

NATIONAL BOARD FOR PROFESSIONAL TEACHING STANDARDS

MEMORANDUM

TO: Board of Directors

FROM: Barbara Kelley, Chair
Betty Castor, President

SUBJECT: Budget for 2003

DATE: September 24, 2002

Since late July, staff has been working on plans and budget for 2003. As we reviewed our revenue and expense budgets, it became apparent that the National Board is facing a fiscal challenge like so many other corporations across America. The economies in the majority of the states are very bad, and they are tightening their belts.

As we worked our way through the budget process, we reviewed our candidate count very closely. Unfortunately, candidate applications are lagging behind last year at this time, and our current estimates are that we will not reach our target of 23,700 first time applicants for the 2002-03 cycle. When we reviewed the anticipated activity in the states for first time applicants, we adjusted our estimate of first time candidates to 20,500. As you might expect, this had a significant impact on our budget.

In addition, the foundation and corporation philanthropic community is also facing hard economic times. In our early drafts of the budget, we only estimated those contribution revenues that we were certain we would receive. Our research and development grant from the U.S. Department of Education will be fully expended in 2003. We also anticipate that our various categories of miscellaneous revenues will be lower in 2003.

Gary Galluzzo, John Fredrickson, and Betty held a conference call with Barbara, Bob Wehling, and Julie Hutcheson-DownWind, the Chair of the Finance Committee, to brief them on the situation. It was agreed that we delay approval the final 2003 budget beyond the October board meeting. We also convened a conference call with the Finance Committee to brief them and seek their approval of a process to delay the final budget preparation while we refined our plans and budgets.

The process that we recommended and the officers and Finance Committee approved is as follows:

- Staff will prepare plans and budgets based on priorities for 2003 and relative to candidate count. Options will be presented to the Committee and discussed at the October Finance Committee meeting. Subsequent to the October meeting, staff will prepare a final budget for review, taking into consideration additional revenue options.

- The Finance Committee will convene in mid-November or early December to review the budget and plans in detail.
- Because there will be several new board members who will have no experience with the National Board or its budget, the Finance Committee will make a recommendation for approval of the budget which the Executive Committee will review.
- A resolution for adoption of the budget based on the Finance Committee's review of the budget and the Executive Committee's concurrence will be mailed to the Board and a vote will be taken by mail.
- Prior to the vote deadline, board members will be provided with an opportunity to call in to a conference call to ask questions about the budget.

We are implementing plans in eight areas for both revenue increases and cost-savings. These eight are: 1) implement a hiring freeze on selected vacancies, i.e., we review each vacancy and assess whether it is critical to our work; 2) institute austerity measures, which will include elimination of some practices we take for granted, e.g., liberally using overnight mail, restrictions on travel, and the like; 3) proactive cost-saving measures, e.g., review of contracts, leases, licenses, etc.; 4) plans for increasing revenue, e.g., the development fee-based products and services, alternative revenue recognition strategies, etc.; 5) an optional "buy-out" program for people who may want to leave the National Board; 6) a reorganization and refocusing of some positions, which means that those who remain may be doing some new things in addition to and/or different from their current responsibilities; 7) a reduction in staff beyond those who choose to take the buy-out option in #5 above due to lack of work responsibilities; and 8) savings in Board of Directors operations. Through the actions in items #5 and #7 above, we hope to reduce the size of the staff by about 20, thereby finding savings in our personnel lines.

It is also likely that we will secure a line of credit to ensure that we have sufficient cash to get us through the few months of the year when it is likely that cash could be tight. We do not anticipate problems implementing a line of credit as the investment fund could be used as collateral if we needed to do so.

Please be assured that Gary has communicated all of this with the staff and that the Executive Committee has shared this information with our candidates for President.

We are in the process of reviewing our plans for 2003 and will bring a series of options to the Finance Committee for discussion. We will also share these options with the board during the closed session on Friday, October 11th.