

January 30, 2018

Dear Mr. Honegger,

I write on behalf of a group of concerned Academy parents to respectfully request that you and the Academy Board of Trustees answer a number questions of vital importance to the Academy's future.

If our tone seems direct in what follows, please know that we appreciate the time you spend working on behalf of the Academy, and we do not question your devotion to the school we all love. But we have been frustrated at the lack of opportunity for an honest dialogue about serious problems at the Academy, and we believe that we must begin that dialogue now.

Since our questions are so important, we request that you share your answers with the entire Academy community by **February 23**.

In addition, we would like to invite trustees and all other readers of this letter to comment on our questions and the rationale behind them by sharing their thoughts at the blog site [here](#). We assure you that the blog site is safe, and that all blog comments are completely anonymous.

We also assure all readers that the links and attachments at the end of this letter are all safe to open.

A. Academy's finances

The National Association of Independent Schools (NAIS) is the professional organization which sets standards for its member schools. Albuquerque Academy's membership in NAIS is an important component of its identity.

Item four in the NAIS "[Principles of Good Practice - Board of Trustees](#)", as also listed in the NAIS *Trustee Handbook, 10th ed.*, states that "The board accepts accountability for both the financial stability and the financial future of the institution...assuming primary responsibility for the preservation of capital assets and endowments..."

1. On March 5, 1996, the [Academy's endowment was worth \\$165 million](#). Taking inflation into account, the endowment should have been valued at \$252 million on October 25, 2016. Yet it was only worth \$84.2 million on that date, a loss of 67% of its value (**attachment 1**).

We believe the board has badly mismanaged the endowment and failed to carry out its fiduciary responsibilities.

How does the board explain the catastrophic erosion of two-thirds of the endowment's value over the past two decades?

2. Item four in the NAIS "[Principles of Good Practice - Board of Trustees](#)", also stipulates that the board "accepts accountability for... overseeing operating budgets..." But the steep drop in the endowment¹ from \$126.0 million on July 1, 2011, to \$77.2 million on June 30, 2016, points to a very serious budget imbalance, as the board has sold assets to cover expenses and real estate losses.

This 38% loss of the endowment is all the more worrisome since this five-year period coincided with a strong bull market, with the S&P 500 (dividends not reinvested) *increasing* 62%. *The Academy endowment should be growing, not shrinking.*

In addition, we are concerned at what appear to be very high annual endowment expenses, which vary from 1.0% to 9.8%, and average 3.78% per year for this period.

We emphasize that balancing the budget is an essential fiduciary task of the board, which it has failed to do.

How has the board allowed such a serious annual budget shortfall not only in the last five years, but over the past 20?

Why are endowment expenses so high?

3. Our assumptions about the endowment's performance are conservative. If they are correct, our analysis (**next page and attachment 2**) shows an average spend rate of 9.22% per year during the 20.6-year period from 3/5/1996 to 10/25/2016. This is more than twice the rate of 3.83% required to preserve the endowment's value against inflation.

Since we see little evidence of proper management by the board, we believe that increased transparency is required in order to prevent overspending in the future.

We request that the board commit to writing an annual statement to the Academy community including the current composition of the endowment, its performance over the past 1, 3, 5, and 10 years, its performance benchmarks, the current spend rate, the target sustainable spend rate, the date on which the target will be reached, and what future rates of return may be expected in both favorable and unfavorable market conditions.

We appreciate Mr. Honegger and Mr. Watson's letter of November 3, 2016 (**attachment 3**), explaining a five-year budget plan, but find it inadequate, for several reasons, as follows:

4. The letter states the intent is to "honor our duty to future generations by reducing total endowment spending over the next five years to a more sustainable level."

What does "a more sustainable level" mean? A budget is either balanced or it is not. We request that the board state clearly when it expects to achieve a balanced budget.

5. The letter asserts that "with this plan, the main driver is still revenue..." and that "the aim [is] to enroll at least 170 new sixth grade students each year, but allow for a ceiling of 180 students if that many students of talent and character qualify during our admission process."

