

MEMORANDUM

To: Board of Regents
From: Board Office
Subject: Regent Reallocation Policy
Date: September 8, 2003

Recommended Action:

Review the proposed reallocation policy.

Executive Summary:

In September 2002, the Board reaffirmed the need for a reallocation policy for the next five years and requested that the Board Office work with the institutions to 1) develop a clear definition of reallocations, and 2) design a consistent reporting mechanism.

In May 2003, proposed definitions of reallocations were presented to the Board. At that time, the Board accepted the definitions for the FY 2004 budget process but requested that reallocations be redrafted to provide more strategic direction to the institutions for implementation during the FY 2005 budget process. A concern was expressed that the definition, as written, did not require the institutions to make strategic changes and could adversely impact the quality of the institutions.

The Board Office recommends that this proposal be added to the Regent Policy Manual. In keeping with established Board protocol for policy manual changes, the proposed reallocation policy will be brought back to the Board for approval in October.

**Proposed
Reallocation Policy**

This proposed reallocation policy would require each institution to reallocate at least 1% of its continuing base general fund budget for focused strategic initiatives. Although this percentage is lower than previously required for reallocations, the Board Office believes it is a more strategically-focused approach.

This proposal segregates reallocations from the shifting of resources that occurs during the normal budgetary process. During the Board's budget development process, the institutions would fully describe strategic initiatives to be funded by reallocations. All criteria outlined on page 5 would need to be addressed.

The institutions would still be expected to use good management practices to meet any budget shortfalls, unfunded compensation increases, and mandatory cost increases, but those shifts would no longer be considered reallocations.

In addition to identifying reallocations in the budget process, this proposal requires that the institutions describe results/progress of the initiatives funded by reallocations as part of the annual comprehensive fiscal report.

The Board Office also recommends that an evaluation of the reallocation policy be conducted every five years.

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. Successful strategic planning depends, in part, upon the best use of available resources.

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. This reallocation policy was intended to ensure that the institutions use existing resources to improve quality and achieve efficiencies.

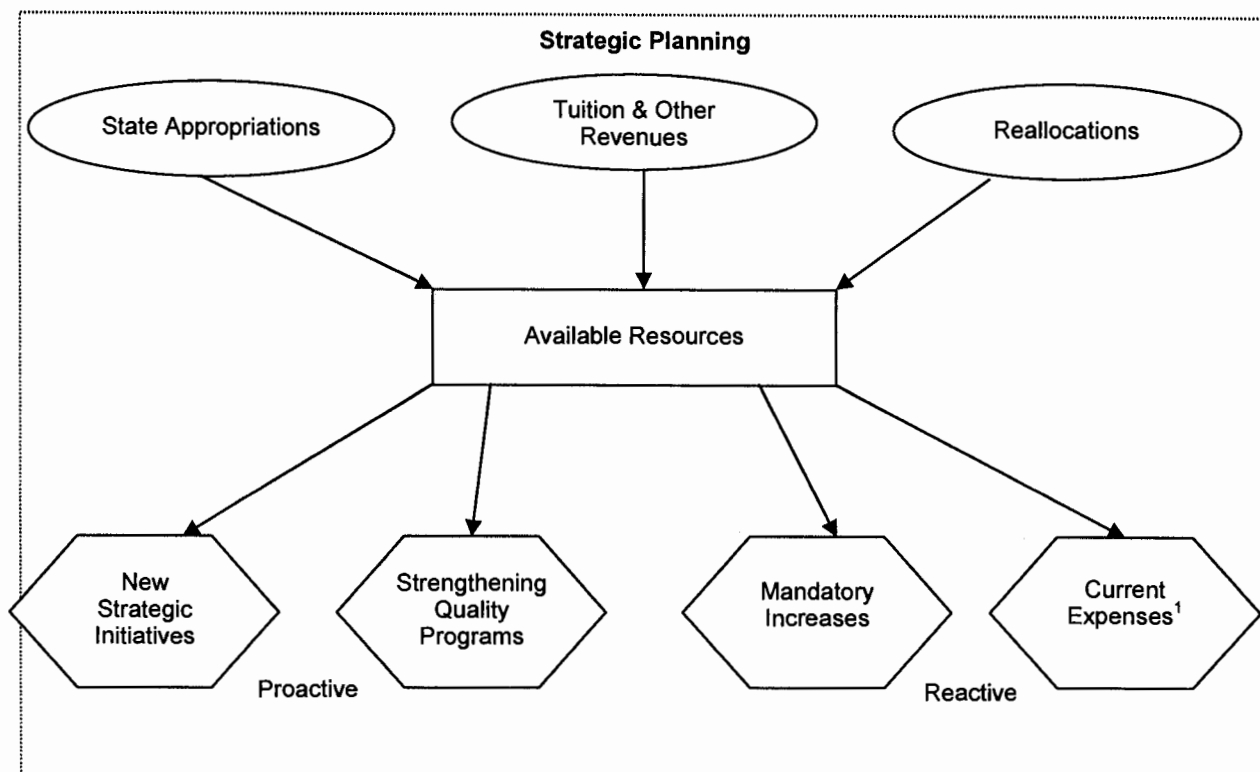
The Board's reallocation policy was not intended to be a budget reduction mechanism. Rather, it was an important strategic means whereby the Regent institutions demonstrate the redirection of resources (1) to maintain current operations e.g., help pay for inflationary costs and for costs due to changes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

