Thank you, Co-Chairs, Ranking Members, and members of the Committee, for inviting me to speak today, and for holding this hearing.

SB 413, An Act Concerning A Tax On Certain Endowment Funds Of Institutions Of Higher Education, correctly seeks to incentivize increased educational spending and economic stimulation by keeping the endowment gains of large endowments tax free, while leaving the portion of endowment gains not spent on charitable purposes subject to a 7 percent Unrelated Business Income Tax (UBIT). The expected effect of this important Bill is that an institution of higher learning seeking to limit the amount it owes, as a result of the proposed tax, will strategically set aside more of its endowment gains for appropriate university concerns, such as student financial aid and faculty research, than is currently its practice.

The concern with maximizing the good that can result from large university endowments has a long history dating to the founding of our nation’s first universities. In the last decade the federal government, several states, policymakers and researchers have sought to lessen endowment hoarding either by legislating the percentage of endowment funds that institutions must spend annually or by taxing the gains or revenue generated by the endowments. As recently as last month, the Chairmen of the Senate Committee on Finance, the House Committee on Ways and Means, and the House Committee on Ways and Means Oversight Subcommittee sent a letter to the 56 private universities and colleges with endowments of more than $1 billion inquiring into their “activities related to the numerous tax preferences they enjoy.” Meanwhile, U.S. Congressman Tom Reed (NY-23) continues to revise his Reducing Excessive Debt and Unfair Costs of Education (REDUCE) act, that calls on colleges with more than a $1 billion dollar endowments to spend more of their earnings on “tuition relief for students from working middle class families” or risk a tax penalty or the loss of their tax exempt status.

Clearly, revising the tax code to help make more effective use of large university and college endowments is in the air. And this is a most welcomed public policy movement as the nation rethinks how best and more equitably to educate its millions of low-income and middle class students.
Along with my co-author Mark Schneider, a former U.S. Commissioner of Education Statistics at the National Center for Education Statistics, last year we published a widely discussed study (see Appendix), *Rich Schools, Poor Students: Tapping Large University Endowments to Improve Student Outcomes* (available at www.nexusresearch.org), which examines why a tax on endowments is a tax whose time has come.

Using widely available USDOE and tax data, we explore in our report a number of issues that are germane to the rationale behind Bill 413.

First, we show that **not all private universities are private.** By comparing the level of tax exemptions and appropriations received per student in highly endowed institutions, along with the amount public flagship, regional, and community colleges receive, our study demonstrates the extent to which private universities are not necessarily private. In fact, many of the richest universities in the country—sitting on hundreds of millions, if not billions, of dollars in tax exempt endowments, and garnering tens of millions of dollars of tax deductible gifts every year—receive government subsidies through current tax laws that dwarf anything received by public colleges and universities, institutions that educate the majority of the nation’s low- and middle-class students.

For example, taking into account total federal, state and local appropriations and tax subsidies per full-time equivalent student, Yale University’s tax exempt status generates over $69,000 per student each year in taxpayer subsidies. This compares to the $23,300 per student taxpayer subsidy at the University of Connecticut, the state flagship; or the $6,700 per student at the regional Central Connecticut State University; or the $6,200 per student at Tunxis Community College (see Table 1 below). Put another way, Yale—an ostensibly private institution with an undergraduate enrollment of 5,500—receives a tax subsidy per student that is three times the per student subsidy at UConn, although UConn educates well over 3 times the number of undergraduates, and 11 times the per student subsidy at Tunxis Community College where the enrollment is only slightly smaller than Yale’s.

Second, our study analyzes **the hidden public cost of “private” nonprofit colleges.** While our report recognizes that large endowments are of benefit to the faculties and students of the rich institutions and to those who can take advantage of the cultural events and facilities the schools sponsor, this does not mean that the status quo should be acceptable. Huge taxpayer subsidies to the wealthy result from a tax code that hides the flow of money to the rich while public colleges have to fight for appropriations in state legislatures, where they must compete against other legitimate public policy concerns.

As the members of this Committee know, appropriations for the operating and capital expenditures of postsecondary institutions are part of a budgetary process in which legislators
and elected officials consider the fiscal health of their jurisdictions and balance competing constituency demands on their treasury.

