We urge Congress to protect tax-exempt bond financing, including qualified 501 (c)(3) private-
activity bonds, which contribute to the financial health of colleges, universities, hospitals and
other charitable organizations.

One of the many ways in which the federal government invests in human capital and innovation in the
United States is by granting tax-exempt status to colleges, universities, hospitals, and other charitable
institutions whose education, research, health and public service missions provide a wide-range of societal benefits.

Public universities and hospitals are typically a component of state or local governments, while private,
or independent, institutions are recognized as tax-exempt organizations under section 501(c)(3) of the
Internal Revenue Code. Tax-exempt bond financing available to public institutions is also referred to as municipal or publicly sold debt; it is available to private nonprofit institutions as qualified 501(c)(3) private-activity bonds.

Colleges and universities use these financial instruments to acquire, construct, and/or expand capital
infrastructure such as hospitals, academic buildings, residence halls, student centers, athletic facilities,
energy plants, museums and more. In 2012, higher education bond sales reached $27.77 billion.¹

In general, for the institutional borrowers, the interest rate on municipal bonds is significantly lower
than on taxable bonds thus creating beneficial financial terms. Indeed, the interest rate spread between
taxable and tax-exempt bonds typically ranges 150 and 200 basis points. The lower interest rates create
significant savings by lowering the cost of multi-million dollar construction projects, often financed over
a 30-year period. For many institutions, public or private, revenue from operations or from restricted
gifts simply does not provide enough funds to build, expand, and renovate the physical plant, property,
and equipment needs, and taxable debt is more costly.

Limiting the Interest Exclusion Will Raise Costs. A number of proposals are currently being considered
by Congress to alter the tax treatment of tax-exempt bonds. We believe a cap on the income tax
exemption of tax-exempt municipal bond interest, or even a partial tax, will cause investors to demand
higher returns, again leading to higher infrastructure costs. Higher borrowing costs can result in
diminished investments in infrastructure, fewer jobs, reduced public services, and increased service
charges and other fees.

Qualified 501(c)(3) Private Activity Bonds. Qualified 501(c)(3) private activity bonds provide favorable
terms for private nonprofit (nongovernmental) institutions, such as colleges, universities, and hospitals,
resulting in considerable cost savings and enabling them to use those savings for health care,
educational and other charitable purposes. These organizations employ bonds only after close scrutiny
of risk and financial plans and manage them prudently. If an institution holds such tax-exempt debt, it is
required to meet significant post-issuance disclosure and compliance requirements.

¹ The Bond Buyer, “2012 in Statistics”

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This type of bond financing for not-for-profits (primarily hospitals and higher education) is a proven tool with a decades-long record of success for providing vital public services and creating jobs. Bond issuance for private nonprofit hospitals and universities is typically overseen by a unit of state or local government or a municipal bond conduit authority, which is authorized by the state legislature to issue bonded debt.

Low-cost access to capital helps keep these institutions strong, enabling them to keep expenditures low so that they can focus on the work they do for the public good making our lives, our economy and our nation stronger.

**Direct Pay Bonds.** A variety of proposals have been made to restrict or alter tax-exempt financing mechanisms. One example is direct pay bonds, such as Build America Bonds (BABs). While these bonds were not available to nonprofits, many public colleges, universities and hospitals issued BABs when they were available. While we would need to review the detail of any new proposals, we generally support direct pay programs if they are designed with subsidies adequate to result in a financial instrument whose total costs are comparable with a tax-exempt bond. Should BABs be reinstated, we support expanding eligibility to private 501(c)(3) institutions. However, if continuity of federal subsidy payments is unreliable, as demonstrated under the recent sequestration order, we are skeptical that institutions will see direct pay bonds as a dependable budget and planning tool to lower borrowing costs. We encourage Congress to consider direct pay bonds and other proposals complements, and not alternatives, to tax-exempt bonds.