If we assume a class size of 165 today, and allow for an increase of 15 students per class, or 105 new students total in seven grades (grades 6-12), and if we further assume each of the 105 new students pays full tuition of \$23,375, we arrive at new revenues of \$2.45 million.

But even under this highly optimistic scenario, new tuition revenues of \$2.45 million *do not* cover the average revenue shortfall of \$5.60 million per year from 2013 to 2016, as indicated by depletion of the endowment ([2015-16 Form 990](#), p. 26).

We show the fiscal-year-end data for the endowment's value from 2011 to 2016 on page 3, following the graph on the next page showing the endowment's erosion.

Albuquerque Academy Endowment Performance: March 5, 1996, to October 25, 2016 Benchmark is S&P 500 without Dividends, Shown in Blue on the Graph

Jan 1, 2017

Open: 2,251.57

High: 2,300.99

Low: 2,245.13

Close: 2,278.87

Actual endowment value on Oct 25, 2016 was 33% of the target value; overspending has eroded 67% of the endowment's value since 1996.

Assuming the Academy's endowment performs as well as the S&P 500 without dividends, an average spend rate of 3.83% per year would have protected the endowment's value against inflation.

The actual average spend rate was at least 9.22% per year.

The Academy's endowment is actively managed; although the S&P 500 without dividends is a conservative benchmark¹, whether the endowment outperforms or underperforms it depends on managers' skill.

Note that this calculation does NOT include gifts to the endowment during the 20 year period. Any such gifts would increase the target value, making the erosion to \$84 M on Oct 25, 2016, even worse.

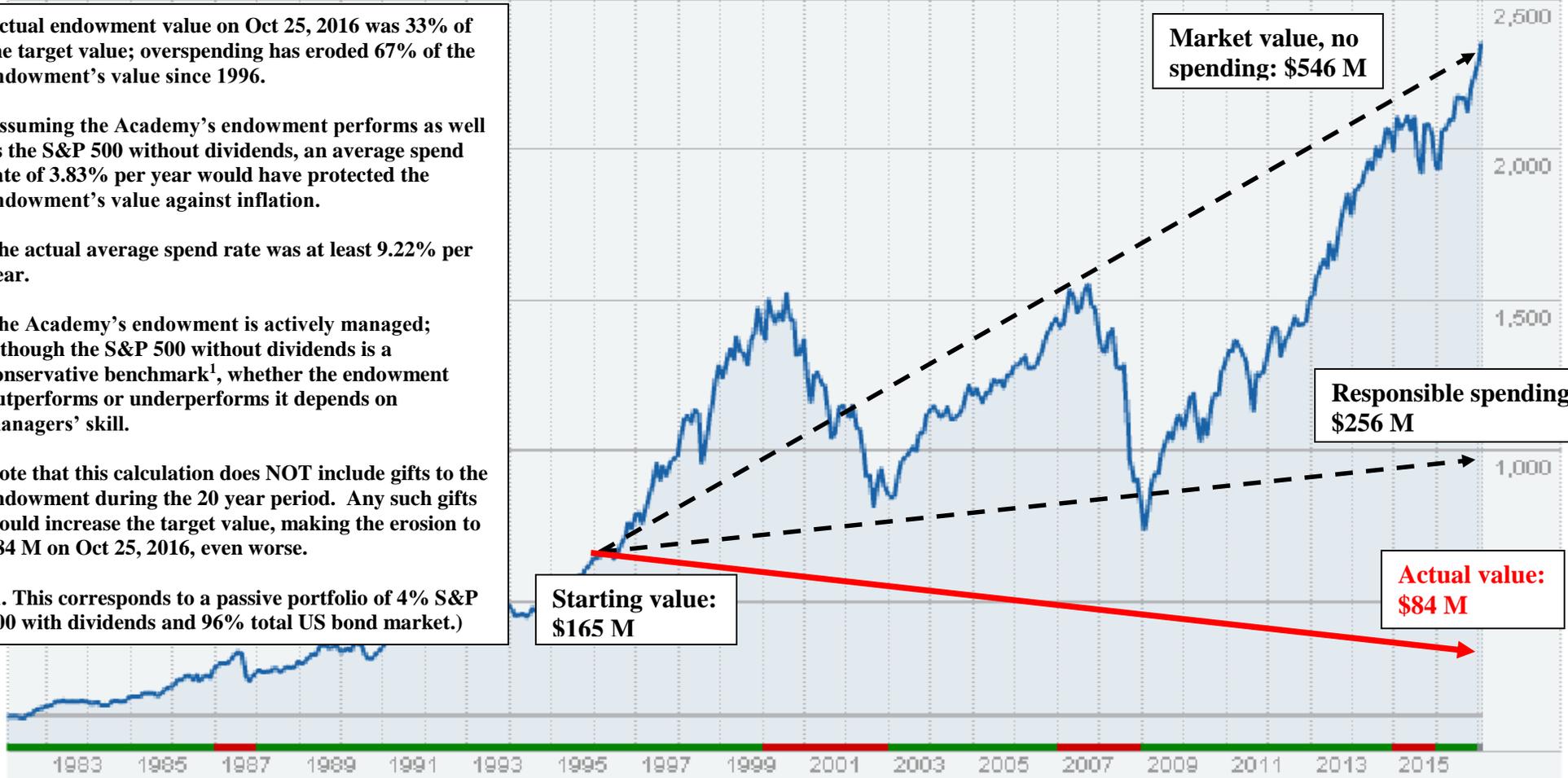
(1. This corresponds to a passive portfolio of 4% S&P 500 with dividends and 96% total US bond market.)

