

2014-16 Postsecondary Education Budget Recommendation Strategic Investment and Incentive Trust Funds

The *Postsecondary Education Improvement Act of 1997* (HB 1) created six Strategic Investment and Incentive Trust Funds to bring about change and improvement in Kentucky's colleges and universities by providing strategic financial incentives that advance the state's goals for postsecondary education. These trust funds are listed below.

1. Research Challenge Trust Fund
2. Comprehensive University Excellence Trust Fund
3. Technology Initiative Trust Fund
4. Physical Facilities Trust Fund
5. Postsecondary Education Workforce Development Trust Fund
6. Student Financial Aid and Advancement Trust Fund

When the General Assembly provides appropriations for the trust funds, they typically are maintained and administered by the Council on Postsecondary Education, but represent resources that are passed through to postsecondary institutions based on compliance with Council approved program guidelines. The purpose of such funds is to accelerate statewide achievement of reform goals.

- The Council staff recommends an appropriation of \$8,850,000 in 2015-16, recurring in subsequent years, to pay debt service on a \$95.0 million bond issue that supports two Strategic Investment and Incentive Trust Fund programs.

Major components of the 2014-16 Trust Funds recommendation include Bucks for Brains and a new Workforce Development Match Program (Table 1). Each of these components is described in more detail below.

Table 1: Components of 2014-16 Trust Funds Request

Description	2014-15	2015-16
Additional Budget Requests For:		
Bucks for Brains (Debt Service)	\$0	\$8,382,000 ^(a)
Workforce Development Match Program (Debt Service)	0	468,000 ^(b)
Total Trust Funds Request	\$0	\$8,850,000

^(a) Debt service on a \$90.0 million bond issue for Bucks for Brains.

^(b) Debt service on a \$5.0 million bond issue for the Workforce Development Match Program.

Bucks for Brains

The Bucks for Brains program is not new. For about 15 years, Bucks for Brains has been a key strategic funding component of Kentucky's postsecondary reform agenda. The program matches public dollars with private donations to encourage research at the University of Kentucky and the University of Louisville and to strengthen key programs at Kentucky's comprehensive universities.

Since 1998, the General Assembly has provided four rounds of funding for the Bucks for Brains program, totaling \$410 million. About 85 percent of that total (\$350 million) was appropriated to Kentucky's two research universities and 15 percent (\$60 million) was distributed to the state's six comprehensive institutions.

The state's investment in this program has been used to leverage an additional \$410 million in private contributions through a dollar-for-dollar matching feature. When fully matched, a total of \$767.9 million will have been added to public university endowments and a total of \$52.1 million will have been used to support construction of new research facilities at the University of Kentucky (\$43.8 million) and education and general (E&G) facilities at the comprehensive universities (\$8.3 million).

The Council's 2011-15 Strategic Agenda calls for Kentucky universities to increase basic, applied, and translational research to create new knowledge and economic growth. To accomplish this aim, it highlights the importance of securing additional funding for a research matching program and of exploring new funding approaches to maximize research, *Kentucky Innovation Act* investments, and multi-campus collaborations. In keeping with this objective, Council staff recommends a fifth round of funding for Bucks for Brains.

- The staff recommends that the Council request an appropriation of \$8,382,000 in fiscal year 2015-16, recurring in subsequent years, to pay debt service on a \$90 million bond issue for the Bucks for Brains program.

If approved by the Council and authorized by the General Assembly, \$75.0 million in bonded funds will be allocated to the Research Challenge Trust Fund (RCTF) for distribution to the research universities, and \$15.0 million will be allocated to the Comprehensive University Excellence Trust Fund (CUETF) for distribution to the comprehensive universities (Table 2).

Table 2: Components of 2014-16 Bucks for Brains Request

Description	2014-15	2015-16
Additional Budget Requests For:		
Research Challenge Trust Fund (debt service)	\$0	\$6,984,000 ^(a)
Comprehensive University Excellence Trust Fund (debt service)	0	1,398,000 ^(b)
Total Bucks for Brains Request	\$0	\$8,382,000

^(a) Debt service on a \$75.0 million bond issue for the RCTF.

^(b) Debt service on a \$15.0 million bond issue for the CUETF.

The \$75.0 million in bonded RCTF appropriations will be allocated two-thirds to the University of Kentucky (\$50.0 million) and one-third to the University of Louisville (\$25.0 million) in accordance with statutory requirements of the Research Challenge Trust Fund outlined in KRS 164.7917.

