and parents accountable for student achievement
- *Curricular Innovation*, which allows teachers and school leaders the flexibility to adapt their curricula and teaching methodologies to meet the unique needs of each group of students
- *Community Engagement*, which exposes underprivileged students to the resources and experiences their wealthy suburban counterparts access with ease
- *Parent Involvement*, which has been proven to have a directly proportional relationship to student achievement

Stone also attributed the school's success to its financial resources. Through robust fundraising, DBA-CS invested significantly in student remediation and in following the principles listed above. The school's success was directly tied to costly programs such as an extended school day, an after-school tutoring and mentoring program, a college placement program, and small class size. The school received a per pupil allocation of funds from the local, state and federal governments. However, to administer these programs, the school had to raise approximately \$750,000 per year in private donations to supplement the government funding.

The 2002–2003 Budget

DBA-CS's annual budget process began on February 15. At that time, Stone met with Schneider and Sadie Jones, the development director. Jones broke the first bad news: in the wake of September 11 and the 2001 recession, charities and individual donors were granting significantly less than they had in previous years, and most of their giving was focused on 9/11

relief efforts. Although Jones and her team raised more than \$800,000 per year in the 1999–2000 and 2000–2001 school years, she projected a \$50,000 shortfall for the current school year. Further, she believed that DBA-CS would be able to raise only between \$600,000 and \$700,000 for the 2002–2003 school year, falling short of its \$750,000 goal. The second blow came from Schneider; expenses were expected to rise by 5 percent, and government funding would remain flat. Assuming fundraising of \$600,000, DBA-CS would have a \$292,000 budget deficit (see **Exhibit 1**).

Although Stone had full confidence in her senior management team, she wanted to review the numbers and assumptions herself. She scheduled a meeting for the following week and asked Schneider to come back with recommendations. Over the next few days as Stone analyzed the budget, she found an error that would save approximately \$25,000 and was able to make \$35,000 in additional cuts. This still left a \$232,000 projected shortfall. While her intuition led her to believe that the fundraising team would be able to meet the original \$750,000 goal, she knew the board of directors would require her to budget based on the most conservative number. After updating Schneider with her budget changes, Stone called Mitchell, the board treasurer, to give her advance warning. Mitchell requested a meeting on March 4 to review the budget prior to the March 18 finance committee meeting.

When Stone and Schneider next met, he presented her with the following options (see **Exhibit 2**):

- Increase class size from 23 to 27
- Eliminate the extended-day program (an effective 12 percent savings in salary)
- Lay off 12 percent of the staff
- Freeze salaries and reduce contributions to all nonrequired fringe benefits

Stone was in shock. She had anticipated that Schneider would recommend drastic changes but had no idea that they would be this severe. Stone had one week to make a decision before her meeting with the board treasurer. She knew that if she did not enter that meeting with a clear course of action, Mitchell and Schneider would arrive at their own decisions, which might not take into account what was best for students and teachers. Stone was at a complete loss.

Choosing a Course of Action

After the meeting with Schneider, Stone wrestled with her options. When she started DBA-CS, she had realized her dream of breaking free of the Board of Education’s bureaucratic shackles to create a teaching and learning environment that would provide urban youth with the highest quality education. She had taught in urban public schools for years and always felt limited by the proscribed curriculum, district regulations, large class sizes, and general lack of support for innovation. Stone realized many of her goals early on, but as the school became larger and gained acclaim, her job shifted significantly from serving as the educational leader to overseeing all aspects of a medium-sized nonprofit business. Still, she had never before been faced with making a decision that would negatively impact the quality of DBA-CS’s educational environment.

Over the past few years, Stone had followed the nationwide plight of many charter schools that had been forced to close their doors as a result of financial mismanagement. She knew that in the face of potential financial difficulties it was her obligation to make the tough choices that would ensure that DBA-CS would remain viable. Now Stone realized that her role as executive

director had to change. She could no longer make decisions based solely on what was best for teachers and students. Instead, she had to focus on what was best for the organization.

