March 22, 2023

To whom it may concern,

It is well established that HBCUs face funding challenges for capital projects due to a lack of robust revenue streams (USGAO 2018). Deteriorating infrastructure is a turn-off for students, in turn hurting enrollment and tuition revenue. HBCU leaders recognize that having state-of-the-art facilities is critical when competing for students, but even maintaining facilities currently in place is difficult. Recent estimates suggest that on average HBCUs have about $81 million in deferred maintenance (TMCF 2022).

Existing government-based mechanisms to provide resources to HBCUs for capital improvements such as the 1992 HBCU Capital Financing Program administered by the Department of Education are substantially underutilized. In 2022, the UNCF called on Congress to pass the IGNITE Excellence bill to rebuild infrastructure and aging facilities (UNCF 2022). These government based solutions are ad-hoc and not always sustainable, especially given a lack of historical government funding is part of the problem (Roscoe 2023).

Public capital markets provide an alternative source of funding for capital improvements. A common mechanism for capital raising is through the municipal bond market. However, HBCUs face race discrimination when borrowing in this market. Dougal et al. (2019) study 4,415 tax-exempt higher education municipal bonds issued over the period 1988-2010 totaling over $150 billion. Their sample consisted of 965 four-year colleges and universities, 102 of which were HBCUs. They find municipal bond issuance costs are about 20% higher for HBCUs versus otherwise equivalent non-HBCUs. To illustrate, a $30 million bond issuance would cost an HBCU about $290,000 versus $242,000 for a non-HBCU. This $48,000 difference is the race discrimination cost HBCUs face. However, this average cost estimate is not uniform across HBCUs. In the Deep South, where racial animus is known to be stronger, the borrowing costs are three times larger than outside the Deep South. This is particularly problematic because the Deep South is where a high concentration of HBCUs reside and arguably where infrastructure needs are most acute. The large nature of public markets is commonly believed to alleviate the potential for race discrimination to play a role. However, race discrimination effects nonetheless exist in the municipal bond market because tax benefits accrue to investors residing in the same state as the issuer, forcing HBCUs – such as those in the Deep South – to place their bonds with a less-than-receptive clientele.

The documented cost estimates in Dougal et al. (2019) are arguably a lower bound on the true cost to HBCUs because the authors only examine bonds that actually came to market. If some HBCUs find these costs too burdensome, they must find alternative capital sources. If they cannot secure alternative funding, their campuses degrade further. Moreover, the estimated cost of race discrimination for HBCUs that were able to issue bonds is likely a lower bound. Issuing municipal bonds commonly requires purchasing bond insurance given the financial condition of HBCUs, but this cost is not publicly observable to quantify.

HBCUs that incur the discrimination costs and raise municipal bond funding to fix on-campus infrastructure may still be unable to attract students. This is because HBCU campuses must be considered in the context of the local communities in which they reside. For students not living on campus, and for faculty and staff who live around campus, degraded local infrastructure also is a turn-off. Improving the infrastructure surrounding campus is equally important. Unfortunately, recent research shows that racial discrimination can also limit local communities' access to the municipal bond market. Eldemire et al. (2022) document that municipalities with higher percentages of Black residents pay higher borrowing costs to issue rated bonds as compared to other municipal issuers within their same state and year. Their study used 66,503 rated municipal offers issued across the United States from 1990 to 2019. With rated offers, one would expect municipal borrowing costs to reflect a community's credit risk, rather than racial composition. Nonetheless, a one-percentage point increase in the total proportion of Black residents in a city or county is associated with a 0.44 basis point increase in total annualized costs. To illustrate, in 2019 the municipalities in the Eldemire et al. (2022) sample raised a total of $77 billion from rated municipal offers. Taking the product of the cost estimate (0.44 basis points), each municipality's percentage of Black residents, and each offer's issue amount and maturity, the study finds that the Black Tax costs these communities a total of $110 million.

This increased municipal borrowing cost is surprising, as the communities in the sample that have higher percentages of Black residents tend to be larger, with higher income per capita, and lower unemployment – all of which economic theory predicts should lead to lower, rather than higher, borrowing costs. Eldemire et al. (2022) find that the increased cost associated with municipalities' Black residents is pervasive across the country, and is 50 percent larger in states with higher levels of racial animus. The costs also increase during periods of heightened racial animus. Collectively, the findings provide evidence that municipalities across the United States face racial discrimination in the municipal bond markets that is similar to HBCUs.

Given half of the nation's HBCUs reside in majority-black cities (Perry 2017), many HBCUs will face race discrimination costs when raising capital in the municipal bond market for both on and off campus capital improvements. To avoid these discrimination costs but still harness the power of public capital markets, the National Association for Equal Opportunity in Higher Education (NAFEO) Campus Plus Community (CPC) Initiative offers a promising alternative (NAFEO, 2023). The CPC Initiative is a real estate development program designed to enhance HBCU campuses and their surrounding neighborhoods. Under the CPC Initiative, NAFEO and individual HBCUs would partner to create project specific 501-(c)-3 Pass-through Borrowing Entities (CommUniversity SPEs) to develop on and off campus real estate with funding from the HBCU CommUniversity Impact Fund. The HBCU CommUniversity Impact Fund will seek out socially conscious investors nationwide and use the obtained investor funds to in turn provide loans to CommUniversity SPEs at rates comparable to or better than PWIs. By establishing a fund with a nationwide investor base, racial animus that may otherwise exist among certain investors is sidestepped, allowing HBCUs and the surrounding areas to avoid the costs of racial animus faced in the municipal bond market. In turn, the CPC Initiative offers the prospect of HBCUs securing necessary financing to improve their campuses and compete for students in a sustainable fashion.

Sincerely,

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About NAFEO

The National Association for Equal Opportunity in Higher Education (NAFEO) is the nation's only national membership association of all of the nation's Historically Black Colleges and Universities (HBCUs) and Predominantly Black Institutions (PBIs). Founded in 1969, by the presidents and chancellors of HBCUs and other equal educational opportunity institutions, NAFEO is a one of a kind membership association representing the presidents and chancellors of the public, private, independent, and land-grant, two-year, four-year, graduation and professional, HBCUs and PBIs.

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