The \$15.0 million in bonded CUETF appropriations will be allocated among the comprehensive universities in accordance with statutory requirements of the Comprehensive University Excellence Trust Fund outlined in KRS 164.7919 (i.e., based on each institution's share of total comprehensive university net General Fund appropriations). The resulting distribution is shown in Table 3 below.

Table 3: Allocation of Requested 2014-16 CUETF Funds

Institution	2012-13 Net General Fund	Percent of Total	Distribution
Eastern Kentucky University	\$67,673,700	22.6%	\$3,389,000
Kentucky State University	23,537,400	7.9%	1,180,000
Morehead State University	41,016,400	13.7%	2,054,000
Murray State University	48,005,800	16.0%	2,404,000
Northern Kentucky University	46,835,100	15.6%	2,346,000
Western Kentucky University	72,425,200	24.2%	3,627,000
Total CUETF Allocation	\$299,493,600	100.0%	\$15,000,000

Institutional allocations for the 2014-16 Bucks for Brains recommendation are shown in Attachment D.

Workforce Development Match Program

The Workforce Development Match Program is a new initiative that is being developed by Council staff and KCTCS officials. The proposed program will support KCTCS workforce education and training activities to create a labor force that stimulates business development, creates better jobs and a higher standard of living, and facilitates Kentucky's transition to a knowledge-based economy.

The Council's 2011-15 Strategic Agenda calls for strengthening and expansion of higher education partnerships with businesses and industry, government, non-profit, and other educational entities to meet Kentucky's workforce and community development needs. In keeping with this objective, the Council staff recommends funding for a new Workforce Development Match Program for KCTCS.

- The Council staff recommends an appropriation of \$468,000 in 2015-16, recurring in subsequent years, to pay debt service on a \$5.0 million bond issue that supports the creation of a new Workforce Development Match Program.

If approved and authorized, \$5.0 million in bond funds will be allocated to the Postsecondary Education Workforce Development Trust Fund for distribution to KCTCS upon submission and approval of funding requests that meet guideline requirements for the program. Disbursed funds will be matched dollar-for-dollar with external source contributions and the resulting total will be added to the endowment of a requesting institution to provide a perpetual source of funding for workforce development initiatives. Proceeds from the endowment will be used to support faculty and staff positions, student scholarships, and workforce education and training infrastructure.

Program Guidelines and Reporting Procedures

In coming months, a work group comprised of Council staff and campus officials will review and discuss the 2008-10 Bucks for Brains Program guidelines and reporting procedures for the purpose of developing guidelines and procedures for 2014-16. At the same time, staff will work with KCTCS officials to draft Workforce Development Match Program guidelines. If funding for these programs is authorized by the General Assembly, it is anticipated that Council staff will present draft guidelines and revised reporting procedures for the 2014-16 Bucks for Brains Program and Workforce Development Match Program for Council review and discussion at the June 20, 2014, meeting.

Staff preparation by Bill Payne and Scott Boelscher

Kentucky Public Postsecondary Institution
Strategic Investment and Incentive Trust Funds

Bucks for Brains Program

<u>Sector/Institution</u>	<u>Statutory RCTF Allocation Factors</u>	<u>Allocation Percentages</u>	<u>Bucks for Brains Dollar Allocation</u>
Research Sector			
University of Kentucky	2/3	66.7%	\$50,000,000
University of Louisville	1/3	33.3%	25,000,000
Subtotal		100.0%	\$75,000,000

<u>Sector/Institution</u>	<u>2012-13 Net General Fund</u>	<u>Percent of Total</u>	<u>Bucks for Brains Dollar Allocation</u>
Comprehensive Sector			
Eastern Kentucky University	\$67,673,700	22.6%	\$3,389,000
Kentucky State University	23,537,400	7.9%	1,180,000
Morehead State University	41,016,400	13.7%	2,054,000
Murray State University	48,005,800	16.0%	2,404,000
Northern Kentucky University	46,835,100	15.6%	2,346,000
Western Kentucky University	72,425,200	24.2%	3,627,000
Subtotal	\$299,493,600	100.0%	\$15,000,000

Total Bucks for Brains: \$90,000,000

Workforce Development Match Program

Two-Year College Sector	
KCTCS	\$5,000,000

Total Workforce Match: \$5,000,000

Total Trust Funds Request \$95,000,000