

# Historically Black Colleges and Universities:

## *Action Needed To Improve Participation in Education's HBCU Capital Financing Program*

Historically Black Colleges and Universities (HBCUs) play a prominent role in our nation's higher education system, educating over 220,000 African American students and over one-third of African-American undergraduates who eventually earn a STEM PhD. To help HBCUs facing challenges accessing funding for capital projects, including discrimination in the bond market, in 1992, Congress created the HBCU Capital Financing Program to provide HBCUs with access to low cost loans to address repair, renovation, and construction needs.

In 2016, Congressman Bobby Scott (VA-03), ranking member of the House Committee on Education and the Workforce, Senator Patty Murray (D-WA), ranking member of the Senate Committee on Health, Education, Labor, and Pensions, Congressman G.K. Butterfield (NC-01), and Senator Bob Casey (D-PA), asked the Government Accountability Office (GAO) to investigate the capital finance needs of HBCUs. GAO looked into three specific issues:

### **What are the capital needs of HBCUs?**

Based on an in-depth survey, a review of master plans, interviews with 15 HBCUs in seven states, and site visits to nine HBCUs in three states, the GAO estimates that **46 percent of all HBCU building space nationwide is in need of repair or replacement**. The three key components of this capital funding need include:

- *Deferred maintenance*. The median costs for backlogged repairs on an HBCU campus is \$19 million – which is much greater on public campuses (\$30 million) than on private campuses (\$12 million).
- *Evolving needs*. As higher education has evolved, HBCUs have not had the capital to keep up with changes in demand from students and faculty for more modernized residence halls and academic programs and buildings.
- *Historic buildings*. Many HBCU buildings are state/federally registered historic places; the restoration and renovation of these sites are highly technical and more costly.

### **What funding sources do HBCUs currently use to meet those needs?**

Many HBCUs lack diverse revenue sources, which affects their credit rating and ability to fund projects – making them reliant on revenue from government sources and from tuition and fees. For example, public HBCUs rely heavily on state grants, appropriations, and bonds and federal grants and private HBCUs rely mainly on federal grants, alumni/private giving, and tuition/fees. Additionally, a college's wealth – such as the size of its endowment – also affects a college's credit rating and access to financing. The GAO found that **HBCUs' median endowment is about half the size of similar non-HBCUs**.

#### *The HBCU Capital Crunch Cycle:*

- HBCUs lack diverse revenue sources and have small endowments.
- This affects their credit rating and access to private financing.
- HBCUs *also* face discrimination in the bond market.

#### *Meanwhile....*

- Poorly maintained buildings do not retain and attract large classes to campus.
- Smaller classes results in less collected tuition and fees.
- Without this funding, schools have an even harder time securing other sources of funding.
- Which leads to not enough capital to maintain, repair, or replace buildings.

### **What steps could the Department of Education take to improve access to the HBCU Capital Financing Program?**

*Outreach:* Eight HBCUs and one state university system had not heard about the HBCU Capital Financing Program, which has been in effect for 26 years. Direct outreach is needed to individual campuses and state higher education organizations.

*Modification:* The Department of Education should analyze the potential benefits and costs of offering loan modifications in the program. Congress has already provided some power to modify loans, but more may be warranted.