**Starting value:
\$165 M**

**Market value, no
spending: \$546 M**

**Responsible spending:
\$256 M**

**Actual value:
\$84 M**



The fiscal-year-end data for the endowment’s value from 2011 to 2016 are shown below.

We note with particular dismay the \$35 million loss from 2011 to 2012, \$26 million of which was the result of “impairments” (write-downs) of inflated real estate investments (see [2011-12 Form 990](#), p. 10).

2011	2012	2013	2014	2015	2016
\$126,002,365	\$90,881,192	\$94,053,059	\$90,632,882	\$85,172,516	\$77,233,932

We note further that this “tuition-driven revenue plan” makes no provision for a bad market downturn. When the next one occurs, erosion of the endowment will accelerate rapidly.

We would like to congratulate the trustees on a successful launch of the “Charged with Promise” campaign. The entire community supports this campaign, and we hope you reach your goal of \$30 million to support the endowment. We must point out, however, that at a conservative spend rate of 5% per year, \$30 million produces an additional \$1.5 million of annual revenue, but *still does not* close the budget gap.

Finally, we note that at a depletion rate of \$5.6 million per year, the Academy’s endowment will be completely spent in 14 years. It will then have become a fully “tuition-driven” school.

Tuition would then have to rise to at least \$26,000 (in today’s dollars) to cover the budget, with no money for financial aid. Given the realities of Albuquerque’s economy, we believe the Academy would then have to close its doors.

We therefore believe the board’s plan lacks credibility and endangers the Academy. We request that the board show a simple, clear, and credible budget that shows exactly how and when the budget will be balanced.

- Chapter 5 of the NAIS *Trustee’s Handbook*, entitled “A Culture of Self-Assessment, Accountability, and Open Communication,” places great emphasis on the board’s being accountable to the entire school community for its actions. Similarly, item 12 in NAIS’s [“Principles of Good Practice – Independent School Trustees”](#) states that “Each trustee, not just the treasurer and finance committee, has fiduciary responsibility to the school for sound fiscal management.” Accordingly, we hold all current and past trustees during the past 20 years individually responsible for the erosion of the Academy’s endowment.

