
REVIEW OF REALLOCATION PRACTICES BOARD OF REGENTS, STATE OF IOWA

Background

A Board of Regents' policy, which was adopted in May 1996 to become effective in the 1996-97 fiscal year, directed that each institution should reallocate 10% of its budget over the coming five-year period. As that period drew to a close, the Board called for an evaluation of implementation practices for and the effectiveness of the reallocation policy as part of the organizational review being conducted by MGT of America.

The current review of reallocation practices is not the first report to the Board that addresses the implementation and effectiveness of its reallocation policy. The Board Office staff prepared a white paper in December 1999 that provided the underlying rationale for reallocations, offered guidance in understanding different types of reallocations, and addressed how reallocations fit into the Board's overall budgeting process and governance reporting system. Appendix A is a reprint of the 1999 staff white paper.

As part of the current organizational review, MGT conducted a series of interviews on reallocation issues involving institutional staff, Board Office staff, and several Regents. Based on these interviews, MGT determined that:

- Institutional officials believe they have complied with the original intent of the reallocation program, but admit they received little specific guidance in 1997 about what was expected by the Board. Instead, the understanding of the policy can better be depicted as an evolutionary process as all parties gain experience with reallocation practices. (A brief summary of how the reallocation policy has been implemented by the three universities is included as appendix B.)
- Individual Regents and Board Office staff are not convinced that the types of reallocations taking place are fully achieving their original intent of strategically redirecting resources on an institution-wide basis to build excellence or to be proactive in engaging new opportunities.

The basic issue is that the concept of reallocation, as intended by the Regents in 1996, was never carefully articulated. As a result, the Board Office staff recommended, and the Board concurred, that the current review of the reallocation policy become part of the organizational review.

Points of Agreement

All parties agree that the broad intent of the 1996 reallocation policy was to ensure that a small but steady stream of resources be available each year for each institution to pursue strategic initiatives. The policy, which grew out of a recommendation from the

Pappas Report, was adopted in the same era that the Board undertook a major strategic planning initiative. The reallocation policy was seen as one vehicle for underscoring the importance that the Regents placed on the strategic planning activity. The link to strategic planning is apparent in the reallocation reports that the institutions submit to the Board, which indicate specific elements of their strategic plans that the reallocated funds are supporting. (In appendix C, the reallocation narrative from the 2000-01 operating budget approval report and the 2000-01 comprehensive fiscal report for each institution is extracted.)

A second point of agreement is that the institutions have exceeded the ten percent target that the policy established. In practice, the target was translated as a series of annual two percent targets for each of the five years. The chart below summarizes the experience over the five-year history of the reallocation policy. In addition, the institutions have continued to comply with the policy in FY 2002 and FY 2003. Overall, in excess of \$120 million, or nearly 15% of base budgets, was reallocated during the initial five-year period according to institutional reports.

**HISTORY OF REALLOCATIONS BY INSTITUTION
FIVE-YEAR POLICY PERIOD AND SUBSEQUENT YEARS
BOARD OF REGENTS, STATE OF IOWA
FY 1997 THROUGH FY 2001**

Period	SUI		ISU		UNI		ISD		IBSSS		Total	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
FY 1997	8,825,168	2.6%	6,574,764	2.5%	7,099,000	6.6%	223,991	3.1%	293,932	7.0%	23,016,855	3.2%
FY 1998	11,486,025	3.4%	7,012,612	2.1%	2,610,231	2.4%	131,541	1.8%	179,000	4.2%	21,419,409	2.7%
FY 1999	13,839,000	3.9%	7,367,642	2.1%	2,884,408	2.6%	157,000	2.1%	551,666	12.8%	24,799,716	3.0%
FY 2000	14,726,000	3.9%	9,473,082	2.6%	3,583,644	3.0%	169,800	2.1%	183,731	4.1%	28,136,257	3.2%
FY 2001	10,860,900	2.7%	8,606,746	2.3%	4,913,200	3.9%	178,862	2.1%	488,166	10.8%	25,047,874	2.7%
Five-Year Total	59,737,093	16.5%	39,034,846	11.6%	21,090,483	18.5%	861,194	11.2%	1,696,495	38.9%	122,420,111	14.8%

Points Needing Clarification

Based on our interviews, we find that there are at least three interrelated issues surrounding the reallocation policy that would benefit from further clarification:

- Who within the institutions should make reallocation decisions?
- How should the pool of reallocation dollars be created?
- What types of actions constitute a reallocation?

A brief discussion of each of these three points follows. Once these issues are resolved, Board Office staff can address the types of monitoring information that will be needed to keep the Board apprised of progress.

Who within the institutions should make reallocation decisions? In conversations with individual Regents, some expressed the belief that decisions about reallocations should be determined by the president, or at least the provost. They felt that decision-makers at the highest level of the institution should be involved to ensure that the freed-up resources were targeted at institutional strategic priorities. On the other hand, campus leaders have tended to delegate responsibility for reallocation to unit-level managers (e.g., deans). Their rationale, at least in part, is that a more decentralized approach will lead to more buy-in and acceptance of the strategic initiatives.

How should the pool of reallocation dollars be created? Not only is there a divergence of opinion about who should make reallocation decisions, there also may be differing views on how the pool of reallocation dollars should be created. The most common source of reallocation funds at the Regent universities has been from *position turnover*. When a position is vacant, the proceeds from saved salary and benefit expenditures can be deployed to:

