United States Government Accountability Office

Report to Congressional Requesters

June 2018

HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

Action Needed to Improve Participation in Education's HBCU Capital Financing Program

GAO-18-455

GAO Highlights

Highlights of GAO-18-455, a report to congressional requesters

June 2018

HISTORICALLY BLACK COLLEGES AND UNIVERSITIES

Action Needed to Improve Participation in Education's HBCU Capital Financing Program

Why GAO Did This Study

HBCUs play a prominent role in our nation's higher education system. For example, about one-third of African-Americans receiving a doctorate in science, technology, engineering, or mathematics received undergraduate degrees from HBCUs. To help HBCUs facing challenges accessing funding for capital projects, in 1992, federal law created the HBCU Capital Financing Program, administered by Education, to provide HBCUs with access to low-cost loans. GAO was asked to review the program.

This report examines HBCUs' capital project needs and their funding sources, and Education's efforts to help HBCUs access and participate in the HBCU Capital Financing Program. GAO surveyed all 101 accredited HBCUs and 79 responded, representing a substantial, but nongeneralizable, portion of HBCUs. GAO analyzed the most recent program participation data (1996-2017) and finance data (2015-16 school year); reviewed available HBCU master plans; visited nine HBCUs of different sizes and sectors (public and private); and interviewed Education officials and other stakeholders.

What GAO Recommends

GAO recommends Education (1) include direct outreach to individual HBCUs and steps to address participation challenges for some public HBCUs in its outreach plan, and (2) analyze the potential benefits and costs of offering loan modifications in the program. Education outlined plans to address the first recommendation, and partially agreed with the second. GAO continues to believe both recommendations are warranted.

View GAO-18-455. For more information, contact Melissa Emrey-Arras at (617) 788-0534 or emreyarrasm@gao.gov.

What GAO Found

Historically Black Colleges and Universities (HBCUs), stakeholders, and planning documents identified extensive and diverse capital project needs at HBCUs and GAO found HBCUs rely on a few funding sources—such as state appropriations and tuition and fees—to address those needs. HBCUs responding to GAO's survey reported that 46 percent of their building space, on average, needs repair or replacement. Based on a review of master plans—which assess the condition of HBCU facilities—and visits to nine HBCUs, GAO identified significant capital project needs in the areas of deferred maintenance, facilities modernization, and preservation of historic buildings. The Department of Education's (Education) HBCU Capital Financing Program has provided access to needed funding for some HBCUs and has helped modernize their facilities to improve student recruitment. However, fewer than half of HBCUs have used the program, according to Education data, which was specifically designed to help them address capital project needs (see figure).

Capital Projects at Historically Black Colleges and Universities (HBCUs)

Residence hall with deferred maintenance need

Residence hall constructed with HBCU Capital Financing loan

Source: GAO photographs of buildings on two HBCU campuses. | GAO-18-455

Note: The Department of Education's HBCU Capital Financing program provides low-cost loans to eligible HBCUs.

Education has undertaken several efforts to help HBCUs access and participate in the HBCU Capital Financing Program. For example, Education conducts outreach through attending conferences. However, some HBCUs in GAO's survey and interviews were unaware of the program. Moreover, public HBCUs in four states reported facing participation challenges due to state laws or policies that conflict with program requirements. For example, participants are required to provide collateral, but public HBCUs in two states reported they cannot use state property for that purpose. In March 2018, a federal law was enacted requiring Education to develop an outreach plan to improve program participation. An outreach plan that includes direct outreach to individual HBCUs and states to help address these issues could help increase participation. Without direct outreach, HBCUs may continue to face participation challenges. In addition, two HBCUs recently defaulted on their program loans and 29 percent of loan payments were delinquent in 2017. Education modified a few loans in 2013 and was recently authorized to offer loan deferment, but has no plans to analyze the potential benefits to HBCUs and the program's cost of offering such modifications in the future. Until Education conducts such analyses, policymakers will lack key information on potential options to assist HBCUs.

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Abbreviations

Advisory Board	HBCU Capital Financing Advisory Board
Capital Financing Program	HBCU Capital Financing Program
Education	U.S. Department of Education
Emergency Act	Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006
GSF	gross square footage
HBCU	Historically Black College and University
IPEDS	Integrated Postsecondary Education Data System
Private	private non-profit colleges
SEC	Securities and Exchange Commission
STEM	science, technology, engineering, and mathematics

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June 26, 2018

Congressional Requesters

Historically Black Colleges and Universities (HBCUs) in the United States play an important and unique role in our nation's higher education system. For example, they educated over 220,000 African-American students pursuing a higher education degree in 2016, the most recent year of data available.[1] In addition, more than one-third of African-Americans receiving a doctorate in science, technology, engineering, or mathematics fields obtained their undergraduate degrees from an HBCU,[2] and many received their doctorates from an HBCU. Like many of the nation's approximately 4,400 colleges and universities (colleges), the 101 HBCUs undertake capital projects to help ensure their students have well-maintained, safe, and functional facilities.[3] Despite their prominent role providing access to higher education for African-Americans and others, HBCUs have faced challenges acquiring the robust revenue streams needed to undertake capital projects. Moreover, a study in 2015 examined HBCU activity in the bond market and found that HBCUs have

[1]In 2016, over 290,000 students in total attended HBCUs. National Center for Education Statistics, *Digest of Education Statistics*, Table 313.20—Fall Enrollment in degree-granting Historically Black Colleges and Universities, by sex of student and level and control of institution: Selected years, 1976 through 2016.

[2]University of Pennsylvania Center for Minority Serving Institutions, *2016-2017 National Campaign on the Return on Investment of Minority Serving Institutions* (Philadelphia, PA: 2017).

[3]According to the Department of Education, there were 4,360 degree-granting institutions in the 2016-17 school year. The 101 HBCUs are recognized by the Department of Education as accredited institutions eligible for participation in federal student financial aid programs. Of these HBCUs, 50 are public and 51 are private non-profit (private). For a map of HBCUs in the United States (including the U.S. Virgin Islands) and their sector (public and private) see appendix IV.

a harder time finding investors, which results in higher costs compared to similar, non-HBCU colleges.[4]

Recognizing these challenges, in 1992 the HBCU Capital Financing Program (Capital Financing Program) was created to provide HBCUs with access to low-cost loans for campus repair, renovation, and construction.[5] Our 2006 review of this program found that just 14 HBCUs participated in the Capital Financing Program, despite extensive and diverse capital project needs reported by HBCU officials.[6]

In light of these issues, you asked us to review funding for capital projects at HBCUs, and the Department of Education's (Education) administration of the Capital Financing Program. This report examines (1) the capital project needs of HBCUs; (2) the funding sources HBCUs use to meet their capital project needs; and (3) the extent to which Education helps HBCUs access and successfully participate in the Capital Financing Program.

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[4]The researchers examined costs associated with bonds issued between 1988 and 2010 and compared costs for HBCUs and non-HBCUs controlling for bond rating, enrollment, year issued, and other factors. According to the study, the higher costs appear to be attributed to racial discrimination HBCUs face in the marketplace partly because bond markets are more localized and HBCUs are geographically concentrated in the southern U.S. where discrimination remains the most severe. Casey Dougal and Pengjie Gao, and William J. Mayew and Christopher A. Parsons, *What's in a (School) Name? Racial Discrimination in Higher Education Bond Markets* (presented at the 6th Miami Behavioral Finance Conference, December 13, 2015).

[5]Institutions meeting the definition of HBCUs in Title III, Part D, section 322(a) of the Higher Education Act of 1965, as amended, are eligible for the HBCU Capital Financing Program. Section 322(a) defines an HBCU as any historically black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary of Education to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation. Additionally, any branch campus of a southern institution of higher education that prior to September 30, 1986, received a Strengthening HBCUs Grant and was formally recognized by the National Center for Education Statistics as a Historically Black College or University is also considered an eligible institution. 20 U.S.C. §§ 1061, 1066a.

[6]GAO, *Capital Financing: Department Management Improvements Could Enhance Education's Loan Program for Historically Black Colleges and Universities,* GAO-07-64 (Washington, D.C.: October 18, 2006). Of the 101 accredited HBCUs, 99 are eligible to participate. Howard University is expressly prohibited from participating under the authorizing statute because the university receives an annual appropriation from the federal government. The Interdenominational Theological Center in Georgia is also prohibited from participation because of its religious-based mission.

To address all three objectives, we conducted a web-based survey of all 101 accredited HBCUs in the United States in June through August 2017.[7] We reviewed HBCUs' master plans, where documentation was available, to supplement survey responses.[8] We interviewed officials at Education and its contracted designated bonding authority which administers aspects of the program; officials at 15 HBCUs in 7 states (Alabama, Georgia, Louisiana, Mississippi, North Carolina, Ohio, and Virginia) and at 4 state university systems (Florida, Georgia, Mississippi, and North Carolina).[9] We also interviewed stakeholders at two HBCU organizations representing most HBCUs, three higher education organizations that focus on facilities, and from foundations and research organizations. In addition, we visited nine selected HBCUs to tour facilities in three states (Alabama, Louisiana, and North Carolina).[10] To further examine challenges HBCUs might face funding capital projects, we analyzed data from Education's Integrated Postsecondary Education Data System (IPEDS) to learn more about select financial characteristics

[7]Seventy-nine of 101 HBCUs responded to our survey. The survey included questions on capital project needs and plans, funding sources, the Capital Financing Program, and Education's Strengthening HBCU Program. By design, not all respondents answered or reported information for each question; as a result, the denominator value for the survey may change depending on the information being discussed in the report. Although 79 of 101 HBCUs represented a substantial portion of the community, the survey results are non-generalizable because the responses may not be representative of all HBCUs. For more information about our survey methodology, see appendix I.

[8]Master plans, also referred to as strategic facilities plans, provide guidance on how current and future capital assets will support and enhance the institution's mission. Master plans are rooted in facilities condition assessments, which are systematic inspections of facilities, using a standardized method for recording observations. It helps administrators assess the physical condition of facilities and facilities' ability to meet the array of institutional needs. In our survey, 54 of 78 HBCUs that responded to the question about conducting a facilities condition assessment reported that they had done so within the last five years.

[9]State university systems oversee groups of public universities supported by an individual state and are responsible for coordinating individual colleges' capital project needs with the state legislature. For more information about how we selected these HBCUs and state university systems, see appendix I.

[10]For more information about how we selected site visit locations, see appendix I.

of all HBCUs.[11] We also used these data to examine differences between HBCUs' and similar non-HBCUs' institutional, student, and financial characteristics. We identified the comparison group of similar non-HBCUs using a statistical matching technique.[12] We used data from the 2015-16 school year, the most recent data available at the time of our analysis. We assessed the reliability of these data by reviewing related documentation and interviewing officials responsible for maintaining the data system, and we found the data to be reliable for our purposes. We also reviewed relevant federal laws, regulations, and guidance, including information about Education's programs that HBCUs identified as other sources for financing capital projects.

To determine the extent to which Education helps HBCUs access and successfully participate in the Capital Financing Program, we reviewed data on program participation from 1996, when the program first issued a loan, to 2017, and documentation on program performance and administration. We assessed the reliability of these data by reviewing related documentation and interviewing knowledgeable agency officials, and we found these data to be reliable for the purposes of our reporting objectives. We also reviewed Education documentation from selected HBCUs affected by Hurricanes Katrina and Rita that received loan modifications in 2013. We assessed Education's outreach with states and HBCUs against federal internal control standards, which state that agency management should externally communicate the necessary quality information to achieve its objectives.[13] We reviewed Education's coordination efforts against best practices for coordinating with relevant stakeholders and reviewed Education's strategic plan, which prioritizes coordinating with external stakeholders to achieve its goals of supporting

[11]IPEDS is a system of interrelated surveys conducted annually by Education's National Center for Education Statistics. IPEDS gathers information on every college, university, and technical and vocational institution that participates in federal student financial aid programs. IPEDS collects data on postsecondary education in seven areas: institutional characteristics, institution prices, enrollment, student financial aid, degrees and certificates, student persistence and success, and institutional human and fiscal resources.

[12]We selected a matched set of non-HBCUs for statistical analysis. Using multi-stage matching, we matched HBCUs and non-HBCUs on four key characteristics: sector (i.e. public or private), highest degree offered, size (enrollment), and location (state or census division). We constructed respective comparison groups that included a total of 382 non-HBCUs. For more information about our methodology and analysis, see appendix I.

[13]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: September 2014).

educational institutions and increasing college access.[14] We also assessed Education's actions to help HBCUs experiencing financial challenges successfully participate in the program against federal internal control standards, which state that agency management should communicate key information needed to achieve its objectives and plan for significant changes, including economic changes, and analyze the effects of such plans and appropriately respond. Appendix I describes our objectives, scope, and methodology in greater detail.

We conducted this performance audit from October 2016 to June 2018 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

HBCU Capital Financing Program

The Capital Financing Program provides loans to eligible HBCUs for the repair, renovation, construction, or acquisition of capital projects or to refinance existing capital debt. Several offices at Education are involved in administering the program, including the Office of Postsecondary Education and the budget office, with one official responsible for overall program management. Education contracts with a designated bonding authority to manage the program's operations. The authorizing legislation also establishes the HBCU Capital Financing Advisory Board (Advisory Board) to provide advice to Education and its designated bonding authority on implementing the program. (See table 1.)

[14]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms,* GAO-12-1022 (Washington, D.C.: September 27, 2012); and U.S. Department of Education, *Strategic Plan for Fiscal Years 2018-22*.

Table 1: Roles and Responsibilities in the Historically Black College and University (HBCU) Capital Financing Program

Program component	Roles and responsibilities
Department of Education (Education)	Education is responsible for the overall administration of the Capital Financing Program.
Designated Bonding Authority	The designated bonding authority—a private financial services company—is selected by Education to issue taxable bonds for purchase by the Federal Financing Bank.[a] It works with Education to administer the program, including communicating with prospective and current HBCU participants, assessing colleges' creditworthiness, and monitoring repayment.
HBCU Capital Financing Advisory Board (Advisory Board)	The Higher Education Act requires the Advisory Board to meet at least twice a year to provide advice and counsel to Education and its designated bonding authority on the most effective and efficient means of implementing capital financing for HBCUs and provide recommendations for program improvement. The Advisory board is composed of, in part, representatives from HBCU organizations, HBCU presidents, Education officials, and the Executive Director of the White House Initiative on HBCUs. The Advisory Board is composed of 11 members who serve up to 3 years.[b]

Source: GAO summary of information from Education and 20 U.S.C. § 1066 et seq.. | GAO-18-455

[a]The Federal Financing Bank at the Department of the Treasury assists federal agencies in financing agency-issued or agency-guaranteed securities.

[b]The term of office of each member is 3 years.

The loan process for an HBCU to participate in the Capital Financing Program consists of multiple steps. HBCUs must first complete a preliminary application with the designated bonding authority that includes information such as enrollment, financial data—including a description of existing debt—and proposed capital projects. The designated bonding authority reviews this information to assess the ability of an HBCU to take on debt and determine whether the college should formally complete an application. The application includes more detailed financial information, such as audited financial statements, as well as capital improvement plans and assessments. To be approved for the loan, an HBCU must satisfy certain credit criteria and have qualified projects.[15] Upon reviewing the college's application, designated bonding authority representatives may visit the HBCU and will recommend to Education whether the college

[15]The designated bonding authority's credit criteria lists 10 factors used to assess an HBCU. These include, for example, administrative factors such as information on the HBCU's Board of Trustees; debt factors, such as the amount of debt relative to the resources available to repay the debt; and economic factors, such as the key drivers of the local economy. Projects which qualify for a loan include the repair or replacement of campus facilities such as classrooms, libraries, residence halls, or student centers; or repairing or renovating physical infrastructure, such as sewer and drainage systems, lighting, and telecommunications systems. In some cases, loans can be used to acquire or build new facilities.

should receive a Capital Financing Program loan.[16] If Education agrees and approves the loan, it goes through a closing process during which certain terms and conditions of the loan may be negotiated. (See table 2.)

Table 2: Key Terms and Conditions for HBCU Capital Financing Program Loans

Term	Description
Life of loan	Loan maturity can be for 30 years or less.
Interest rates	HBCUs may choose either variable or fixed interest rates for loans. Interest rates are generally based on the government's cost of borrowing. The Federal Financing Bank adds a fee of 1/8th of 1 percent per year to cover federal administrative expenses.
Escrow	HBCUs are required to place 5 percent of the proceeds of any loan in a pooled escrow account and maintain, in that account, 5 percent of the outstanding principal of the loan to cover risks against delinquency and default. Funds held in this account are available to cover the costs of any program borrower's delinquent or defaulted loan. In the event an HBCU defaults on its loan, funds are first withdrawn from the college's contribution to the pooled escrow account. Once those funds are depleted, funds are withdrawn from the remaining amounts in the pooled escrow account, in proportion to each college's contribution. Following the scheduled repayment of the HBCU's loan, Education must return the remaining portion of an HBCU's deposit to the HBCU.
Other fees	The cost of bond issuance is limited to no more than 2 percent of the loan, including the designated bond authority's origination fee.
Collateral	The Department of Education requires HBCUs to provide collateral to obtain loan funds. By law, the value of collateral generally cannot be more than 100 percent of the loan amount. Examples of collateral include future tuition revenue and buildings.[a]
Disbursement	Loan disbursements are made incrementally as projects progress.
Repayment	HBCUs repay their loans monthly to the designated bonding authority, which in turn remits bond payments to the Federal Financing Bank twice a year.
Financial Monitoring	Each year, HBCUs are required to submit financial statements for review to the designated bonding authority.

