April 12, 2013

JOINT STATEMENT FOR THE UNITED STATES HOUSE OF REPRESENTATIVES COMMITTEE ON WAYS AND MEANS DEBT, EQUITY AND CAPITAL WORKING GROUP

ON BEHALF OF:
American Association of Community Colleges (AACC)
American Association of State Colleges and Universities (AASCU)
American Council on Education (ACE)
American Hospital Association (AHA)
Association of American Medical Colleges (AAMC)
Association of American Universities (AAU)
Association of Public and Land-grant Universities (APLU)
Catholic Health Association of the United States (CHA)
National Association of College and University Business Officers (NACUBO)
National Association of Health and Educational Facilities Finance Authorities (NAHEFFA)
National Association of Independent Colleges and Universities (NAICU)
VHA Inc.

The 12 associations listed above respectfully submit this statement to the House Ways and Means Committee as a part of the tax reform working group process. Together, we represent thousands of U.S. colleges, universities and hospitals as well as the finance authorities dedicated to providing capital financing for not-for-profit healthcare and higher education institutions.

- ***We urge Congress to protect tax-exempt bond financing, including qualified 501(c)(3) private-activity bonds, which contribute to the financial health of hospitals, colleges, universities 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 hospitals, health clinics, colleges, universities, drug and alcohol treatment centers, and other charitable institutions whose health, public service, education and research missions provide a wide-range of societal benefits.

Public universities and hospitals are typically a component of state or local governments, while independent, community-based 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 bonds*; it is available to nonprofit colleges, universities and hospitals as *qualified 501(c)(3) private activity bonds*.

Our organizations 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 and tax-exempt health care bond sales totaled $34.36 billion.[1]

[1] The Bond Buyer, "2012 in Statistics"

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 charges and 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.

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 infrastructure 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 would 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 as complements, and not alternatives, to tax-exempt bonds.