Reallocations have involved 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).

There have been two basic reallocation methods utilized by the institutions: (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 within the same unit. 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 to provide the necessary incentives to make tough decisions that effectively implement the institutional strategic plans at all levels.

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.

The institutions successfully met the goals of the Board's original five-year reallocation program of at least 2% per year as illustrated on the following table.

Institutional Reallocations

	Actual FY 1997	Actual FY 1998	Actual FY 1999	Actual FY 2000	Actual FY 2001
SUI	8,825,168 2.6%	11,486,025 3.4%	13,839,000 3.9%	14,726,000 3.9%	10,860,900 2.7%
ISU	6,574,764 2.5%	7,012,612 2.1%	7,367,642 2.1%	9,473,082 2.6%	8,606,746 2.3%
UNI	7,099,000 6.6%	2,610,231 2.4%	2,884,408 2.6%	3,583,644 3.0%	4,913,200 3.9%
ISD	223,991 3.1%	131,541 1.8%	157,000 2.1%	169,800 2.1%	178,862 2.1%
IBSSS	293,932 7.0%	179,000 4.2%	551,666 12.8%	183,731 4.1%	488,166 10.8%
	23,016,855	21,419,409	24,799,716	28,136,257	25,047,874

Analysis:

The Board's annual budget process includes review and approval of institutionally planned reallocations. For a given fiscal year, the institutions sources of funding are based on (1) legislative appropriations, (2) estimated tuition revenues, and (3) identified reallocations.

Recent Regent budget practice has been to utilize reallocations to address mandatory cost increases and fixed cost items such as additional compensation, utilities, and audit reimbursements that were not funded by state appropriations.

With the significant reductions in state appropriations in FY 2002 and subsequent years, the Board authorized the institutions to utilize a portion of the reallocations to make up for the budget shortfalls beginning in FY 2002.

The Board Office reviewed the institutional reallocations from FY 2002 through FY 2004. The reallocations utilized for budget shortfalls, compensation increases, and mandatory cost increases were eliminated from the reported reallocations. The remaining strategic initiatives components averaged between 1.2% and 1.7% of budgets and represented a wide variety and number of strategic reallocations.

Proposed Changes

The proposed changes in the reallocation policy direct the institutions reallocations to focus on identifiable strategic initiatives and separate the reallocations from the normal expected budgetary shifting, as well as the budgetary adjustments necessary for appropriations reductions and mandatory cost increases. While these budgetary issues will continue to be identified and reported in the budget process, they will not be considered a part of reallocations.

The following represents the key components of the proposed reallocation policy for FY 2005 through FY 2009:

- Each institution must reallocate at least 1.0% of its continuing base general fund budget for focused strategic initiatives.
- Each initiative must be fully described, similar to initiatives requesting state appropriations or outside funding, and should address the following criteria:
 - Relationship of initiatives to institutional strategic plans.
 - Other proposed funding source requests, such as state appropriations or tuition, for similar or connected initiatives.
 - Benefits associated with initiatives to the institution and/or the state such as:
 - Desired outcomes of initiatives
 - Potential for enhancement of external funding (leveraging of resources)
 - Expected impact on the state's economic development
- The institution is to describe results/progress of the initiatives funded by reallocations as part of the annual comprehensive fiscal report.
- The institution would have the option to provide a summary, in general terms, from where the reallocated funding was accumulated for these initiatives.
- The reallocation policy will be reviewed every five years.

Deb A. Hendrickson Approved: Gregory S. Nichols
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