Source: GAO analysis of 20 U.S.C. § 1066 et seq. and Historically Black College and University (HBCU) Capital Financing Loan Program documents. | GAO-18-455

[a]In certain cases, the value of collateral can exceed 100 percent of the loan amount if required by the Department of Education.

The Capital Financing Program's statute caps total outstanding loans at $1.1 billion, but since fiscal year 2012, Congress has annually passed

[16]The designated bonding authority may schedule a site visit to the HBCU to discuss the proposed project, as well as request additional information from the college. To make its recommendation, the designated bonding authority may conduct analysis of project and financial documents, as well as assess areas such as the quality of the college's administration and its effective delivery of the college's programs.

appropriation bills allowing Education to lend above that amount.[17] As of November 2017, Education has lent over $2 billion in total with $1.8 billion outstanding.

Loan Modifications for Selected HBCUs Following 2005 Gulf Coast Hurricanes

In 2005, Hurricanes Katrina and Rita struck New Orleans and surrounding areas, resulting in significant damage to four HBCUs in the Gulf Coast region: Dillard University, Southern University at New Orleans, Xavier University of Louisiana, and Tougaloo College. The Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Emergency Act) was enacted in June 2006, in part to assist these colleges in their recovery efforts.[18] The Emergency Act amended certain provisions of the Capital Financing Program for these colleges. For example, the Emergency Act included provisions such as a lower interest rate and lower fees for cost of issuance (both set at one percent or less), elimination of the escrow requirement, and deferment of both principal and interest payments for a 3-year period. Despite these more generous loan provisions, these four HBCUs experienced challenges repaying these loans due to difficulties they faced rebuilding their enrollment and finances to the levels before the hurricanes. In 2011, federal law authorized Education to further modify the terms and conditions of the Capital Financing Program loans made to these four HBCUs under the Emergency Act.[19] To assist these

[17]Section 344(a) of the Higher Education Act of 1965, as amended provides that no more than two-thirds of this limit may be used for loans to private HBCUs, and no more than one-third may be used for loans to public HBCUs. 20 U.S.C.§ 1066c(a). However, in recent years, appropriations acts have authorized Education to make program loans to support both public and private HBCUs, without regard to these statutory limitations. See, e.g., The Consolidated Appropriations Act, 2017, Pub. L. No. 115-31, Division H, Title III, Historically Black College and University Capital Financing Program Account, 131 Stat. 135, 550.

[18]Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006, Pub. L. No. 109-234, 120 Stat. 418.

[19]This waiver authority was limited in a number of ways. For instance, waivers or modifications could not result in any net cost to the federal government. Additionally, prior to making modifications or waivers the Secretary of Education, the Secretary of the Treasury, and the Director of the Office of Management and Budget were required to jointly determine that such changes were in the best interests of both the United States and the borrowers, and necessary to mitigate the economic effects of Hurricanes Katrina and Rita. Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, Title III (General Provisions § 307), 125 Stat. 786, 1099, as extended under the Continuing Appropriations Resolution, 2013, Pub. L. No. 112-175, 126 Stat. 1313.

four colleges, Education used this authority to modify Emergency Act loan terms in the following ways:[20]

- Payment forbearance: The HBCUs were granted a 5-year forbearance on their loan payments starting in 2013. During the forbearance period, the colleges were not responsible for making payments toward the principal, interest, or associated fees, but interest and fees continued to accrue during that time. At the end of the forbearance period, the colleges would be responsible for the outstanding principal, accrued interest, and fees.[21]
- Expense-based repayment: After the forbearance period, colleges would pay the lesser of an amount based on a percentage of each college's operating expenses or the reamortized payment schedule.
- Debt adjustment: Any unpaid loan amounts at the original loan maturity date—June 1, 2037—would be forgiven. The HBCUs would not be held responsible for any unpaid balances as of that date.[22]

In February 2018, before the end of the forbearance period, Congress passed the Bipartisan Budget Act of 2018 which authorized the Secretary of Education to forgive any outstanding balance owed by these HBCUs.[23] In March 2018, Education forgave these colleges' loans, eliminating over $300 million of outstanding debt.

[20]Without further legislation, Education does not have the authority to similarly modify other loans made under the HBCU Capital Financing program.

[21]During the forbearance period, these HBCUs were required to provide regular financial and enrollment reports to Education.

[22]According to estimates from Education, the Department of the Treasury, and the Office of Management and Budget, these loan modifications would have no net cost to the federal government. These loan modifications require each college to pay an insurance fee. This insurance fee is added to the loan principal at the start of the forbearance period, and accrues interest at the borrowers' interest rates, which is also capitalized. These amounts are included in the reamortized repayments. This increase to the scheduled payments, including the insurance fee, offsets the additional costs of the modification to reach cost neutrality. See Historically Black College and University (HBCU) Capital Financing Program; Modification of Terms and Conditions of Gulf Hurricane Disaster Loans, 78 Fed. Reg. 18445 (March 26, 2013).

[23]Bipartisan Budget Act of 2018, Pub. L. No. 115-123, Title VII, § 20804, 132 Stat. 64.

Strengthening HBCU Program

Education also administers the Strengthening HBCU Program to eligible HBCUs.[24] These grants can be used for a number of purposes, including physical infrastructure, financial management, academic resources, and endowment-building. The program is non-competitive and Education awards funds on a 5-year cycle through formula-based grants. In 2017, Education awarded 98 new grants totaling about $245 million.

Bond Financing

Municipal bonds are debt securities issued by states, cities, counties and other governmental entities to fund day-to-day obligations and to finance capital projects. Municipal borrowers can also issue bonds on behalf of private entities such as private colleges, or those colleges can issue their own debt that would not be tax exempt. To issue a bond, entities are typically rated by a credit rating agency. This rating indicates the credit quality of the bonds and likelihood of default. The entity may hire municipal advisors and is required to have an underwriter to prepare and sell the bonds to investors. Entities are provided the funding up front to finance the project and then pay the principal, interest, and any fees to investors until the bond matures, often up to 30 years.

[24]Institutions meeting the definition of HBCUs in Title III, Part B, section 322(a) of the Higher Education Act of 1965, as amended, are eligible for the Strengthening HBCU Program.

HBCUs, Stakeholders, and Planning Documents Identified Extensive and Diverse Capital Project Needs

HBCUs, Stakeholders, and Planning Documents Cited Substantial Need for Repairs and Building Replacement

Almost all the HBCUs responding to our survey (70 of 79) reported that, on average, 46 percent of their building space needed to be repaired or replaced.[25] For example, of the 35 public HBCUs that responded to our survey question on building condition, 8 reported more than three-quarters of their building space is in need of repair or replacement.[26] Like all institutions of higher education, HBCUs are facing increasing capital project needs due to aging campus facilities, according to higher education organization officials and facilities experts.[27] HBCUs' planning documents we reviewed also support our survey findings around capital project needs. For example, consultants hired by one public HBCU found

[25]For the purposes of this report, we define building space as the campus' gross square footage. Gross square footage is the floor areas of all levels of a building that are enclosed within the building. Seventy HBCUs reported the portion of their campus' gross square footage that was fully functional, in need of some repair, or in need of total replacement. We calculated the average and median gross square footage values for repairs and replacement needs for those 70 HBCUs. The median for building space needing repair or replacement of responding HBCUs is 39 percent. HBCUs reported a range of 1 percent to 100 percent for repair or replacement. For selected information on survey question wording and responses, see appendix II.

[26]For the purposes of this report, we define capital projects to include repair and replacement of buildings or facilities. We define repair as work on an existing building that is performed to return parts, components, or systems to service. HBCUs who responded to our survey and HBCU officials we interviewed also used the term renovation to describe their capital project needs. For the purposes of this report, we included renovation under repair. We provide additional information on HBCUs' survey responses on renovation needs in appendix II. We define replacement as the exchange of one fixed part, component, or system for another to perform the same function or construction of a new building.

[27]We interviewed two HBCU organizations that represent over 80 public and private HBCUs to learn more about the capital needs of their member HBCUs and funding sources they use to address those needs. We also interviewed facilities experts at three higher education organizations to learn more about industry best practices in identifying and addressing capital project needs.

that a quarter of its buildings were in poor condition with the potential for demolition, according to the college's master plan. Severe weather was also cited as a challenge by officials at another public HBCU we visited where nearly all their building space had been damaged, requiring them to shut down portions of their functional buildings, construct new buildings, and build flood walls. According to officials from this college, however, damages remain unaddressed in part due to a lack of funding (see fig. 1)

Figure 1: Capital Project Needs at an HBCU

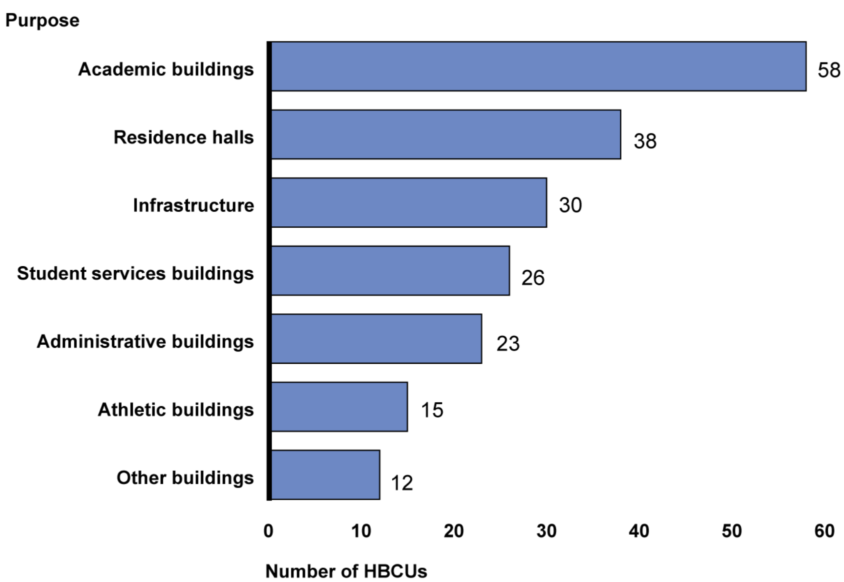
Source: GAO photograph of a Historically Black College and University (HBCU). | GAO-18-455

Note: GAO visited one HBCU that suffered damages from severe weather. As of June 2017, portions of the academic building were functional and in use, however, the main floor (depicted above) remains unused as a result of flooding and mold issues.

HBCUs, Planning Documents, and GAO Site Visits Identified Deferred Maintenance, Modernization Efforts, and Historical Buildings as Key Reasons for Needs

Through our survey, site visits, and review of master plans, we identified three main reasons for capital project needs: a backlog of deferred maintenance, HBCUs' efforts to modernize campuses to be more competitive, and historical building requirements.[28] A majority of HBCUs responding to a survey question on planned capital projects over the next 5 to 10 years reported plans to prioritize repairing or replacing academic buildings or residence halls (see fig.2).

Figure 2: Most Frequently Planned Capital Projects for the Next 5 to 10 Years for Surveyed HBCUs in 2017



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: In GAO's 2017 survey of HBCUs, GAO asked the colleges to provide their top five capital projects planned over the next 5 to 10 years. Seventy of 79 HBCUs responded to this question in the survey and colleges' projects could have included more than one category. For the purposes of the survey, GAO defined infrastructure as the necessary physical components that allow an entity to function. These components include structures, roads, sidewalks, and utility systems (such as technology, electrical, power, water, and sewers).

Deferred Maintenance

Half of HBCUs that responded to our survey question on their current deferred maintenance backlog (24 of 48)—repairs that were not performed when they should have been—reported a backlog of $19

[28] The Federal Accounting Standards Advisory Board defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which was put off or delayed for a future period.

million or more.[29] In addition, 30 HBCUs reported in our survey that their deferred maintenance backlog had increased in the last 3 years (2015 through 2017), and 7 HBCUs reported their backlog decreased. Public HBCUs, on average, reported deferred maintenance backlogs of $67 million and private HBCUs of $17 million.[30] To better understand deferred maintenance, colleges hire consultants to conduct facilities condition assessments. For example, consultants conducted a facility condition assessment to understand a public HBCU's deferred maintenance backlog, among other things, and found the backlog was $9.7 million for various repair or replacement projects ranging from repairing HVAC systems to needing a new roof for an administrative building. A higher education association reported deferred maintenance can erode safe physical conditions, financial health, and the morale of an institution.

Officials from most HBCUs we interviewed (11 of 15) said they attempt to prioritize their deferred maintenance but that financial emergencies or funding constraints prevent them from doing so. For example, officials at an HBCU we visited said that the main pipes that feed into three residence halls and their student center burst, and this unplanned capital project cost the college nearly $1 million. This HBCU had to borrow funding from its operating budget, which took away from funds that could have been used to address planned deferred maintenance projects.

Modernization Efforts

Officials from all 15 HBCUs we interviewed said that student interests in updated residence halls or academic programs require modern building spaces in order for a college to remain competitive. Officials from several HBCUs we interviewed (7 of 15) said residence halls on their campuses are outdated or in need of repairs (see fig. 3). For example, officials at one HBCU we visited said some of their residence halls were built in the 1960s and 1970s and the concrete block construction only allowed minimal changes. Officials at some HBCUs (3 of 15) said students' interest in living on-campus increased their need for housing. Officials at

[29]The median value for the 48 HBCUs reporting their deferred maintenance backlog is $19 million. The average deferred maintenance backlog is $46 million. The value of deferred maintenance backlogs ranged from $450,000 to $269 million.

[30]The median dollar value of deferred maintenance backlogs for public HBCUs was $30 million and $12 million for private HBCUs. When enrollment is taken into account, the median deferred maintenance backlog for private HBCUs with fewer than 1,000 students is $4 million and $18 million for those with 1,000 to 4,999 students. For public HBCUs, the median deferred maintenance backlog is $1.2 million for HBCUs with fewer than 1,000 students; $16 million for HBCUs with 1,000 to 4,999 students; $90 million for HBCUs with 5,000 to 9,999 students; and $269 million for those with 10,000 or more students.

one HBCU said student enrollment impacts their capital project planning and that they have plans to repair residence halls and to build new housing facilities as enrollment increases, but have not yet identified funding. One HBCU's master plan cited anticipated growth in its student population between 2014 and 2024 will continue to impact capital project needs, including a need for additional buildings for academics and student services.

Figure 3: Capital Project Needs for an HBCU Residence Hall in 2017

Source: GAO photograph of a Historically Black College and University (HBCU). | GAO-18-455

Note: GAO visited an HBCU that delayed repairing some of its residential housing because of competing priorities following severe weather.

Officials from several HBCUs we interviewed (5 of 15) also reported building new facilities to remain competitive in certain academic fields. For example, officials from one HBCU reported investments in building new facilities and repairing existing buildings to better accommodate Science, Technology, Engineering and Mathematics (STEM) majors (see fig. 4).

Figure 4: Newly-Constructed HBCU STEM Academic Building Partly Funded with a Strengthening HBCU Federal Grant

Source: GAO photograph of a Historically Black College and University (HBCU). | GAO-18-455

Note: STEM is Science, Technology, Engineering, and Mathematics programs.

Historical Buildings

Most HBCUs responding to our survey (42 of 79) reported having buildings designated as historic, making up, on average 11 percent of their building space. Many of those HBCUs indicated historical building needs are significant or often take priority. According to officials from two HBCUs we visited and another we interviewed, historical buildings require maintenance that can be expensive, especially for buildings designated as historic by the National Register of Historic Places.[31] Further, the

[31]The National Register is part of a national program to coordinate and support public and private efforts to identify, evaluate, and protect historic and archeological resources. The Department of the Interior provides historic properties with a list of criteria to maintain the historic features of a building. The Department of the Interior is also responsible for the HBCU Historic Preservation Fund, which has provided funding to HBCUs to help maintain historic buildings through the HBCU Grant Program. In 2017 and 2018, $4 million and $5 million, respectively, were appropriated to the program.

Department of the Interior reported in 2018 that HBCUs have historic building rehabilitation needs and these colleges lack the resources to repair them.[32] For instance, a 2016 master plan for a public HBCU shows that a historic building constructed in 1916, which serves as a residence hall and has only been updated once in 1971, needs over $6 million in repairs to better accommodate students. An official at another HBCU we visited also said that the prohibitive cost of repairing the campus' historic building has made it non-functional. This historic building had previously been used as a residence hall (see fig. 5).

Figure 5: HBCU Historical Building in Need of Repair

Source: GAO photograph of a Historically Black College and University (HBCU). | GAO-18-455

Note: Example of historical building needs for an HBCU. During GAO's tour of this campus, an official reported the historic building, previously used as a residence hall, requires major repair work to make it fully functional, but the college lacks the appropriate funding to do so.

[32] Department of the Interior, National Park Service, *State, Tribal, and Local Plans and Grants: HBCU Grant Program Funded Projects*, accessed March 2018, https://www.nps.gov/preservation-grants/HBCU/funded-projects.html.

