

**Council on Postsecondary Education**  
**November 10, 2011**

**Kentucky's Bucks for Brains Program**  
**2011 Summary Report**

The Bucks for Brains program is a key component of Kentucky's postsecondary reform agenda that began in 1997 with passage of the *Postsecondary Education Improvement Act (HB1)*. House Bill 1 created the Strategic Investment and Incentive Trust Funds to bring about change and improvement in Kentucky's colleges and universities by providing financial incentives that advance state goals for postsecondary education.

The Bucks for Brains program, which has received four rounds of funding through the Research Challenge Trust Fund (RCTF) and the Comprehensive University Excellence Trust Fund (CUETF), was established and initially funded through a Surplus Expenditure Plan of the 1998-2000 Budget of the Commonwealth and was designed primarily to grow university endowments and attract top researchers to Kentucky.

### **Overview**

The Bucks for Brains 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. All funds both public and private must be endowed, which provides a perpetual source of funding for research related activities.

The General Assembly has appropriated a total of \$410 million to this program over the past 13 years, with \$350 million of that amount allocated to the state's two research universities, and \$60 million allocated to the six comprehensive institutions. There have been four rounds of funding for the program, each appropriated in conjunction with the state's biennial budget cycle: (a) \$110 million in 1998-2000; (b) \$120 million in 2000-02; (c) \$120 million in 2002-04; and (d) \$60 million in 2008-10.

The state investment has been used to leverage \$410 million in private contributions, through a dollar-for-dollar matching feature. Thus, when 2008-10 pledges are fully paid, a total of \$820 million will have been generated through the program, with \$767.9 million added to public university endowments and \$52.1 million used to support construction of new research facilities at the University of Kentucky (i.e., \$43.8 million) and education and general facilities at the comprehensive universities (i.e., \$8.3 million).

The Council on Postsecondary Education provides administrative oversight for the Bucks for Brains program. The Council establishes the areas of concentration within which program funds are used, develops guidelines for the distribution of program funds, and monitors the uses of funds and results achieved.

## Goals

The short-term goals of the Bucks for Brains program are to encourage private investment in public higher education research activities, grow university endowments, increase endowed chairs and professorships, and generate federal and externally sponsored research. Long-term goals include stimulating business development, creating better jobs and a higher standard of living, and facilitating Kentucky's transition to a knowledge-based economy.

## Outcomes

Kentucky's progress toward achieving the goals of the Bucks for Brains program has been remarkable. Over the past 13 years, the state's public universities have recruited and retained world-class researchers, more than tripled their collective federal research funding, and made large investments in public service. These efforts have yielded new knowledge through basic and applied research, as well as new products, businesses, and jobs. The Bucks for Brains program has been a primary catalyst for this growth.

Table 1 below contains combined Bucks for Brains indicators of progress data for the University of Kentucky and the University of Louisville for the time period 1997 through 2010.

**Table 1: Bucks for Brains Indicators of Progress**  
Combined UK & UofL Data (Dollars in Millions)

Outcome Category	1997	2010	% Change
Annual Giving	\$87.7	\$135.8	55%
Endowment Market Value	\$447.4	\$1,387.6	210%
Endowed Chairs	53	237	347%
Endowed Professorships	49	297	506%
Federal R&D Expenditures	\$75.6	\$264.8	250%
Extramural R&D Expenditures	\$105.2	\$364.8	247%
Invention Disclosures	70	195	179%
New Patent Applications	33	78	136%
Licenses & Options Executed	6	23	283%
Active Licenses & Options	59	215	264%
Start-Up Companies Formed	0	13	--

## Recognition

On November 8, 2011, the Bucks for Brains program received national acclaim by receiving an Excellence in Technology Based Economic Development (TBED) award from the State Science and Technology Institute (SSTI). The Kentucky program garnered the award in the Expanding Research Capacity category, which is described on the SSTI website as initiatives that strengthen the capacity to conduct research in universities, federal labs, or the private sector. This may include centers of excellence, university-industry partnerships, and initiatives to expand research facilities, recruit eminent scholars, or increase research funding through R&D tax credits.

SSTI is billed as the most comprehensive resource available for those involved in technology based economic development. Since 1996, the institute has developed a nationwide network of practitioners and policymakers dedicated to improving the economy through science and technology. SSTI uses this network and its unique access to information to assist states and communities as they build technology based economies, conduct research on best practices, and seek to build cooperation between state and federal programs.

## Status of Endowments

On Monday, October 6, 2008, the U.S. stock market began a weeklong decline in which the Dow Jones Industrial Average fell over 1,874 points or 18 percent in its worst weekly decline ever on both a point and percentage basis. This event marked the beginning of a sustained economic downturn which, combined with continuing losses in stock and bond markets, has had a profoundly negative effect on university and foundation endowment asset values.

At many institutions, these losses resulted in a substantial portion of their endowment funds becoming “underwater,” particularly those that were relatively new that lacked time to build sufficient reserves. An underwater endowment fund is one in which the market value of the fund has fallen below the Historic Dollar Value (HDV). The Uniform Management of Institutional Funds Act (UMIFA) defines HDV as the value of contributions made to the fund without increases or decreases from investment results, inflation, or other factors.

According to an Association of Governing Boards (AGB) 2009 survey of 184 colleges, universities, and institutionally-related foundations, respondents reported employing different strategies for managing underwater endowments:

- 38 percent discontinued all distributions for funds at or below HDV.
- 34 percent continued distributions with normal spending rule.
- 19 percent distributed only interest and dividends for funds at or below HDV.
- 7 percent continued distributions at a reduced rate, yielding more than interest and dividends.

Until July 2010, expenditures from underwater accounts with donor permission were permitted by Kentucky statutes under UMIFA guidelines. During the 2010 legislative session, the Kentucky General Assembly enacted Senate Bill 76, the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which fundamentally changed the legal context surrounding management of endowment funds. UPMIFA provides boards with greater flexibility to distribute funds from underwater endowments requiring that the institutions act in good faith in making expenditure decisions upon consideration of several factors including, but not limited to, general economic conditions, other available resources, and the needs of the institution.

Since 2000, the Council’s program guidelines specify that “only the investment earnings are eligible for expenditure, not the principal” (p. 4, 2008-10 Endowment Match Program Guidelines). Council staff discussions with the institutions in 2010 revealed that the University of Kentucky, with permission from its private donors, distributed funds in excess of actual income from underwater endowments. Distributions from underwater endowments at the other public Kentucky universities have been limited to no more than actual income.

To preserve the state's investment in the RCTF program and provide future support of the university's research mission, UK will replenish the difference between the spending distribution and actual income for the state funded portion of the contributed value of underwater endowments for fiscal years 2009-10 and 2010-11. The amounts will be replenished over a period of time not to exceed seven years, beginning with fiscal year 2012-13. In addition, beginning with fiscal year 2012-13, the spending distribution for underwater RCTF endowments will be limited to actual income.

In coming months, a work group comprised of Council staff and campus officials will review and discuss possible changes to Bucks for Brains guidelines and reporting requirements, including an assessment of the implications of UPMIFA. It is anticipated that staff will bring draft 2012-14 Endowment Match Program guidelines and reporting procedures for Council review to the February 2012 meeting.