

2022-24 Postsecondary Education Budget Recommendation Trust Funds Request

The Kentucky Postsecondary Education Improvement Act of 1997 (HB 1) created six Strategic Investment and Incentive Trust Funds to bring about change and improvement in Kentucky colleges and universities by providing strategic financial incentives for institutions to pursue desired state 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 authorizes appropriations for trust fund programs, they are typically 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 guidelines and procedures.

Every two years, CPE staff works collaboratively with campus presidents, chief budget officers, and Council members to identify programs and recommend funding that will provide incentives for Kentucky colleges and universities to pursue and achieve state goals for postsecondary education. For the upcoming biennium, stakeholders reached consensus that the Council's 2022-24 budget recommendation should include trust fund requests supporting Bucks for Brains at the research and comprehensive universities and a Competitive Workforce Initiative at KCTCS.

Table 1: Components of 2022-24 Trust Funds Request

Funding Component	Fiscal Year 2022-23	Fiscal Year 2023-24
Additional Budget Requests:		
• Bucks for Brains Program	\$30,000,000	\$30,000,000
- Debt Service	2,418,000	4,836,000
• Competitive Workforce Initiative	\$2,225,000	\$4,450,000

As can be seen in Table 1, staff recommends a total of \$60.0 million (or \$30.0 million each year of the upcoming biennium) for the Bucks for Brains Program, which could either be bond or cash funded, and \$2.2 million in 2022-23 and \$4.5 million in 2023-24

for a new Competitive Workforce Initiative at KCTCS. It is anticipated that any bond funds or cash authorized for Bucks for Brains would be appropriated on a nonrecurring basis (although second-year debt service would be a recurring expenditure if the request is bond funded). Finally, staff recommends that any funds authorized in the second year of the biennium for the Competitive Workforce Initiative be appropriated on a recurring basis. Each of the requested funding components is described in greater detail below.

Bucks for Brains Program

Since the adoption of HB 1 (1997), the Bucks for Brains program has been a key strategic funding component of the state's postsecondary reform agenda. The program encourages private giving to support research faculty, staff, and infrastructure at the University of Kentucky and the University of Louisville, and to strengthen essential programs at the comprehensive universities, by matching state appropriated funds dollar-for-dollar with private donations. Funds are typically endowed, with investment proceeds used to provide a perpetual source of funding for research related activities, but can also be used to support research-related capital projects in accordance with Council guidelines.

Between 1998 and 2010, the General Assembly authorized 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 allocated among the state's six comprehensive institutions.

The state's investment in this program was used to leverage an additional \$410 million in private contributions through a dollar-for-dollar matching feature. When the fourth round of funding for the program (i.e., in 2008-10) was fully matched, a total of \$767.9 million was added to public university endowments and a total of \$52.1 million was 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 *2016-21 Strategic Agenda for Postsecondary and Adult Education* calls for Kentucky universities to increase basic, applied, and translational research to create new knowledge, accelerate innovation, and promote economic growth (Objective 10, page 17). To accomplish this aim, the *Agenda* highlights the importance of advocating for funding for research and innovation through the Endowment Match Program (Bucks for Brains) or other similar funding approaches (Strategy 10.3, page 17). In keeping with this objective and strategy, staff recommends that the Council approve a \$60.0 million request for Bucks for Brains as part of its 2022-24 biennial budget recommendation.

- *Council staff recommends appropriations of \$2,418,000 in fiscal year 2022-23 and \$4,836,000 in 2023-24, recurring at the latter amount in subsequent years, to pay debt service on a \$60,000,000 bond issue (or that amount could be cash funded) to support a fifth round of funding for the Bucks for Brains program.*
- *Staff further recommends that half of the requested Bucks for Brains funds, or \$30,000,000 if authorized in full, be appropriated in the first year of the biennium*

(i.e., 2022-23) and that the other half of the requested funds, or \$30,000,000 if authorized in full, be appropriated in the second year (i.e., 2023-24).

If approved by the Council and authorized by the General Assembly, it is anticipated that requested bond funds for the Bucks for Brains Program will be placed in the Research Challenge Trust Fund (RCTF) and the Comprehensive University Excellence Trust Fund (CUETF), as shown in Table 2 below, pending eventual distribution to postsecondary institutions in accordance with Council approved guidelines.

Table 2: Allocation of Requested 2022-24 Bucks for Brains Program Funds

Trust Fund Allocations	Fiscal Year 2022-23	Fiscal Year 2023-24	Biennial Totals
Additional Budget Requests:			
• Research Challenge Trust Fund (RCTF)	\$25,000,000	\$25,000,000	\$50,000,000
• Comprehensive University Excellence Trust Fund (CUETF)	5,000,000	5,000,000	10,000,000
Program Totals	\$30,000,000	\$30,000,000	\$60,000,000

CPE staff recommends that the \$50.0 million requested for the research universities be allocated one-third to the University of Louisville (i.e., \$16,667,000) and two-thirds to the University of Kentucky (i.e., \$33,333,000), in accordance with statutory provisions of the RCTF (KRS 164.7917). Staff further recommends that the requested \$10.0 million for the comprehensive universities be allocated based on each institution's share of sector total 2021-22 adjusted net General Fund appropriations, in keeping with statutory provisions of the CUETF (KRS 164.7919). The resulting allocation among Kentucky's public comprehensive universities is shown in Table 3 below.