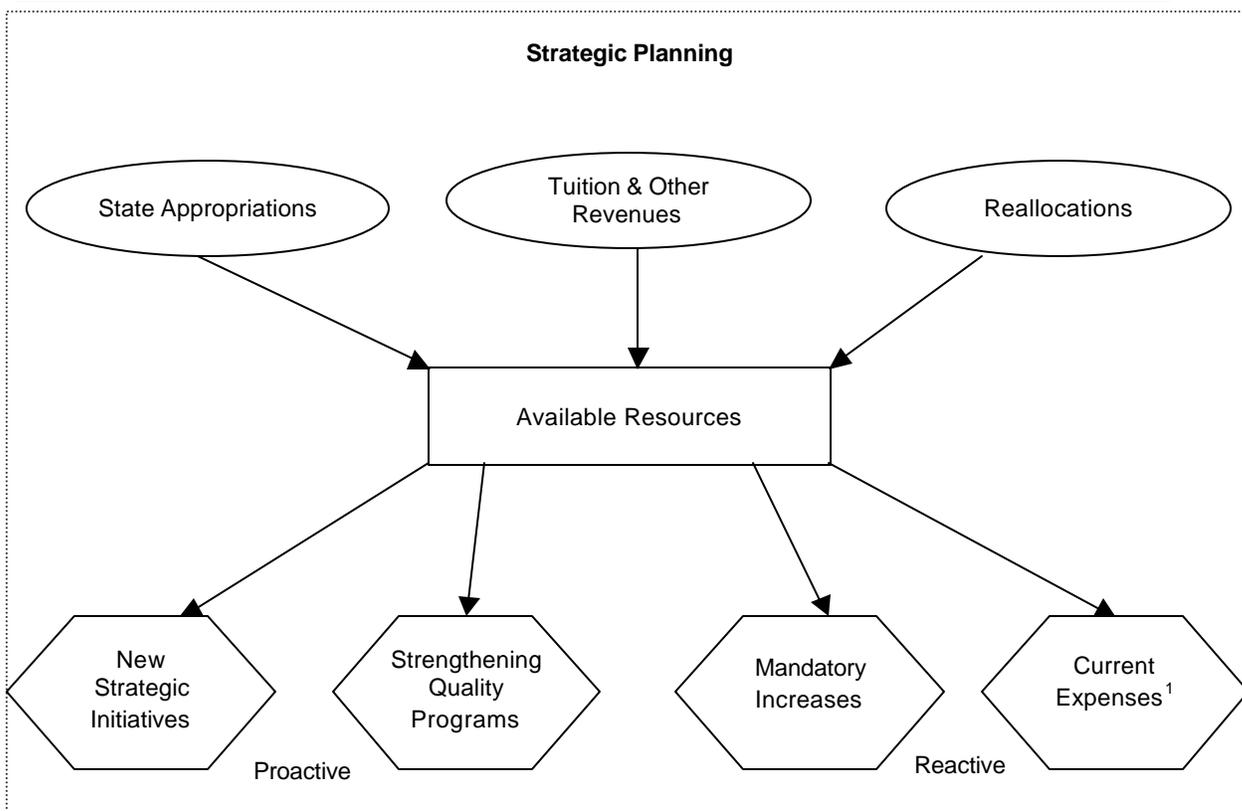
- refill the position for the same function at the same salary (i.e., no reallocation would occur),
- replace the departed staff member with someone at a lower salary and reallocate the difference, or
- reassign the position and associated salary budget to a different function and/or unit.

Institutions in other states have taken a more aggressive posture towards reallocation. In some instances, such as at the University of Washington and Ohio State University, there has been an *across-the-board assessment* to create a pool of funds to be reallocated centrally. Other institutions, such as the University of Massachusetts, have made *targeted reductions*. Examples of this approach include merging departments or closing a program or site to create funds to reallocate.

What types of actions constitute a reallocation? Reallocation practices at each university are embedded in the overall allocation process. Campus leaders typically have several different sources of funds available to allocate, including increased state appropriations (or, as in the past two years, significantly reduced state appropriations), increased tuition revenue from growth in enrollment and/or rate increases, and reallocations. Claims against this overall pool of funds include increased costs related to salaries and benefits of existing personnel, new positions to handle increased workload (e.g., enrollment growth), and pursuit of strategic initiatives. The exhibit below, drawn from the 1999 staff white paper on reallocations, illustrates how multiple revenue streams are pooled to respond to a variety of demands.

Given the multiple revenue streams and multiple demands for increased spending, the question of what constitutes a reallocation – as contrasted to allocations of new monies - is difficult to answer. Several examples of what have been proposed as reallocations highlight the range of actions that might be considered as reallocations.

- Changing the traditional teaching assignment of a current faculty member when the new assignment is tied to a strategic goal.



¹ Current expenses include salary increases, course costs to meet student demand, and technology.

- Replacement of a departing faculty member with another individual in the same department who has a different teaching and research interest that is more aligned with strategic directions.
- A major reorganization, such as when the functions and resources of an administrative unit are transferred from one vice president to another (although a reorganization was listed by an institution in its reallocation submission, the Board Office staff did not accept this action as constituting a reallocation and it was not included for reporting purposes).
- Creation of a new faculty position that responds to enrollment growth.
- Establishment of a new program to address a strategic opportunity.

Recommended Action by the Board

Based on our analysis of the issues surrounding the current reallocation policy, we believe that the Board of Regents needs to take the following action(s):

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- 1) **Determine whether to reaffirm the need for a reallocation policy.** The current policy was enacted to have a five-year life (see minutes of May 1996 meeting). Since this period has now expired, the initial question facing the Board is whether some type of reallocation policy needs to be continued. Some might believe that reallocation has been successfully accomplished and the policy can now be dropped. However, others might view ongoing, purposeful reallocation as the key to continuous improvement and find the need to retain the policy.

Another factor to consider in deciding whether to reaffirm the need for a reallocation policy is the cumulative impact of the many planned and unplanned reallocations that have been necessary during the past year in responding to the significant reduction in state appropriations. In other words, the institutions may have already reallocated to such an extent (approaching 25%) that a period of greater stability may be needed.

If the Board reaffirms the need for a reallocation policy, we recommend two additional actions.

- 2) **Develop a clear definition of what types of reallocation activity are expected.**

In order for the Board to communicate effectively with institutional and Board Office staff about its intent for any new reallocation policy, we believe the Board needs to discuss the three issues (who, how and what) that were described in the preceding section. We have prepared the following list of questions to assist the Board in its discussion of reallocation issues.

- a) Who within the institutions should make reallocation decisions?

- the presidents
- the provost and/or vice presidents
- deans and directors
- combinations of the above

- b) How should the pool of reallocation dollars be created?

- position vacancies
- salary savings on position turnover
- across-the-board assessments
- targeted, strategic reductions
- other techniques as identified by the Board

- c) What types of actions constitute a reallocation?

