



Endowment Match Program Guidelines

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Council on Postsecondary Education Research Challenge Trust Fund and Comprehensive University Excellence Trust Fund 2008-10 Endowment Match Program Guidelines

Introduction

Kentucky recognizes the importance of research to the economic well being of its citizens. The Endowment Match Program encourages private investment in public postsecondary education research activities to stimulate business development, generate increases in externally sponsored research, create better jobs and a higher standard of living, and facilitate Kentucky's transition to a knowledge-based economy. The program matches public money with private gifts to fund chairs, professorships, research scholars, staffs and infrastructure, fellowships and scholarships, and mission support at the public universities. This collaborative approach is critical to advancing Kentucky's research presence into national prominence.

Program Funding

State funding for the Endowment Match Program is appropriated to the Research Challenge Trust Fund (RCTF) for the research institutions and to the Comprehensive University Excellence Trust Fund (CUETF) for the comprehensive institutions. Both trust funds were created with passage of the *Kentucky Postsecondary Education Improvement Act of 1997* (HB 1).

To date, there have been four rounds of funding for the Endowment Match Program. The program received surplus General Fund appropriations of \$110 million in 1998-99 and \$120 million in 2000-01. The legislature debt funded another \$120 million for the program in 2003-04. The 2008 General Assembly authorized \$60 million in General Fund supported bond funds for the program in 2008-09, with \$50 million appropriated to the Research Challenge Trust Fund and \$10 million appropriated to the Comprehensive University Excellence Trust Fund. These appropriations differ from those of earlier rounds in that participating universities are provided flexibility to use their respective RCTF or CUETF allocations to establish or expand endowments in support of traditional Endowment Match Program purposes or to fund capital projects. There is a dollar-for-dollar matching requirement regardless of the option chosen.

Program Administration

The Council on Postsecondary Education oversees the Endowment Match Program. The Council establishes the areas of concentration within which program funds are used, develops guidelines for the distribution of program funds, and reviews reports from the institutions on the use of funds and the results achieved.

The boards of trustees and boards of regents of the Commonwealth's public universities are responsible for the Endowment Match Program on their campuses. The boards shall review and approve all donations, gifts, and pledges that will be used to establish new endowments or expand existing endowments for which matching state funds will be requested. The boards will ensure that the purpose of the endowment and the source of funds comply with the Council's guidelines and serve the public good. Documentation of board approval must be submitted with each endowment request. In addition, the boards are to review and approve the Endowment Match Program reports that are to be submitted annually to the Council. Beginning with the 2008-09 RCTF and CUETF appropriations, the boards shall determine the amount of funds to be endowed in support of traditional Endowment Match Program activities and the amount to be used for capital projects. The boards will report these amounts to the secretary of the Finance and Administration Cabinet, the president of the Council on Postsecondary Education, the Capital Projects and Bond Oversight Committee, and the Interim Joint Committee on Appropriations and Revenue no later than June 30, 2009.

Allocation of Program Funds

In the 2008-10 Budget of the Commonwealth (HB 406), the 2008 General Assembly authorized \$50 million in General Fund supported bond funds in 2008-09 for the Research Challenge Trust Fund to support the Endowment Match Program and a newly created Research Capital Match Program. In accordance with KRS 164.7917, these funds will be allocated two-thirds to the University of Kentucky and one-third to the University of Louisville, as shown below. These funds will remain in the trust fund until matched.

University of Kentucky	\$33,333,000
University of Louisville	<u>16,667,000</u>
Total RCTF	\$50,000,000

Prior to issuance of bonds to support the RCTF, the board of trustees of each institution shall determine the allocation of funds to be used for the Endowment Match Program and the Research Capital Match Program and report that action to the secretary of the Finance and Administration Cabinet, the president of the Council on Postsecondary Education, the Capital Projects and Bond Oversight Committee, and the Interim Joint Committee on Appropriations and Revenue no later than June 30, 2009. For details regarding RCTF capital project request submission and approval procedures refer to page 8 of the 2008-10 Capital Match Program Guidelines for Research Universities.

