

Department of Education
HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT

Fiscal Year 2019 Budget Request

CONTENTS

	<u>Page</u>
Appropriation Language.....	U-1
Appropriation, Adjustments, and Transfers	U-2
Obligations by Object Classification	U-3
Summary of Changes	U-4
Authorizing Legislation.....	U-5
Appropriations History.....	U-6
Federal Administration.....	U-7

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING PROGRAM ACCOUNT

NOTES

No appropriations language is included for this account. All programs in this account for fiscal year 2019 are authorized under the expired Higher Education Act of 1965, as amended; when new authoring legislation is enacted, appropriations language for these programs will be proposed.

A full-year 2018 appropriation for this account was not enacted at the time the budget was prepared; therefore, the budget assumes this account is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115-56, as amended). The amounts included for 2018 reflect the annualized level provided by the continuing resolution.

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

Appropriation, Adjustments, and Transfers
(dollars in thousands)

Appropriation/Adjustments/Transfers	2017	2018 Annualized CR	2019
Discretionary:			
Appropriation.....	\$20,446	0	\$20,489
Annualized CR (P.L. 115-56)	<u>0</u>	<u>\$20,307</u>	<u>0</u>
Total, discretionary appropriation	20,446	20,307	20,489
Mandatory:			
Appropriation.....	<u>201,110</u>	<u>39,548</u>	<u>0</u>
Total, discretionary and mandatory appropriation.....	221,556	59,855	20,489

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

Obligations by Object Classification
(dollars in thousands)

Object Class	2017	2018 Annualized CR	2019 Request	Change from 2018 to 2019
11.10 Full-time permanent	\$150	\$151	\$151	0
11.31 Full-time temporary	0	0	0	0
11.52 Awards	1	1	1	0
Compensation subtotal	150	151	151	0
12.00 Benefits	45	47	47	0
Comp/benefits subtotal	195	199	199	0
21.00 Travel	11	9	9	0
23.10 Rental payments to GSA	6	7	9	2
Subtotal Travel/Rent	17	16	16	0
25.21 Other services	98	96	101	5
25.22 Training/tuition contracts	2	1	1	0
Goods/services from Federal				
25.30 sources	3	1	1	0
25.72 IT services/contracts	16	18	18	0
Subtotal 25	119	116	121	5
26.00 Supplies	1	1	1	0
Total, Obligations	333	332	339	7

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

Summary of Changes
(dollars in thousands)

2018 Annualized CR		\$332
2019		<u>339</u>
Net change.....		+7
<hr/>		
Increases:	<u>2018 base</u>	Change from base
<u>Program:</u>		
Increase in rent to GSA and Other Services	\$103,000	+ \$7,000
<hr/>		

Authorizing Legislation
(dollars in thousands)

Activity	2018 Authorized	2018 Annualized CR	2019 Authorized	2019 Request
Federal administration (Federal Credit Reform Act of 1990, section 505(e) and Title III, part D, HEA)	Indefinite	\$332	To be determined	\$339
New loan subsidy (Federal Credit Reform Act of 1990, section 505(e), Title III, part D, HEA)	Indefinite	19,975	To be determined	20,150
Reestimate of existing loan subsidies (Federal Credit Reform Act of 1990, section 504(f))	<u>Indefinite</u>	<u>39,548</u> ¹	<u>To be determined</u>	<u>0</u>
Total Discretionary Appropriation		20,307		20,489
Total Mandatory Appropriation		39,548		0

¹ The 2018 reestimate of existing loans includes an upward reesimate of \$40 million due to increased default assumptions.

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

Appropriations History
(dollars in thousands)

Year	Budget Estimate to Congress	House Allowance	Senate Allowance	Appropriation
2010	\$20,582	\$20,582	\$10,354 ¹	\$20,582
2011	20,582	20,582 ²	20,582	20,541 ³
2012	20,582	20,541 ⁴	20,541 ³	20,502
2013	20,502	19,430 ⁵	19,430 ⁴	19,430
2014	20,502	N/A ⁶	20,484	19,430
2015	19,430	N/A ⁸	20,444	19,430
2016	19,436	19,096	19,096 ⁷	20,150 ⁸
2017	20,112	20,112 ⁹	20,112 ⁹	20,112 ⁹
2018	20,112	19,975 ¹⁰	19,975 ¹⁰	19,975 ¹⁰
2019	20,150			

¹ The levels for the Senate allowance reflect Committee action only.

² The level for the House allowance reflects the House-passed full-year continuing resolution.

³ The level for appropriation reflects the Department of Defense and Full-Year Continuing Appropriations Act, 2011 (P.L. 112-10).

⁴ The level for the House allowance reflects an introduced bill and the level for the Senate allowances reflects Senate Committee action only.

⁵ 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.

⁶ The House allowance is shown as N/A because there was no Subcommittee action.

⁷ The level for the Senate allowance reflects Senate Subcommittee action only.

⁸ 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.

⁹ No appropriations language is included for programs authorized under the expired Carl D. Perkins Career and Technical Education Act; when new authorizing legislation for the Perkins Act is enacted, appropriations language for these programs will be proposed.

¹⁰ The levels for the House reflect floor action on an Omnibus appropriation bill; Senate allowances reflect Committee action on the regular annual 2018 appropriations bill; the Appropriation reflects the annualized Continuing Resolution level.

