Department of Education

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING PROGRAM ACCOUNT

Fiscal Year 2018 Budget Request

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For the cost of guaranteed loans, $20,112,000, as authorized pursuant to part D of title III of the HEA, which shall remain available through September 30, 2019:[1] Provided, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974:[2] Provided further, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed $313,513,000:[3] Provided further, That these funds may be used to support loans to public and private Historically Black Colleges and Universities without regard to the limitations within section 344(a) of the HEA.[4] In addition, for administrative expenses to carry out the Historically Black College and University Capital Financing Program entered into pursuant to part D of title III of the HEA, $333,000.

NOTES

A full-year 2017 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Further Continuing Appropriations Act, 2017 (P.L. 114-254). The amounts included for 2017 reflect the annualized level provided by the continuing resolution. The Department of Education Appropriations Act, 2017, provided $20.484 million which is equal to the 2016 level for this account

Each language provision that is followed by a footnote reference is explained in the Analysis of Language Provisions and Changes document which follows the appropriations language.

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Analysis of Language Provisions and Changes

Language Provision	Explanation
[1] For the cost of guaranteed loans, $20,112,000, as authorized pursuant to part D of title III of the Higher Education Act of 1965 (HEA), which shall remain available through September 30 2019:	In accordance with the Federal Credit Reform Act of 1990, the requested language appropriates $20.112 million in subsidy for new loans to be made under the HBCU Capital Financing program. This amount will be available for obligation for 2 fiscal years. No loans may be insured under the program that would require subsidy above this amount.
[2] *Provided,* That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974:	This requested language specifies that any program costs or cost modifications shall comply with the definitions that are provided in Section 502 of the stated Act.
[3] *Provided further*, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed $313,513,000:	The requested language limits the amount of bonds that may be insured under the HBCU Capital Financing program to $313.513 million in fiscal year 2018.
[4] *Provided further*, That these funds may be used to support loans to public and private historically Black colleges and universities without regard to the limitations within section 344(a) of the HEA.	The requested language allows the program to make loans in fiscal year 2018 without regard to the language in HEA section 344(a) that sets limits on the amount of the program's loan authority that can be devoted to private versus public HBCUs.
[5] In addition, for administrative expenses to carry out the Historically Black College and University Capital Financing Program entered into pursuant to part D of title III of the HEA, $333,000.	In accordance with the Federal Credit Reform Act of 1990, this language appropriates funds to administer new loans, service existing loan obligations, and provide technical assistance to prospective and existing program participants.

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Amounts Available for Obligation
(dollars in thousands)

Appropriation and Adjustments	2016	2017 Annualized CR	2018
Discretionary appropriation	$20,484	$20,445	$20,445
Mandatory appropriation	21,656	201,110	0
Total, direct obligations	42,140	221,555	20.445

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Obligations by Object Classification
(dollars in thousands)

	Object Class	2016	2017	2018	Change from 2017 to 2018
11.10	Full-time permanent	149	150	151	+1
11.31	Full-time temporary	0	0	0	0
11.52	Awards	1	1	1	0
	Compensation subtotal	150	151	152	+1
12.00	Benefits	44	45	46	+1
	Comp/benefits subtotal	194	196	198	+2
21.00	Travel	14	11	9	-2
23.10	Rental payments to GSA	10	6	7	+1
	Subtotal Travel/Rent	24	17	16	-1
25.21	Other services	99	98	97	-1
25.22	Training/tuition contracts	1	2	1	-1
25.30	Goods/services from Federal sources	0	3	3	0
25.72	IT services/contracts	15	16	17	+1
	Subtotal 25	115	119	118	-1
26.00	Supplies	1	1	1	0
	Total, Obligations	334	333	333	0

Summary of Changes
(dollars in thousands)

2017 Annualized CR	$333
2018..	333
Net change	0

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Authorizing Legislation
(dollars in thousands)