- reassignment of current personnel to other duties within the same unit
- replacement of departing personnel with new staff in same unit but with different duties
- reorganization of functions across major administrative units
- transfer of positions to units with rapidly growing demand from units with no or little growth
- establishment of new programs, services or locations

- 3) ***Design a reporting system that permits the institutions to demonstrate progress toward achieving the Board's goals.*** Once the Board of Regents has fully discussed approaches to reallocation and clarified its goals for an ongoing reallocation policy, the Board Office staff should modify the existing governance reports related to reallocation to reflect policy clarifications. For instance, the new reporting format might call for information about whether reallocations were institution-wide or within colleges and about the source of funds being reallocated as well as type of activities being supported.

REALLOCATIONS

BOARD OF REGENTS, STATE OF IOWA

Background

The Board of Regents challenges the Regent institutions to become the best enterprise of public education in the United States, reflecting the Board's emphasis on excellence and quality as detailed in its strategic plan.

Successful strategic planning depends, in part, upon the best use of available resources. A reallocation policy provides the flexibility to address changing needs but also to focus resources in order to achieve improvements in quality. The Regent institutions use the reallocation process to redirect expenditures from certain programs and services to other areas that support the strategic objectives of the Board and the institutions.

In accordance with its strategic planning goals to increase effectiveness and efficiency, the Board approved a five-year program, beginning in FY 1997, requiring each Regent institution to reallocate at least 2% of its budget each year. This reallocation policy is intended to ensure that the institutions use existing resources to improve quality but also to achieve efficiencies.

The policy is not intended to be a budget reduction mechanism. Rather, it is an important strategic mechanism (1) to maintain current operations e.g., help pay for inflationary costs and for costs due to changes in student demand (reactive); and (2) to improve quality by redirecting the resources needed to build excellence or engage in new opportunities (proactive).

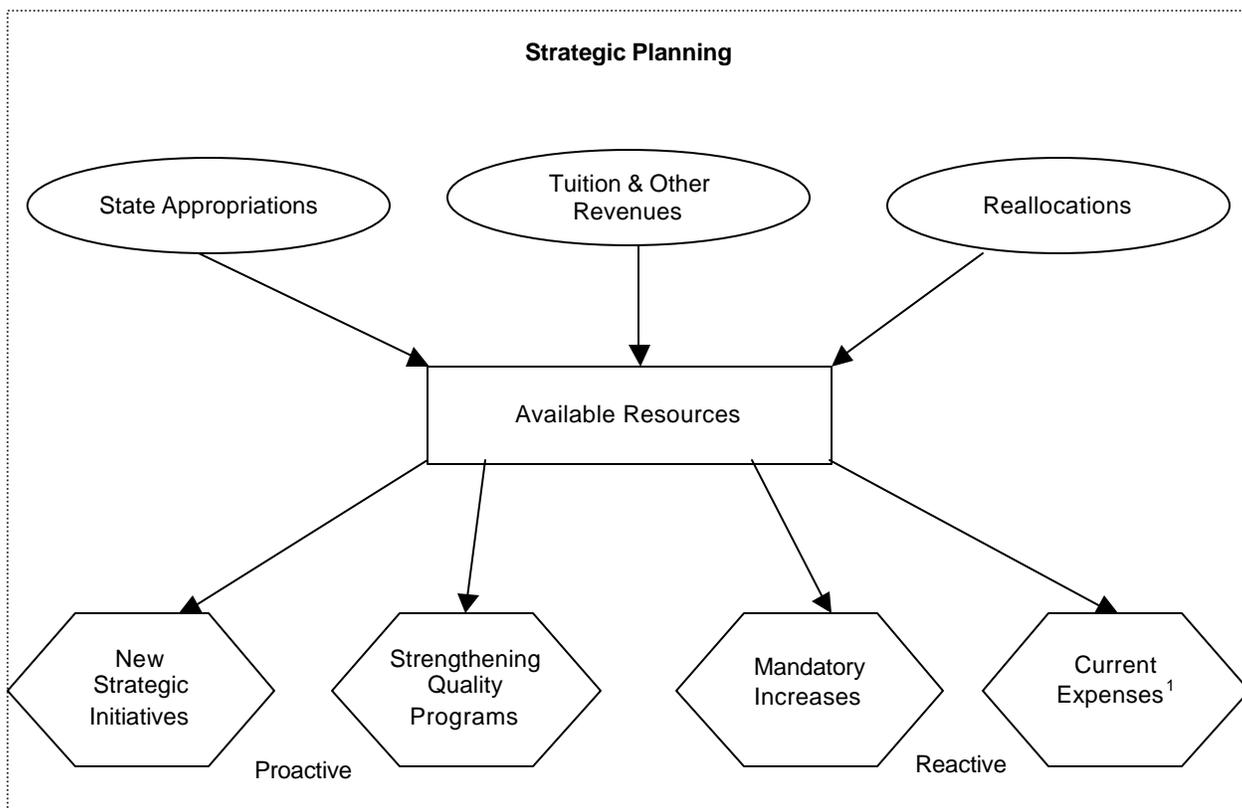
Reallocations may involve both permanent and temporary shifts in the use of resources. An example of a permanent shift would include a permanent reduction in a department's budget as a result of decreased need/priority or an efficiency gained (dollars saved) from reorganizing or implementing a new system (e.g., a more efficient administrative process). An example of a temporary shift would be reallocation of positions to accommodate temporary fluctuations in enrollments (e.g., student demand for biology courses).

Reallocations As Part of Board Budgeting Process:

The Board's annual budgeting process includes review and approval of reallocations, which are planned and administered at the institutional level. Institutions solicit budgetary input from their colleges and departments. For a given fiscal year, the institutions prioritize departmental funding requests based on (1) legislative appropriations, (2) estimated tuition revenues, and (3) identified reallocations averaging 2% of existing resources.

The institutions then make funding decisions based upon their strategic plans. Since a portion of the institutional budgets are dedicated to fixed cost items such as utilities,

audit reimbursements, and student financial aid, one of the first distributions of reallocations normally is to address mandatory increases not funded by appropriations. In the following chart, Board and institutional strategic plans shape both the development of revenue sources and the expenditure of resources.



¹ Current expenses include salary increases, course costs to meet student demand, and technology.