Stone reviewed her choices:

- Increasing class size could negatively impact student achievement, would certainly hurt teacher morale, and could damage DBA-CS's reputation with donors, media, and other external partners. However, when Stone started talking to other charter school leaders and experts in the field, she learned that several schools had already increased class size without suffering significant downturns in student achievement. Furthermore, several studies demonstrated that small school size (fewer than 600 students) had a much greater impact on student achievement than small class size did.
- Eliminating the extended-day program would most certainly hurt every aspect of DBA-CS's program. More than 80 percent of DBA-CS's students arrived in sixth grade with reading and math scores at or below the fourth grade level. The extended day was critical to DBA-CS's remediation efforts. External reviewers noted that this program, more than any other, was directly responsible for the significant gains in test scores, the near 90 percent graduation rates, and the high college acceptance rates. Furthermore, from a development perspective many donors were committed to funding this type of program.

Stone would not even consider the other two options: laying off 12 percent of the staff or freezing salaries and reducing benefits. Over the years, Stone had gained the trust and admiration of the teaching staff. Although the teachers worked harder than they would at a traditional public school and earned about 10 percent less than their unionized counterparts, DBA-CS had an extremely low turnover rate. Teachers opted to work at DBA-CS because of the freedom and support that they received. They also had the unique opportunity to teach urban students in a suburban-like environment. However, Stone knew that teachers would leave if they feared layoffs or reduced salaries. They were highly marketable and, in addition to traditional public schools, there were increasing numbers of charter schools that provided similar teaching and learning environments at highly competitive salaries.

To Stone, the choice was clear: increase class size. Stone considered talking with the lead teachers to gauge their reactions to the problem at hand before announcing the decision but was afraid that they might opt for layoffs or benefit reductions. Although Stone knew that staff morale would suffer, she was secure in her belief that the staff would understand the financial constraints and would be relieved that none of the other solutions were put in place.

Stone, Schneider, and Mitchell met on March 4 to review the decision. All agreed that Stone had made the best choice, and Mitchell stated that she would recommend the 2002–2003 budget to the finance committee and entire board for approval. After the meeting, Mitchell praised Stone and recognized her transition from an educational to an organization leader.

The Backlash

The next week Stone walked into her teacher staff meeting with trepidation. She could not bear the idea of telling the teachers that their classes would increase in size from 23 to 27 students. She had not yet told any staff members other than Schneider and Jones of her decision

to close the following year's budget gap through increased class size. Now she feared a teacher-led mutiny.

Stone opened the meeting by announcing that there was an anticipated budget shortfall of approximately \$230,000 for the upcoming school year. The teaching staff, who were unaccustomed to hearing about the school's finances, looked anxious. Stone continued, stating that she and the board of directors had arrived at a solution that would ensure DBA-CS's financial well-being. Furthermore, she explained that she was confident the solution would have minimal negative impact on the teaching and learning environments. She then told the teachers the plan to increase class size. The room fell silent.

Stone distributed a few articles demonstrating that increasing class size had minimal adverse impact on student achievement as long as the school population was less than 600 students (DBA-CS's student body would never exceed 400 students). She asked the teachers if they had any questions or concerns, and much to her relief, no one said a thing. Stone ended the meeting early and was pleased that everything went so well.

The following day, she met with lead teachers Rose Schultz and Ben Miller to review their curriculum plans for April. The lead teachers entered the meeting with a draft letter to the board of directors to show Stone before sending it. In the letter, they shared their anger at not being involved in the decision-making process, their disappointment in the board's leadership, and their concern for the future of the school. They cited many articles that refuted the idea that in a small school class size was irrelevant and asked the board to reconsider the decision.

Schultz and Miller clearly thought that the board and Schneider had made this decision for Stone. They told her that they believed her hands were tied since they knew that she would never do anything to compromise the teaching and learning environment. Stone tried to explain that she, not the board, had made this decision and that she fully believed the plan was in the best interest of the school. She shared the alternatives with Schultz and Miller, hoping they would understand and be relieved that there were no layoffs or benefit reductions. However, they believed that Stone was protecting Schneider and the board. They sent the letter that evening.