HBCUs Use A Few Funding Sources for Capital Project Needs and Fewer than Half Use Education’s Capital Financing Program

HBCUs Rely on a Few Funding Sources to Address Capital Project Needs

HBCUs primarily rely on a few sources of funding to address capital project needs, such as state grants and appropriations for public HBCUs and private giving and tuition and fees for private HBCUs, according to HBCUs responding to our survey and our interviews. Officials from almost half of the HBCUs we interviewed (7 of 15) said relying on a few funding sources can affect a college’s ability to fund capital projects. Education officials and several stakeholders also said this reliance can put the HBCUs at a financial disadvantage when seeking additional external funding, such as from the bond market. Diversity of revenues is a key metric when determining a college’s credit rating, which uses a college’s financial profile to assess its ability to pay its financial obligations.[33] Colleges with lower credit ratings, for example, may face challenges accessing the bond market, or pay more to issue a bond, according to several stakeholders. Using IPEDS data from the 2015-16 school year, we found that HBCUs may face challenges with revenue diversity because a large proportion of their revenue is from government funding (federal, state, and local) and tuition and fees. A college’s wealth, such as the size of its endowment, can also affect a college’s credit rating, according to officials from two credit rating agencies. Officials from a higher education association and a foundation noted that many HBCUs have small endowments and as a result may face challenges accessing

[33]The two credit rating agencies we interviewed look at a number of factors to determine a college’s credit rating. This could include elements such as the college’s market profile, operating performance, wealth and liquidity, and financial leverage. Both agencies highlighted the importance of diversified revenue because it promotes stability by reducing vulnerability from fluctuations in any individual revenue source. Moody’s Investors Service, *Global Higher Education Rating Methodology* (November 23, 2015) and S&P Global Market Intelligence, *Methodology: Not-For-Profit Public and Private Colleges and Universities* (January 6, 2016).

financing. Our analysis of IPEDs data shows that HBCUs' median endowments are about half the size of similar non-HBCUs (see table 3).[34]

Table 3: Analysis of Select Funding Sources for HBCUs and Matched Non-HBCUs, 2015-16 School Year

(Median figures)

Funding source	HBCUs	Matched non-HBCUs
Proportion of revenue from government sources[a]	70 percent	63 percent
Proportion of revenue from tuition and fees[b]	36 percent	48 percent
Private grants and contracts[c]	$1.5 million	$1.7 million
Total endowment[d]	$12 million	$23 million
Endowment per student[d]	$15,000	$410,000

Source: GAO analysis of data on Historically Black Colleges and Universities (HBCUs) and non-HBCUs from Education's Integrated Postsecondary Education Data System. | GAO-18-455

Note: Using multi-stage matching, GAO matched 100 accredited HBCUs with non-HBCUs on four key characteristics: sector (i.e. public or private non-profit), highest degree offered, size (enrollment), and location (one public HBCU was excluded from our analysis because the accounting method it uses makes it difficult to compare to other public HBCUs). GAO constructed respective comparison groups that included a total of 382 non-HBCUs. Because the percentage of funding from government sources and tuition and fees are select revenue sources, the percentages will not add up to 100 percent.

[a]Government sources includes federal revenue (excluding Pell Grants, which some colleges do not treat as revenue provided directly to the college) and revenue from state and local appropriations, grants, and contracts. Statistically significant at the p<0.05 level.

[b]Includes revenue from tuition and fees after deducting discounts and allowances and institutional aid. Statistically significant at the p<0.05 level.

[c]Includes private gifts, grants, and contracts. Not statistically significant at the p<0.05 level.

[d]Endowment at the end of the year. Both the total endowment and per student figures are not statistically significant at the p<0.05 level.

Not all HBCUs face these challenges, however. According to a representative of one higher education facilities association, some more affluent private HBCUs have more diversified revenue streams and have successfully raised funds from private giving and public-private partnerships to address their capital project needs. Nevertheless, many HBCUs face continued challenges securing external funding.

Funding Sources Used by Public HBCUs

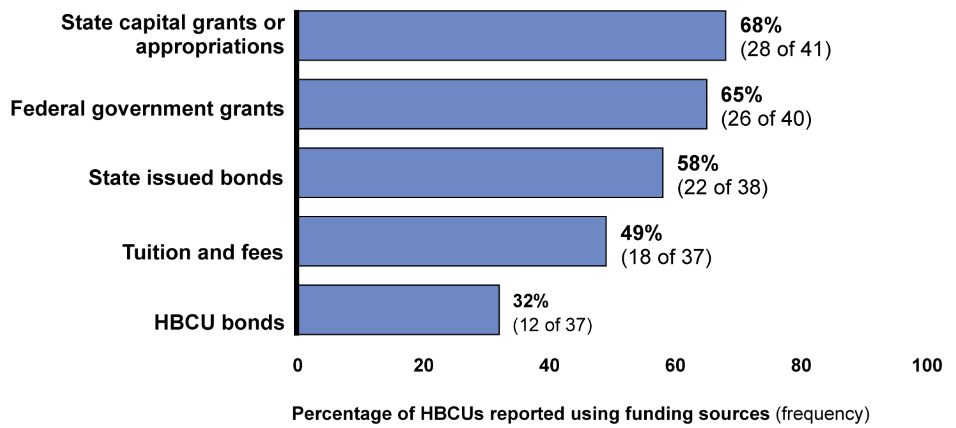
Public HBCUs generally rely on state funding—such as annual appropriations for repairs or one-time grants for new construction—to

[34]For more information about our methodology, see appendix I. For additional analysis results on public and private colleges see appendix III.

address their capital project needs; however, those funds are often insufficient to meet their needs, according to some stakeholders and HBCU officials. A majority of public HBCUs (28 of 41) reported using state grants and appropriations to address capital project funding, according to survey responses (see fig.6). Officials from most public HBCUs we interviewed (5 of 6), however, said state appropriations are often limited to academic or administrative buildings, and colleges are responsible for financing and maintaining other projects and building spaces, such as residence halls or student centers. Furthermore, officials from all public HBCUs we interviewed (6 of 6) reported that state funds are often not sufficient to adequately address both routine repairs and their deferred maintenance backlog. Declines in state funding for higher education in recent years have also introduced financial uncertainty, particularly for HBCUs, according to officials from half of the public HBCUs and many stakeholders we spoke with.[35] For example, officials at one public HBCU we visited said that as a result of cuts in the state's capital budget, the college does not have enough funding to address emergency or deferred maintenance needs and they are running a deficit. Officials from one credit rating agency said that because public HBCUs rely more on state funding than their public non-HBCU counterparts, they are potentially more vulnerable than other colleges.

[35]According to a 2018 report from the State Higher Education Executive Officers Association, all but six states have seen a decline in state and local appropriations per student since the recession in 2008. All states with HBCUs have seen a decline, ranging from 2.7 percent to 46.4 percent. State Higher Education Executive Officers Association, *State Higher Education Finance: FY 2017* (Boulder, Co.: 2018). We also previously reported that from fiscal years 2003 through 2012, state funding for public colleges decreased. GAO, *Higher Education: State Funding Trends and Policies on Affordability*, GAO-15-151 (Washington, D.C.: December 16, 2014).

Figure 6: Most Frequently Used Capital Project Funding Sources in the Last 5 Years for Surveyed Public HBCUs, 2017



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

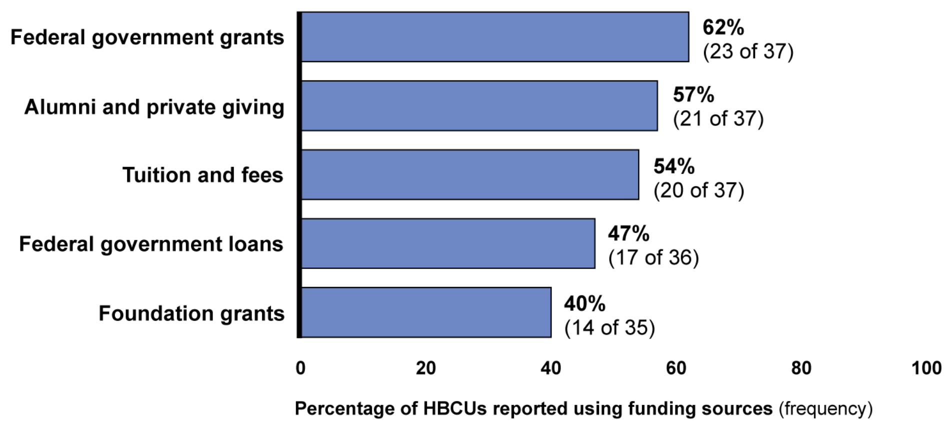
Over half of public HBCUs in our survey (22 of 38) reported that they used state-issued bonds to address their capital project funding for the last 5 years.[36] Officials from most public HBCUs we interviewed (4 of 6) said the state or university system often issues general obligation bonds on behalf of the state and disperses funding to colleges to finance large scale capital projects. For example, one state issued a $2 billion bond for the 16 colleges in its university system and provided one of its public HBCUs with $30 million for a new college of business. Similar to state appropriations, officials from some public HBCUs noted that state-issued bonds are also typically restricted to academic or administrative buildings rather than residence halls or student centers. Officials from 12 public HBCUs also reported in our survey issuing bonds themselves to finance capital projects. Officials from most public HBCUs we interviewed (4 of 6) said colleges issue bonds, with their state system's permission, to finance capital projects when state funding is limited or if the projects are for non-academic buildings. For example, one public HBCU issued a $90 million bond to fund a new student center.

[36]The proportion of state-issued bonds for capital project funding as reported by respondents to our survey ranged from 5 percent to 99 percent for public HBCUs. Public HBCUs reported that state issued bonds accounted for 26 percent (median) of their total capital project funding over the 5-year period.

Funding Sources Used by Private HBCUs

More than half of private HBCUs reported using alumni and private giving or revenue from tuition and fees to address their capital needs (see fig 7).[37] However, private HBCUs may face challenges using these sources to address their capital needs due to competing priorities for these revenue streams and difficulty raising additional funds from these sources, according to HBCUs and stakeholders we interviewed.

Figure 7: Most Frequently Used Capital Project Funding Sources in the Last 5 Years for Surveyed Private HBCUs, 2017



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Officials from most private HBCUs we interviewed (7 of 9) said they use some funding from alumni and private gifts for small capital projects, but that donors do not usually contribute to larger projects or help address deferred maintenance or repairs. While a majority of private HBCUs responding to our survey (21 of 37) reported using alumni and private giving to address their capital project needs, this funding source only accounted for 10 percent of their overall capital project funding. Several stakeholders we interviewed (4 of 10) said that some private HBCUs do not have robust fundraising offices and may face challenges raising additional funding from alumni or other private sources.

[37]Fourteen private HBCUs reported using alumni and private giving as well as tuition and fees to address their capital needs.

A majority of surveyed private HBCUs (20 of 37) reported using tuition and fees to address their capital project needs over the last 5 years.[38] Education officials and officials from 5 of 9 private HBCUs said relying on tuition and fees to address capital project needs—in addition to other expenses such as operations and academics—can strain a college's finances. Many officials from private HBCUs we interviewed (6 of 9) told us that because they are so tuition-dependent, drops in enrollment make it difficult to maintain their facilities or repay capital debt. Officials from one higher education association noted that some HBCUs face constraints raising additional tuition revenue needed to cover capital projects and other expenses because they are generally smaller colleges: more than half of private HBCUs have less than 1,000 students. Private HBCUs also have lower tuition compared to similar private non-HBCUs, according to our analysis of IPEDS data.[39] Additionally, two stakeholders told us HBCUs may face challenges raising tuition and fee revenue, in part, because the student population at HBCUs tends to be more low income and relies more heavily on federal student aid. Based on our analysis of IPEDS data, for example, a higher proportion of students at private HBCUs received Pell Grants in the 2015-16 school year compared to similar private non-HBCUs—77 percent and 43 percent, respectively.[40]

Strengthening HBCU Program

A majority of HBCUs responding to our survey (49 of 77) reported using federal grants to finance capital projects, and most indicated using Education's Strengthening HBCU Program. We analyzed the program's 2016 annual reports, the most recent data available at the time of our review, and found that more than three-quarters of HBCUs that received grants in 2016 (79 of 98) used the funds to address capital project

[38] While over half of private HBCUs in our survey reported using tuition and fees in the last 5 years to fund capital projects, it only accounted for 16 percent of the total capital project funds used during that time.

[39] The median cost of tuition and fees for private HBCUs is $11,900 and $23,300 for private non-HBCUs; these figures are statistically significant at the $p<0.05$ level.

[40] Pell Grants provide financial assistance to low-income undergraduate students with demonstrated financial need to help meet education expenses. These differences between private HBCUs and their matched non-HBCUs are statistically significant at the $p<0.05$ level. For additional analysis results, see appendix III.

needs.[41] Our analysis found that HBCUs in the Strengthening HBCU Program used an average of 22 percent of their funding from this source for capital projects in 2016. According to our analysis of the annual reports, 15 of the 98 HBCUs in the program reported that the grant helped decrease the number of instructional facilities with deferred maintenance backlogs. Officials we interviewed from one HBCU said they used grants from the Strengthening HBCU Program to address some of their deferred maintenance backlog and to renovate classrooms to better meet students' academic needs. For example, they said the grant funded capital projects that support its physics and chemistry programs (see fig. 8). In another instance, a private HBCU reported using the program's funds to support technological updates and modernize classrooms. Such updates could help with student recruitment and, ultimately, help increase student enrollment.

[41]The Strengthening HBCU program awards funds to HBCUs through formula grants based on the number of Pell Grant recipients at the college, the number of graduates, and the proportion of graduates who went on to graduate or professional programs within 5 years of graduation. Every year, grantees submit a performance report on how the funding was used, which could include, among other things, the proportion of the grants used for capital projects and project descriptions.

Figure 8: HBCU Science Classroom Upgraded Using Department of Education's Strengthening HBCU Program Grant

Source: GAO photograph of a Historically Black College and University (HBCU). | GAO-18-455

Fewer than Half of Eligible HBCUs Used Loans from Education's Capital Financing Program

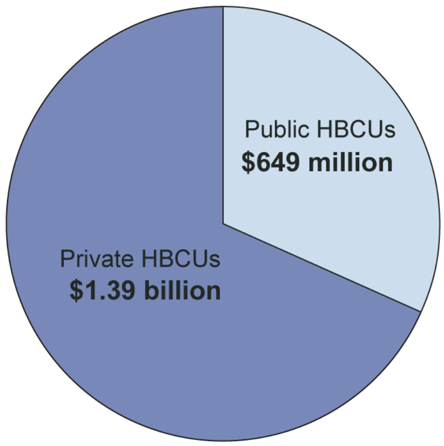
Fewer than half of HBCUs, or 46 of the 99 HBCUs that are eligible, have used the HBCU Capital Financing Program to fund capital projects, according to Education data.[42] HBCUs have borrowed over $2 billion, with private HBCUs representing about two-thirds of the loan volume (see fig. 9).[43] After 2007, Education saw an increase in the number of loans made and the amount borrowed by HBCUs due in part to the program's expansion to help colleges affected by Hurricanes Katrina and Rita in 2005 and Education's efforts to improve outreach.[44]

[42]One hundred one HBCUs are recognized by the Department of Education as accredited institutions and participate in federal student financial aid programs. Of the 101 HBCUs, 99 are eligible to participate in the Capital Financing Program. According to officials from Education and the designated bonding authority, from 2006 through 2016 only one HBCU that applied had been denied a loan. Officials explained that they work with the HBCUs before submitting an application. If the college's application does not meet the program requirements, Education and the designated bonding authority help the college develop a plan that will meet those requirements. According to Education data, between 2009 and 2016, Education has lent an average of about two-thirds of its lending authority every year. For example, in 2016, Education lent $161 million of its $304 million lending authority to three HBCUs.

[43]The Capital Financing Program, by design, caps the amount of funding Education can lend to HBCUs by sector each year. Private HBCUs are capped at receiving two-thirds of available funding. Public HBCUs are capped at receiving one-third of available funding. However in recent years, Congress passed legislation allowing the program to exceed those caps.

[44]According to Education officials, no loans were awarded to HBCUs in 2008 because Education did not request additional funds for 2008 and the additional loans awarded to HBCUs affected by hurricanes Katrina and Rita depleted the remaining lending authority. From 2009 through 2017, Education awarded loans to 36 HBCUs.

Figure 9: Total Funding Provided by Education's HBCU Capital Financing Program, Calendar Years 1996-2017



Source: GAO analysis of Department of Education (Education) Historically Black Colleges and Universities (HBCUs) loan portfolio data from calendar years 1996 to 2017. | GAO-18-455

Note: As of February 2018, private non-profit (private) HBCUs represented 72 percent of participants (33 of 46) and accounted for about $1.39 billion of Education's HBCU Capital Financing Program funding provided to HBCUs since 1996. Public HBCUs (13 of 46) accounted for the remaining participants. These totals include over $300 million provided to 3 private HBCUs and 1 public HBCU in 2007 for hurricane relief that were subsequently forgiven in March 2018.