Activity	2017 Authorized	2017 Annualized CR	2018 Authorized	2018
Federal administration				
Federal Credit Reform Act of 1990, section 505(e) and Title III, part D, HEA	Indefinite	$334	Indefinite	$333
New loan subsidy				
Federal Credit Reform Act of 1990, section 505(e) and Title III, part D, HEA	Indefinite	20,150	Indefinite	20,112
Reestimate of existing loan subsidies				
Federal Credit Reform Act of 1990, section 504(f)	Indefinite	201,110[1]	Indefinite	0
Total Discretionary Appropriation		20,484		20,445
Total Mandatory Appropriation		201,110		0

[1] The 2017 reestimate of existing loans includes an upward reesimate of $130 million due to increased default assumptions related to the schools receiving loans under the HBCU Hurricane Supplemental Loan program, established pursuant to section 2601 of Public Law 109-234..

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Appropriations History
(dollars in thousands)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2009	$10,354	$10,354[1]	$10,354[1]	$10,354
2010	20,582	20,582	10,354[2]	20,582
2011	20,582	20,582[3]	20,582[2]	20,541[4]
2012	20,582	20,541[5]	20,541[5]	20,502
2013	20,502	19,430[6]	19,430[6]	19,430
2014	20,502	N/A[7]	20,484[2]	19,430
2015	19,430	N/A[7]	20,444	19,430
2016	19,436	19,096	19,096[8]	20,150[9]
2017	20,112	20,112[10]	20,112[10]	20,150[10]
2018	20,112			

[1] The levels for the House and Senate allowances reflect action on the regular annual 2009 appropriations bill, which proceeded in the 110th Congress only through the House Subcommittee and the Senate Committee.
[2] The levels for the Senate allowance reflect Committee action only.
[3] The level for the House allowance reflects the House-passed full-year continuing resolution.
[4] The level for appropriation reflects the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10).
[5] The level for the House allowance reflects an introduced bill and the level for the Senate allowances reflects Senate Committee action only.
[6] The level for the House and Senate allowances reflect action on the regular annual 2013 appropriations bill, which proceeded in the 112th Congress only through the House Subcommittee and the Senate Committee.
[7] The House allowance is shown as N/A because there was no Subcommittee action.
[8] The level for the Senate allowance reflects Senate Subcommittee action only.
[9] The levels for House and Senate allowances reflect action on the regular annual 2016 appropriations bill, which proceeded in the 114th Congress only through the House Committee and Senate Committee.
[10] The levels for House and Senate allowances reflect Committee action on the regular annual 2017 appropriation bill; the Appropriation reflects the Consolidated Appropriations Act, 2017.

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Federal Administration

(Federal Credit Reform Act of 1990, Section 505(e) and the Higher Education Act of 1965, Title III, Part D) (dollars in thousands)

(dollars in thousands)

FY 2018 Authorization:

Federal administration: Indefinite
New loan subsidy costs: Indefinite [1]

Budget Authority:

	2017 Annualized CR	2017 Appropriation	2018	Change
Federal Administration	$334	$334	$333	-$1
New loan subsidy costs	20,150	20,150	20,112	-38
Total	20,484	20,484	20,445	-39
Full-time equivalent employee	1	1	1	0

[1] Although the amount authorized for subsidy costs of new loans is indefinite, section 344(a) of the HEA limits the aggregate principal amount of outstanding bonds insured, together with any accrued unpaid interest thereon, to $1,100,000 thousand, of which not more than $733,333 thousand may be used for loans to eligible private HBCUs and not more than $366,667 thousand may be used for loans to eligible public HBCUs. The 2015 appropriations bill included language removing this limitation. The 2016 request includes appropriations language to remove this limitation for new loans made in fiscal year 2016.

PROGRAM DESCRIPTION

Since fiscal year 1996, the Historically Black Colleges and Universities Capital Financing Program has provided Historically Black Colleges and Universities (HBCUs) with access to capital financing for the repair, renovation, and, in exceptional circumstances, construction or acquisition of educational facilities, instructional equipment, research instrumentation, and physical infrastructure. HBCUs, which have played a prominent role in our Nation’s history, have significant needs for capital improvements. However, in most cases these institutions cannot access traditional funding sources at reasonable interest rates. The HBCU Capital Financing Program provides HBCUs with access to low-cost financing to fund infrastructure improvements. This program has made low interest loans available for capital improvements to some of the Nation’s most vulnerable institutions of higher education, which have allowed these institutions to make improvements to their capital stock, especially academic facilities and student living-quarters. In order to limit the Federal Government’s exposure to incurring losses due to defaults and delinquencies, 5 percent of all loans are deposited in a pooled escrow account from which loan payments can be made in the event of defaults or delinquencies.