In contrast, far less visible is the extent to which taxpayers support private colleges and universities. For these schools, taxpayer subsidies at the institutional level flow mostly from their being exempt from local, state, and federal taxes, including property taxes, and from the donations made to their endowments. Their investment income, generated from endowments or other initiatives, is also not taxed as are investment earnings at a private company. But unlike state appropriations, these tax expenditures are rarely itemized and tabulated.

These tax subsidies, being mostly invisible, are rarely the subject of political discussion. Given the nature of the U.S. tax system, the bigger the gifts to a private not-for-profit institution, the greater their investment income is likely to be. Besides the tax exemption on income, private colleges are also exempt from property taxes. Given the size of some of these tax exemptions, a significant part of the education of students attending the best-endowed private colleges is supported by federal, state, and local taxpayer subsidies that can dwarf the total per-student allocations that governments appropriate to public colleges.

Third, our study shows, rich schools receive large tax-generated subsidies but enroll a disproportionately small share of low-income students. This leads to a perverse pattern wherein the richer the school, the lower the percentage of low-income students served (see Figure 1 below). For example, in the case of Yale only 13 percent of full-time first-time undergraduates receive Pell grants, whereas 18 percent of UConn students and 34 percent of Central Connecticut State University receive Pell grants, meanwhile nearly 50 percent of those enrolled at Tunxis Community College receive these grants for low-income students.

In effect, given that affluent private schools educate a far lower percentage of low- and middle-income students than public institutions, the distribution of taxpayer subsidies is inversely related to the distribution of low-income and middle-class students. Consequently, in many cases average taxpayers are subsidizing the education of students in the well-endowed and more selective schools to a far greater extent than they are supporting the education of their own children, most of whom attend broad-access public institutions. In other words, the majority of taxpayers are poorly served by the tax-exempt status of large college endowments. And providing a public benefit is the purpose of granting tax-exempt status to private not-for-profit institutions.

Fourth, our study examines how a more equitable tax code could tap large university endowments to improve student outcomes. Although Bill 413 does not address how public institutions could be improved through the judicious use of tax revenue drawn from wealthy endowments, our study investigates this point in detail.
While it is perhaps unfair to suggest, as was said of Harvard, that Yale is only “a hedge fund with an educational institution attached,” it is only fair that Yale (and its wealthy peers across the nation) step up and pay back a part of what the taxpayers have granted them through tax exemptions. Today Connecticut’s need for adequately educated students cannot be met without significant additional financial support, and a reasonable source for that support could be a reallocation to underfunded public institutions of a percentage of the tax-exempt subsidy that the taxpayers provide America’s second wealthiest university.

Based on our research, we posit that providing free community college tuition by taxing rich individuals—as at least one presidential candidates suggest—is neither politically feasible nor the best use of limited resources. On its own, such a program would unfortunately result in yet more subsidies to the wealthy and would drive more students into schools that are already having difficulty leading students to successful academic and workplace results.

Instead, in our study we suggested that a more politically viable approach would be to impose a low excise tax on private universities with endowments of over $500 million (see Table 2 below) and investing the revenue in evidence-based student support services proven to get more students successfully through community colleges. The tax we proposed is modest (0.5 to 2 percent) aligning, as it does, with the range of tax rates to which private foundations are already subject. To help minimize the impact of the proposed tax, we recommended that the proposed tax be offset annually by the amount the school appropriates for financial aid to low-income, Pell eligible students.

Lastly, following much discussion with tax specialists, we reasoned that through a charitable tax credit process the revenue raised from the excise tax would be able to be used for the benefit of students attending community colleges— institutions that are seriously under resourced yet responsible for training much of the nation’s workforce. We noted that this could be done in a revenue neutral manner that incentivizes corporations to strengthen their support of local community colleges.

The taxing arrangement we proposed is revenue neutral because the revenue from the excise tax would match the amount offset by the tax credit gained by participating individuals or corporations. In effect, if a taxpayer gave, for example, $1 million to a community college the taxpayer would gain a percentage of credit against taxes owed. The total amount of extra tax credit allowed by the program would offset the amount of revenue raised by the excise tax on the large endowments.

In turn, the value of the tax credits would match the annual flow of money available to community colleges for qualified purposes. A competitive grant process would be used to ensure...
that selected community colleges applied the funds to support practices proven effective in promoting student success—measured by indicators such as increased student progression, retention, completion, and/or job placement.