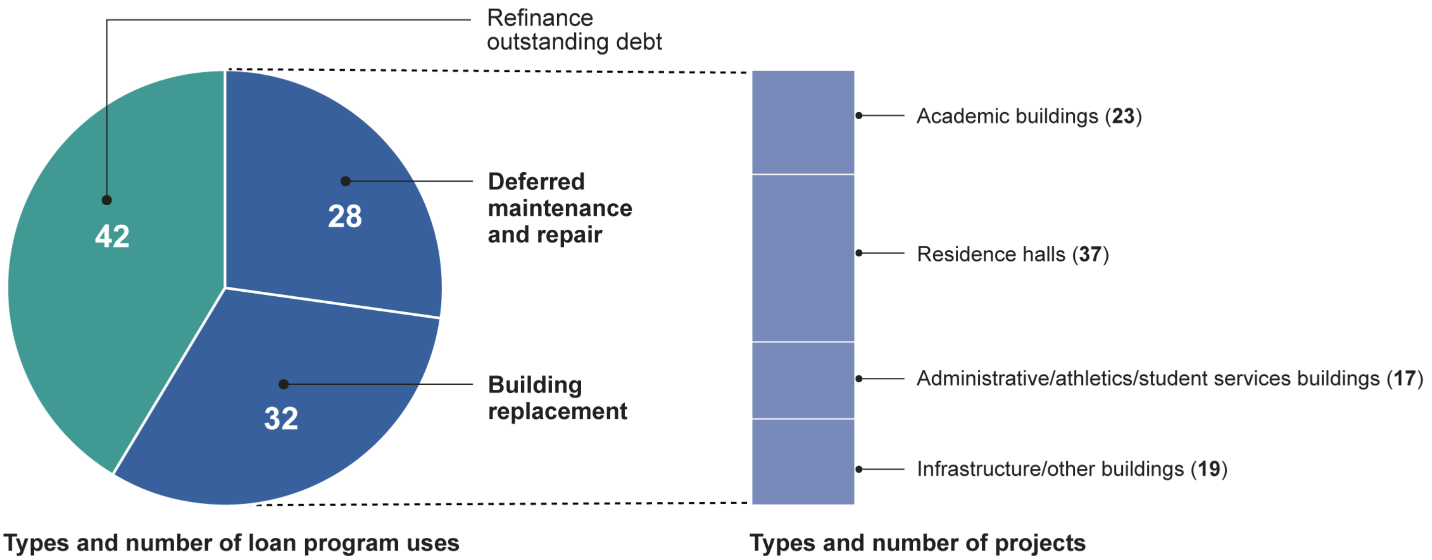
Education tracks how Capital Financing Program funds are used, which can fall into three broad categories: refinancing, deferred maintenance and repair, and building replacement.[45] According to our analysis of Education data, since 1996, rather than use these loans for new capital projects, participants have used the program most frequently to refinance outstanding debt (see fig. 10). For instance, one public HBCU used a portion of a $36.6 million Capital Financing Program loan to refinance outstanding debt, which saved the college about $9 million.[46] In addition to refinancing, program participants used the remaining funds to address deferred maintenance and repair or to replace buildings. For example, the most frequent type of project funded through the program was building or renovating residence halls, according to Education data. A private HBCU

[45]Education generally tracks usage that falls into five categories. For the purposes of this report, we combined repair and renovation, alteration, and deferred maintenance into "deferred maintenance and repair" and categorized construction of new buildings as "building replacement." Education also tracks loans used for refinancing.

[46]According to the designated bonding authority, the HBCU saw $1.1 million in savings in 2017 and will see $520,000 each subsequent year until 2035.

responded in our survey that it used the program to refinance outstanding debt for student housing and to help construct a new student center.

Figure 10: HBCUs' Use of Capital Financing Program Loans, Calendar Years 1996-2017



Source: GAO analysis of Department of Education Historically Black Colleges and Universities (HBCUs) program participation data from calendar years 1996 to 2017. | GAO-18-455

Note: From 1996 to 2017, Education provided loans to 46 HBCUs. The total number of loan program uses (i.e., refinance, deferred maintenance and repair, and building replacement) will not add up to 46 because individual HBCUs could have received multiple loans or used each loan for more than one purpose.

HBCUs responding to our survey and HBCU officials we interviewed reported using the Capital Financing Program because of its low interest rate.[47] Survey respondents most frequently cited the program's low interest rate as a reason for participating (33 of 37), as did officials from HBCUs we interviewed that use the program (10 of 11). According to Education and designated bonding authority officials, the program provides HBCUs with rates they might not receive in the private market. For example, program loans used for refinancing from 2012 through 2016 had a median true interest cost—the interest rate plus fees charged to the

[47]Program participants responding to our survey also frequently cited the flexibility of the loan terms (21 of 32) and the ease of doing business with Education and its designated bonding authority (19 of 33) as reasons for participating. For more details on the survey responses, see appendix II.

college—of 3.15 percent.[48] While officials from three state university systems noted their HBCUs can issue bonds with other colleges in their system to receive a more competitive interest rate, this option is not available to all HBCUs. According to officials at the designated bonding authority, HBCUs may lack high credit ratings, and the Capital Financing Program allows these colleges to access lending at rates comparable to highly rated colleges.

Survey respondents also frequently cited the opportunity to refinance existing, more expensive capital debt and lack of access to other funding options as reasons for participating in the Capital Financing Program. Specifically, over two-thirds of survey respondents (24 of 35) cited the opportunity to refinance existing debt. According to officials from Education and the designated bonding authority, HBCUs can see substantial savings using the program. Data provided by the designated bonding authority showed that HBCUs that refinanced debt in the program from 2012 through 2016 saved a median of 14 percent of the overall loan cost.[49] One survey respondent, for example, reported that as a result of the savings generated by refinancing existing bonds the college was able to purchase a residence hall. Almost half of the

[48]HBCUs may also incur costs such as when the bonds are issued at a discount (which means they receive fewer funds) or at a premium (which means they pay higher interest to the investor over time). This analysis was based on loan awards between $5 million and $43 million and with a maturity of at least 10 years. According to data from the designated bonding authority, three of the HBCUs in our analysis used the program to refinance loans for other purposes, such as refinancing loans with restrictive terms, and not for savings. When we exclude those loans from our analysis, the median true interest cost is 3.07 percent. We also reviewed available true interest costs for higher education refinancing bonds issued during the same time period, within a similar amount range, loan maturity of at least 10 years, and located in the same states as HBCUs. We found the median true interest cost for those AAA-rated refinancing bonds to be 1.49 percent, for AA-rated refinancing bonds to be 2.60 percent, and for A-rated refinancing bonds to be 3.29 percent. According to one credit rating agency, an “A” rated college is considered to have a strong capacity to meet financial commitments but may be susceptible to adverse economic conditions and changes in circumstances. Nonetheless, colleges with an “A” rating are considered to be investment grade (i.e., represent low credit risk).

[49]The loan cost includes principle, interest, and other costs such as fees. The analysis was based on loan awards between $5 million and $43 million and with a maturity of at least 10 years. According to data from the designated bonding authority, three of the HBCUs in our analysis used the program to refinance loans for other purposes, such as refinancing loans with restrictive terms, and not for savings. When we exclude those loans from our analysis, the median savings is 19 percent of the overall loan cost. The designated bonding authority calculated each refinancing loan’s net present value savings by comparing the terms of the college’s original debt that was refinanced into the program with the new debt service provided by the Capital Financing Program.

participating HBCUs that responded to the survey question on why they used the program (15 of 32) reported that they did not have access to other funding. Officials from one organization representing almost three-quarters of the private HBCUs told us this program is particularly important for small private HBCUs that have limited resources and for private HBCUs that do not have access to state funding and may not have the capacity to issue bonds. Officials from most public HBCUs we interviewed (4 of 6) also noted that because states do not typically fund buildings such as residence halls or student centers, the Capital Financing Program can help address that funding gap.

Education Has Taken Some Steps to Help HBCUs Participate in the Capital Financing Program, but Further Action Is Needed

Education Conducts Outreach, but Some HBCUs Reported Being Unaware of the Capital Financing Program

Education and its designated bonding authority have taken some steps to increase awareness of the Capital Financing Program, but some HBCUs and university system officials reported in our survey and interviews that they were unaware of the 26-year-old program. Officials from Education and its designated bonding authority said they attend a range of conferences and events in the HBCU and higher education communities to increase awareness of the program, such as conferences with higher education business officers and an annual national HBCU conference. A senior Education official said, when possible, Education visits individual public and private non-participating HBCUs that may be good candidates for the program based on their credit. In addition, a senior designated bonding authority official said designated bonding authority staff visits every HBCU that applies or expresses interest in the program. However, about a quarter of non-participating HBCUs that responded to our survey said they were unaware of the program.[50] Officials we interviewed at one state university system also reported they had not heard of the program.

HBCUs and state university systems may be unaware of the Capital Financing Program because Education does not target its outreach in two key ways.

- Lack of outreach and communication with state university systems: Stakeholders we interviewed and a senior Education official said Education does not reach out to nor communicate program information directly with state university systems, which oversee groups of public universities—both HBCUs and non-HBCUs—supported by an individual state, even though public colleges accounted for half of all HBCUs in 2016. A senior Education official told us Education staff does not reach out to state university systems because program loans are made directly to individual HBCUs. Nonetheless, according to officials at three state university systems, these systems generally play a role in coordinating colleges' capital budget requests, and their awareness of the Capital Financing Program could help Education in its efforts to increase participation among public HBCUs. For example, officials at one state university system told us they are always interested in learning about low-cost ways to help their colleges with capital projects, and they would be interested to learn more about how the Capital Financing Program could help their public HBCUs. In addition, one surveyed public HBCU that was unaware of the program suggested Education work with state university system offices, as they are the ones responsible for facilitating and approving colleges' capital funds. Officials at the state university system for this HBCU also said they were unaware of the program.
- Lack of formal outreach plan to address HBCU leadership changes: When possible, Education officials said they reach out to HBCUs as new presidents or chief financial officers come on board. However, Education officials said they do not track this particular type of outreach. In 2016, about three-quarters of HBCUs experienced a change in at least one key leadership position, according to our analysis of Education reports, and several stakeholders we talked to

[50]Among the eight HBCUs that reported being unaware of the program, six were public HBCUs, and two were private HBCUs. For more information about the survey, see appendix II.

cited the frequency of leadership change as a challenge.[51] Given the frequency of changes in key leadership positions at HBCUs, consistent outreach to this group is particularly important.

This lack of program awareness among individual HBCUs and state university systems can hinder participation. Since our 2006 report on the Capital Financing Program,[52] participation has increased from 14 to 46 HBCUs, but the total remains at fewer than half of all HBCUs.[53] While the program is only available for capital financing of projects that meet specific criteria, it serves as a potentially important resource for HBCUs that continue to face challenges diversifying their funding sources to meet capital project needs.[54] The Consolidated Appropriations Act, enacted in March 2018, requires Education to create and execute an outreach plan to work with states and the Capital Financing Advisory Board to improve outreach to states and help additional public HBCUs participate in the program.[55] Taking steps, such as reaching out directly to officials in facilities departments at state university systems, could help to address several of the issues we have identified in this report related to communication with state university systems.

Federal internal control standards state that management should communicate information needed to achieve an agency's objectives to key external stakeholders.[56] As Education develops its outreach plan it is important that the agency also ensure that officials at individual HBCUs, who engage in capital planning—presidents, chief financial officers, and facilities managers, are aware of the program. Indeed, over half of non-

[51]For example, according to 2016 annual reports submitted by Strengthening HBCU Program participants (98 grant recipients), 31 HBCU presidents, 17 chief financial officers or vice presidents of finance, 19 Strengthening HBCU grant coordinators, 3 vice presidents of administration, and 2 facilities managers at HBCUs changed in 2016.

[52]GAO-07-64.

[53]As of February 2018, 46 of 99 eligible HBCUs were participating in the program, with a total of 67 loans awarded. Of the 46 participating HBCUs, 13 are public colleges and 33 are private colleges.

[54]The Capital Financing Program provides financing to HBCUs who meet certain credit criteria, specifically for the repair, renovation, construction, or acquisition of capital projects or to refinance existing capital debt.

[55]The Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, Title III, Historically Black College and University Capital Financing Program,132 Stat. 348 (Mar. 23, 2018).

[56]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: September 2014).

participating HBCUs (23 of 34) responded in our survey that improved communication from Education was “moderately” or “extremely” important to increase program participation.[57] In addition to working with the Capital Financing Advisory Board—which includes representatives of public and private HBCU organizations—to reach out to state university systems, Education could also further leverage the resources of its designated bonding authority. While the designated bonding authority reaches out to some prospective program participants, it could help Education further ensure that program information reaches all HBCUs. Without these efforts as part of the agency’s outreach plan, HBCUs eligible for the Capital Financing Program—the institutions that the program is designed to serve—may remain unaware of the program and miss opportunities to access low-cost capital financing.[58]

Some Program Features Contribute to Low Participation by Public HBCUs

Some public HBCUs report being prohibited from participating in the Capital Financing Program by state law or policy because of certain program features, and Education has taken limited steps to coordinate with states to address those issues. According to our analysis of survey responses and interviews, about one-third of non-participating public HBCUs across four states (13 of 37) report being unable to use the program due to at least one federal requirement placed on the college, which conflicts with state law, policy, or practice.[59] These features include requirements for pooling escrow funds, collateral, and lending directly to HBCUs (see table 4).

[57]Thirty-four non-participating HBCUs responded to our survey question about the importance of improved communication from Education in increasing program participation. Among these 34 HBCUs, 18 reported that it was “extremely” important, and 5 HBCUs reported it was “moderately” important to increasing program participation.

[58]As of May 2018, Education has not yet developed its outreach plan.

[59]We relied on HBCU and state officials’ responses pertaining to their state law or policy and did not independently assess the extent to which those laws or policies would prohibit participation in the program.

Table 4: Examples Reported by States Where Laws or Policies Conflict with Federal Requirements for the Department of Education's HBCU Capital Financing Program

Federal requirement	Reported state-level law or policy	Number of states reporting this law or policy	Number of HBCUs affected
Escrow requirement: HBCUs must place 5 percent of loan amount into a pooled escrow account to cover all participating HBCUs' delinquencies or defaults.	All public colleges are prohibited from taking on the debt of another institution or state university system officials find the requirement risky.	2	9
Collateral requirement: HBCUs are required to provide collateral, such as buildings on campus or a tuition pledge.	State buildings or tuition revenue are considered state property and cannot be used as collateral to secure loans for all public colleges.	2	6
Lending requirement: program only allows lending directly to HBCUs.	All public colleges are required to use a third-party state agency or foundation to obtain capital financing.	2	7

Source: GAO analysis of Education data, Historically Black College and University (HBCU) responses to GAO's survey, and interviews with officials from the Department of Education, the designated bonding authority, and officials from state university systems and HBCUs in select states, and 20 U.S.C. § 1066 et seq. | GAO-18-455

Note: GAO analyzed participation challenges faced by 13 public HBCUs in 4 states. Public HBCUs in some states face more than one challenge.

Education has taken steps to address public HBCUs' concerns with the escrow requirement, but not the other state-level provisions that create challenges. In 2006, GAO recommended that Education consider alternatives to the escrow pool requirement, and Education submitted a legislative proposal to Congress, most recently in 2017, to require fees instead.[60] However, Education has not systematically coordinated with states to address other laws or policies that create challenges or to identify potential solutions to help more public HBCUs participate in the program. For example, based on one college's interpretation of state law, officials from Education and the designated bonding authority told us HBCUs in that state could not participate because of the state's requirement that such loans be issued to a third-party. However, state university system officials in this state told us this requirement may not prohibit participation. They said a clearer explanation of the benefits and obligations of the program from Education would be helpful to determine

[60]The proposal would allow HBCUs to opt out of the escrow pool and pay a non-refundable fee instead. Education would use these funds from fees instead of the escrow pool for defaulting HBCUs. The House Committee on Education and the Workforce has also introduced legislation that would alter the escrow pool requirement. The Promoting Real Opportunity, Success, and Prosperity through Education Reform Act (H.R. 4508), as introduced, would change the term "escrow account" to "bond insurance fund." We did not evaluate whether either of these changes would resolve the issues HBCUs identified as challenges to participation.

whether the state's HBCUs could participate. Officials at an HBCU in another state with restrictions suggested that Education work with the states to help states develop regulations that do not hinder access to the program. Officials from the university system in that state said they would be open to working with Education to find a way to allow their HBCUs to participate.

Some state university systems and colleges have successfully developed solutions that could also be helpful for states whose laws or policies create similar challenges. For example, officials we spoke with from one state university system said a state statute was recently changed after an HBCU's application to the program had to be withdrawn because of a state law prohibiting using tuition revenue as collateral. Those changes were enacted in early 2018, and state university system officials said they are moving forward on HBCU participation in the program.

Our prior work highlights the importance of coordinating among key stakeholders to achieve results.[61] Education's strategic plan prioritizes supporting educational institutions and increasing college access, and coordinating with external stakeholders such as state university systems to achieve those goals.[62] While Education is aware that many public HBCUs face state-level restrictions on participating in the Capital Financing Program, a senior Education official said the Capital Financing Program does not provide support to states whose laws or policies create such challenges. Education officials said they work with colleges on a case-by-case basis, and only work directly with state university systems when invited to by the interested HBCU. However, officials from one university system noted that it would be helpful for Education to keep both the college and the system informed of the program given the system office's level of involvement in capital financing decisions. Officials we interviewed from three of the four public HBCUs in states with laws or policies that create these challenges said they are interested in participating in the Capital Financing Program. One HBCU official said given the low interest rate, his HBCU would refinance all its existing capital debt into the program if given the opportunity. As Education develops an outreach plan, it will be important for the plan to include coordination with key stakeholders such as state university systems to address state-level challenges to participation and share potential

[61]GAO-12-1022.

[62]Department of Education, *Strategic Plan for Fiscal Years 2018-22*.

solutions and leverage the designated bonding authority and Advisory Board in that effort.

