HBCU Capital Financing Advisory Board Meeting
Tuesday, April 3, 2018
10:00 a.m.–2:00 p.m., Central Daylight Time
Room 313 (Bowden Alumni Center)
Sutton Learning Center Building
St. Philip's College
1801 Martin Luther King Drive
San Antonio, TX 78203

AGENDA

10:00 **Call to Order and Roll Call**
Dr. Beverly W. Hogan, Chair

10:10 **Welcome**
Adam Kissel, Deputy Assistant Secretary for Higher Education Programs
Designated Federal Official for the Board

10:20 **Approval of December 2, 2017, Meeting Minutes**
Dr. Hogan

10:30 **Director's Report**
Donald Watson, Director, HBCU Capital Financing Program

11:00 **Update on Board's December 2017 Recommendations**
Mr. Watson

- New Market Tax Credits
- Natural Disaster Assistance
- HBCU Economic Impact Studies
- Pooled Escrow Requirement
- Program Staffing

11:20 **Set Dates and Locations for 2018 Meetings**
Dr. Hogan

11:30 **Board Discussion: Recommendations to the Secretary and Congress**
Dr. Hogan

- 2018 Deferment Authority
- Short-Term Line of Credit

12:00 Lunch

1:00 **Public Comment**
Dr. Hogan

1:30 **Concluding Remarks and Adjournment**
Board Members; Dr. Hogan

Members of the HBCU Capital Financing Advisory Board
April 2018

Representative Members

Private HBCUs

David L. Beckley, President, Rust College

Beverly Hogan, President, Tougaloo College (Chairperson)

Henry N. Tisdale, President, Claflin University

Public HBCUs

David Hall, President, University of the Virgin Islands

Adena Williams Loston, President, St. Philip's College

Perry W. Ward, President, Lawson State Community College

Organizations

Lezli Baskerville, President & CEO, National Association for Equal Opportunity in Education (NAFEO)

Lodriguez Murray, Vice President, Public Policy & Government Affairs, United Negro College Fund (UNCF), Designee

Harry L. Williams, President & CEO, Thurgood Marshall College Fund (TMCF)

Secretary's Designee

A. Wayne Johnson, Chief Strategy and Transformation Officer, Federal Student Aid

Executive Director, White House Initiative on HBCUs

Johnathan Holifield

Non-Members

Designated Federal Official

Adam Kissel, Deputy Assistant Secretary for Higher Education Programs,
U.S. Department of Education

Program Staff

Donald Watson, Executive Director, Historically Black College and University Capital Financing Program, U.S. Department of Education

Historically Black College and University Capital Financing Advisory Board's December 2017 Recommendations

HBCUs, for more than 150 years, not only have been committed to increasing higher education access and success among low-income Americans regardless of social or economic barriers, but also have often led higher education in this area. The Historically Black Colleges and Universities Capital Financing Advisory Board (Board) has specific authority to make recommendations to the Secretary of Education (Secretary) and the U.S. Congress with regard to the most effective and efficient means of implementing construction financing on the campuses of HBCUs, the progress made in implementing the HBCU Capital Financing Program (Program), the capital needs of HBCUs, and how those needs can be met through the Program. In addition, the Board advises the Secretary with regard to the feasibility of reducing borrowing costs associated with the Program, including reducing interest rates.

On December 2, 2017, the Board met in Dallas, Texas, and unanimously agreed to five recommendations (one administrative and four legislative), which are described below. A transcript of the discussion (Transcript) is available at www2.ed.gov/about/bdscomm/list/hbcu-finance.html.

New Market Tax Credits

The Board voted to reissue this May 2015 recommendation calling for a statutory provision enabling the program to leverage funds from Market Tax Credits (Transcript, p. 61).

This provision would essentially allow the Program to be used as the leverage lender or to allow an eligible institution to lend the proceeds of a Program loan to a community development entity that is 100 percent solely owed by the eligible HBCU.

Disaster Relief Grant Program

The Board voted to reissue this May 2015 recommendation calling for a broader Disaster Relief Grant Program available to Program participants. The legislation would provide a grant in order to forbear or defer debt service payments in cases where the President has issued a major disaster declaration under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121 et seq. (Transcript, p. 65).