As the school CEO, what could Stone do at this point? The lead teachers felt disenfranchised and believed that the increased class size might undermine the school's success. Furthermore, staff morale was extremely low. There were concerns that this might impact teacher retention and have a lasting impact on the culture of Dream Big Academy.

Were there organizational changes that could be made to avoid such confrontations in the first place? This high performing organization faced significant challenges as it evolved from a start-up entity to an established, growing school. How would the leadership of the school and the board need to evolve to meet those challenges?



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Exhibit 1: Budget Comparison, 2001–2002 to 2002–2003

	Cash Basis				
	Revenue		Expense		
	Rate	Students	Rate (2001–2002)	Students	
		Total		Total	Increase (Decrease)
Government Sources		2001–2002		2002–2003	
Local Per Capita Revenue	\$5,500	\$1,771,000		\$1,771,000	-
State Per Capita Revenue	600	193,200		193,200	-
Federal Per Capita Revenue	400	128,800		128,800	-
Fundraising					
Foundations		300,000		250,000	(50,000)
Corporations		150,000		150,000	-
Individuals		300,000		200,000	(100,000)
Miscellaneous					
Student Fundraisers		25,000		25,000	-
Interest Revenue (6% of \$500,000 reserve fund)		30,000		27,000	(3,000)
Total Revenue		2,898,000		2,745,000	(153,000)
Expenses					
Wages		1,499,425		1,574,396	74,971
Fringe Benefits and Payroll Taxes	26%	389,851		409,343	19,493
Direct Student Expenses (non-personnel)	\$1,250 per pupil	402,500		422,625	20,125
Administrative Expenses (non-personnel)	\$625 per pupil	201,250		211,313	10,063
Development Expenses (non-personnel)	13% of fundraising revenues	97,500		102,375	4,875
Facilities Expenses (non-personnel)	10% of total government funding	209,300		219,765	10,465
Debt Service	\$400,000 @ 8%, 5-year loan	97,327		97,327	-
Total Expenses		\$2,897,152		\$3,037,144	\$139,991
Net Cash Increase (Decrease)		\$848		(292,144)	

Exhibit 2: Budget Options, 2002–2003

		Revenue				
		2002–2003 Original Total	Increase Class Size Option 1	Reduce Extended Day Option 2	Lay Off Staff Option 3	Reduce Fringe Benefits/ Freeze Salaries Option 4
Government Sources		Students	Rate			
Local Per Capita Revenue	5,500	322				
State Per Capita Revenue	600	322				
Federal Per Capita Revenue	400	322				
Fundraising						
Foundations				250,000	250,000	250,000
Corporations				150,000	150,000	150,000
Individuals				200,000	200,000	200,000
Miscellaneous						
Student Fundraisers				25,000	25,000	25,000
Interest Revenue (6% of \$500,000 reserve fund)				27,000	27,000	27,000
Total Revenue				3,109,000	2,745,000	2,745,000
		Expense				
	Rate (2002–2003)	Students	Total			
Wages			1,574,396	1,385,469	1,385,469	1,499,425
Fringe Benefits and Payroll Taxes	26%		409,343	360,222	360,222	251,903
Direct Student Expenses (non-personnel)	\$1,247 per pupil		401,534	401,534	401,534	401,534
Administrative Expenses (non-personnel)	\$ 610 per pupil		196,420	196,420	196,420	196,420
Development Expenses (non-personnel)	13% of fundraising revenues		78,000	78,000	78,000	78,000
Facilities Expenses (non-personnel)	10% of total government funding		219,765	219,765	219,765	219,765
Debt Service	\$400,000 @ 8%, 5-year loan		97,327	97,327	97,327	97,327
	Total Expenses		2,976,785	2,738,736	2,738,736	2,744,374
	Net Cash Increase (Decrease)		(231,785)	2,288	6,264	626