Education Has Taken Steps to Help Some HBCUs Experiencing Financial Hardship, but Additional Analysis Could Better Inform Policymakers

The number of loan defaults in the Capital Financing Program and the number of HBCUs having difficulty making timely loan payments have increased recently, but Education has not fully assessed the potential use of loan modifications to assist such HBCUs. For example, two HBCUs defaulted on their Capital Financing Program loans in the last 2 years, and 29 percent of loan payments were delinquent in 2017.[63] HBCU officials we interviewed reported that financial challenges stemming from two events—the 2008 economic recession and a recent change to federal student financial aid—have decreased enrollment at some HBCUs and affected HBCUs' ability to repay their loans on time. For example, officials from two private HBCUs told us that they experienced declining enrollment as a result of the 2008 recession. In addition, changes made in 2011 to the Parent PLUS loan program—a program used by parents to help pay for their student's tuition—resulted in increased denials of these loan applications, according to Education and officials from several HBCUs.[64] As a result, some students could no longer afford to attend college, and the loss of tuition revenue created additional financial hardship for the colleges, according to officials from several HBCUs and an HBCU organization official. Education issued new regulations in 2014 that revised the Parent PLUS loan criteria, enabling more families to

[63] Another HBCU defaulted on its Capital Financing Program loan in 2004. Education is working to recover those funds. According to Education, an HBCU has defaulted on its Capital Financing Program loan if it meets at least 1 of 11 conditions. For example, an HBCU is in default if it fails to complete the project for which it received a Capital Financing Program loan. The delinquency rate is the percentage of loan payments received between 11 and 59 days after the due date, according to Education's fiscal year 2019 budget request. As of April 2018, four colleges were delinquent on their loan payments, and three colleges remained in default. All seven of these colleges are private colleges. Six of these colleges faced declining enrollment at some point between 2012 and 2016 (the most recent year of data available), and five of these seven colleges enrolled fewer than 1,000 students in 2016. In addition, over three-quarters of students received Pell Grants in five of the colleges eligible for the Pell Grant program.

[64] Parent PLUS loans are a type of Direct Loan available to parents of undergraduates to help pay for their child's educational expenses. In 2011, Education implemented stricter credit criteria for Parent PLUS loan borrowers which disproportionately affected minority students, according to key stakeholders and HBCU officials. For example, under the new criteria, any accounts in collections within the last 5 years make applicants ineligible to be approved for Parent PLUS loans. Prior to 2011, any accounts in collections within the past 90 days were ineligible for approval.

qualify for these loans.[65] However, HBCUs had already lost significant amounts of tuition revenue as a result of the 2011 changes, according to Education officials.

HBCUs and stakeholders have called for loan modifications to potentially assist colleges in financial distress and help them avoid defaulting on their Capital Financing Program loans. According to key stakeholders and officials from eight HBCUs, there is a need for the program to have ways to assist HBCUs facing financial difficulties. For example, officials from four HBCUs we interviewed and four additional HBCUs we surveyed suggested additional program flexibility, such as forgiving, reducing, or temporarily suspending loan payments, could be helpful for some colleges.[66] Stakeholders also suggested that loan deferment—allowing colleges to postpone payments without penalty—or other flexible payment options could help some colleges facing financial hardship.[67] The Consolidated Appropriations Act, enacted in March 2018, appropriated $10 million for Education to defer participating HBCUs' Capital Financing Program loans to assist colleges experiencing financial difficulties.[68] Under this provision, loans can be deferred for up to 6 years for participating HBCUs demonstrating financial need and meeting certain conditions.[69] These funds are available for Education to authorize loan deferments until the end of fiscal year 2018. Little is known, however,

[65]Department of Education, William D. Ford Federal Direct Loan Program, Final Regulations, 79 Fed. Reg. 63317 (Oct. 23, 2014)(codified at 34 C.F.R. 685).

[66]Temporarily suspending loan payments could involve the HBCU paying a penalty. As previously noted, forbearance is one way in which loan payments are temporarily suspended. In that case, interest and fees accrue during the forbearance period and are paid at the end of that period.

[67]Similar to forbearance, deferment generally allows borrowers to stop payments for a period of time; however, interest would not accrue during this time.

[68]The Consolidated Appropriations Act, 2018, Pub. L. No. 115-141, Title III, Historically Black College and University Capital Financing Program. The $10 million was appropriated to Education to provide for the deferment of loans under the HBCU Capital Financing Program.

[69]HBCUs applying for deferment of their Capital Financing Program loan are required to demonstrate financial need. When determining whether an HBCU should receive a deferment, Education will give priority to HBCUs whose financial audits show they were operating under a financial deficit for at least one of the previous five years, or were sanctioned for financial related reasons by Education or an accrediting association. Pub. L. No. 115-141, Title III, Historically Black College and University Capital Financing Program.

about how loan modifications would affect participating HBCUs or the program.[70]

According to a senior Education official, the agency assessed the potential for loan deferment in 2010 and estimated that it would cost the federal government about $150 million annually. However, neither the program office nor Education's budget office, which is responsible for estimating the costs of policy changes, were able to provide any information on how Education arrived at this estimate. Furthermore, Education has not assessed whether several other types of loan modifications identified by stakeholders, or those used for HBCUs impacted by Hurricanes Katrina and Rita, could be beneficial to other participating HBCUs that are having trouble making timely loan payments.[71]

Federal internal control standards state that agency management should plan for significant external events, analyze its effects on achieving program goals, and appropriately respond to those events.[72] While Education and its designated bonding authority review each applicant's credit and ability to take on a Capital Financing Program loan, this review reflects an HBCU's current financial health at the time of its application. Given that Capital Financing Program loans can be up to 30 years, major external changes such as an economic recession are possible over the life of the loan. Such events may affect an HBCU's ability to make timely loan payments and may increase the potential of an HBCU to default on its Capital Financing Program loan. According to Education's fiscal year 2019 budget request, the HBCU portfolio is experiencing greater financial

[70]As of December 2017, three HBCUs had defaulted on their loans and had made payments from the HBCU Capital Financing Program's escrow account totaling $15.1 million. The account currently holds $52.3 million.

[71]In 2011, legislation temporarily authorized Education to offer forbearance, expense-based repayment, and debt adjustment to HBCUs impacted by Hurricanes Katrina and Rita. Consolidated Appropriations Act, 2012, Pub. L. No. 112-74, Division F, Title III, § 307, 125 Stat. 786, 1099, as extended under the Continuing Appropriations Resolution, 2013, Pub. L. No. 112-175, 126 Stat. 1313. Other loan modifications identified by stakeholders included modifying the loan repayment schedule and renegotiating payment terms. For example, officials at one HBCU suggested paying a penalty while temporarily halting loan payments, and making up the missed payments by extending the life of the loan.

[72]This is part of a larger framework of federal internal control standards which states that management should identify, analyze, and respond to significant changes that could impact the internal control system.

stress as evidenced by an increase in loan delinquencies, and the federal government is at risk of incurring additional costs to manage the program.[73] Analyzing the effects of deferring loans and other types of loan modifications on program participation and on program costs could help Education determine how best to assist participating HBCUs experiencing financial difficulties while minimizing the federal government's costs.[74] However, a senior Education official said the agency does not plan to analyze (1) whether loan modifications could be helpful to program participants; or (2) the effect offering these modifications could have on the cost of the program. According to Education officials, modifications to the terms of Capital Financing Program loans cannot occur without statutory change. Nonetheless, Education is responsible for providing advice to Congress about what additional steps might be taken to improve the operation and implementation of the program. Conducting analyses on the effect of loan modifications, including recently authorized deferments, to help colleges avoid default and successfully participate in the program, and on the potential costs absorbed by Education of delayed or reduced payments, would enable Education to fulfill this responsibility.

Conclusions

HBCUs play a vital role in providing higher education opportunities for African-Americans. However, HBCUs continue to face challenges in securing financing to undertake needed capital projects. As a result, these colleges may be unable to make the campus improvements necessary to attract and retain students, potentially jeopardizing their long-term sustainability. Education's Capital Financing Program is intended to be a key funding source for HBCUs' capital needs, yet fewer than half of these colleges participate in the program.

As Education develops its statutorily mandated outreach plan, it will be important for the plan to address the outreach issues we have identified. Increasing outreach to individual HBCUs will encourage more college participation in the Capital Financing Program. Similarly, coordination with

[73]Department of Education, *Historically Black College and University Capital Financing Program Account, Fiscal Year 2019 Budget Request,* accessed April 13, 2018, https://ed.gov/about/overview/budget/budget19/justifications/u-hbcu.pdf.

[74]As previously noted, the 2018 Consolidated Appropriations Act appropriated $10 million for Education to offer loan deferment. The loan modifications offered to the four HBCUs affected by Hurricanes Katrina and Rita were permitted to the extent they would not result in any net cost to the federal government.

state university systems to address state-level provisions that create challenges and share potential solutions can increase public HBCU participation in the program. Education can leverage the resources not only of the Advisory Board, but also of the designated bonding authority, in these outreach efforts. If Education does not include these activities in its outreach plan, many of the HBCUs the program is intended to serve may continue to be unaware of the program or unable to participate in it.

Some HBCUs have faced declining enrollment as a result of changing economic conditions and recent changes in federal student aid policy. At the same time, the number of defaults and delinquencies has increased in the Capital Financing Program, potentially increasing the federal government's responsibility for these losses. In addition, stakeholders have called for additional loan modifications for colleges in financial distress. The Consolidated Appropriations Act, enacted in March 2018, authorized Education to offer loan deferments to financially struggling HBCUs. As Education begins offering these loan deferments, it is important that Education analyze the effects of these deferments and other prior loan modifications, such as those given to certain HBCUs affected by Hurricanes Katrina and Rita, to ensure that they are having the intended effect. Analyzing the potential benefits of loan modifications to all participating HBCUs against the potential risks to the program, such as increased program costs, could further help policymakers enhance the overall effectiveness of the Capital Financing Program. This will be especially important as Education implements its required outreach plan, which may increase program participation.

Recommendations for Executive Action

We are making the following two recommendations to Education:

- As Education develops the required HBCU Capital Financing Program outreach plan, the Executive Director of the program should include in the plan (1) ways to increase outreach to individual HBCUs so that HBCU officials are informed of the program; (2) steps to coordinate directly with state university systems to specifically address state-level challenges to participation and share potential solutions to increase public HBCU participation; and (3) ways to further leverage the designated bonding authority in its efforts. (Recommendation 1)
- The Executive Director of the HBCU Capital Financing Program should lead an agency effort to analyze various Capital Financing Program loan modifications, including the effects of the loan deferments authorized in the 2018 Consolidated Appropriations Act as well as other potential modifications, to assess the potential benefits

to HBCUs participating in the program, the potential cost of these options to the government, and their effect on the program's overall financial stability. (Recommendation 2)

Agency Comments and Our Evaluation

We provided a draft of this report to Education for review and comment. Education's comments are reproduced in appendix V.

In response to our recommendation on actions that Education should include in its required outreach plan, Education identified steps it plans to take to address each of the three components we recommended. First, to increase outreach to individual HBCUs, Education stated it will send letters to presidents and chancellors of eligible HBCUs that are not yet participating, in addition to existing activities. Second, Education stated that it plans to use methods similar to those currently used to reach out to public HBCUs, depending on resources, to coordinate directly with state university systems. Third, Education noted it plans to explore ways to leverage the designated bonding authority to do so. Education also stated that an HBCU's ability to use the program depends on its financial strength, and government resources alone will not ensure financial strength among struggling institutions. We agree; however, it is important to make HBCUs aware of the resources available to them, particularly a federal program that was created to help address HBCUs' capital financing challenges.

With regard to our second recommendation on analyzing the potential benefits and costs of offering loan modifications, Education partially agreed with the recommendation. Education commented that it disagreed with the recommendation to the extent that it suggests a modification of loan terms. Our recommendation does not endorse providing loan modifications to colleges. Rather, our recommendation is focused on analyzing the costs and benefits of modifications authorized by law, as well as other potential modifications. Education noted it will continue to analyze loan modifications and develop cost estimates. As we note in the report, however, Education was not able to provide evidence of analysis it conducted on potential loan modifications. We continue to believe that analysis of costs and benefits is needed to determine whether additional loan modifications are necessary or beneficial for the program.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Secretary of

Education, appropriate congressional committees, and other interested parties. In addition, the report will be made available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (617) 788-0534 or emreyarrasm@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Melissa Emrey-arras

Melissa Emrey-Arras
Director, Education, Workforce, and Income Security Issues

List of Requesters

The Honorable Patty Murray
Ranking Member
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Bob Casey, Jr.
Ranking Member
Subcommittee on Children and Families
Committee on Health, Education, Labor, and Pensions
United States Senate

The Honorable Robert C. “Bobby” Scott
Ranking Member
Committee on Education and the Workforce
House of Representatives

The Honorable G.K. Butterfield
House of Representatives

Appendix I: Objectives, Scope, and Methodology

We examined (1) Historically Black Colleges and Universities' (HBCUs) capital project needs; (2) funding sources HBCUs use to address their capital project needs; and (3) the extent to which the Department of Education (Education) helps HBCUs access and successfully participate in the HBCU Capital Financing Program (Capital Financing Program). In addition to the methodologies discussed below, we reviewed relevant federal laws, regulations, and guidance on the Capital Financing Program and Strengthening HBCU Program. To determine the extent to which Education helps HBCUs access and successfully participate in the Capital Financing Program, we reviewed documentation on program performance and administration and Education documentation from selected HBCUs affected by Hurricanes Katrina and Rita that received loan modifications in 2013. We assessed Education's communication to states and HBCUs against federal internal control standards on communicating quality information to key stakeholders. We reviewed Education's coordination efforts against best practices for coordinating with relevant stakeholders and reviewed Education's strategic plan which prioritizes coordinating with external stakeholders to achieve its goals of supporting educational institutions and increasing college access.[1] We also assessed Education's actions to help HBCUs experiencing financial challenges successfully participate in the program against federal internal control standards, which state that agency management should communicate key information needed to achieve its objectives and plan for significant changes, including economic changes, analyze the effects of such plans, and respond appropriately.[2]

[1]GAO, *Managing for Results: Key Considerations for Implementing Interagency Collaborative Mechanisms,* GAO-12-1022 (Washington, D.C.: September 27, 2012); and U.S. Department of Education, *Strategic Plan for Fiscal Years 2018-22*.

[2]GAO, *Standards for Internal Control in the Federal Government,* GAO-14-704G (Washington, D.C.: September 2014). We assessed Education's communication with states and Education's outreach to HBCUs against Internal Control Principle 15, which states that management should externally communicate the necessary quality information to achieve the entity's objectives. We assessed Education's coordination between the HBCU Capital Financing program office and the budget office against Internal Control Principle 14, which states that management should internally communicate the necessary quality information to achieve the entity's objectives. We assessed Education's actions to help HBCUs successfully participate in the Capital Financing Program against Internal Control Principle 9, which states that management should identify, analyze, and respond to significant changes that could impact the internal control system.

Survey of Historically Black Colleges and Universities and Review of Capital Plans

To address all three objectives, we conducted a web-based survey of accredited HBCUs in the United States (including the U.S. Virgin Islands) in June through August 2017. To identify the list of HBCUs, we ran a query using Education's Integrated Postsecondary Education Data System (IPEDS) for colleges that were designated as an HBCU in IPEDS and participated in Title IV, and were therefore accredited. IPEDS uses Section 322(a) of the Higher Education Act of 1965, as amended to define an HBCU as "any historically Black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary of Education to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation." Additionally, any branch campus of a southern institution of higher education that prior to September 30, 1986, received a Strengthening HBCUs Grant and was formally recognized by the National Center for Education Statistics as a Historically Black College or University is also considered an eligible institution. All 101 colleges identified as HBCUs in IPEDS were also identified as participating in Title IV.

We addressed our survey to senior leadership—presidents and chief financial officers—at HBCUs because capital planning and financing generally fall under their purview. We obtained a list of contact information for presidents and chief financial officers from Education for some participating HBCUs. In cases where contact information was not available, current, or correct, we identified appropriate contact information by reviewing HBCUs' websites or by following up with the president's office. Our survey included questions on capital project needs (i.e., repair or replacement) and plans, funding sources HBCUs use to address those needs, and HBCU experiences with Education's Capital Financing Program and Strengthening HBCU Program. We also asked HBCU officials to provide a copy of their master plans to supplement their survey responses, and we reviewed those plans.

To enhance data quality and to minimize nonsampling errors, we employed recognized survey design practices in the development of the survey and in the collection, process, and analysis of the survey data. To develop our survey questions, we interviewed Education officials, HBCU administrators, higher education facilities experts, and HBCU organization officers. Additionally, we pretested the survey with five HBCUs, over the phone, to standardize survey language and to reduce variability in responses that should be qualitatively the same. In some cases, we used the results of our pretests to change the wording of questions or added clarifying examples based on feedback. We chose the five pretest HBCUs to include representation across the major subgroups of responding HBCUs: private non-profits (private) and public HBCUs, 2-years and 4-years, and participants and non-participants of the Capital Financing Program. We also reviewed examples of master plans and facility assessment guides from higher education associations to help frame our survey questions. For example, we reviewed public and private HBCU capital plans to understand the type of information they collect, methodologies for assessing their capital project needs, and how they prioritize their needs. Furthermore, we consulted higher education facilities associations' definitions on key terms and facility indicators. Facilities experts from a higher education association indicated that master plans can change over time depending on an HBCU's emerging capital project needs and funding availability.

To increase the survey response rate, we implemented an outreach plan to engage key HBCU officials. When we completed the final survey questions and format, we sent an email announcement of the survey in June 2017 to key HBCU officials—presidents, chief financial officers, Strengthening HBCU Program coordinators, and facilities managers. They were notified that the survey was available online and were given unique usernames and passwords. To reduce nonresponse, we followed up by email and by phone with HBCUs that had not responded to the survey to encourage them to complete it. We received responses from 79 of 101 HBCUs—38 of 51 private and 41 of 50 public HBCUs, achieving a 78 percent response rate. As this was not designed as a sample survey, we make no claims about the generalizability of the results. However, 79 HBCUs captures a substantial portion of the HBCU population. We received master plans from 20 HBCUs.