This provision would provide funds to pay debt service payments for institutions that were affected by disasters.

Economic Impact Studies

The Board recommended that the Department perform economic impact studies to show the usefulness of the Program and related funds to the Nation, and did not recommend adding new loan criteria (Transcript, p. 81).

This recommendation requests legislation providing administrative funds for such studies, which could include studying additional resources of eligible HBCUs.

Pooled Escrow

The Board affirmed that the Department continues to support the escrow option as follows:

- Stay in the pooled escrow,
- Pay a risk premium and not be included in the pooled escrow, or
- Other escrow options (Transcript, p. 52).

This legislative recommendation would eliminate exposure of non-defaulted and non-delinquent institutions to those that are delinquent or in default. Specifically, the recommend would eliminate the “pooled” Escrow program and replacing it with an alternative program that reduces risk and protects reserve fee or escrow payments of individual institutions participating in the program, while not increasing costs to those institutions.

Program Staffing

The Board recommended that there be a yearly assessment of Program staffing and urged attention to increase staff in light of the volume of loans in the Program (Transcript, p. 90).

This recommendation is to request additional permanent, full-time support to the Program office, which reissues and expands previous Board recommendations (in which the Board had requested that at least two full-time employees work in the Program office).

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING ADVISORY BOARD

Executive Director's Report
Advisory Board Meeting
April 3, 2018

Madame Chair and members of the Board, I am pleased to present my report on the Historically Black College and University (HBCU) Capital Financing Program.

BARBER SCOTIA UPDATE

Barber Scotia, located in Concord, North Carolina, received a HBCU Capital Financing Program loan for $7 million on December 6, 2000. In 2004, Barber Scotia lost its accreditation with the Southern Association of Colleges and Schools, making the institution ineligible for Federal Student Aid under HEA, Title IV, which affected over 90 percent of Barber Scotia's students. The resulting drop in enrollment left Barber Scotia unable to repay its HBCU Capital Financing Program loan. Since September 2005, Barber Scotia's bond payments have been made using funds deposited in the escrow account by other Program participants. The current balance is $11.1 million ($4.7 principal balance and $6.4 million ($257,328 x 25) in escrow payments).

The Designated Bonding Authority (DBA) released a Request for Information (RFI) for Barber Scotia College in November 2017 and responses were due by December 20, 2017. A RFI is a document that will give the DBA an idea of what interested potential developers or other purchasers may have in the campus or buildings on the campus. The RFI was published on RCAP's website, and the DBA also sent the RFI to parties that have expressed interest in the Project such as Barbara Scotia College, City of Concord, Cabarrus County, and Cabarrus County School System. The DBA had its construction monitoring firm provide additional firms that specialize in these types of developments. The main criteria were the financial capacity to eliminate any additional draws on the Escrow, plans that conform to the Historic District requirements as well as the City of Concord and Cabarrus County development plans. The DBA received only one responsive proposal based on financial disclosure and financial wherewithal contained in the response. The DBA began negotiating Conflict of Interest and Non-disclosure agreements (NDA) with the responsive proposer. The Conflict of Interest agreement has been executed. The DBA has not yet proposed an offer to the Department because the DBA and the proposer are working thorough the NDA. The NDA is for 45 days, and a contract can be executed at that time. The next steps would be for the DBA to execute the NDA and prepare an offer for the Department to consider.

GOVERNMENT ACCOUNTABILITY OFFICE

The program has completed its exit conference with the Government Accountability Office (GAO), which is investigating any barriers that might be facing Historically Black Colleges and Universities (HBCUs) when financing capital projects. The GAO estimates that there will be about three recommendations in the final report that will be completed in late April or early May. However, the HBCU Capital Financing Program is still addressing follow-up questions regarding certain data submission.

PROGRAM ACTIVITIES

Scheduling of loan closings are based on approval of an Administration's budget and apportionment by the Office of Management and Budget.