We ask that those trustees now individually state what they intend to do to restore the endowment to its proper value.

B. Compensation policy

Mr. Watson is fond of saying that “the Academy is a private institution with a public purpose”; we applaud his statement and note that it invites a comparison between the Academy and public educational institutions in New Mexico, specifically with respect to compensation for the chief executive officer (CEO and chief financial officer (CFO).

The data in the following table provide this comparison. Note that the salary data for the CEO and CFO at UNM, NMSU, CNM, and APS are current.

Salary figures for Mr. Watson and Academy Treasurer Mr. Gary Gordon are for the 2015-16 academic year. Given your defense of Mr. Watson’s salary in your letter of February 5, 2016 (**attachment 4**), we assume Mr. Watson’s and Mr. Gordon’s salaries have not decreased since then.

Institution	Enrollment	Faculty & Staff	Budget	CFO’s salary	CEO’s salary
UNM ^{2,3,4,5}	26,278	9,725	\$2,800 m	\$303,786	\$311,937
NMSU ^{6,7,8,9}	24,580	4,655	\$622 m	\$215,000	\$373,450
CNM ^{10,11,12}	25,760	1,913	\$219 m	\$165,123	\$248,502
APS ^{13,14,15}	84,000	14,811	\$1,314 m	\$137,846	\$236,307
AA ^{16,17,18}	1,156	< 350	\$35 m	\$247,022 (G. Gordon)	\$391,366 (A. Watson)

1. Even in ordinary circumstances, we believe that Mr. Watson’s salary defies all logic and common sense, especially when his financial mismanagement has undermined the Academy’s mission, which the head of school must protect ([NAIS Principles of Good Practice - Heads of School, items 1 and 6](#)).

How can the board justify paying Mr. Watson more than the president of UNM when, by the most generous measure, i.e. enrollment, the scope of the Academy’s operations is less than 5% of UNM’s, and he has failed to carry out his essential duties?

2. We understand that that Academy Treasurer (CFO) Mr. Gary Gordon will retire this year. We want to thank him for his loyal service for so many years, and we wish him the very best for a happy and fulfilling retirement.

But we still must say that we do not understand how the trustees can set the Academy CFO’s salary so high, especially in light of a CFO’s essential duties ([NAIS Principles of Good Practice – Business Officers, item 4](#)).

How can the board justify paying the Academy’s CFO more than the CFO of APS when the Academy’s budget is less than 3% of APS’s, the endowment has eroded so badly, and the budget is still not balanced?

3. While we appreciate your explanation of how you determine Mr. Watson’s salary in your letter of February 5, 2016 (**attachment 4**), we find it unconvincing. You mention a number of factors that your compensation consultant used in his study, including “complexity, size of operation, grade range, Head of School tenure, and student body size.” You also say that the board “recognizes the budgetary problems we face and the economic conditions of Albuquerque and New Mexico.”

We are astonished, however, that *nowhere* do you mention the Academy’s *mission*, which states that “We devote our resources to ensure economic accessibility to our students...”

Today the Academy can no longer keep this pledge because of its budget constraints, which are the result of overspending and risky investments during the past 20 years.

If the salaries of Mr. Watson and the Academy’s CFO were adjusted to the lowest of those in the table above, i.e. APS Superintendent Raquel Reedy’s \$236,307 and APS CFO Tami Coleman’s \$137,846, the difference would fund 11 full scholarships, or 22 half scholarships, or 44 quarter scholarships for deserving Albuquerque students.

We request that you now adjust Mr. Watson’s and the incoming CFO’s salaries to match those of their counterparts in APS, until the budget is balanced and the promise of the mission is restored.

4. In stark contrast, as the board and Mr. Watson have tried to close the budget gap over the past few years, he has asked the faculty to make a number of painful sacrifices. These include two salary freezes, a reduction in the tuition remission benefit for employees’ children enrolled at the Academy, a reduction in the retirement benefit, and an increase in class size and teaching loads.