Detailed Budget Submissions

The preliminary general fund institutional operating budgets are presented to the Board in May and June, with final budget presentations in July. The institutions submit detailed budgets that include: spreadsheets with line item details of revenues and expenditures; tables with general information about the source and use of reallocations; extensive narratives outlining proposed utilization of new state appropriations, new tuition revenues, uses for the reallocated funds; and a composite institutional summary highlighting the details of the budget.

There are two frequent reallocation methods utilized by the institutions in developing their budget submissions: (1) funds are collected and pooled, then reallocated based upon strategic priorities; or (2) funds are allocated by direct transfer from low demand areas to increased demand areas. In developing the budgets, the institutions work closely with the colleges and departments. It is important for the institutions to retain flexibility in reallocating resources in order to provide the necessary incentives to make tough decisions that effectively implement the institutional strategic plans at all levels.

Board Office staff review and analyze the institutional submissions, including reallocations, before docketing the budgets for Board consideration. Examples of university submissions for analysis during the budgetary review and approval process are included as exhibits to the Board’s docket materials.

Governance Reports

The Board utilizes an annual governance report to measure the financial management of the Regent institutions. This comprehensive fiscal report, presented each October, compares actual revenues and expenditures with Board-approved budgets for the fiscal year just completed, identifies significant variances, highlights strategic planning initiatives, summarizes actual uses of funding increases, and discusses institutional accomplishments for improved efficiency and effectiveness. Reallocations are specifically identified and reported upon in this comprehensive fiscal report.

The Board also reviews institutional progress on strategic planning goals and performance indicators in November and December of each year. These reports are designed to measure progress, ascertain trends, and provide needed information for setting policies and priorities.

FY 1999 Reallocations:

FY 1999 budgets for the Regent institutions reflect internal reallocations totaling \$24.8 million as follows:

<u>Institution</u>	<u>FY 1998 Budget</u>	<u>FY 1999 Reallocations</u>	<u>Reallocations as a % of Budget</u>
University of Iowa	\$355,757,868	\$13,839,000	3.9%
Iowa State University	346,381,330	7,367,642	2.1%
University of Northern Iowa	112,805,041	2,884,408	2.6%
Iowa School for the Deaf	7,559,724	157,000	2.1%
Iowa Braille & Sight Saving School	<u>4,316,427</u>	<u>551,666</u>	<u>12.8%</u>
Total	<u>\$826,820,390</u>	<u>\$24,799,716</u>	<u>3.0%</u>

The following pages provide an overview of reallocations by institution from materials submitted to the Board as part of the Regent budget approval process and include:

1. Copies of tables from each university identifying the sources and uses of reallocations; and
2. Descriptions of specific reallocations that occurred during FY 1999.

SUMMARY OF REALLOCATIONS
 FY 1999

UNIVERSITY OF IOWA*

From:

Business Administration	498,000
Education	1,215,000
Engineering	1,022,000
Law	270,000
Liberal Arts	1,950,000
Graduate College	400,000
Library	334,000
Medicine	500,000
Dentistry	500,000
Pharmacy	193,000
Nursing	113,000
Provost	1,027,000
VP Research	2,316,000
VP Student Services	81,000
VP Finance and University Services	<u>3,420,000</u>
Total Reallocations	13,839,000

To

Collegiate Reallocations	6,995,000
Central Investment Research Fund	500,000
Biosciences Initiative	980,000
Central Research Facilities	650,000
Arts and Humanities Initiatives	150,000
Health Protection Office	36,000
Student Services Strategic Planning Initiatives	81,000
Strategic Reallocations-Provost	1,027,000
Indirect Cost Return Incentive Program	750,000
Partial Amortization of Capitalized Systems Cost	360,000
Human Resources - Design and Implementation	645,000
Accounts Payable/Purchasing - Design and Implementation	434,000
Asset Management - Design and Implementation	130,000
Facilities Services Group Restructuring	661,000
New Space Maintenance and Utilities	<u>440,000</u>
Total Reallocations	13,839,000

* Excludes year-to-year funding of central building repair and equipment budgets which are reallocated each year to different projects - total \$15 million

IOWA STATE UNIVERSITY

From:

President	\$953,300
Provost	5,191,881
Vice President for Business and Finance	570,275
Vice President for Student Affairs	213,796
Vice President for External Affairs	<u>213,390</u>
Total Reallocations	<u>\$7,142,642</u>

To:

Undergraduate Education	\$2,767,966
Graduate Education and Research	2,167,006
Outreach and Extension	1,061,828
Stimulating and Supportive Environment	644,945
Information Technology	482,902
Economic Development and Environmental Stewardship	<u>17,995</u>
Total Reallocations	<u>\$7,142,642</u>

UNIVERSITY OF NORTHERN IOWA

From:

President	\$30,865
Academic Affairs	1,887,201
Educational and Student Services	207,637
Administration and Finance	753,705
University Marketing and Advancement	<u>5,000</u>
Total Reallocations	<u>\$2,884,408</u>

To:

1.0 Intellectual Vitality	
1.1 Create curricular and related learning activities	\$934,868
1.2 Sustain and reward teaching and scholarship	101,541
1.3 Extend university expertise to lowans and beyond	<u>102,735</u>
Subtotal	1,139,144
2.0 Community	
2.1 Promote sense of identity and a climate of collegiality	19,511
2.2 Create and nurture a diverse community within the university	<u>206,798</u>
Subtotal	226,309
3.0 Resources	
3.1 Enhance quality and productivity of faculty and staff	457,845
3.2 Optimize acquisition and utilization of resources	583,333
3.3 Promote a physical environment that supports university activities	187,060
3.4 Ensure information is easily accessible, accurate and widely shared	<u>223,055</u>
Subtotal	1,451,293
4.0 External Relations	
4.1 Create coordinated, comprehensive and consistent communication	62,406
4.2 Pursue and strengthen external relationships	<u>5,256</u>
Subtotal	67,662
Total Reallocations	<u>\$2,884,408</u>

EXAMPLES OF REALLOCATIONS
FY 1999

University of Iowa

- The University of Iowa utilized reallocations to establish programs in areas of increased demand such as environmental science (bachelors), social work (doctorate), oral health science (masters), women's studies (doctorate), physical therapy (doctorate), information management (bachelors, minor), computer science (masters), and applied physics (masters).
- In response to changes in student demand, the Tippie College of Business at the University of Iowa has reallocated significant levels of faculty effort from traditional research intensive Ph.D. programs to practitioner based MBA and other professional masters programs. The demand for these programs is so strong that the College now offers full regular MBA degree programs in four locations and executive MBA programs in two locations.
- In the University of Iowa College of Liberal Arts, when any faculty position (total of 660 positions) is vacated, the position is subject to redistribution by the Dean. A department may gain a faculty member due to increased student demand or an extraordinary faculty recruitment opportunity. Over the past two academic years, the overall number of faculty in the College has remained essentially static; yet 34 of the 44 departments have seen some change in the number of their faculty positions.
- SUI reassigned 11 employees to work on the new Human Resources System (payroll and fringe benefits). An annual reallocation of approximately \$645,000 was made in lieu of the practice at other Big 10 universities that have installed these software packages by engaging external consultants (with considerable costs for professional fees).
- The University of Iowa reallocated resources to the Biosciences and Arts and Humanities initiatives to supplement state funding received for those initiatives.