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

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)

FY 2019 Authorization:

Federal administration: To be determined
New loan subsidy costs: To be determined¹

Budget Authority:

	2018 <u>Annualized CR</u>	<u>2019</u>	<u>Change</u>
Federal Administration	\$332	\$339	+\$7
New loan subsidy costs	<u>19,975</u>	<u>20,150</u> ²	<u>175</u>
Total	20,307	20,489	182
Full-time equivalent employee	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 2017 appropriations bill included language removing this limitation. The 2019 request includes appropriations language to remove this limitation for new loans made in fiscal year 2019.

² Increase funding to reflect the President's Budget request to fund the HBCU Capital Finance Program at FY 2017 enacted levels. This amount would restore cuts resulting from the 0.6791 percent across-the-board reduction included in the FY 2018 Annualized CR Level.

PROGRAM DESCRIPTION

A full-year fiscal year 2018 appropriation was not enacted at the time the fiscal year 2019 Budget was prepared; therefore, the Budget assumes the Department is operating under the Continuing Appropriations Act, 2018 (Division D of P.L. 115–56, as amended). The amounts included for fiscal year 2018 reflect the annualized level provided by the continuing resolution.

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

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING PROGRAM ACCOUNT

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. These loans 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.

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 DBA was credited with ensuring that recipient institutions receiving loans would be able to comply with the terms of their loans. However, since 2004, increases in financial instability by certain HBCUs have affected Federal liability in the program. For example, in 2004, Barber Scotia College lost its accreditation with the Southern Association of Colleges and Schools. As a result, students enrolled at Barber Scotia College were no longer eligible for Federal student assistance. The DBA, which holds the loans guaranteed through this program, initiated foreclosure actions against Barber Scotia College to recover funds owed. In addition, following emergency supplemental appropriations¹ 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. The HBCU portfolio is experiencing greater financial stress as evidenced by an increase in

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

delinquencies outlined in the performance measures. Accordingly, default rate assumptions for the portfolio have been increased to reflect the heightened risk profile, resulting in an upward reestimate of existing loan subsidies in fiscal years 2017 and 2018.

Subsidy levels for the past 5 fiscal years were:

Fiscal Year	(dollars in thousands)
2014.....	\$19,096
2015.....	19,096
2016.....	20,150
2017.....	20,112
2018.....	19,975

FY 2019 BUDGET REQUEST

The Administration requests \$20.5 million for the Historically Black College and University (HBCU) Capital Financing Program account for fiscal year 2019. The request includes \$339,000 for administrative expenses and an additional \$20.2 million for new loan subsidy costs. The Administration requests that loan subsidy funding be available through September 30, 2020. 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 Department’s ability to achieve the statutory mandate of ensuring that loans are fairly allocated among as many eligible institutions as possible.

The \$339,000 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 \$20.2 million for new loan subsidy costs and anticipates that the requested subsidy amount will be sufficient to guarantee \$580 million in new loans.

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.

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

PROGRAM OUTPUT MEASURES

(dollars in thousands)

<u>Output Measures</u>	<u>2017</u>	2018 <u>Annualized CR</u>	<u>2019</u>
Number of new loans:			
Private HBCUs	0	3	7
Public HBCUs	<u>4</u>	<u>3</u>	<u>7</u>
Total	4	6	14
 New loan volume:			
Private HBCUs	\$0	\$156,000	\$290,000
Public HBCUs	<u>174,100</u>	<u>156,000</u>	<u>290,000</u>
Total	174,100	312,000	580,000
 Total number of loans:			
Private HBCUs	50	54	60
Public HBCUs	<u>18</u>	<u>22</u>	<u>28</u>
Total	68	75	88
 Total loan awards:			
Private HBCUs	\$1,436,385	\$1,592,123	\$1,882,047
Public HBCUs	<u>719,990</u>	<u>875,728</u>	<u>1,165,652</u>
Total	2,156,375	2,467,851	3,047,699
 Total outstanding loan awards:			
Private HBCUs	\$1,408,885	\$1,567,520	\$2,121,989
Public HBCUs	<u>580,670</u>	<u>646,051</u>	<u>874,575</u>
Total	2,156,375	2,213,571	2,996,564

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

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 2019 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
2014	70	41
2015	70	26
2016	70	44
2017	70	
2018	70	
2019	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.

**HISTORICALLY BLACK COLLEGE AND UNIVERSITY
CAPITAL FINANCING PROGRAM ACCOUNT**

Objective: *Improve the delinquency rate of loan recipients.*

Measure: The delinquency rate of loan recipients.

Year	Target	Actual
2014	14	18
2015	14	36
2016	14	33
2017	14	29
2018	14	
2019	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 more delinquent a borrower the greater level of financial instability exists. 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.

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 full-time retention rate is the percent of the fall full-time cohort from the prior year minus exclusions from the fall full-time cohort that re-enrolled at the institution as either full or part-time in the current year.

Year	Target	Actual
2014	69	59
2015	70	59
2016	71	58
2017	71	
2018	71	
2019	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. Historically, the persistence rate at HBCUs receiving loans through the capital finance program is about the same as at HBCUs overall. This measure relies on data taken from the Integrated Postsecondary Education Data System maintained by the National Center for Education Statistics.