We reviewed the data for missing or ambiguous responses and followed up with HBCUs when necessary to clarify their responses. In some cases, we updated responses after following up with the survey respondent. For example, as a part of our reliability check, we followed up with HBCUs whose answers were extreme outliers on reporting dollar values for their deferred maintenance. In three cases, separate from deferred maintenance, HBCUs corrected their answers, and we updated the survey results accordingly. To analyze the survey, we calculated descriptive statistics and reviewed open-ended responses to identify themes. We also reviewed select HBCUs' master plans to supplement survey responses.

Education Data

HBCU Capital Financing Participation Data

We analyzed Capital Financing Program loan data from Education and the designated bonding authority to better understand participation in the program. Specifically, we reviewed data from 1996 to 2017, which included participating HBCUs with sector information (public and private); loans each HBCU received; original loan amount; and status of each loan (paid off or in progress). We used the data to determine the total number of participating HBCUs by sector and total value of loans provided.

Additionally, we gathered information from Education's Capital Financing Program website to understand how HBCUs used their loans from 1996 to 2016. The website includes information on the purpose of each loan. Based on the wording of the purpose, we developed the following categories: refinance, deferred maintenance, repair and renovation, alteration, and new construction. For the purpose of reporting, we combined deferred maintenance, repair, renovation, and alteration into a deferred maintenance and repair category. For instances where HBCUs listed a similar or related purpose, we used professional judgement to categorize it. The categorization was conducted by one analyst then independently confirmed by a second analyst. Based on our review of Education's data, review of loan contracts, and interviews with relevant Education and designated bonding authority officials, we found the HBCU Capital Financing participation data to be sufficiently reliable for the purpose of describing participation and use of the program.

Integrated Postsecondary Education Data System (IPEDS)

To provide context on challenges HBCUs face financing capital projects identified through interviews with officials from Education, HBCUs, HBCU organizations, other stakeholders, and through our survey, we analyzed data from IPEDS from the 2015-16 school year, the most recent data available at the time of our review. We assessed the reliability of the data by reviewing related documentation and interviewing officials responsible for maintaining data in the system, and found the data to be reliable for our purposes. We examined HBCUs' institutional, student, and financial characteristics and compared those characteristics with a matched set of similar non-HBCUs. These characteristics include information on the colleges' charges for tuition and fees; the percentage of students who receive financial aid overall, and Pell Grants specifically; information on key revenue streams such as tuition and fees, private grants and contracts, and government funding; and data on the college's endowment. Colleges report financial information to IPEDS, such as revenue, using different accounting standards: public colleges generally use standards issued by the Governmental Accounting Standards Board, and private colleges use standards issued by the Financial Accounting Standards Board. Due to variation in how colleges report some revenue data under these two different accounting standards, we excluded one public HBCU from our analysis that used standards issued by the Financial Accounting Standards Board and analyzed 100 HBCUs.

Creating Matched Sets of HBCUs and Non-HBCUs

We used a matched analysis to identify non-HBCUs that are comparable to HBCUs along key characteristics and controlled for potential confounding when estimating differences for the outcome variables of interest. We used the following four criteria to create the matched sets:

Institution size (based on total students enrolled for credit during the fall of 2015)	Under 1,000; 1,000-4,999; 5,000-9,999; 10,000-19,999; 20,000 and above
Institution sector	Public 4-year; public 2-year; private 4-year; private 2-year
Highest degree offered	Any degree prior to a 4-year Bachelor's degree; a 4-year Bachelor's degree; any degree following a 4-year Bachelor's degree
HBCU state or Census division	States with HBCUs or Census divisions (Pacific, Mountain, West North Central, East North Central, Middle Atlantic, New England, South Atlantic, East South Central, and West South Central)

Source: GAO analysis. | GAO-18-455

Using a multi-stage approach to create matched sets of HBCUs and non-HBCUs, we first identified non-HBCUs that matched the HBCU using the institution's size, sector, and highest degree offered. We then constrained the set of non-HBCUs to those within the same state as respective HBCUs. Each matched set may contain multiple HBCUs and/or multiple non-HBCUs. If none of the non-HBCUs identified using institution size, sector, and highest degree offered lied within the same state as the HBCUs, we used Census-based divisions to create the matched set of HBCUs and non-HBCUs.

Table 5 summarizes the number of institutions within each matched set. Seventy-three of the 100 HBCUs were matched using state, while 27 were matched using Census-based divisions.

Table 5: Summary of Historically Black Colleges and Universities (HBCUs) and Non- Historically Black Colleges and Universities (Non-HBCUs) Matched Sets

			Number of institutions						
Matching criteria	Number of matched sets	Institution type	Total	Mean	Median	Minimum	25th percentile	75th percentile	Maximum
Size, sector, highest degree, state	48	HBCU	73	1.52	1	1	1	2	4
		Non-HBCU	323	6.73	5	1	3	9	26
Size, sector, highest degree, Census division	8	HBCU	27	3.38	2	1	1	4	11
		Non-HBCU	59	7.38	6	1	2	12	16

Source: GAO analysis of data from the Department of Education's Integrated Postsecondary Education Data System, Institutional Characteristics, 2015-16 school year. | GAO-18-455

We conducted this matched analysis because an unmatched analysis of the 100 HBCUs and all 3,529 non-HBCUs is potentially vulnerable to spurious differences in outcomes between HBCUs and non-HBCUs that arise from an imbalance of key factors underlying these two types of institutions. For example, public 2-year institutions make up a smaller proportion of HBCUs compared to non-HBCUs (10 and 28.6 percent, respectively), while public 4-year institutions make up a larger proportion of HBCUs compared to non-HBCUs (39 and 19.6 percent, respectively). This imbalance could lead to differences in outcomes arising from characteristics inherent in the type of institution, not a comparison of HBCUs to non-HBCUs. Matching HBCUs to non-HBCUs would lead to a similar underlying distribution of key factors, which improves the comparability of HBCUs and non-HBCUs.

Outcome Data Analysis

We used the matched sets to compare HBCUs to non-HBCUs on student financial aid and financial outcomes. For each of these variables and across the matched sets, we estimated descriptive statistics (mean, median, range) for HBCUs and non-HBCUs. However, in order to compare HBCUs to non-HBCUs, we accounted for similarities within each matched set. The varying number of HBCUs and non-HBCUs within each matched set required an analysis which is, in principle, an extension of a paired t-test. In this analysis, differences and correlations within each matched set are accounted for when estimating the overall difference between HBCUs and non-HBCUs. More specifically, we performed a linear mixed effects model with the basic form:

$y_{ij} \sim \beta_{ij}\text{HBCU}_{ij} + b_{ij}\text{Cluster}_{ij} + \sigma_{ij}$, for the j^{th} institution in the i^{th} cluster

$b_{ik} \sim N(0, \eta_k^2)$, for the k^{th} institution in the i^{th} cluster

where y is the outcome variable of interest; β is the parameter of interest, the fixed-effect coefficient that quantifies the overall difference between HBCUs and non-HBCUs; σ is the residual error that is not accounted for by HBCU status or clusters; b is the random-effect coefficient that accounts for correlations within clusters and quantifies the different effects of the k institutions within each cluster set (i.e., the k HBCU and non-HBCU institutions are nested within each cluster set); and b estimates the separate and distinct effects for each cluster set and is assumed to have a multivariate normal distribution, with a variance of η^2.

The p-value estimated was used to assess whether there was a statistically significant difference between HBCUs and non-HBCUs for the outcome variables of interest.

Education Sector Stratified Sample

We stratified the matched sample by public and private education sector and used the model above to obtain estimates specific for public and private colleges. This education sector specific analysis was not further stratified by 2- and 4-year college types due to small sample sizes.

In order to further explore differences with public and private colleges, we expanded the model above as such:

$y_{ij} \sim \beta_{ij}\text{HBCU}_{ij} + \gamma_{ij}\text{Sector}_{ij} + \varepsilon_{ij}\text{HBCU}_{ij}{*}\text{Sector}_{ij} + b_{ij}\text{Cluster}_{ij} + \sigma_{ij}$, for the j^{th} institution in the i^{th} cluster

Where the parameters described above remain the same and γ is the difference between public and private colleges, after adjusting for being an HBCU and ε is the difference within difference, assessing whether the HBCU–non-HBCU difference within public colleges is different from the HBCU–non-HBCU difference within private colleges.

Wilcoxon Test for Clustered Data

The linear mixed effects model above assumes that data are normally distributed (i.e., follow a bell-shaped curve). In order to assess whether these assumptions hold, we performed a Wilcoxon test that is extended for clustered data. The Wilcoxon test ranks values and is free of distributional assumptions, and assumes that all data are independent (i.e., not correlated). Overall consistency between tests of significance from the linear mixed effects model and Wilcoxon tests indicates that model assumptions hold.[3]

Strengthening HBCU Annual Reports

To describe the extent to which HBCUs used the Strengthening HBCU Program to finance capital projects, we analyzed annual reports submitted by participating HBCUs for the 2016 grant year. Participating HBCUs submit annual performance reports which include information on how the funds were used and the amount spent on each activity, among other information. The reports also include information on whether the HBCUs experienced leadership turnover in that reporting year. Because colleges submit a report for each type of Strengthening HBCU funding they receive or to carry over funding from the previous year, each college could have submitted up to three reports in 2016.[4] In total, we reviewed 236 reports for 98 grant recipients.[5] We also used these reports to identify leadership turnover at HBCUs.[6]

Interviews of HBCU Stakeholders

To address all three objectives, we conducted over 40 interviews with HBCU stakeholders and colleges to learn about HBCU capital project needs (i.e., repair, renovation, and new construction of buildings); challenges HBCUs face accessing and securing funding, particularly

[3]In our matched analysis, these tests of significance were inconsistent for 1 of 11 outcome variables of interest (tuition reliance) due to the influence of more extreme values. However, these tests were consistent for the remaining 10 outcomes.

[4]HBCUs can apply for and receive grants under Part B or Part F of Title III of the HEA. Education refers to both of these grants collectively as the “Strengthening HBCUs Program.” See 20 U.S.C. §§ 1060, 1067q et seq.

[5]Section 322(a) of the Higher Education Act of 1965, as amended, defines institutions eligible for the HBCU Capital Financing Program as any historically black college or university that was established prior to 1964, whose principal mission was, and is, the education of Black Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary of Education to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation. Additionally, any branch campus of a southern institution of higher education that prior to September 30, 1986, received a Strengthening HBCUs Grant and was formally recognized by the National Center for Education Statistics as a Historically Black College or University is also considered an eligible institution. 20 U.S.C. §§ 1061.

[6]For this analysis, we characterized leadership as President or Chancellor, Chief Financial Officer or Vice President of Finance, Vice President of Administration, Title III Coordinator, Comptroller, and Facilities Manager.

through Education's Capital Financing Program; and steps Education has taken, if any, to help HBCUs better access and successfully participate in their programs. We conducted the following interviews:

- Education: We interviewed senior officials at Education to learn more about HBCUs' access to and successful participation in the Capital Financing Program and participation in the Strengthening HBCU Program.
- Designated Bonding Authority: We interviewed officials at the designated bonding authority, with whom Education contracts to help administer the Capital Financing Program, to learn more about HBCUs' access to and successful participation in the Capital Financing Program.
- HBCU officials: We interviewed senior officials such as presidents, chief financial officers, and facilities managers from 15 HBCUs to learn more about the state of their capital project needs and challenges they face accessing and securing funding, particularly though the Capital Financing Program and Strengthening HBCU Program. We selected HBCUs that included different sectors (public and private), varying enrollments and state locations, and a mix of participation in the Capital Financing Program.
- State university system officials: We interviewed officials from four state university systems in states where public HBCUs did not participate and that were identified by Education as having state-level challenges accessing the program (North Carolina, Florida, Georgia, and Mississippi).
- HBCU organizations: We interviewed officials at the United Negro College Fund, which represents private HBCUs; and the Thurgood Marshall College Fund, which represents public and publically supported HBCUs. Both organizations are members of Education's Capital Financing Program Advisory Board. We consulted with officials from both organizations on different mechanisms that could help borrowers successfully participate in the Capital Financing Program.
- Higher education facilities experts: We interviewed higher education facilities experts at the National Association of College and University Business Officers, APPA: Leadership in Educational Facilities, and Sightlines—a higher education facilities consultant—to learn about industry best practices in identifying and addressing capital project needs and what differences, if any, exist for capital funding between HBCUs and non-HBCUs.

- Financial experts: We interviewed officials at Moody's, Standard & Poor's (S&P), the Municipal Securities Rulemaking Board (MSRB), and a financial consulting group to learn more about the municipal bond market, how colleges are rated, and how access and successful participation in the market differs between HBCUs and non-HBCUs.[7]
- Other stakeholders: We interviewed other stakeholders, such as the Association of Public and Land Grant Universities (APLU), which represent HBCU public land-grant universities; the Kresge Foundation, which has provided HBCUs with funding for capital projects; and researchers at the University of Pennsylvania's Center for Minority Serving Institutions and the authors of a study on HBCU participation in the bond market, "What's in a (school) name? Racial discrimination in higher education bond markets."[8]

Site Visits

We visited nine HBCUs across three states—Alabama, Louisiana, and North Carolina—to interview senior HBCU officials to learn about their capital project needs, to tour their facilities, and to learn more about the benefits and challenges the HBCUs faced in accessing funding and participating in Education's two key programs. We selected our nine site visit HBCUs to obtain a mix of sector (public and private), enrollment size, participation in Education's programs, and the existence of state-level laws or policies that have created challenges to participating in the Capital Financing Program. We also chose to visit Louisiana to learn more about the loans HBCUs received after Hurricanes Katrina and Rita and the colleges' recovery efforts. During our site visits, we met with senior leadership—presidents, chief financial officers, facilities managers, Strengthening HBCU grant coordinators—because they generally make decisions on capital project planning. While we did not inspect or evaluate the state of these colleges' buildings, HBCU officials explained in detail the capital project needs. In particular, we toured campuses to better understand their capital project needs and the extent to which Education's two key programs have helped address those needs.

[7] The two credit rating agencies we talked to represent 83 percent of all credit ratings issued as of December 2016 by the ten credit rating agencies recognized as a Nationally Recognized Statistical Rating Organization by the Securities and Exchange Commission (SEC). See SEC, *Annual Report on Nationally Recognized Statistical Rating Organizations* (Washington, D.C.: December 2017).

[8] A land-grant university is an institution that has been designated by its state legislature or Congress to receive the benefits of the Morrill Acts of 1862, 1890, and 1994. Land-grant HBCUs were created by the Morrill Acts of 1862 and 1890, and twenty-one HBCUs are land-grant universities.

Appendix II: Additional Survey Results on Capital Project Needs and Funding for Historically Black Colleges and Universities

We received responses from 79 of 101 Historically Black Colleges and Universities (HBCUs): 38 of 51 private non-profit (private) and 41 of 50 public HBCUs. By survey design, not all respondents reported information for each question. As a result, the denominator (number of survey respondents for a particular question) may change. This appendix presents selected survey responses from HBCUs and calculations made by GAO based on selected responses as a snapshot of capital project needs for HBCUs.

Capital Project Needs: Condition of Building Space for Responding HBCUs

Survey respondents reported information on their institution's real property portfolio, historical building space, and the condition of their building space.[1]

Table 6: Total Number of Buildings Reported by HBCUs Responding to GAO Survey, 2017

How many total buildings are included in your institution's real property portfolio?	All HBCUs	Public HBCUs	Private non-profit HBCUs
Number of respondents	79	41	38
Minimum	4	7	4
Maximum	161	161	110
Mean	49	62	34
Median	39	55	27

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, HBCUs reported the number of buildings in their real property portfolio. GAO defined real property portfolio as land, everything growing on it, and all improvements made to it. This usually includes rights to everything beneath the surface and at least some rights to the airspace above it.

[1]We defined real property portfolio as land, everything growing on it, and all improvements made to it. This usually includes rights to everything beneath the surface and at least some rights to the airspace above it. For the purposes of our survey, we defined building space as gross square footage, which is the floor areas on all levels of a building that are enclosed within the building, representing the cumulative total of the institution's buildings inclusive of all floors to the outside faces of exterior walls. It does not include appurtenances (such as canopies, cornices, pilasters, and balconies) that extend beyond the exterior wall face and courtyards that are enclosed by walls but have no roof.

Table 7: Total Building Space Reported by HBCUs Responding to GAO Survey, 2017

What is your institution's gross square footage (GSF)?			
	All HBCUs	Public HBCUs	Private non-profit HBCUs
Number of respondents	76	40	36
Minimum (GSF)	65,000	65,000	77,556
Maximum (GSF)	4,098,380	3,732,726	4,098,380
Mean (GSF)	1,208,144	1,641,372	726,781
Median (GSF)	943,022	1,475,000	491,400

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, HBCUs reported their campus' total building space. GAO defined building space as gross square footage, which is the floor areas on all levels of a building that are enclosed within the building, representing the cumulative total of the institution's buildings inclusive of all floors to the outside faces of exterior walls. It does not include appurtenances (such as canopies, cornices, pilasters, and balconies) that extend beyond the exterior wall face and courtyards that are enclosed by walls but have no roof.