Interested community colleges would help identify taxpayers interested in the tax credits. This effort would help promote links between colleges and corporations that are critical to resolving the current gaps between what is taught and the workplace skills and competencies that industries need. Meanwhile, these charitable tax credits could provide an attractive opportunity for corporations or others seeking to reduce their tax burden in a socially responsible manner.

In sum, we believe access without success is not opportunity. And welfare to the wealthy through hidden subsidies is not good policy. Our study sought to shine light on the latter and proposes a revenue neutral way to apply money generated by reforming existing tax policy to provide real opportunities for success to community college students.

While this fourth point is not directly germane to Bill 413 as introduced, I offer it as an additional point for reflection as the Act Concerning A Tax On Certain Endowment Funds Of Institutions Of Higher Education moves through the deliberation process. Bill 413 is reasonable in its scope, fair in its goals, and represents a legislative advancement that is well within the current public policy thrust aiming to reassess the tax codes to help address America’s need for an educated and qualified citizenry and workforce.

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Table 1: Total Federal, State, and Local Appropriations and Tax Subsidies* Per FTE Student, Endowment Size,** and Institution Type

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>CA</td>
<td>Stanford University</td>
<td>Biola University</td>
<td>Holy Names University</td>
<td>U. of Calif., Berkeley</td>
<td>Cal State U.-Fullerton</td>
<td>Fullerton College</td>
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<td></td>
<td>$63,100</td>
<td>$1,300</td>
<td>$700</td>
<td>$10,500</td>
<td>$4,000</td>
<td>$8,100</td>
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<tr>
<td>CT</td>
<td>Yale University</td>
<td>Connecticut College</td>
<td>U. of St. Joseph</td>
<td>University of Connecticut</td>
<td>Central CT State U.</td>
<td>Tunxis Community C.</td>
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<tr>
<td></td>
<td>$69,000</td>
<td>$5,700</td>
<td>$900</td>
<td>$23,300</td>
<td>$6,700</td>
<td>$6,200</td>
</tr>
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<td>IL</td>
<td>University of Chicago</td>
<td>North Central College</td>
<td>Olivet Nazarene University</td>
<td>U. of IL, Urbana-Champaign</td>
<td>Western Illinois University</td>
<td>Waubonsee Community C.</td>
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<td>$19,300</td>
<td>$1,200</td>
<td>$300</td>
<td>$7,500</td>
<td>$12,600</td>
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<td>IN</td>
<td>Notre Dame University</td>
<td>Indiana Wesleyan University</td>
<td>St. Mary-of-the-Woods College</td>
<td>Indiana U., Bloomington</td>
<td>Indiana State U. Terre Haute</td>
<td>Ivy Tech Community C.</td>
</tr>
</tbody>
</table>

* The Federal, State, and Local Appropriations and Tax Subsidies are provided for each institution.
** Endowment Size indicates whether the institution has a high, midlevel, or low endowment.

5
Does not include subsidies based on property tax exemptions.

**Based on 2013 endowments:**

- High endowments (HE) average, $1,570,000,000
- Medium endowments (ME), $15,000,000
- Low endowments (LE), $2,000,000

Figure 1: Median Percentage of Federal Pell Grant Participation Versus Average Taxpayer Subsidy by Type of Institution, 2013
Table 2: Proposed Annual Excise Tax Rates, Number of Colleges Affected and Expected Tax Revenue Based on 2014 Endowment Size

<table>
<thead>
<tr>
<th>Size of Endowment</th>
<th>Number of Private Colleges Affected</th>
<th>Tax Rate</th>
<th>Total Endowment</th>
<th>Expected Tax Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;$3 Billion</td>
<td>20</td>
<td>2.0%</td>
<td>$210,621,635,000</td>
<td>$4,212,433,000</td>
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<tr>
<td>&gt;$2+ Billion</td>
<td>8</td>
<td>1.5%</td>
<td>$18,057,573,000</td>
<td>$270,864,000</td>
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<tr>
<td>&gt;$1 Billion</td>
<td>28</td>
<td>1.0%</td>
<td>$39,003,557,000</td>
<td>$390,036,000</td>
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<tr>
<td>&gt;$0.5 Billion</td>
<td>39</td>
<td>0.5%</td>
<td>$27,816,551,000</td>
<td>$139,083,000</td>
</tr>
<tr>
<td>TOTAL</td>
<td>95</td>
<td>~1.36%</td>
<td>$295,499,316,000</td>
<td>$5,012,416,000</td>
</tr>
</tbody>
</table>


**APPENDIX**

Selected media discussing/referencing the content of the report *Rich Schools, Poor Students: Tapping Large University Endowments to Improve Student Outcomes*.