Iowa State University

- Iowa State University is in the process of eliminating the Social Work major, which will be implemented over a period of time to allow enrolled students to meet graduation needs. During FY 1999, no new students were admitted to the program. Faculty, staff, and support services were reallocated as demands for existing students diminished.
- The ISU College of Liberal Arts and Sciences reallocated funds (pooled from departments within the College) to Journalism and Mass Communication, Psychology, Statistics, and Zoology and Genetics. ISU targeted these areas because of the increased demand for courses.

- ISU also redistributed funds within the College of Liberal Arts and Sciences to the areas of Physics and Astronomy, Economics, and English due to faculty turnover. These resources were pooled for reallocation for other purposes, such as to Journalism and Mass Communication, Psychology, Statistics, and Zoology and Genetics, that had increased demands for courses.
- Iowa State University reallocated resources (from departments within the College of Engineering) to Electrical and Computer Engineering and Mechanical Engineering due to enrollment demands in these areas.
- College of Engineering funds were also reallocated due to faculty turnover in the areas of Aerospace Engineering and Engineering Mechanics and Industrial and Manufacturing Systems Engineering. These funds are pooled for reallocation within the department for other strategic priorities, such as to Electrical and Computer Engineering and Mechanical Engineering due to enrollment demands in these areas.
- Iowa State University expanded its Student Learning Communities by augmenting reallocated central university funds with increased tuition revenue funds. Learning Communities are part of the ISU strategic plan to improve undergraduate education. These communities have proven to be successful in increasing student retention.
- Iowa State University created a centralized “one-stop shop” – Solutions Center – to address telecommunications and computer networking questions and problems and strengthen the efficiency and effectiveness of the services in these areas.

University of Northern Iowa

- The University of Northern Iowa eliminated two positions in Anthropology following the departure of two faculty. The University had greater needs in other areas as determined by their strategic plan.
- UNI reallocated funding from vacated positions rather than refill the positions – these included Personal Wellness, Industrial Technology, and Political Science. The University redirected the resources to higher priority areas, such as to Criminology and Psychology for additional faculty to handle increased demand.
- The University of Northern Iowa reallocated funds to create a director position for the new honors program in the College of Social and Behavioral Sciences.
- UNI reallocated resources for minority recruitment and retention efforts to facilitate the University's diversity goals.

Special Schools

- The Iowa School for the Deaf reallocated resources from a vacant Assistant Superintendent position that has been difficult to fill and from the School's repair and maintenance budget.

- The Iowa School for the Deaf reallocated resources to upgrade the business office and physical plant to be Y2K compliant, to increase psychological services in the Student Services area, and to increase staff development and training.
- The Iowa Braille and Sight Saving School eliminated the Director of Residential Services position; duties were assumed by the Superintendent and the Director of Education. In addition, several classroom instructors were removed from all or part of their classroom duties. These reductions were an integral part of IBSSS' strategic plan to create a smaller more focused nine-month residential program.
- The Iowa Braille and Sight Saving School reallocated resources to summer programs, consultation with the LEA's and AEA's, and providing parent and professional training, which are necessary to accomplish goal #1 of their strategic plan – streamlining the residential program offering which will allow expanded summer school, AEA/LEA family services, as well as staff development training activities.

FY 2000 Reallocations:

Per the budgets approved in July 1999, reallocations for the current fiscal year (FY 2000) are planned as follows:

<u>Institution</u>	<u>FY 1999 Budget</u>	<u>FY 2000 Reallocations</u>	<u>Reallocations as a % of Budget</u>
University of Iowa	\$375,989,176	\$14,726,000	3.9%
Iowa State University	363,100,312	9,473,082	2.6%
University of Northern Iowa	118,346,031	3,583,644	3.0%
Iowa School for the Deaf	7,916,026	169,800	2.1%
Iowa Braille & Sight Saving School	4,456,387	183,731	4.1%
Total	<u>\$869,807,932</u>	<u>\$28,136,257</u>	<u>3.2%</u>

Reallocation specifics for FY 2000 will be reviewed in October 2000 as part of the FY 2000 Comprehensive Fiscal Report.

APPENDIX B
SUMMARY OF REALLOCATION PRACTICES
AT EACH REGENT UNIVERSITY

Background

One component of the Phase II Organizational Review that MGT is conducting for the Board of Regents focuses on the effectiveness of a reallocation policy that the Board adopted in 1996. In particular, the Board is interested in learning more about how the policy was implemented at each institution and whether the policy is having its intended effect of strategic redirection for the institutions. MGT's approach to reviewing the institutional practices in implementing the policy relied heavily on conducting interviews with designated campus officials.

Prior to scheduling the campus interviews, the MGT project staff first sought to gain a better understanding of the original intent for the current reallocation policy. MGT reviewed minutes of several Board of Regents meetings in early 1996 when the current policy was discussed and enacted and then reviewed notes of earlier (phase I) interviews with key Regents who helped develop the policy and later asked for the Phase II analysis. Additionally, MGT interviewed members of the Board Office staff who are charged with monitoring reallocation activity in compliance with the current policy.

Based on the preparatory work, MGT developed a set of interview questions to guide discussions at each campus about reallocation practices. The questions are listed in Exhibit 1.