For example, enrollment in the 6/7 Division has gone from 18 to 22 students per class, with no increase in teaching staff. Teachers’ workload has thus increased more than 20% with no comparable increase in pay.

What is most disturbing, however, is that we see no comparable sacrifice from Mr. Watson.

In fact, during the two years during which Mr. Watson froze Academy employees’ pay (attachment 5), in response to the financial crisis of 2008/09, the Board offered - and Mr. Watson accepted - two raises!

The data are here:

Salary	2008/09 ¹⁹	2009/10 ²⁰	2010/11 ²¹	2-Year Increase
Sample teacher	\$40,000	\$40,000	\$40,000	\$0 (0%)
Mr. Watson	\$312,624	\$338,425	\$350,526	\$37,902 (12%)

In the face of a severe budgetary crisis, asking the Academy’s employees to sacrifice while rewarding the head of school is simply inexcusable.

What was the board thinking when it gave Mr. Watson two raises during the same years he froze employee salaries?

Did the board ever consider the effect of its decision on employee morale?

We request that you now rescind Mr. Watson’s two raises, recalculate his salary for subsequent years, and require him to refund the after-tax difference to the Academy’s financial aid budget.

5. We are deeply disappointed that the board has overlooked the first principle of effective leadership – namely, that when sacrifice is required, the leader’s sacrifice must be “first, greatest, and known by all.”

We are therefore not surprised that many Academy faculty and staff are discouraged and have lost faith in the Academy’s leadership. And we worry that the steep decline in morale has already begun to affect the experience of our children in the classroom; teachers are, after all, only human.

We ask again that you now adjust Mr. Watson's and the incoming CFO's salaries to match those of their counterparts in APS, until the budget is balanced and the promise of the mission is restored.

C. Academy's ethics

NAIS's "[Statement on Ranking Schools](#)" concludes, "Ranking elementary and secondary schools is a *de facto* labeling of vulnerable children and adolescents and is inherently wrong. Ranking of schools encourages a destructive competitiveness, leading institutions away from offering rich alternatives and toward a stultifying sameness. It is a disservice to the schools, concerned parents, and children, and therefore, to our society."

In 2015, [BestColleges.com ranked the Academy number 5 in the nation](#). But instead of defending an important NAIS principle, on October 16, 2015, Mr. Watson gave an interview with the [Albuquerque Journal](#) in which he stated, "So let's celebrate when we pull this off. It's an accomplishment for Albuquerque as well as our school."

Mr. Watson also placed the BestColleges ranking and two other rankings on the [Academy website \(attachment 6\)](#). The two additional rankings are from *Albuquerque Business First*, [here](#) and [here](#).

1. As parents, we expect the professionals at Albuquerque Academy, and especially its leaders, to maintain the highest standards of integrity, to serve as role models for our children. We are therefore surprised and disappointed that Mr. Watson's violated an NAIS principle that strongly condemns the use of school rankings, all the more so since [he serves as a trustee on NAIS's board](#).

We believe Mr. Watson's use of rankings in marketing the Academy is a disgrace to the school and raises a serious question about his fitness for leadership.

We ask that you require Mr. Watson to write a public apology for his actions, reaffirm his commitment to NAIS principles of good practice, remove all references to rankings in the Academy's communications, and reassure us that rankings will never again be used by the Academy.

2. We assume that, as a basic requirement for fitness to serve, the board requires every trustee to be thoroughly familiar with NAIS policies and principles, including its "[Statement on Ranking Schools](#)."

Why then did the board allow Mr. Watson to use the BestColleges.com ranking and the two Albuquerque Business First rankings as he did?

D. Board governance

Evaluation of the Head:

1. In your letter of December 21, 2015 (**attachment 7, yellow highlight**), you wrote that "discussions (are) already underway to conduct our periodic survey of a broad list of community members, including the faculty and staff, on Andy's work during this next iteration of his yearly evaluation cycle."