The 2008 General Assembly authorized \$10 million in General Fund supported bond funds in 2008-09 for the Comprehensive University Excellence Trust Fund to support the Endowment Match Program at the comprehensive universities, or to fund a capital project with other matching funds at the comprehensive universities, if the board of regents of the institution authorizes the use of the funds for that purpose. In keeping with KRS 164.7919, these funds will be allocated among the comprehensive institutions based on their respective share of total 2007-08 General Fund appropriations, excluding debt service and specialized

noninstructional appropriations. The resulting distribution is shown below. These funds will remain in the trust fund until matched.

Eastern Kentucky University	\$2,365,000
Kentucky State University	633,000
Morehead State University	1,395,000
Murray State University	1,580,000
Northern Kentucky University	1,588,000
Western Kentucky University	<u>2,439,000</u>
Total CUETF	\$10,000,000

If an institution's board authorizes use of CUETF funds for a capital project, the institution shall report the project to the Council on Postsecondary Education, the secretary of the Finance and Administration Cabinet, the Interim Joint Committee on Appropriations and Revenue, and the Capital Projects and Bond Oversight Committee, pursuant to KRS Chapter 45, no later than June 30, 2009. For details regarding CUETF capital project request submission and approval procedures refer to page 10 of the 2008-10 Capital Match Program Guidelines for Comprehensive Universities Guidelines.

Matching Requirements

The Endowment Match Program is conceived as a way to bring new money from external sources into the Commonwealth's system of postsecondary education. In order to receive state funds, the universities must provide dollar-for-dollar matching funds that satisfy the following requirements:

- Gifts and pledges must be newly generated to be eligible for state match. Newly generated contributions are those received by the university after July 1, 2001.
- Gifts and pledges must be from external sources to be eligible for state match. External source contributions are those that originate outside the university and its affiliated corporations. Eligible sources of funding include, but are not limited to, businesses, non-governmental foundations, hospitals, corporations, alumni, or other individuals. Funds received from federal, state, and local government sources are not eligible for state match.
- General Fund appropriations and student-derived revenues (e.g., tuition and fees revenue) are not eligible for state match.
- The minimum institutional request amount is \$50,000. A university may combine smaller donations from businesses, nongovernmental foundations, hospitals, corporations, alumni, or other individuals to meet the \$50,000 minimum.

- All funds, both state and private, must be endowed. “Endowed” means only the investment earnings are eligible for expenditure, not the principal.
- Requests for state funds must identify the matching funds that are cash and the matching funds that are pledges.
- Pledges, or promises of future payment, are eligible for state match provided they are based on a written contract or agreement and include a payment schedule, which does not exceed five years from the initial pledge date. Pledge payment schedules showing receipts to date and scheduled future payments are to be included in the audited financial statements of either the institution or the foundation.
- If pledged funds are not received within five years of the initial pledge date, the university must replace the portion of private funds not received with another eligible cash gift or the unmatched portion of the state funds plus an allowance for accrued interest will revert to the trust fund for reallocation. In such cases, the timeframe for the replacement or return of state funds will be negotiated between Council staff and institutional representatives.
- University officials must notify the Council staff of unpaid pledges six months before the end of the five-year deadline or immediately when a gift has been revoked.

Uses of Program Funds

Investment earnings from the endowments can be used to support various activities including chairs, professorships, research scholars, research staff, graduate fellowships, undergraduate scholarships, research infrastructure, and mission support as described below.

Chairs: New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

Professorships: New faculty positions, salary supplements to existing faculty positions, and associated expenses for those positions, including start-up costs, salaries, benefits, travel, and other professional expenses as permitted by university policy.

Research Scholars: Salaries, benefits, and other personnel related expenses associated with nontenured medical school faculty who exhibit the potential to assume chair or professorship positions once tenure has been awarded. Research scholars should have clearly defined research agendas that relate specifically to the fields of study envisioned for the ultimate occupants of the chairs or professorships. Funding for this purpose is time limited. Each research scholar may be supported with endowment proceeds for a maximum of six years. At the end of that time, if the research scholar has not been appointed to the identified chair or professorship, university officials should fill the position with an appropriately qualified, tenured faculty member.