EXHIBIT 1
DISCUSSION TOPICS FOR REALLOCATION PRACTICES INTERVIEWS

- 1) What was your understanding of the Board's intent when the policy on internal reallocations was implemented in 1997?
- 2) How does your internal allocation model distinguish among workload increases (e.g., enrollment growth), inflationary adjustments, and internal reallocation?
- 3) Did your institution change its process for internal allocations to comply with the Board's reallocation policy?
- 4) How do you document that a 2% pool of funds is created during the reallocation process?
- 5) Should the Regents renew the reallocation policy for another five-year period?

Campus interviews at the three universities were conducted in early June. Based on discussions with Board Office staff during an earlier project planning session, no interviews were conducted with staff at the Iowa School for the Deaf or the Iowa Braille and Sight-Saving School since the reallocation activity at these two schools had been easier to monitor. Exhibit 2 provides information about the interview schedules and participants.

**EXHIBIT 2
 INTERVIEW SCHEDULE AND ROSTER
 REALLOCATION PRACTICES**

Date	Location	Participants
May 8 th	Board Office	Pam Elliott Deb Hendrickson
June 10 th	University of Northern Iowa	Aaron Podolefsky Eunice Dell
June 11 th	Iowa State University	Mark Chidister Ellen Rasmussen
June 11 th	State University of Iowa	Doug True Doug Young Don Szeszycki Gary Fethke
June 12 th	Board Office	Pam Elliott Deb Hendrickson Joan Racki

In addition to conducting Board Office and campus interviews, the project staff also has reviewed a variety of internal documents prepared by university personnel related to internal reallocation efforts and the docket memos that report progress under the reallocation policy to the Board.

The remainder of this paper summarizes MGT's findings related to the five discussion questions listed in Exhibit 1.

Understanding of Board Intent

Participants at each university uniformly stated their understanding that the reallocation program was linked to the Board's interest in providing resources to pursue strategic initiatives. They further noted that part of the annual reporting process is designed to show how much is being reallocated and how it will be deployed for strategic goals.

Although the policy action by the Board of Regents in 1996 called for a minimum 10% reallocation over the coming five-year period, campus officials reported that the policy

had been unofficially interpreted as a 2% annual goal. They also noted that reporting on reallocation activity has been continued even though the five-year period for the program has concluded.

Beyond the understanding that 2% of their base budgets was to be reallocated annually for strategic initiatives, campus officials reported receiving little specific guidance when the policy was implemented in 1997 regarding such issues as:

- Were reallocations expected to occur primarily within individual colleges and administrative units (e.g., from one instructional department to another within the same college)?
- Were reallocations expected to move resources across colleges and major administrative units, but generally stay within each vice president's major division?
- Were reallocations expected to move resources across vice presidential areas (e.g., were dollars expected to move from administrative support units to instructional units or vice versa)?

Without specific guidelines from the Board about what might constitute a reallocation, and with the knowledge that the Board was already aware that the universities felt they were already achieving reallocations of at least 2% annually, each institution pursued compliance with the policy using its own concept of reallocation.

Description of Internal Allocation Model

During the interviews, campus officials were invited to describe their university's internal allocation process, and especially whether (and how) distinctions are made among workload increases (e.g., enrollment growth), inflationary adjustments, and internal reallocation. Since the recent reductions in state appropriations were thought to have caused changes in how internal allocations are handled, the question focused on more typical approaches used in previous years.

The three universities employ a relatively decentralized approach to budgeting. Using the academic units as an example, the college deans are empowered to shift base funds across their academic departments according to perceived need. The central budget office typically has provided inflationary adjustments when appropriated, and there have been efforts to use formula-based guidelines when distributing state appropriations to recognize workload increases.

For the most part, reallocation has occurred within the individual colleges. As such, central budget offices do not have the need to separately identify "reallocated funds" when budgets are announced to the colleges and major administrative units.

Changes in Internal Practices

Our review of the minutes of the 1996 Board meetings and the current interviews confirmed that the institutions did not experience great difficulty in reaching their

reallocation goals. In fact, the universities were so confident in 1997 that pre-existing allocation practices would be sufficient to meet the Board's expectations that the most noticeable change in campus allocation procedures was the development of reporting requirements to specifically identify reallocations. No attempt to reach the allocation target based on across-the-board assessments was described.

Nonetheless, campus officials report that the existence of the reallocation policy has led to a subtler attitude change about allocation practices. In particular, they believe administrators are much more conscious of opportunities for strategic change that come from position turnover. Even when a vacant position is refilled in the same department, strategic goals are considered in defining the vacancy. Further, any salary savings that come from replacing a senior professor with a lower paid entry-level faculty member are often swept into central pools by the deans or provosts to pursue strategic initiatives.

Documentation of Reallocation Amount

The typical process to document the amount of reallocation to the Board is for each dean (or equivalent administrator in the support areas) to submit an annual report of reallocation activity to the appropriate vice president. Officials in the central offices review college-level submissions to determine if the reported action seems like a reallocation, clarify the reports as necessary, and compile them into a campus-wide report to be submitted to Board Office staff. The Board Office staff then prepares highlights of campus submissions for inclusion in docket memos when the Board is asked to approve detailed operating budgets each June and to receive the comprehensive fiscal report each October.

Continuation of Reallocation Policy

Senior officials at each university report that they feel their institution has complied with the Board's current reallocation policy. As discussed earlier, the universities have encountered relatively little difficulty in reaching the annual 2% goal, and do not anticipate any significant operational problems if the policy is extended. Further, they have found the current process to be valuable in instilling a greater appreciation of the potential for using position turnovers as an opportunity for strategic change.

At the same time, university officials are concerned that there may be a perception that they have not always fully complied with the Board's intent on reallocation. They expressed a desire to engage in dialogue with the Board on its goals for a continuing reallocation policy to ensure that expectations are met.