In fact, there is nothing “periodic” about the board’s inclusion of the broader community in Mr. Watson’s evaluation: this was the first time in Mr. Watson’s entire tenure that we were invited to participate.

Why did you wait until Mr. Watson’s fifteenth year to include the wider community in his evaluation?

2. In your letter of December 21, 2015 (**attachment 7, green highlight**), you wrote, “When this survey data returns to our board for consideration, we will employ it in our evaluation of Andy and share findings with the community.” But we have heard nothing from you about the survey’s findings, and we are disappointed that you have not kept your promise to the Academy community.

*We request that you now commit to a full and accurate disclosure of the results of Mr. Watson’s evaluation by **March 1**.*

3. We were grateful to have the opportunity to take part in the evaluation of Mr. Watson in the spring of 2016. Your evaluation questionnaire served as excellent benchmark against which to measure Mr. Watson’s future performance, and we commend you on its design. Yet we have heard nothing from you about a follow-up evaluation, which is required for the board and the community to know whether Mr. Watson is improving.

*We request that the board commit to conducting a follow-up evaluation of Mr. Watson before **March 15**, and share its results with the Academy community.*

Strategic Planning:

4. Item 7 of NAIS [“Principles of Good Practice – Board of Trustees”](#) states that, “The board undertakes formal strategic planning on a periodic basis, (and) sets annual goals related to the plan...” Yet we have seen no evidence that the Academy board conducts strategic planning, nor have we ever seen annual goals that would indicate that such planning has occurred.

Does the board conduct strategic planning? If not, why not? If so, why has it not shared its plans and goals with the wider community?

Self-Assessment:

5. Chapter 5 of NAIS’s *Trustee Handbook* states, “Beyond assessments and evaluations to advance the school’s long-term goals and objectives, the board also needs to assess its own performance” (p. 58). We have already raised concerns about Mr. Watson’s assessment above. We now share a similar concern about the board: we do not recall the Academy board ever having conducted a self-assessment that included the broader community.

Does the board conduct self-assessments? If not, why not? If so, does it reference “NAIS Principles of Good Practice - Board of Trustees”? Again, if so, why has it not shared the assessments’ results with the broader community? And why has it never included the community in the assessment process?

*Finally, we request that the board commit to conducting a thorough self-assessment by **April 15** this year with participation from the entire Academy community and then share the results with the community.*

A Culture of Self-Assessment, Accountability, and Open Communication:

6. The conclusion of chapter 5 of the NAIS *Trustee Handbook* reads as follows:

“A Final Word on Building the Best Culture

The extent to which the school community as a whole creates an open, honest, accountable, and trusting culture depends on every level of the school embracing it. Schools assess and evaluate students every day and encourage them to learn from those outcomes as part of their educational cycle. For students to truly understand the importance of that cycle, they need to see adults in positions of power embody it. *Board members and heads of school have the ability to model the behavior they want to see in students through their own governance and management processes (emphasis added)”* (p. 67).

We believe that the trustees and Mr. Watson have not met the Academy’s standards of excellence in their efforts to create “a culture of self-assessment, accountability, and open communication.” We consequently worry about the future of the school: without such a healthy culture, we believe that a decline in the quality of education at the Academy is inevitable, and that this will directly affect the experience of our children.

*We therefore request that the board commit to a thorough study of the principles and recommendations described in the NAIS Trustee Handbook, particularly chapter 5, write a plan to carry out those recommendation, and share this plan with the Academy community, by **June 1**.*

Finally, we can think of no more effective way to improve accountability than to open board meetings to the Academy community and to share the board’s bylaws.

Accordingly, we request that the board open its meetings to the Academy community and publish minutes of its meetings starting with the board’s next meeting this year. In addition, we ask that the board share its bylaws with the community.