Here are some of the HBCU Capital Financing Program's activities:

	FY2014	FY2015	FY 2016	FY2017	FY2018 to Date
Number of Schools	5 (4 private, 1 public)	6 (4 private, 2 public)	3 (1 private, 2 public)	3 (2 private, 1 public)	2 (2 public)
(in millions)					
Amount Available	$303.0	$303.0	$279.0	$282.0	$334.0
Amount Funded	$94.2	$213.1	$161.6	$68.0	$179.0

Annual loan capacity for FY 2014 was $303 million. In this regard funds were provided to St. Augustine's University, Grambling State University, Voorhees College, Texas College, and Johnson C. Smith University.

Annual loan capacity for FY 2015 was $303 million. These funds were provided to Arkansas Baptist College, University of the Virgin Islands, T.A. Lawson State Community College, Philander Smith College, Arkansas Baptist College, and Livingstone College.

Annual loan capacity for FY 2016 was $303 million. These funds were provided to Jarvis Christian College, Grambling State University, and South Carolina State University.

Annual loan capacity for FY 2017 was $303 million. These funds have been provided to Morehouse School of Medicine, Tuskegee University, and Southern University at Shreveport.

Annual loan capacity for FY 2018 is $334 million. In this regard, the following institutions received loans: Southern University at Baton Rouge and Alabama State University.

The Program has seven active construction projects at the following institutions: Alabama A&M University, Livingstone College, Jarvis Christina College, Grambling State University, Lawson State Community College, University of the Virgin Islands, and Morehouse School of Medicine.

For FY 2018, 13 additional institutions have expressed verbal or written interest in borrowing through the HBCU Capital Financing Program. Of the 13 institutions, seven are public and six are private institutions. At this date, all institutions appear to have eligible projects. However, a financial analysis has not been performed to see if the institutions can support its request loan amount. These HBCUs would be requesting loan amounts that range between $20 million and $100 million.

PORTFOLIO

The loan portfolio to date consists of—

- $2.214billion originated ($801 million public HBCUs and $1.413 billion private HBCUs)
- $2.062 billion active loans in repayment or construction stage ($735 million public HBCUs and $1.327 billion private HBCUs)
- 45 HBCUs (10 public HBCUs and 35 private HBCUs)

Other portfolio numbers include—

- 59 loans are in active repayment (14 public and 45 private)
- 2 HBCUs have defaulted on loans
- 8 HBCUs repaid or refinanced their Cap Financing Program loans
- $8 million to $165 million is the loan range
- 8 active construction projects

HISTORICALLY BLACK COLLEGE AND UNIVERSITY CAPITAL FINANCING PROGRAM ACCOUNT

For the cost of guaranteed loans, $20,150,000, as authorized pursuant to part D of title III of the HEA, which shall remain available through September 30, 2019: *Provided*, That such costs, including the cost of modifying such loans, shall be as defined in section 502 of the Congressional Budget Act of 1974: *Provided further*, That these funds are available to subsidize total loan principal, any part of which is to be guaranteed, not to exceed $313,863,000: *Provided further*, That these funds may be used to support loans to public and private Historically Black Colleges and Universities without regard to the limitations within section 344(a) of the HEA.

In addition, $10,000,000 shall be made available to provide for the deferment of loans made under part D of title III of the HEA to eligible institutions that are private Historically Black Colleges and Universities, which apply for the deferment of such a loan and demonstrate financial need for such deferment by having a score of 2.6 or less on the Department of Education's financial responsibility test: *Provided*, That during the period of deferment of such a loan, interest on the loan will not accrue or be capitalized, and the period of deferment shall be for at least a period of 3- fiscal years and not more than 6-fiscal years: *Provided further*, That when determining priority for such institutions to receive such a deferment, the Secretary shall give priority to institutions that operated in a financial deficit for at least one of the previous 5 years according to audits provided to the Department, or were sanctioned for financial related reasons by the agency or association that accredited such institutions: *Provided further*, That the Secretary shall create and execute an outreach plan to work with States and the Capital Financing Advisory Board to improve out- reach to States and help additional public Historically Black Colleges and Universities participate in the program.

In addition, for administrative expenses to carry out the Historically Black College and University Capital Financing Program entered into pursuant to part D of title III of the HEA, $334,000.