Table 8: Proportion of Historic Building Space Reported by HBCUs Responding to GAO Survey, 2017

What is your institution's estimated gross square footage that belongs to buildings designated as historic (i.e., listed in the National Register of Historic Places)?			
	All HBCUs	Public HBCUs	Private non-profit HBCUs
Number of respondents	42	17	25
Minimum	0.2%	0.3%	0.2%
Maximum	62%	62%	41%
Mean	11%	8%	13%
Median	6%	4%	8%

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, HBCUs reported their campus' historic building space. For the purposes of this survey, GAO defined historic building space as gross square footage in historically significant buildings, which is the floor areas on all levels of a building that are enclosed within the building, representing the cumulative total of the institution's buildings inclusive of all floors to the outside faces of exterior walls. GAO calculated the proportion of historic building space at HBCUs with information they provided in the survey on their overall campus' gross square footage and their reported historical building gross square footage.

Table 9: Condition of Building Space by Proportion of Functionality Reported by HBCUs Responding to GAO Survey, 2017

What is your institution's estimated gross square footage that are fully functional, needs some repair, and needs total replacement?	All HBCUs			Public HBCUs			Private non-profit HBCUs		
	Fully functional	Needs some repair	Needs total replacement	Fully functional	Needs some repair	Needs total replacement	Fully functional	Needs some repair	Needs total replacement
Number of respondents	67	68	58	35	34	31	32	34	27
Minimum	2%	0.5%	0.4%	3%	1%	0.4%	2%	0.5%	0.4%
Maximum	99%	100%	31%	96%	92%	28%	99%	100%	31%
Mean	57%	39%	9%	51%	43%	8%	63%	36%	11%
Median	63%	36%	9%	51%	42%	8%	69%	25%	9%

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, HBCUs reported the condition of their building space by proportion of functionality: fully functional, needs some repair, and needs total replacement. For the purposes of this survey, GAO defined building space as gross square footage, which is the floor areas on all levels of a building that are enclosed within the building, representing the cumulative total of the institution's buildings inclusive of all floors to the outside faces of exterior walls. It does not include appurtenances (such as canopies, cornices, pilasters, and balconies) that extend beyond the exterior wall face and courtyards that are enclosed by walls but have no roof. GAO calculated the proportion of building space that is fully functional, needs some repair, and needs total replacement for HBCUs by using information they provided on their overall gross square footage and break down of gross square footage for categories in fully functional, needs some repair, and needs total replacement.

Capital Project Needs: Deferred Maintenance Backlog for Responding HBCUs

Survey respondents provided information on their deferred maintenance backlogs—repair put off to a later date.[2] We asked HBCUs about the dollar value of their backlog and trends in the last 3 calendar years (2015-2017).

[2]The Federal Accounting Standards Advisory Board defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which was put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

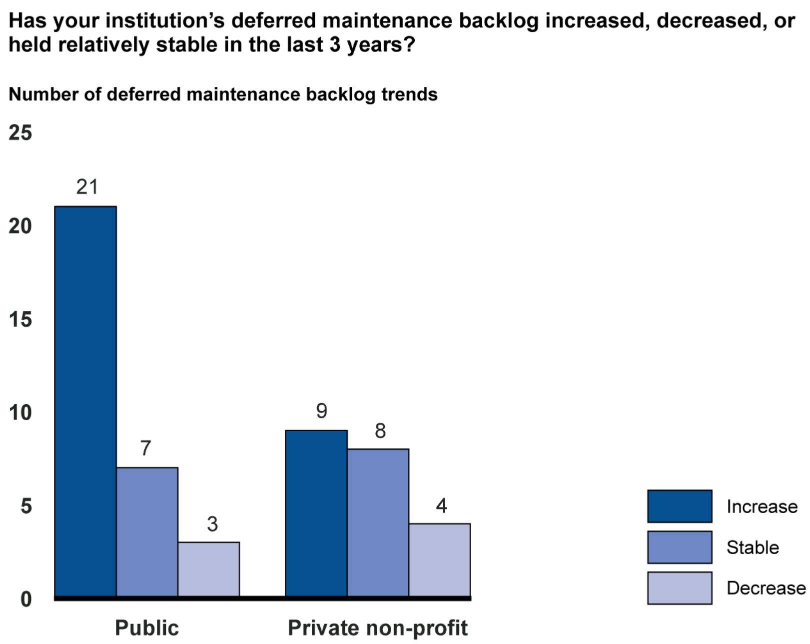
Table 10: Deferred Maintenance Backlog Reported by HBCUs Responding to GAO Survey, 2017

What is your institution's current deferred maintenance backlog?	All HBCUs	Public HBCUs	Private non-profit HBCUs
Number of respondents	48	28	20
Minimum	$450,000	$450,000	$500,000
Maximum	$268,817,877	$268,817,877	$75,000,000
Mean	$46,311,204	$66,693,191	$17,776,423
Median	$19,000,000	$29,754,751	$11,643,250

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, HBCUs reported their deferred maintenance backlog. For the purposes of this survey, GAO used the Federal Accounting Standards Advisory Board definition of deferred maintenance, which is maintenance that was not performed when it should have been or was scheduled to be and which was put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Figure 11: Deferred Maintenance Backlog Trends Over the Last Three Years (2015-2017) Reported by HBCUs Responding to GAO Survey, 2017



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

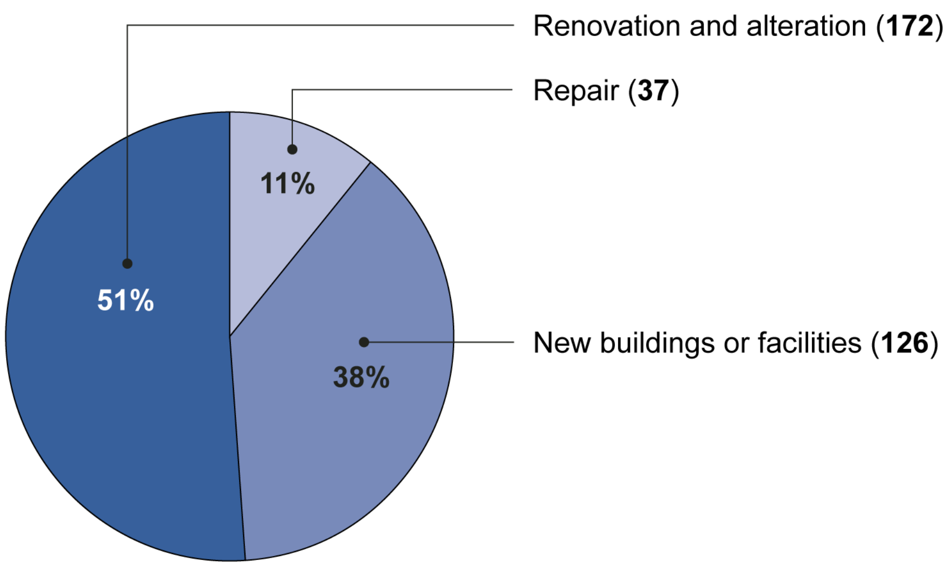
Note: As of August 2017, 52 of 79 HBCUs reported their deferred maintenance backlog trends. For the purposes of this survey, GAO used the Federal Accounting Standards Advisory Board definition of deferred maintenance, which is maintenance that was not performed when it should have been or was scheduled to be and which was put off or delayed for a future period. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Capital Projects: Top 5 Capital Projects for Next 5 to 10 Years for Responding HBCUs

Survey respondents provided information on their documented top 5 capital project needs over the next 10 years. Survey respondents provided information on the type of capital project (e.g., repairs, renovations and alterations, new buildings or facilities) and purpose of the project (e.g., academic, administrative, athletics, etc.).

Figure 12: Most Frequently Planned Capital Projects for the Next 5 to 10 Years Reported by HBCUs Responding to GAO Survey, 2017

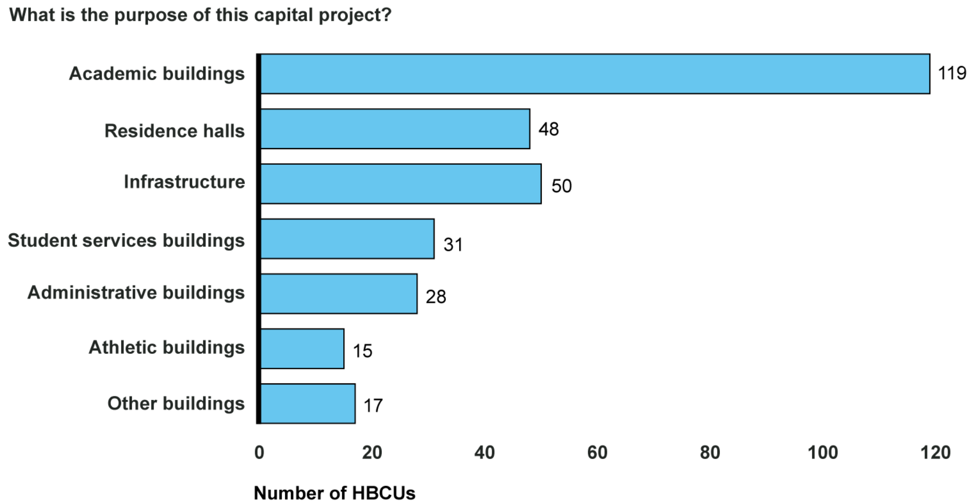
How would your institution describe this capital project?



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, 70 of 79 HBCUs reported information on their documented top 5 capital projects over the next 5 to 10 years; however, some HBCUs listed fewer than 5 projects. For the purposes of this survey, GAO defined capital project needs as repair, renovation and alteration, or new buildings or facilities. Repair is work on an existing building or facility that is performed to return parts, components, or systems to service (such as repair by replacement) after a failure, at the end of their useful service lives, or to make their operation more efficient. Renovation and alteration are the modernization, improvement, or expansion of facilities or changing the configuration of a building, for example, changing the layout of a residence hall. New construction of buildings or facilities, for example, is construction on a new residence hall in addition to existing residence hall facilities.

Figure 13: Most Frequently Planned Capital Projects by Purpose for the Next 5 to 10 Years Reported by HBCUs Responding to GAO Survey, 2017



Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Note: As of August 2017, 70 of 79 HBCUs reported information on their documented top 5 capital projects over the next 5 to 10 years; however, some HBCUs listed fewer than 5 projects. For the purposes of the survey, GAO defined infrastructure as the necessary physical components that allow an entity to function. These components include structures, roads, sidewalks, and utility systems (such as technology, electrical, power, water, and sewers).

Capital Project Funding: Funding Sources to Address Capital Project Needs for Responding HBCUs

Survey respondents provided information on funding sources they use to address their capital project needs and the percentage of funding from that source.

Table 11: Funding Sources for Capital Project Needs Reported by HBCUs Responding to GAO Survey, 2017

Has your institution used any of the following funding sources in the last 5 years to finance capital project needs?		Public HBCUs		Private non-profit HBCUs	
		Yes	No	Yes	No
Funding sources	a. Federal government grants	26	14	23	12
	b. Federal government loans	7	28	17	17
	c. State capital grants or appropriations	28	11	8	27
	d. State issued bonds	22	14	-	34
	e. Bonds issued by your institution	12	24	6	29
	f. Alumni/private giving	5	31	21	14

Has your institution used any of the following funding sources in the last 5 years to finance capital project needs?				
	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
g. Foundation grants	2	33	14	20
h. Institutional foundation	4	30	4	30
i. Endowment	1	32	6	29
j. Tuition and fees	18	19	20	14
k. Public-private partnerships	5	32	6	28
l. Short-term bank loans	1	33	4	29
m. Other	3	26	5	21

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Table 12: Capital Project Funding From Each Source by HBCUs Responding to GAO Survey Questions, 2017

What percentage of funding for capital project needs came from this source in the last 5 years?				
		All HBCUs	Public HBCUs	Private non-profit HBCUs
Number of responding HBCUs	a. Federal government grants	43	21	22
	b. Federal government loans	19	7	12
	c. State capital grants or appropriations	29	22	7
	d. State issued bonds	16	16	-
	e. Bonds issued by your institution	13	8	5
	f. Alumni/private giving	23	3	20
	g. Foundation grants	14	2	12
	h. Institutional foundation	5	2	3
	i. Endowment	6	1	5
	j. Tuition and fees	32	12	20
	k. Public-private partnerships	10	4	6
	l. Short-term bank loans	4	-	4
	m. Other	6	3	3
Minimum percentage cited	a. Federal government grants	1%	1%	1%
	b. Federal government loans	3%	15%	3%
	c. State capital grants or appropriations	1%	5%	1%
	d. State issued bonds	5%	5%	-
	e. Bonds issued by your institution	5%	5%	20%
	f. Alumni/private giving	1%	1%	1%
	g. Foundation grants	1%	2%	1%
	h. Institutional foundation	4%	4%	6%
	i. Endowment	1%	25%	1%

What percentage of funding for capital project needs came from this source in the last 5 years?				
		All HBCUs	Public HBCUs	Private non-profit HBCUs
	j. Tuition and fees	1%	5%	1%
	k. Public-private partnerships	5%	5%	5%
	l. Short-term bank loans	1%	-	1%
	m. Other	1%	1%	2%
Maximum percentage cited	a. Federal government grants	99%	70%	99%
	b. Federal government loans	99%	89%	99%
	c. State capital grants or appropriations	99%	99%	30%
	d. State issued bonds	99%	99%	-
	e. Bonds issued by your institution	99%	54%	99%
	f. Alumni/private giving	80%	5%	80%
	g. Foundation grants	80%	5%	80%
	h. Institutional foundation	75%	5%	75%
	i. Endowment	25%	25%	10%
	j. Tuition and fees	99%	50%	99%
	k. Public-private partnerships	100%	100%	70%
	l. Short-term bank loans	20%	-	20%
	m. Other	37%	25%	37%
Mean percentage cited	a. Federal government grants	29%	20%	37%
	b. Federal government loans	52%	47%	54%
	c. State capital grants or appropriations	40%	49%	13%
	d. State issued bonds	43%	43%	-
	e. Bonds issued by your institution	37%	29%	49%
	f. Alumni/private giving	11%	3%	13%
	g. Foundation grants	20%	4%	23%
	h. Institutional foundation	20%	5%	30%
	i. Endowment	7%	25%	3%
	j. Tuition and fees	26%	18%	31%
	k. Public-private partnerships	28%	34%	24%
	l. Short-term bank loans	6%	-	6%
	m. Other	14%	14%	14%
Median percentage cited	a. Federal government grants	15%	13%	23%
	b. Federal government loans	50%	50%	59%
	c. State capital grants or appropriations	30%	45%	10%
	d. State issued bonds	26%	26%	-
	e. Bonds issued by your institution	31%	28%	31%

What percentage of funding for capital project needs came from this source in the last 5 years?	All HBCUs	Public HBCUs	Private non-profit HBCUs
f. Alumni/private giving	7%	2%	10%
g. Foundation grants	5%	4%	10%
h. Institutional foundation	6%	5%	10%
i. Endowment	3%	25%	1%
j. Tuition and fees	15%	14%	16%
k. Public-private partnerships	6%	15%	6%
l. Short-term bank loans	2%	-	2%
m. Other	9%	15%	3%

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

HBCU Capital Financing Program: Perspectives on Participation by Responding HBCUs

Survey respondents provided information on their participation in the HBCU Capital Financing Program. We asked these respondents questions about the type of projects the program funds, reasons for pursuing this funding, and challenges they face in participating in the program.

Table 13: Purpose for Using HBCU Capital Financing Program Reported by HBCUs Responding to GAO Survey, 2017

Has your institution used the HBCU Capital Financing Program for the following purposes?	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
Construct new buildings	8	2	18	7
Renovate existing spaces	3	3	15	10
Alter existing buildings	1	5	6	16
Address deferred maintenance	2	4	9	15
Refinance past debt	3	4	20	5

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Table 14: Reasons for Participating in the HBCU Capital Financing Program Reported by HBCUs Responding to GAO Survey, 2017

Did your institution choose to pursue funding through the HBCU Capital Financing Program for any of the following reasons?	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
Loan terms, i.e., interest rates	10	-	23	2
Loan application process	6	2	11	8
Ease of doing business	6	2	13	9
Flexibility of loan terms	7	1	14	7
Flexibility of payment structure	6	2	12	7
Opportunity to refinance	3	5	21	2
No access to other funding	2	5	13	7
Other	-	5	-	7

Source: GAO analysis of survey responses for Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Table 15: Reasons for Not Participating in HBCU Capital Financing Program Reported by HBCUs Responding to GAO Survey, 2017

Did your institution choose to NOT pursue funding through the HBCU Capital Financing Program for any of the following reasons?	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
Process to access loan is too long	-	13	4	-
Interest rates are too high	-	13	2	4
Escrow pool requirement (5% of the proceeds of any loan is deposited into an escrow pool to be used in case of delinquency.)	4	11	1	2
Monthly payment schedule	1	14	2	1
State restricts public institutions from using the program	2	12	-	1
Pre-payment penalty	1	14	-	4
Administrative offset (the Department of Education suspends federal funding, in whole or in part, and uses those funds to pay off delinquent debt.)	4	11	1	1
Did not know the program existed	6	11	2	3
Prefer to use other funding sources	4	13	3	3

Did your institution choose to NOT pursue funding through the HBCU Capital Financing Program for any of the following reasons?				
	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
There was no need	2	12	-	4
Other	2	8	2	1

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Table 16: Challenges to Participating in the HBCU Capital Financing Program Reported by HBCUs Responding to GAO Survey, 2017

Did your institution face any of the following challenges in using the HBCU Capital Financing Program?				
	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
Process to access loan was too long	1	7	6	14
Interest rates were too high	-	8	1	20
Escrow pool requirement (5% of the proceeds of any loan is deposited into an escrow pool to be used in case of delinquency.)	2	7	9	13
Monthly payment schedule	3	5	10	11
State restricts public institutions from using the program	-	7	-	11
Pre-payment penalty	1	6	6	14
Administrative offset (the Department of Education suspends federal funding, in whole or in part, and uses those funds to pay off delinquent debt.)	1	6	3	14
Other	-	6	-	6

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs) participating in the HBCU Capital Financing Program. | GAO-18-455

Table 17: Importance of Listed Reason in Increasing Participation in HBCU Capital Financing Program Reported by HBCUs Responding to GAO Survey, 2017

How important, if at all, are the following in increasing participation in the HBCU Capital Financing Program?				
	All HBCUs			
	Not at all	Slightly	Moderately	Extremely
Improved communication from the Department of Education	10	10	15	28

How important, if at all, are the following in increasing participation in the HBCU Capital Financing Program?				
	All HBCUs			
	Not at all	Slightly	Moderately	Extremely
Lower interest rates	4	6	9	45
Removal of escrow pool requirement	2	13	13	29
Bi-annual payment schedule	10	11	19	14
Eliminating pre-payment penalty	2	7	8	40
Removal of the administrative offset	3	4	19	26
Removal of program's restriction on lending to an institution's third party authority, e.g. institution foundation	17	5	7	18
Other	13	0	1	1

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Strengthening HBCU Program: Capital Projects for Responding HBCUs

Survey respondents provided information on their participation in the Strengthening HBCU Program. We asked about why they participate and how the program supports capital project needs.

