Memorandum

ACTION | BRIEFING | INFORMATION

FOR: File

DATE: MAY 8 1985

FROM: Joseph Krolikowski
Attorney-Advisor

SUBJECT: Meeting with National Association of Independent Colleges and Universities

Tom Neubig, Daphne Kenyon and I met with representatives from the private college and university sector (listed on attached) on April 18, 1985, to discuss the reform proposal to repeal tax-exemption for nongovernmental bonds. They were primarily concerned with facility financing, rather than student loan bonds. The following issues were raised:

1. Volume. Tax-exempt bonds to provide facilities for colleges and universities are approximately 2.01 percent of all long-term tax-exempt obligations. Tom stated that the small size of the subsidy provided through the tax system is no reason to overlook it and that many other relatively small issues were dealt with in the reform package. I asked about the trend for this type of financing. They gave us the attached tables which show a steady increase from 1980 both in the number of issues and in the total volume. They stated there was an inherent market limit on the amount of bonds that could be issued for this sector.

2. Loss of Direct Subsidies. They stated that tax-exempt bonds are more necessary than before because Congress has cut back direct loan and grant programs and may continue this in the future. We replied that tax-exemption was also a subsidy program that imposed costs on the Federal government. The differences are that the tax subsidy is open-ended, unlike direct expenditures, and not subject to review as part of the appropriations process.

3. Continue ability of students to freely choose between public and private institutions. Public institutions are supported by State or local governments which have access to the taxing power. Tax-exempt bonds permit private universities to keep their costs lower so they can be competitive. We asked how they remained competitive prior to 1960, when tax-exempt financing for educational facilities began. They said they funded construction through donors and grants, but these sources are not sufficient today. We asked about the size of

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D F 80-02.1 (11-81) OBSOLETE OS F 10-01.2 WHICH MAY BE USED UNTIL STOCK IS DEPLETED their endowments in relation to their tax-exempt debt. All three institutions present stated that their endowments were substantially larger than their debt, but they pointed out this was not true for all institutions.

4. Reform proposal unfairly discriminates between institutions that provide the same function. Public and private institutions provide the same socially beneficial function. The reform proposal discriminates against private institutions as compared to public institutions because the latter will continue to have access to low cost financing . They said that providing education is always a public purpose. They also stated that the Federal government has had a consistent policy of providing equal benefits to both in order to encourage free choice by students. We replied that this is a necessary byproduct of the decision to retain tax-exemption for governmental bonds. The benefit of this decision is that the volume of tax-exempt obligations is limited which broadens the tax base and permits rate reduction. This also means that the subsidy is targeted and gives governments the most benefit possible.

5. Privatization and Voluntarism. They stated that the reform proposal will have an adverse impact on privatization and voluntarism because government-owned institutions will have a competitive advantage. They said students will move from independent institutions to state institutions. Schools that are currently independent will be pressured to become state related. We stated that if the private sector now has a relative cost advantage, the proposal may reduce this and result in shifts at the margin.

Attachments

cc: Ronald Pearlman
Roger Mentz
Mikel Rollyson
Charles McLure
John Wilkins
Moshe Schuldinger
Tom Neubig
Daphne Kenyon
Jim Lokey
Jon Hakken