Meeting Synopsis
of the
Historically Black Colleges and Universities
Capital Financing Advisory Board

Saturday, December 2, 2017
Open Public Meeting

Omni Hotel
White Rock Rooms 1–2, Level 5
555 South Lamar Street
Dallas, TX 75202

This synopsis does not replace the full transcript of the meeting, which is available at www2.ed.gov/about/bdscomm/list/hbcu-finance.html#meetings.

Designated Federal Official Present
Adam H. Kissel

Items Distributed
- Agenda for December 2, 2017, meeting;
- List of Board members;
- Synopsis of May 18, 2015, meeting;
- Director's Report dated December 2, 2017;
- Responses to Board's recommendations from the May 18, 2015, meeting

Call To Order
Chairperson Beverly Hogan called the meeting to order at 4:34 p.m. Mr. Don Watson called the roll. Ten members were present (four by telephone and seven in the room). Mr. Watson declared a quorum.

Members Present
David L. Beckley, Beverly Hogan, Henry N. Tisdale, Adena Williams Loston, Perry W. Ward, Lezli Baskerville, Lodriguez Murray, Johnny C. Taylor, Jr., A. Wayne Johnson, and Johnathan Holifield.

Other Department of Education Personnel Present
Dr. Leonard L. Haynes, Senior Advisor to the Under Secretary; Don Watson, Executive Director of the Program.

Welcoming Remarks
Mr. Kissel thanked Johnny Taylor and Michael Lomax for their service to the Board and welcomed Lodriguez Murray, who had become the designated member for the United Negro College Fund. Mr. Kissel thanked Michael Sorrell, president of Paul Quinn College, for welcoming the Board to the city of Dallas and for Paul Quinn College being part of the hosting delegation.

Approval of Minutes
Dr. Hogan asked for approval of the May 18, 2015, meeting minutes. Dr. Loston so moved. Dr. Beckley seconded. There was no objection. The minutes were approved by acclamation.

Director's Report
The Director reported:

- Barber Scotia College's (BSC) debt remains as defaulted loan in the portfolio. There is a lien on the entire campus, which was used to collateralize the $7 million loan. The outstanding balance is approximately $10 million, which includes the remaining bond payments. College campuses are unique assets in their uses and their historic structures, which makes a campus difficult to sell as a unit. However, as of December 17, the Designated Bonding Authority (DBA) released a Request for Information, which is a document that goes out to developers seeking possible bids for the campus. So far, three or four entities have been to the campus.

- Risk Management: The Program responded to the Department's Risk Management Group's questionnaire for the Office of Management and Budget Circular A-123. The topics include People, Finance, Process, Compliance, Fraud Risk, and Information Technology. The Department examines the probability of the risk occurring, or in some cases the frequency, magnitude, and impact of each risk. Each category has been assessed as unlikely to occur with low impact, except People.

- The Government Accountability Office (GAO) is exploring barriers that might face HBCUs when financing capital projects. The Director has been providing GAO with information.

- The Director provided Program performance data as follows:

	FY2013	**FY2014**	**FY2015 Projected**	**FY 2016**	**FY2017**
Amount Available	$303 million	$303 million	$303 million	$279 million	$ 282 million
Number of Schools	7 (6 private, 1 public)	5 (4 private, 1 public)	6 (4 private, 2 public)	3 (1 private, 2 public)	3 (2 private, 1 public)

The loan portfolio to date consists of:
- $2.03 billion originated ($622 million, public HBCUs; $1.411 billion, private HBCUs)
- $1.87 billion of active loans in repayment or construction stage ($542 million, public HBCUs; $1.33 billion, private HBCUs)
- 43 HBCUs (7 public and 36 private)

Other portfolio numbers include:
- 56 loans are in active repayment (12 public and 44 private)
- 2 HBCUs have defaulted on loans
- 7 HBCUs repaid or refinanced their Cap Financing Program loans

- $8 million to $165 million is the loan range
- 6 active construction projects

<u>Overview of May 2015 Board's Recommendations</u>
The Board discussed whether to reissue the following recommendations from its May 2015 meeting:

New Market Tax Credits
The Board had wanted to continue to pursue a statutory provision that would allow program borrowers to leverage capital finance loan dollars with those of investors who would receive tax credits for their contribution to the borrower's capital project (p. 46).