Table 18: Capital Project Purpose for Using Strengthening HBCU Program Reported by HBCUs Responding to GAO Survey, 2017

Did the Strengthening HBCU Program (Title III) support any of the following capital project needs?				
	Public HBCUs		Private non-profit HBCUs	
	Yes	No	Yes	No
Repairs	17	3	22	1
Renovation and alterations	21	1	25	1
New buildings and facilities	5	13	5	17
Address deferred maintenance	14	4	18	6
Other	1	7	-	6

Source: GAO analysis of survey responses from Historically Black Colleges and Universities (HBCUs). | GAO-18-455

Appendix III: Select Institutional, Student, and Financial Data on Historically Black Colleges and Universities (HBCUs)

Using a multi-stage matching technique, we created a matched set of non-HBCUs for comparison purposes. Using data from the Department of Education's Integrated Postsecondary Education Data System (IPEDS) for the 2015-16 school year, the most recent data available, we matched accredited HBCUs and non-HBCUs on four key characteristics: sector (i.e., public or private non-profit (private)), highest degree offered, size (enrollment), and location. For each of the 100 HBCUs, we established respective matched sets that included a total of 382 non-HBCUs.[1] For more information about our methodology, see appendix I.

Table 19: Select Institutional, Student, and Financial Data for Historically Black Colleges and Universities (HBCUs) and Matched Non-HBCUs, 2015-16 School Year

	Sample size		HBCU		Matched non-HBCU		Model estimates	Wilcoxon test
Variable	HBCU	Non-HBCU	Mean outcome	Median outcome	Mean outcome	Median outcome	p-value	p-value
Out-of-state average tuition for full-time undergraduates	97	348	11,990	12,020	17,441	15,895	2.07E-06	7.24E-04
In-state average tuition for full-time undergraduates	97	348	8,579	6,702	14,290	9,543	4.49E-06	4.55E-02
Percent of full-time first-time undergraduates awarded any financial aid	93	331	94	97	92	95	1.53E-01	2.58E-01
Percent of undergraduate students awarded Pell grants	93	348	70	72	42	43	6.62E-20	5.87E-21
Tuition reliance	99	368	42	36	52	48	2.4E-01	1.44E-20
Government reliance	99	368	68	70	62	63	2.91E-03	9.27E-03
Private grants and contracts	99	368	2,938,029	1,535,391	9,791,839	1,673,409	1.47E-01	7.33E-01
Endowment, end of year	83	286	40,125,889	11,912,330	78,160,948	23,331,399	1.58E-01	8.72E-01
Endowment, end of year per full-time equivalent	83	286	1,548,555	15,356	3,278,388	409,517	2.16E-01	9.43E-01

Source: GAO analysis of data from the Department of Education's Integrated Postsecondary Education Data System (2015-16 school year). | GAO-18-455

Note: Tuition reliance includes tuition and fees revenue net discounts, allowances, and institutional aid. Government reliance includes federal revenue (excluding Pell Grants, which may not be treated as revenue provided directly to the college) and state and local appropriations, grants, and contracts.

[1]Accredited colleges report financial information to IPEDS, such as revenue, using different accounting standards: public colleges generally use the Governmental Accounting Standards Board, and private colleges use the Financial Accounting Standards Board. Due to variation in how colleges report some revenue data under these two different standards, we excluded one public HBCU from our analysis that used the Financial Accounting Standards Board. As a result, our analysis included 100 HBCUs.

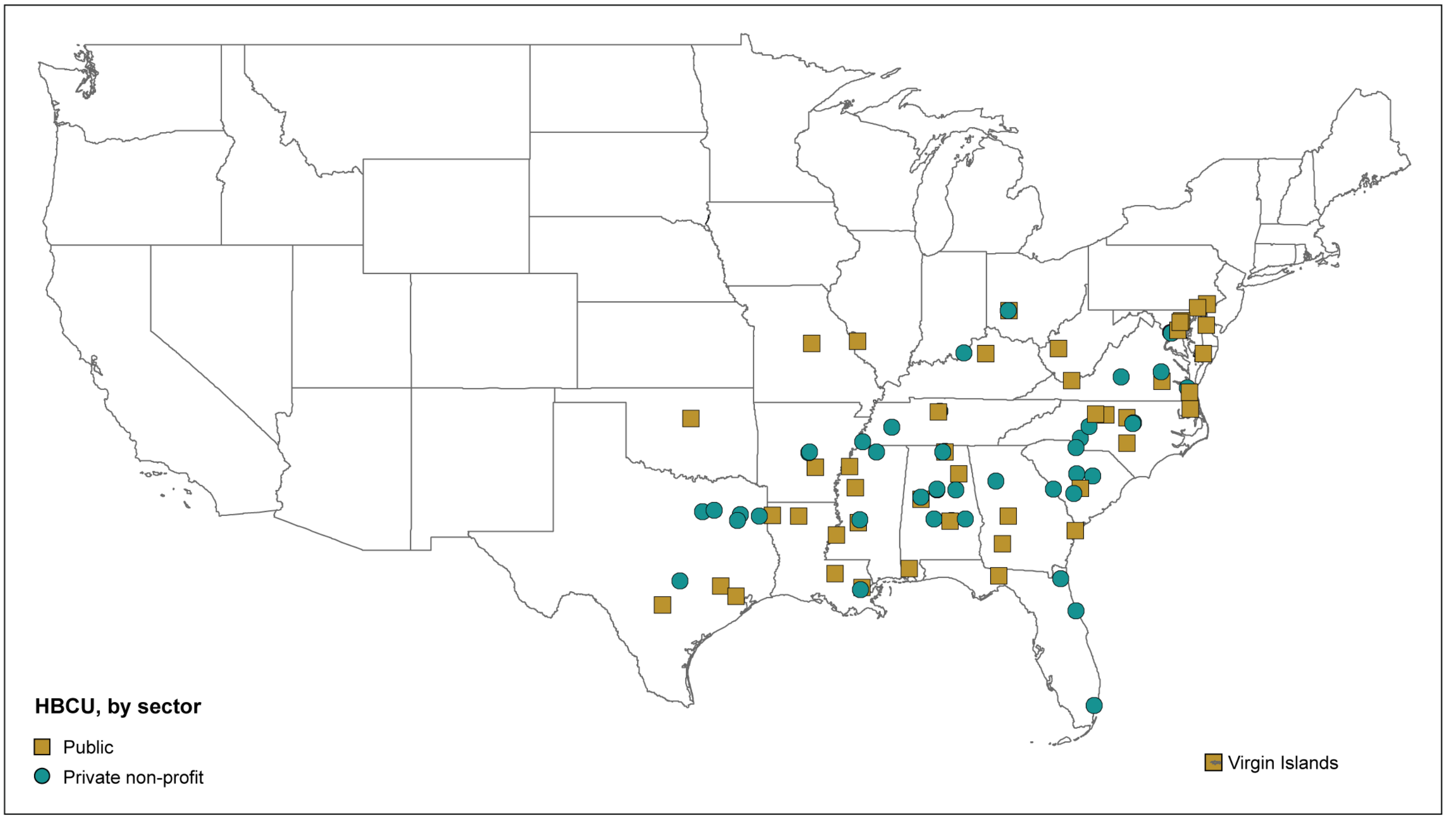
Table 20: Select Institutional, Student, and Financial Data for Historically Black Colleges and Universities (HBCUs) and Matched Non- HBCUs, by Sector (public and private-nonprofit (private)), 2015-16 School Year

	Sector	Sample size		HBCU		Matched non-HBCU		Within sector	
		HBCU	Non-HBCU	Mean outcome	Median outcome	Mean outcome	Median outcome	Model estimates	Wilcoxon test
Variable								p-value	p-value
Out-of-state average tuition for full-time undergraduates	Public	49	166	11,411	12,540	11,931	11,186	3.32E-02	1.89E-01
	Private	48	182	12,581	11,914	22,467	23,330	2.80E-06	5.93E-04
In-state average tuition for full-time undergraduates	Public	49	166	4,659	4,530	5,326	4,590	1.64E-02	4.82E-01
	Private	48	182	12,581	11,914	22,467	23,330	2.80E-06	5.93E-04
Percent of full-time first-time undergraduates awarded any financial aid	Public	49	158	93	96	89	91	2.09E-02	4.22E-02
	Private	44	173	95	99	95	99	7.24E-01	1.05E-01
Percent of undergraduate students awarded Pell grants	Public	49	166	65	66	42	42	3.92E-09	8.44E-09
	Private	44	182	75	77	42	43	3.91E-12	1.49E-09
Tuition reliance	Public	48	160	27	27	37	37	7.30E-03	3.39E-01
	Private	51	208	56	50	63	63	6.45E-01	3.89E-02
Government reliance	Public	48	160	67	67	55	54	6.67E-04	8.32E-02
	Private	51	208	68	72	66	72	5.44E-01	3.02E-01
Private grants and contracts	Public	48	160	1,098,768	588,321	9,753,946	931,003	1.08E-01	5.28E-02
	Private	51	208	4,669,097	2,942,267	9,820,988	2,845,412	4.94E-01	2.77E-01
Endowment, end of year	Public	42	116	20,462,092	8,977,567	43,427,449	18,413,416	1.09E-01	9.19E-01
	Private	41	170	60,269,291	12,667,552	101,861,453	28,843,393	3.69E-01	8.70E-01
Endowment, end of year per full-time equivalent	Public	42	116	3,555	1,978	60,907	3,962	5.26E-01	4.45E-01
	Private	41	170	3,131,237	1,264,708	5,473,846	1,814,350	2.34E-01	5.72E-01

Source: GAO analysis of data from the Department of Education's Integrated Postsecondary Education Data System (2015-16 school year). | GAO-18-455

Note: Tuition reliance includes tuition and fees revenue net discounts, allowances, and institutional aid. Government reliance includes federal revenue (excluding Pell Grants, which may not be treated as revenue provided directly to the college) and state and local appropriations, grants, and contracts.

Appendix IV: Location of Historically Black Colleges and Universities (HBCUs) and Their Sector (Public and Private Non-profit)



Source: GAO analysis of the Department of Education's Integrated Postsecondary Education Data System, 2015-16 school year, and MapInfo (map). | GAO-18-455

Appendix V: Comments from the Department of Education

UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF POSTSECONDARY EDUCATION

June 6, 2018

Ms. Melissa Emrey-Arras
Director, Education, Workforce,
and Income Security Issues
United States Government Accountability Office
Washington, D.C. 20548

Dear Ms. Emrey-Arras:

Thank you for providing an opportunity for the U.S. Department of Education (Department) to review and comment on the Government Accountability Office (GAO) draft report: "HISTORICALLY BLACK COLLEGES AND UNIVERSITIES: Action Needed to Improve Participation in Education's Historically Black College and University (HBCU) Capital Financing Program" (GAO 18-455; Job Code 101187). The draft report made two recommendations to the Department. Those recommendations and our responses to those recommendations are as follows:

Recommendation 1: *As Education develops the required HBCU Capital Financing Program outreach plan, the Executive Director of the program should include in the plan (1) ways to increase outreach to individual HBCUs so that HBCU officials are informed of the program; (2) steps to coordinate directly with state university systems to specifically address state-level challenges to participation and share potential solutions to increase public HBCU participation; and (3) ways to further leverage the designated bonding authority in its efforts.*

Response: The Department plans to address this recommendation as follows:

(1) With respect to the part of the recommendation to increase outreach to individual HBCUs, the HBCU Capital Financing Program plans to send letters to presidents and chancellors of eligible HBCUs that are not yet participating in the program to remind them of the program and opportunity to participate. This increased outreach would be in addition to existing activities, such as attending conferences where the Executive Director of the program meets one-on-one with HBCU leaders to discuss possible projects and explore customized borrowing to help HBCU officials understand the benefits of borrowing from the Federal government. Examples of conferences attended over the last two years include the annual conference of the White House Initiative on HBCUs and the annual Title III Administrators conference. In addition, the Department and staff of the White House Initiative on HBCUs engage with key nonprofit organizations, such as the Thurgood Marshall College Fund, the United Negro College Fund, and the National Association for Equal Opportunity in Higher Education, to share information with leaders in the HBCU community and to provide points of contact within the Department for those institutions that seek technical assistance on the HBCU Capital Financing Program.

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(2) With respect to the part of the recommendation to coordinate directly with state university systems, depending on resources, the HBCU Capital Financing Program plans to use methods similar to those currently used to reach out to public HBCUs. As resources permit, we may also present information about the program at State Bond Commissions and Board of Regents meetings and convenings of State Higher Education Officials. It is important to note that this program is an optional secure bond program, meaning that *the choice to borrow is up to the institution*. In addition, in some cases, as noted in the report, State legislatures may need to change certain laws to enable their public HBCUs to participate in this program.

(3) With respect to the part of the recommendation related to ways to further leverage the designated bonding authority, the HBCU Capital Financing Program plans to explore working with the designated bonding authority to see if there are ways it can assist the Department in such efforts.

An extremely important element in an HBCU's ability to use the program is the HBCU's financial strength. The Department and the White House Initiative are working together to find ways to help HBCUs strengthen their financial position, but government resources alone will not ensure financial strength among struggling institutions.

Recommendation 2: *The Executive Director of the HBCU Capital Financing Program should lead an agency effort to analyze various Capital Financing Program loan modifications, including the effects of the loan deferments authorized in the 2018 Consolidated Appropriations Act as well as other potential modifications, to assess the potential benefits to HBCUs participating in the program, the potential cost of these options to the government, and their effect on the program's overall financial stability.*

Response: The Department partially concurs with this recommendation. We agree with the recommendation to continue our analyses of the costs and benefits of selected potential loan modifications in the HBCU Capital Financing Program, but we do not concur that additional loan modifications are either necessary or beneficial to the program. Providing modifications to Capital Financing Program loans may encourage late payments and defaults across the loan portfolio because recipients of loans may come to expect that the Department will not only fail to take the appropriate adverse actions that other lenders would normally take, but also that the Department will implement unusual measures to forgive or delay payments. Modifying loans also has associated legal and administrative costs for institutions and the Department, depending on the complexity of the modification.

Modifications should not reduce the rigor of financial accountability requirements among institutions involved in this program. Also, a poorly designed modification may allow institutions to delay the implementation of new activities and initiatives that would otherwise improve the institution's financial health, and it could lead potential donors (such as through alumni giving campaigns) to believe that their contributions are not needed since the government will step in to provide financial safety nets to institutions. We want to help institutions reduce their financial distress, not delay the consequences of such distress. While, in many instances, capital financing can contribute to an institution's financial stability, in other instances, it simply adds further stress to institutions already in challenging financial circumstances. For these reasons, we do not concur with the recommendation to the extent it suggests a modification of

Page 3 – Ms. Melissa Emrey-Arras

loan terms, but of course the Department will implement any statutory modifications passed by Congress and signed by the President.

Regarding continued analyses, the HBCU Capital Financing Program and the Department's Budget Service staff regularly analyze loan modifications and develop cost estimates based on statutory loan modifications, including when Congress requests technical assistance during the development of legislative proposals. Department staff also discuss the advantages and disadvantages of loan modifications with the HBCU Capital Financing Program's Advisory Board and will continue to do so.

Again, thank you for the opportunity to review this draft report.

Sincerely,

Frank T. Brogan

Frank T. Brogan
Delegated to Perform the Duties
of the Assistant Secretary

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

Melissa Emrey-Arras, Director, (617) 788-0534 or emreyarrasm@gao.gov

Staff Acknowledgments

In addition to the contact named above, individuals making key contributions to this report were Nyree Ryder Tee, Assistant Director; Rachel Beers, Analyst-in-Charge; Grace Cho; Kris Nguyen; and Manuel Antonio Valverde. In addition, key support was provided by Michael Armes, Susan Aschoff, Allison Bawden, Deborah Bland, Marcia Carlsen, Gina Hoover, DuEwa Kamara, John Karikari, Risto Laboski, Eunice LaLanne, Won Lee, Sheila McCoy, Jean McSween, Jeffrey G. Miller, John Mingus, Mimi Nguyen, Anna Maria Ortiz, Christopher Ross, Benjamin Sinoff, and Karen Tremba.

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