E. The Academy’s Mission

After its preamble, the [Academy’s mission](#) makes four pledges, the last two of which are as follows (emphasis added):

- We devote our resources *to ensure economic accessibility* to our students and to support the wider community through outreach and community service.
- We entrust this mission to our graduates and successors *as we preserve our resources* and serve the generations of children to come.

We note that these are statements of fact, not aspirations; they are promises, not hopes.

1. Because of budget constraints, the Academy can no longer “ensure economic accessibility to (its) students”; that is, the Academy is no longer able to meet all of the demonstrated need of each of the students whom it admits. If the Academy’s mission is to embody the integrity we expect of all of the Academy’s professionals, starting with the trustees and Mr. Watson, it must not make a promise that it cannot keep.

We therefore request that you edit the mission so that it more accurately and more honestly reflects the Academy’s financial aid policy.

2. As noted in “Academy finances” above, we know that the Academy has been overspending its endowment for at least the past 20 years, with a consequent erosion of 67% of its value. The second promise of the mission above, “as we preserve our resources...,” is therefore untrue, and has been untrue for the past two decades.

We therefore request that you edit the mission so that it more accurately and more honestly reflects the board’s management of the Academy’s endowment.

The introduction to the NAIS *Trustee’s Handbook* concludes with these words: “Every person on the board must be open to new opportunities and ways of working collaboratively to lead the school...Our schools need leaders who can move them forward with courage and insight.”

We could not agree more. The Academy’s fine reputation was established in the first 50 years since its founding in 1955. The Academy now faces serious challenges, and its mission is under threat. Whether that mission, the Simmses’ wonderful legacy, and the Academy’s reputation can survive the next 50 years is up to the board.

We therefore believe that responding publicly to our requests and questions is a good way for the board to demonstrate its leadership of and accountability to the Academy community. And if our requests and questions provide focus for a constructive community dialogue about the Academy we all love, then our efforts will not have been in vain.

Finally, although it is not our preference, we feel it is prudent to remain anonymous for now in order to avoid any possible repercussions for our children.

We look forward to hearing from you.

To all...

To each...

I bid you peace.

Peter Hibbett, on behalf of a group of concerned Albuquerque Academy parents

Notes:

1. [2015-16 Form 990](#), p. 26; also at [this site](#).
2. [UNM official enrollment report](#)
3. [UNM office of institutional analytics](#)
4. [Albuquerque Journal, February 14, 2017](#)
5. [UNM Salary Book \(CEO: Chaouki Abdallah; CFO: David Harris\)](#)
6. [NMSU Quick Facts 2017-2018](#)
7. [Albuquerque Journal, March 6, 2017](#)
8. Conversation with NMSU’s Employment/Comp Services office; CFO: Andrew Burke
9. [NMPolitics.net, June 30, 2016 \(NMSU CEO: Garrey Carruthers\)](#)
10. [CNM Fact Book, 2015-2016](#)
11. [CNM Budget, FY 2017](#)

12. [CNM Salary Book \(CEO: Kathy Winograd; CFO: Katherine Ulibarri\)](#)
13. [About APS](#)
14. [APS Leadership Team](#)
15. [APS Employee Salary Information \(CEO: Raquel Reedy; CFO: Tami Coleman\)](#)
16. [Albuquerque Academy profile](#)
17. Conversation with retired Academy administrator
18. [2015-16 Form 990](#), p. 16; also at [this site](#).
19. [2008-09 Form 990](#), p. 26; also at [this site](#).
20. [2009-10 Form 990](#), p. 19; also at [this site](#).
21. [2010-11 Form 990](#), p. 9; also at [this site](#).

Attachments:

1. "Academy endowment worth \$84.2 million on October 25, 2016," Academy website
2. Endowment analysis, March 5, 1996 to October 25, 2016
3. Letter from Mr. Honegger and Mr. Watson, November 3, 2016
4. Letter from Mr. Honegger, February 5, 2016
5. Email from Mr. Watson, December 9, 2009
6. "In the News," Academy website
7. Letter from Mr. Honegger, December 21, 2015