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The HBCU Capital Financing Advisory Board, appointed by the Secretary, advises the Secretary and the Designated Bonding Authority (DBA) as to the most effective and efficient means of implementing the program. The DBA, also selected by the Secretary, assists with the operation of the HBCU Capital Financing Program, which includes raising bond capital, making loans to eligible institutions, charging interest, and providing for a schedule of repayments. Direct loans are financed through the Federal Financing Bank and guaranteed loans are financed through the private market, with all loan payments fully insured by the Federal Government.

FEDERAL ADMINISTRATION

Funds for this activity pay the Federal costs for administering the HBCU Capital Financing Program. The administrative costs for this program include the personnel compensation and benefits for 1 full-time equivalent (FTE) employee, overhead, and other administrative services. The FTE reported in this account reflects the Department's estimate of the staff time devoted to administering the program. This estimate does not include FTEs associated with the Department's centralized services, which are reflected in the Program Administration account in the Salaries and Expenses Overview. The major non-personnel costs include support for the HBCU Capital Financing Advisory Board and a contract with the DBA to provide technical assistance workshops.

SUBSIDY COSTS

In the first 10 years that the HBCU Capital Financing Program operated, there were no delinquencies or defaults. The rigorous application and credit review process imposed by the Department and the DBA was credited with ensuring that institutions receiving loans under this program had the ability to comply with the terms of their loans. In 2004, Barber Scotia College lost its accreditation with the Southern Association of Colleges and Schools. Students enrolled at Barber Scotia College were no longer eligible for Federal student assistance. Approximately 90 percent of the College's students receiving some form of government assistance, this rendered the College unable to service its debt under the program. Barber Scotia College has one $7.0 million loan under the program, of which $6.1 million is currently outstanding. In addition, there will be a total of $3.4 million in interest due over the remaining life of the loan. Since March 2005, Barber Scotia College's principal and interest payments have been made from the pooled escrow account. The DBA, which holds the loans that are guaranteed through this program, initiated foreclosure actions against Barber Scotia College to recover funds owed. Following emergency supplemental appropriations[1] in fiscal year 2007, the Department awarded approximately $400.0 million in loan guarantees to institutions affected by Hurricanes Katrina and Rita. These loans were exempt from the pooled escrow requirement and limited to a maximum interest rate of 1 percent, increasing Federal liability and interest subsidy cost.

[1]The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 Sec. 2601 waived HEA provisions 343(b)(2) and 343(b)(8) and required the Secretary to pay any interest in excess of 1 percent for loans to institutions affected by Hurricanes Katrina and Rita.

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Subsidy levels for the past 5 fiscal years were:

Fiscal Year	(dollars in thousands)
2013	$19,096
2014	19,096
2015	19,096
2016	20,150
2017	20,150

FY 2018 BUDGET REQUEST

The Administration requests $20.4 million for the Historically Black College and University (HBCU) Capital Financing Program account for fiscal year 2018. The request includes $333,000 for administrative expenses and an additional $20.1 million for new loan subsidy costs. The Department of Education Appropriations Act, 2017, provided $20.484 million for this program. The Administration requests that loan subsidy funding be available through September 30, 2019. The narrow window for obligation of annual funds constrains the planning process for new program loans, decreasing the number of projects that can be considered for funding and limits the Administration's ability to achieve the statutory mandate of ensuring that loans are fairly allocated among as many eligible institutions as possible.

The $333,000 in administrative expenses will be used to maintain technical assistance services. These services prepare eligible institutions to access capital markets by enhancing their fiscal stability.

The request includes $20.1 million for new loan subsidy costs and anticipates that the requested subsidy amount will be sufficient to guarantee $314 million in new loans.