Research Staff: Salaries, benefits, and other personnel related expenses associated with full-time or part-time staff assistants who are directly linked to the research activities of an endowed chair or professor.

Graduate Fellowships: Fellowship stipends for outstanding graduate or professional students, which may include travel and other expenses as permitted by university policy.

Undergraduate Scholarships: At the comprehensive universities only, program funds can be used to support scholarships for outstanding undergraduate students, which may include travel and other expenses as permitted by university policy.

Research Infrastructure: Start-up and operating expenses that are directly linked to the research activities of an endowed chair or professor, including equipment, materials and supplies, and other research related expenses as permitted by university policy.

Mission Support: Program funds can be used to support research and graduate missions at all institutions, and programs of distinction or applied research programs approved by the Council at the comprehensive institutions. Consideration will be given to mission support activities such as: (1) expenditures that enhance the research capability of university libraries (i.e., books, journals, research materials, media, and equipment); (2) start-up costs, equipment, and supplies that support faculty, graduate student, or undergraduate student research activities; (3) funding for visiting scholars, lecture series, and faculty exchange; and (4) expenditures for the dissemination of research findings (i.e., nationally prominent publications and presentations at conferences, symposiums, seminars, or workshops). However, priority will be given to mission support expenditures that encourage the research related activities of faculty and students. Expenditures for general personnel expenses that are not directly linked to an endowed chair or professor do not qualify as mission support activities.

Use of Funds Requirements

- At the research universities only, at least 70 percent of program funds that an institution's board has designated for use under the traditional Bucks for Brains program must be endowed for the purpose of supporting chairs, professorships, research scholars, staffs, infrastructure, or fellowships that are directly linked to the research activities of an endowed chair or professor. No more than 30 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships that are not directly linked to the research activities of an endowed chair or professor. In addition, the number of research scholars funded through the match program may not exceed ten at the University of Kentucky and five at the University of Louisville. These numbers represent 20 percent of the number of filled match program chairs and professorships housed in each university's medical school as of July 1, 2004.

- At the comprehensive institutions only, at least 50 percent of program funds that an institution's board has designated for use under the traditional Bucks for Brains program must be endowed for the purpose of supporting chairs, professorships, research staffs, infrastructure, fellowships, or scholarships that are directly linked to the research activities of an endowed chair or professor. No more than 50 percent of program funds may be endowed for the purpose of supporting mission support activities or fellowships or scholarships that are not directly linked to the research activities of an endowed chair or professor.

Areas of Concentration

- At the research universities only, the Council expects state and private matching funds to be substantially directed toward supporting research that leads to the creation, preservation, or attraction of businesses that will increase the number of good jobs in Kentucky. For these purposes, "good jobs" are defined as jobs that yield income at or above the national per capita income.
- The Council recognizes that strong research programs are clustered around related academic disciplines and encourages campus officials to create a critical mass of scholars who can influence the nation's research and academic agenda.
- The Council recognizes that the boundaries of traditional disciplines are increasingly permeable and encourages the use of endowment funds for interdisciplinary, problem solving, or applied research activities.
- The Council recognizes the importance of cooperation between universities and corporations and encourages partnerships in the technologies, engineering, and applied sciences.
- At the research universities only, at least 70 percent of program funds that an institution's board has designated for use under the traditional Bucks for Brains program must be endowed for the purpose of supporting Research Challenge programs or academic disciplines contained within five new economy clusters: (1) human health and development, (2) biosciences, (3) materials science and advanced manufacturing, (4) information technologies and communications, and (5) environmental and energy technologies. These areas are of strategic benefit to Kentucky and are core components of the knowledge-based economy
- At the comprehensive universities only, at least 50 percent of program funds that an institution's board has designated for use under the traditional Bucks for Brains program must be endowed for the purpose of supporting Programs of Distinction or academic disciplines contained within the five new economy clusters (see paragraph above). Applied research programs outside the new economy areas that address local or regional economic and community needs also will be considered, subject to Council approval. For details regarding applied research program criteria and submission and approval procedures, refer to the addendum of the 2002-04 Endowment Match Program Guidelines.