**APPENDIX C
 EXTRACT OF REALLOCATION NARRATIVE FROM
 2000-01 OPERATING BUDGET APPROVAL REPORT
 AND 2000-01 COMPREHENSIVE FISCAL REPORT**

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
University of Iowa	<p>The FY 2001 budget reflects internal reallocations totaling \$10.9 million, which recognize both permanent and temporary shifts in the use of general education fund resources. The General University internal reallocations for FY 2001 represent 2.7% of the revised FY 2000 General University budget and are consistent with the Board's five-year program of reallocations averaging 2% per year.</p> <p>Some reallocation examples at SUI for FY 2001 include:</p> <ul style="list-style-type: none"> ■ The Tippie College of Business proposes to reallocate \$1.1 million of its faculty salary budget from resignations and retirements to add faculty in key high demand areas such as marketing, finance, management information systems, and entrepreneurship and to support Professional and Scientific staff who support technology enhanced instruction. ■ The College of Dentistry proposes to reallocate up to \$450,000 from faculty retirements and resignations to support faculty start-up costs, the clinical operation of the pre-doctoral clinics, the development and implementation of the new Oral Health Information System, and the new first and second year dentistry curriculum. The reallocations for curriculum will be in addition to the tuition surcharge approved by the Board for increasing faculty in procedure intense clinical areas and supporting technology related advances for the dental educational program. ■ The College of Education proposes to reallocate \$539,000, from faculty salary and fringe benefit funds created through vacancies and retirements, to nine newly hired assistant professors. As a result of the FY 2001 budget shortfall, the decision to hire an Associate Dean has been delayed, the North Central Association support will be reduced, financial support for the Institute of School Executives will be reduced, and several lecturers will not be rehired. 	<p>Reallocations of \$10.9 million were implemented as budgeted. Some examples include:</p> <ul style="list-style-type: none"> ■ The Tippie College of Business reallocated \$1.1 million of its faculty salary budget from resignations and retirements to add faculty in key high demand areas such as marketing, finance, management information systems, and entrepreneurship and to support Professional and Scientific staff who support technology enhanced instruction. ■ The College of Dentistry reallocated \$450,000 from faculty retirements and resignations to support faculty start-up costs, the clinical operation of the pre-doctoral clinics, the development and implementation of the new Oral Health Information System, and the new first and second year dentistry curriculum. ■ The College of Education reallocated \$539,000, from faculty salary and fringe benefit funds created through vacancies and retirements, to nine newly hired assistant professors.

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
University of Iowa (Cont'd)	<ul style="list-style-type: none"> <li data-bbox="468 326 1161 675">■ The College of Liberal Arts proposes: \$130,000 from the College's visiting faculty budget to increase the faculty travel and departmental general expense budgets; \$300,000 from faculty lines to instructional equipment; \$105,500 from the staff budget to create three new positions in the Dean's office; \$273,500 within the College's teaching assistant budget to support new interdisciplinary and international initiatives including the Crossing Borders project, the FLARE Ph.D. program, and the Center for New Music; \$900,000 from faculty lines distributed for new faculty in African American World Studies, Anthropology, Art and Art History, Biological Sciences, Communication Studies, Comparative Literature, and Computer Science. <li data-bbox="468 735 1161 813">■ The College of Law proposes to reallocate \$100,000 from collegiate salary funds to pay for the costs of the Law Library/ITS data ports project. <li data-bbox="468 846 1161 1005">■ The College of Medicine proposes to reallocate approximately \$650,000 created through faculty retirements and resignations for the development of interdisciplinary graduate programs, to provide bridge support to faculty between grants and contracts, and to address the cost of recruiting new department heads. 	<ul style="list-style-type: none"> <li data-bbox="1182 326 1875 703">■ The College of Liberal Arts reallocated the following: \$130,000 from the College's visiting faculty budget to increase the faculty travel and departmental general expense budgets; \$300,000 from faculty lines to instructional equipment; \$105,500 from the staff budget to create three new positions in the Dean's office; \$273,500 within the College's teaching assistant budget to support new interdisciplinary and international initiatives including the Crossing Borders project, the FLARE Ph.D. program, and the Center for New Music; \$900,000 from faculty lines distributed for new faculty in African American World Studies, Anthropology, Art and Art History, Biological Sciences, Communication Studies, Comparative Literature, and Computer Science. <li data-bbox="1182 735 1875 813">■ The College of Law reallocated \$230,000 from collegiate salary funds to pay for the costs of the Law Library/ITS data ports project. <li data-bbox="1182 846 1875 1005">■ The College of Medicine reallocated \$650,000 created through faculty retirements and resignations for the development of interdisciplinary graduate programs, to provide ridge support to faculty between grants and contracts, and to address the cost of recruiting new department heads. <li data-bbox="1182 1037 1875 1086">■ The College of Public Health reallocated \$200,000 from vacancies to upgrade technology for teaching and research.

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
Iowa State University	The FY 2001 budget reflects reallocations totaling \$8.6 million, a \$1.0 million increase over the amount presented in June. The ISU internal reallocations represent 2.3% of the revised FY 2000 budget and are consistent with the Board's five-year program for reallocations averaging 2% per year. For FY 2001, ISU proposes to use \$3.5 million of the reallocations to address the budget shortfall and \$5.1 million for programmatic reallocations.	<p>Reallocations of \$8.6 million were implemented as budgeted. Some examples include:</p> <ul style="list-style-type: none"> ■ The Academic Administration restructured units reallocating funds to Instructional Development, Honors, Instructional Technology, Center for Teaching Excellence, Career Services, and International Education Services. ■ Academic Information Technology reallocated funds from operating salaries through program restructuring to ACROPOLIS authentication and Virtual Web Hosting. ■ The Library reallocated funds from faculty salaries and print materials to information technology staff support and electronic materials. ■ The College of Agriculture reallocated funds from retirements across departments to faculty and staff positions in Plant Pathology, Forestry, Sociology, Food Science/Human Nutrition, and Animal Science. ■ The College of Business reallocated funds from Finance to Logistics, Operations, and Management Information Systems for faculty. ■ The College of Design reallocated funds from administration and graduate education to systems support specialists, distance education, and undergraduate education. ■ The College of Education reallocated funds from joint appointments to faculty, staff, and administrative positions; restructuring in curriculum and instruction; Health and Human Performance; and Teacher Education. ■ The College of Engineering reallocated funds from Administration, Civil and Construction Engineering, Chemical Engineering, Biomedical Engineering, Alumni Relations, and Special Events to faculty chair positions in Aerospace Engineering and Mechanical Engineering; faculty position in Transportation; faculty start-up packages; Communications /Marketing Services; and research initiatives.