Table 3: Allocation of Requested 2016-18 CUETF Funds

	Fiscal 2021-22 Adjusted Net General Fund	Percent of Total	CUETF Allocation
Eastern Kentucky University	\$60,962,500	22.0%	\$2,196,600
Kentucky State University	18,235,500	6.6%	657,100
Morehead State University	34,931,500	12.6%	1,258,700
Murray State University	40,553,800	14.6%	1,461,300
Northern Kentucky University	53,826,300	19.4%	1,939,500
Western Kentucky University	69,017,800	24.9%	2,486,800
Category Totals	\$277,527,400	100.0%	\$10,000,000

For more detailed information regarding the allocation of proposed Bucks for Brains Program funding see Attachment A. In coming months, a work group comprised of

Council staff and campus officials will review Bucks for Brains Program guidelines and reporting procedures that were in place during the 2008-10 biennium. It is anticipated that staff will bring updated guidelines and revised reporting procedures for the Bucks for Brains Program for review and action at the June 17, 2022, Council meeting.

Competitive Workforce Initiative

On September 10, 2021, KCTCS submitted a proposal to Council staff, requesting \$17.8 million in recurring operating funds to help Kentucky reestablish a competitive workforce through expanded educational and training opportunities (credit and noncredit) at KCTCS institutions. The new trust fund program, named the Competitive Workforce Initiative, is designed to address workforce shortages in targeted industry sectors, facilitate recruitment and retention of business and industry, bolster regional and state economies, and help KCTCS and CPE maintain affordability for Kentucky students and families.

Using 10-year occupational outlook projections (i.e., for 2018-2028) produced by the Kentucky Center for Statistics (KYSTATS) and KCTCS 2020-21 graduate data, campus officials identified supply gaps in five industry sectors. As can be seen in Table 4, this past year, estimated annual job demand exceeded the number of KCTCS graduates in five fields, including healthcare, advanced manufacturing, transportation and logistics, business services and information technology, and construction and trades.

Table 4: KCTCS Graduates and Job Demand in Targeted Industry Sectors

Industry Sector	2020-21 Graduates	Est. Annual Job Demand	Supply Gap
• Healthcare	6,722	14,042	7,320
• Advanced Manufacturing	2,657	6,604	3,947
• Transportation and Logistics	1,113	7,001	5,888
• Business Services and Information Technology	2,985	6,816	3,831
• Construction and Trades	1,658	2,816	1,158
Totals	15,135	37,279	22,144

Sources: KCTCS Official Data Reported to CPE; Kentucky Center for Statistics, 2018-2028 KY Occupational Outlook.

If authorized, these funds would be used to increase credential production capacity at all levels (i.e., certificate, diploma, and associate degree) at every KCTCS institution and to address worker skills and supply gaps in targeted industry sectors. Specifically, campus officials project that the annual number of graduates could be increased by 719 in healthcare, 284 in advanced manufacturing, 119 in transportation and logistics, 319 in business services and information technology, and 177 in construction and trades.

In sum, KCTCS officials contend that funding this request will increase Kentucky's educational attainment, strengthen its workforce, and promote its attractiveness for new

businesses and industries, while at the same time, bettering communities in every region of the Commonwealth. For more detailed information regarding the Competitive Workforce Initiative proposed by KCTCS see Attachment B.

The Council's *2016-21 Strategic Agenda* challenges Kentucky colleges and universities to expand regional partnerships, outreach and public service that improve the health and quality of life of Kentucky communities (Objective 11, page 18). Strengthening communication and planning between higher education and regional and community leaders to identify priorities and challenges and aligning resources to address those challenges are identified as ways to accomplish that objective (Strategy 11.2, page 18).

KCTCS estimates that targeted workforce program expansion will cost \$17.8 million. CPE staff anticipates that three-fourths of that cost will be covered by added tuition and fee revenue, operating efficiencies, or other fund sources. Toward that end, for the 2022-24 biennium, CPE staff recommends \$2.2 million in the first year and \$4.5 million in the second year for a KCTCS Competitive Workforce Initiative.

- *Council staff recommends appropriations of \$2,225,000 in 2022-23 and \$4,450,000 in 2023-24, recurring at the latter amount in subsequent years, to support expanded education and training opportunities and increased student completion at KCTCS institutions that addresses worker skills and supply gaps in targeted industry sectors.*

It is also recommended that any funds authorized and distributed under this program be treated as a mandated program and deducted from the allocable resources of receiving institutions during application of the two-year college funding model. This will ensure that disbursed funds will be retained for targeted program expansion at the original institutions that received the funds, rather than being redistributed to other institutions over subsequent iterations of the performance funding model.

- *Staff recommends that any authorized and distributed funding in support of the Competitive Workforce Initiative be treated as a mandated program within the two-year sector funding model, so the funds can be retained by the initial KCTCS institutions that receive the funds.*

If the requested funds are authorized, staff recommends that they be appropriated to the Postsecondary Education Workforce Development Trust Fund for distribution to KCTCS upon submission and approval of a spending plan that meets guideline requirements for the newly created program. It is anticipated that staff will work with campus officials to develop a set of guidelines and related reporting procedures for the Competitive Workforce Initiative and will bring those guidelines for review and action at the June 17, 2022 Council meeting.