- The Council recognizes the contribution of arts and humanities to quality of life and to economic development in the Commonwealth and is receptive to limited use of endowment funds in this area.
- Program funds cannot be used for positions that are primarily administrative. However, researchers or scholars with an active research program who may have an appointment such as department chair, center director, or dean are eligible.
- Program funds that an institution's board has designated for use under the traditional Bucks for Brains program cannot be used to fund capital construction projects.

Program Diversity

The Council on Postsecondary Education and participating universities are committed to ensuring the gender and ethnic diversity of Endowment Match Program faculty, professional staff, and financial aid recipients. The universities shall develop and implement plans calculated to achieve reasonable diversity in the recruitment and retention of women, African Americans, and other underrepresented minorities for positions funded by the Endowment Match Program, including scholarship and fellowship recipients. In addition, the universities shall report annually to the Council on Postsecondary Education the race and gender of program faculty, professional staff, and financial aid recipients.

Annual Reporting

Institutions will provide detailed annual reports describing how the state and matching funds are used by October 15 each year. These reports will include such items as the number of endowed chairs and professorships by name and incumbent, the specific support services attached to the chairs and professorships, the gender and race of program faculty, professional staff, and financial aid recipients, and the benefits of the program to the Commonwealth of Kentucky in terms of jobs, revenue growth, creation of wealth, and improved standards of living, or the capital projects built.

The reports also should identify institutional outcomes, such as increases in sponsored research directly attributed to the program, changes in the quality of students and measurable outcomes (retention, graduation, pursuit of advanced study, and employment), and the creation and profitable use of intellectual property.

The Council staff, working with the university presidents and their staffs, will devise and maintain reporting procedures that specify the content and format of Endowment Match Program annual reports.

2008-10 Research Challenge Trust Fund (UK and UofL) Capital Match Program Guidelines - HB 406

Introduction

HB 406, Part I, Section K (8.a & 9), provides the research institutions flexibility to address research related capital needs through the Research Challenge Trust Fund. The program provides funds to UK and UofL for research-related capital projects.

Program Funding

This is the first time that Research Challenge Trust Funds have been allowed to be used in this manner.

Allocation of Program Funds

The board of trustees of each institution shall determine the allocation among the endowment match and capital match and report that allocation to the secretary of the Finance and Administration Cabinet, the president of the CPE, the Capital Projects and Bond Oversight Committee, and the Interim Joint Committee on Appropriations and Revenue. Refer to the Endowment Match Program guidelines for allocation of the HB 406 institutional appropriation.

Use of Funds Requirements

Funds shall be used for research related capital projects, including but not limited to laboratory renovation, fit-out of new and existing research space, and renovation of other research related space. See page 103 of HB 406.

Availability of Funds

The bond authority is provided in 2008-09 but a half-year of debt service is provided in 2009-10. Therefore, funds will ordinarily be available the second year of the biennium. Technically, the money can be available as early as July 2009. However, if the Finance and Administration Cabinet identifies funds to allow the debt to be issued earlier, the Council would encourage that action and possibly have access to funds earlier.

Matching Requirements

HB 406 (page 103) stipulates that the CPE shall require a dollar-for-dollar match. The match must be certified by the institution to the CPE and the Finance and Administration Cabinet before release of funds to an institution. The capital match must be cash, i.e., agency funds, private funds, federal or state grants, or other nonstate General Funds.

Identification of Projects

After the institution has identified the funds split, individual projects shall be submitted to the CPE and by the CPE to the secretary of the Finance and Administration Cabinet, the Capital Projects and Bond Oversight Committee, and the Interim Joint Committee on Appropriations and Revenue. Eligible research projects would be identified by the institution. A capital project must be a complete project as defined by KRS Chapter 45 (can be used in a stand alone fashion when complete).

KRS 45.750(1)(f) defines a capital project to mean regardless of source of cash or other consideration: (1) any capital construction item, or any combination of capital construction items necessary to make a building or utility installation complete, estimated to cost \$600,000 or more in cash or other consideration; (2) any lease of real property space with an annual rental cost of \$200,000 or more; (3) any item of equipment estimated to cost \$200,000 or more in cash or other consideration; (4) any lease of an item of movable equipment if the annual cost of the lease is \$200,000 or more or if the total cost of the lease-purchase or lease with an option to purchase is \$200,000 or more; and (5) any new acquisition, upgrade, or replacement of an information technology system estimated to cost \$600,000 or more in cash or other consideration.