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
Iowa State University (Cont'd)		<ul style="list-style-type: none"> ■ The College of Family and Consumer Sciences reallocated funds from career services programs and reassigned positions to Human Development and Family Studies; Hotel, Restaurant, and Institutional Management; Family and Consumer Education Studies; and Student Services. ■ The College of Liberal Arts and Sciences reallocated funds from vacant positions and implemented adjustments in programs to establish new chaired positions in Biochemistry / Biophysics /Molecular Biology and Chemistry; new faculty position in Computer Science, Math, Bioinformatics; and provided funding for equipment, supplies, and services. ■ The College of Veterinary Medicine reallocated funds from faculty retirements to faculty positions in Biostatistics and Internal Medicine; and a system support specialist position.
University of North Iowa	<p>The FY 2001 budget reflects internal reallocations totaling \$4.9 million which recognizes both permanent and temporary shifts in the use of general education fund resources. The UNI internal reallocations for FY 2001 represent 3.9% of the revised FY 2000 budget and are consistent with the Board's five-year program of reallocations averaging 2% per year.</p> <p>For FY 2001, UNI proposes to use its reallocations entirely for maintenance of quality to meet mandatory budget increases rather than quality improvement. UNI normally reallocates by moving funds from various budget lines to a pool and from that pool to different areas of need. Funds from a particular line may, therefore, be reallocated to a number of different uses. Reallocations may occur within units or among them. For example, this year the Provost's office required each college, the library, and the Information Technology Support to distribute to the Provost office for reallocation a portion of salary dollars based on the number of faculty and staff who had resigned or retired.</p> <p>Specific examples of reallocations proposed by the University of Northern Iowa for FY 2001 include the following:</p> <ul style="list-style-type: none"> ■ Academic Affairs, the Provost's area, has the largest amount of the proposed reallocations (\$4.2 million). 	<p>Reallocations of \$4.9 million were accomplished substantially as budgeted. Rather than reallocating funds to make progress on the University's strategic plan, reallocations were required to meet mandatory cost increases. Examples of reallocations include:</p> <ul style="list-style-type: none"> ■ Academic Affairs, the Provost's area, has the largest amount of the reallocations (\$4.2 million).

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
University of North Iowa (Continued)	<ul style="list-style-type: none"> - Identified sources (from): open lines of colleges; office equipment and supplies; provost office salaries and wages; electronic technicians; College of Natural Sciences student wages; and College of Business faculty (1 resignation and 5 phased retirements). - Identified use (to): Performing Arts Center operations and programs; budget shortfall areas; library inflation; PC support coordinators, trainer, instructional designer, and systems administrator; College of Natural Science undergraduate research stipends; and College of Business academic advisor and two faculty in high demand areas. - Academic Affairs proposed to reallocate funds to provide new positions for essential areas including Communication Studies, Art Department, and Social and Behavioral Sciences. ■ Reallocations are proposed from equipment line items to backfill positions for the implementation of the Modern Executive Management and Financial Information Systems (MEMFIS), the University's new administrative systems. ■ Campus-wide, internal reallocations are being proposed to fund inflation for supplies and services, library materials, and equipment. These reallocations are essential to maintain quality of existing programs and services. ■ Reallocations of student wages, as necessary, are proposed to protect as many permanent positions and critical overtime budgets that are essential for operating the campus environment services (i.e. electric and steam support, facility heating ventilation and air conditioning, information technology). ■ The Graduate College is reallocating funds from within the College to increase thesis and dissertation assistance and for management of the University's intellectual property. 	<ul style="list-style-type: none"> ■ Reallocations were made from equipment line items to backfill positions for the implementation of the Modern Executive Management and Financial Information Systems (MEMFIS), the University's new administrative systems. ■ Campus-wide, internal reallocations were made to fund inflation for supplies and services, library materials, and equipment. ■ Reallocations of student wages were used to protect as many permanent positions and critical overtime budgets that are essential for operating the campus environment services (i.e. electric and steam support, facility heating ventilation and air conditioning, information technology). ■ The Graduate College reallocated funds from within the College to increase thesis and dissertation assistance and for management of the University's intellectual property.

INSTITUTION	APPROVAL OF FY 2001 DETAILED OPEATING BUDGET	COMPREHENSIVE FISCAL REPORT FOR FY 2001
Iowa School for the Deaf	<p>ISD internal reallocations of \$178,862 represent 2.1% of the FY 2000 revised budget and are consistent with the Board's five-year program for reallocations averaging 2% per year. The School proposes to reallocate funds from the Deaf Resources Center, building repair/maintenance, equipment, faculty support, and residential support for the following purposes:</p> <ul style="list-style-type: none"> ■ \$50,662 for student enrichment ■ \$20,000 for food; ■ \$2,000 for audit expenses; ■ \$2,924 for utility expenses; ■ \$19,576 for increases in operational costs in the educational units and the residential program; ■ \$50,000 for increases in health and dental benefits; and ■ \$33,700 for administrative support of the institutional program. 	<p>Reallocations of \$178,862 were accomplished substantially as budgeted.</p> <ul style="list-style-type: none"> ■ The reallocation of resources from the Deaf Resource area has provided increased student instructional time in the area of sign language development as it relates to written English. ■ Savings from a retired faculty position being filled with staff at a lower salary and a Residential Support staff position not being filled were reallocated to purchase doors, which will meet the Fire Marshall requirements as sited in the most recent State Fire Marshall Report. ■ Additional reallocations occurred in order to cover greatly increased utility costs associated with higher natural gas prices and colder than anticipated winter months.
Iowa Braille and Sight Saving School	<p>Reallocations assist the School in achieving its primary mission and strategic planning objectives. Increased revenues and reallocations will be used for mandatory cost increases and strategic planning initiatives increases as identified in the budget summary on page 8. A substantial portion of IBSSS' reallocations support its Focusing Services strategic planning initiative, specifically the implementation of the school's reorganization plan as approved at the March 2000 Board meeting.</p> <p>The Focusing Services strategic planning initiative will allow the School to offer:</p> <ul style="list-style-type: none"> ■ A smaller, more focused nine-month residential program option; ■ Alternative placement options including expanded summer programs and short-term placements; and ■ Parent and professional development programs that support students in their local school placement settings. 	<p>Reallocations of \$488,166 were accomplished substantially as budgeted. The school recognized salary, equipment, supply, and service savings that were redirected to building repair projects.</p>