PROGRAM OUTPUT MEASURES

(dollars in thousands)

Output Measures	2016	2017 Annualized CR	2018
Number of new loans:			
Private HBCUs	3	8	8
Public HBCUs	1	8	8
Total	4	16	16
New loan volume:			
Private HBCUs	$91,100	$141,107	$156,757
Public HBCUs	36,600	141,107	156,757
Total	127,700	282,213	313,513

Output Measures	2016	2017 Annualized CR	2018
Total number of loans:			
Private HBCUs	49	56	64
Public HBCUs	16	23	30
Total	65	79	94
Total loan awards:			
Private HBCUs	$1,408,885	$1,549,992	$1,706,748
Public HBCUs	603,671	744,778	901,534
Total	2,012,556	2,294,769	2,608,282
Total outstanding loan awards:			
Private HBCUs	1,089,965	1,232,970	1,924,967
Public HBCUs	342,493	387,428	604,871
Total	1,432,458	1,620,398	2,529,838

PROGRAM PERFORMANCE MEASURES

Performance Measures

This section presents selected program performance information, including, for example, GPRA goals, objectives, measures, and performance targets and data; and an assessment of the progress made toward achieving program results. Achievement of program results is based on the cumulative effect of the resources provided in previous years and those requested in fiscal year 2018 and future years, and the resources and efforts invested by those served by this program.

Goal: To improve loan recipients' overall financial stability and enhance their ability to attract, retain and educate students.

***Objective**: Total revenues and investment return will increase for loan recipients.*

Measure: The percentage of borrowers who increase revenues and investment return annually.

Year	Target	Actual
2012	70	55
2013	70	
2014	70	
2015	70	
2016	70	
2017	70	

Additional information: This performance measure is the percentage of HBCUs that experienced an increase in revenue over the prior year. This measure is one gauge of improved institutional financial stability and capability to fulfill their educational mission. Loans that fund capital and infrastructure improvements are key assets for providing quality postsecondary education. Some HBCUs have significant cash flow problems, which capital improvements from this program are expected to help ameliorate. Revenue is a strong indicator of an institution's success at maintaining or increasing enrollment, expanding fundraising activities, and, ultimately, the institution's financial stability. The ability to maintain or increase revenue suggests that an institution will be able to service its debts and maintain its operations. This measure helps to assess the financial solvency of borrowers, which is a gauge of default potential. This measure is calculated as the number of HBCUs in the program that have experienced an increase in revenue over the prior fiscal year, divided by the total number of HBCUs in the program, and multiplied by 100. The data source for total revenues is the National Center for Educational Statistics' Integrated Postsecondary Education Data System. Performance metric information may not be updated where performance data is unavailable.***Objective****: Improve the delinquency rate of loan recipients.*

Measure: The delinquency rate of loan recipients.

Year	Target	Actual
2012	14	19
2013	14	36
2014	14	18
2015	14	36
2016	14	33
2017	14	

Additional information: The delinquency rate—the percentage of loan payments received between 11-59 days after the due date—indicates the financial stability of borrowers. The ability to make timely payments reduces the likelihood of default. It also indicates successful monitoring, technical assistance, and enforcement by the Department and the Designated Bonding Authority (DBA) in administering the program.

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Goal: To improve the capacity of program borrowers to improve student success and provide high-quality educational opportunities for their students.

Objective: *Maintain or increase the persistence rate of first-year students at borrower institutions.*

Measure: The percentage of first-time, full-time, degree-seeking, undergraduate students who were in their first year of postsecondary enrollment in the previous year and are enrolled in the current year at the same loan recipient institution.

Year	Target	Actual
2012	67	61
2013	68	61
2014	69	
2015	70	
2016	71	
2017	71	

Additional information: New and improved physical facilities can help an institution of higher education increase student persistence. Many of the loans have provided support for student housing and many of the borrowers have explicitly cited the lack of adequate student housing and facilities as a reason for high attrition rates on their campuses in their loan applications. This measure relies on data taken from the Integrated Postsecondary Education Data System maintained by the National Center for Education Statistics. Performance metric information may not be updated where performance data is unavailable.