Combining CR&M Pool Funds with RCTF Capital Match Program Funds

HB 406 does not have language prohibiting the use of funds from both pools to complete a capital project. However, such a combination must meet the defined guidelines of each pool and the funds must be matched separately and according to their separate specifications. For example, if a project to renovate an existing research lab also has deferred maintenance issues, the project can include funds from both pools.

Project Authorization

Following the application, review, and award process, the CPE shall report to the secretary of the Finance and Administration Cabinet, the Capital Projects and Bond Oversight Committee, and the Interim Joint Committee on Appropriations and Revenue. See page 103 of HB 406. This implies that the requirements of KRS 45.760 are waived.

2008-10 Comprehensive University Excellence Trust Fund (Comprehensive Institutions) Capital Match Program Guidelines - HB 406

Introduction

HB 406, Part II, Section J (3), provides that a regional or comprehensive public postsecondary institution may fund a capital project with CEUTF bond funds, if the board of regents of the institution authorizes the use of funds for that purpose. Projects are to be implemented pursuant to KRS Chapter 45.

Program Funding

This is the first time that CUETF funds have been allowed to be used in this manner.

Allocation of Program Funds

The board of regents shall determine the allocation among the endowment match and capital project and report that allocation to the CPE, the secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee. Refer to the Endowment Match Program guidelines for allocation of the HB 406 institutional appropriation.

Use of Funds Requirements

HB 406 does not place a limit on the type of capital project that can be funded by CUETF money. The Council identifies educational and general facilities as the focal point of these funds.

Availability of Funds

The bond authority is provided in 2008-09 but a half-year of debt service is provided in 2009-10. Therefore, funds will ordinarily be available the second year of the biennium. Technically, the money can be available as early as July 2009. However, if the Finance and Administration Cabinet identifies funds to allow the debt to be issued earlier, the Council would encourage that action and possibly have access to funds earlier.

Matching Requirements

HB 406 (page 104) stipulates that the CPE shall require a dollar-for-dollar match. The match must be certified by the institution to the CPE before release of funds to an institution. The capital match must be cash, i.e., agency funds, private funds, federal or state grants, or other nonstate General Funds. If the capital match is from private funds, the match may be used to support the capital project or any other purpose permitted under the Endowment Match Program Guidelines and supported by the donor. However, no more than 50 percent of a project's cost will be paid with funds from the state pool.

Identification of Projects

After the institution has identified the funds split, individual projects shall be reported to the CPE, the secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee. A capital project must be a complete project as defined by KRS Chapter 45 (can be used in a stand alone fashion when complete).

KRS 45.750(1)(f) defines a capital project to mean regardless of source of cash or other consideration: (1) any capital construction item, or any combination of capital construction items necessary to make a building or utility installation complete, estimated to cost \$600,000 or more in cash or other consideration; (2) any lease of real property space with an annual rental cost of \$200,000 or more; (3) any item of equipment estimated to cost \$200,000 or more in cash or other consideration; (4) any lease of an item of movable equipment if the annual cost of the lease is \$200,000 or more or if the total cost of the lease-purchase or lease with an option to purchase is \$200,000 or more; and (5) any new acquisition, upgrade, or replacement of an information technology system estimated to cost \$600,000 or more in cash or other consideration.

Combining CR&M Pool Funds with CUETF Program Funds

HB 406 does not have language prohibiting the use of funds from both pools to complete a capital project. However, such a combination must meet the defined guidelines of each pool and the funds must be matched separately and according to their separate specifications. For example, a project to upgrade a specific system or replace a building roof can include funds from both pools.

Project Authorization

Following the application, review, and award process, the institution shall report the project to the Council, the secretary of the Finance and Administration Cabinet, and the Capital Projects and Bond Oversight Committee. See page 144 of HB 406. This implies that the requirements of KRS 45.760 are waived.