Disaster Relief Grant Program
The Board had discussed but had taken no action on broadening the Disaster Relief Grant Program available to Capital Financing participants that would forbear or defer debt service payments because the President issued a major disaster declaration under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act, 42 U.S.C. 5121 et seq. (p. 47).

Economic Impact Study
The Board had recommended that the Department, through NCES evaluation, perform economic impact studies to show how useful Capital Finance and other funds are to the nation (p. 48).

Pooled Escrow
The Board had continued to support the escrow option as follows:
- Stay in the pooled escrow; or
- Pay a risk premium and not be included in the pooled escrow.

The Board also had wanted to look at the impact of one or both of the following:
- Lowering the escrow percentage to 3.5 percent or some other number less than the current 5 percent escrow percentage;
- Changing the name from "escrow" to "insurance premium."

The Board had asked the Department to continue to work on this option while keeping in mind that the open market still limits many institutions from borrowing (p. 52).

<u>December 2017 Board's Recommendations</u>
The Board discussed and took the following actions:

New Market Tax Credits
The Board voted to reissue this May 2015 recommendation to allow for a statutory provision for the program to leverage funds from Market Tax Credits (p. 61).

Disaster Relief Grant Program
The Board voted to issue this recommendation and broaden a proposed Disaster Relief Grant Program available to Capital Financing participants that would provide a grant to forbear or defer debt service payments because the President issued a major disaster declaration under the authority of the Robert T. Stafford Disaster Relief and Emergency Assistance Act (p. 65).

Economic Impact Study
The Board recommended that the Department perform economic impact studies to show the usefulness of Program funds and other related funds to the Nation. This study should not add new loan criteria (p. 81).

Pooled Escrow
The Board affirmed that the Department continues to support the escrow option as follows:
- Stay in the pooled escrow,
- Pay a risk premium and not be included in the pooled escrow, or
- Other escrow options.

Program Staffing
The Board recommended a yearly assessment of staffing of the Program and urged attention to increasing staff in light of the volume of loans in the Program (p. 90).

Criteria for Loans
No recommendations were made.

Role of the Board and Leveraging Partnerships
The Board discussed having a Federal strategy for HBCUs, of which Capital Financing would be a part. The broader discussion may be best held through the White House Initiative on HBCUs.

Annual Report to Congress
The Board discussed whether the Program should produce an annual report similar to the information provided in in the director's report. The motion failed with four nays, two yeas, and four abstentions (pp. 108-110).

Next Meeting
The Board discussed having meetings where presidents would normally convene such as UNCF or NAFEO as well as hosting at a HBCU. In order to maximize the possibility of public participation, the Board decided to have its next meeting in April at St. Philip's College in San Antonio, Texas, just after the NCAA Men's Final Four, because a diverse cross-section of the public would be nearby.

Public Comment
There were two public comments (transcript, pp. 110 ff.):

Michael Sorrell, president of Paul Quinn College in Dallas, Texas, spoke of how important such programs are. Paul Quinn has become a different institution using Title III and fundraising to complete $8–9 million in infrastructure improvements. It now has zero long-term debt and is at the point of applying to the Program. Paul Quinn operates like a business and focuses on its market. The program deserves to continue and to expand. As a former corporate securities lawyer, President Sorrell noted that the number of defaults in this program are nothing unusual.

Lester Newman, president of Jarvis Christian College in Hawkins, Texas, spoke of his experience as a borrower and as a former Board member. The program has been a tremendous help to Jarvis as well as former institutions where he held executive positions. The program helps build relationships with local banks and increases community support as the community sees the resources being reinvested in the community. If there was one suggestion that the Board should consider, it is a short-term line of credit for operations during periods of low revenue.

Dr. Beckley asked that the Board explore short-term financing, and Dr. Hogan suggested that a short-term line of credit be an agenda item for the next meeting (p. 115).

Meeting Adjourned
Dr. Hogan adjourned the meeting at 7:38 p.m.