3. 04/06/15 NAICU reporting on Nexus study [http://www.naicu.edu/search/?q=Klor+de+Alva&x=9&y=7](http://www.naicu.edu/search/?q=Klor+de+Alva&x=9&y=7)
6. 04/14/15 “‘Belling the Cat’ of Investments in Higher Education” [http://rethinkinghighered.blogspot.com/2015_04_01_archive.html](http://rethinkinghighered.blogspot.com/2015_04_01_archive.html)
11. 05/05/15 “A tax whose time has come” [http://www.ccdaily.com/Pages/Funding/A-tax-whose-time-has-come.aspx](http://www.ccdaily.com/Pages/Funding/A-tax-whose-time-has-come.aspx)
12. 05/15/15 “Rich Schools, Poor Students” A “Must Read” in CEO to CEO American Association of Community Colleges, Issue #038
13. 05/15/15 “Malcolm Gladwell at the 95th Annual AACC Convention” speaks about Nexus report. A “Must Watch” in CEO to CEO American Association of Community Colleges, Issue #038
14. 05/21/15 “Widening Wealth Gap” https://www.insidehighered.com/news/2015/05/21/rich-universities-get-richer-are-poor-students-being-left-behind
16. 05/27/15 “Tax Harvard! President Barack Obama wants to make college more affordable. Here’s a way to do it” http://www.politico.com/agenda/story/2015/05/obama-tax-harvard-affordable-college-000028
18. 05/28/15 “How Higher Education Funding Shortchanges Community Colleges” http://www.tcf.org/blog/detail/how-higher-education-funding-shortchanges-community-colleges
21. 06/08/15 An article referencing our study while asking “Elite Colleges Have Public Funds For Low-Income Students, So Why Aren’t They Enrolling More Of Them?” http://genprogress.org/voices/2015/06/08/37013/elite-colleges-have-public-funds-for-low-income-students-so-why-arent-they-enrolling-more-of-them/
22. 06/09/15 The National Journal’s event on The Next America: Taking Stock 50 Years of the Higher Education Act, the moderator, Ronald Brownstein (Atlantic Media's Editorial Director for Strategic Partnerships, in charge of long-term editorial strategy), referencing the Nexus study, asked Ted Mitchell to respond to it (see https://www.youtube.com/watch?v=336&v=0vSJREgrLA beginning at 1:02:18).
27. 09/07/15 Is It Time to Tax Harvard’s Endowment? http://www.slate.com/articles/business/moneybox/2015/09/harvard_yale_stanford_endowments_is_it_time_to_tax_them_2.html
32. 09/14/15 Should Stanford's Endowment Be Taxed? NPR’s “Forum with Michael Krasny” http://www.kqed.org/a/forum/R201509140930 Download audio (MP3)
33. 10/22/15 GOP targets Harvard-sized college endowments


3 See “Congress Again Scrutinizes Colleges With Big Endowments,” which includes link to the letter. Retrieved from http://chronicle.com/article/Congress-Again-Scrutinizes/235238/?cid=at&utm_source=at&utm_medium=en&elq=19fdec74defe46f2a1d9b96513256109&elqCampaignId=2398&elqaid=7830&elqat=1&elqTrackId=90f2481f1dbb943d69f520e210a92ab95


5 In our study we do not including federal or state research grants or property tax exemptions in our estimates of subsidies to colleges and universities, both of which would drive up even further our estimates of the amount of per-student subsidy to private not-for-profit institutions.


8 According to the calculations of Mark Kantrowitz (personal communication), the percentages of low-income students (Adjusted Gross Income [AGI] < $50,000) by selectivity using the 2011–12 National Postsecondary Student Aid Study (NPSAS): very


Nelson, L. (2015, February 4). The vast income gap in college degrees, in three charts. Retrieved from http://www.vox.com/2015/2/4/7978481/college-completion-charts. The most recent national data available broken down by income quartiles show that among students in the lowest income quartile who started at a two-year college in 2003–04, only 13 percent completed an associate degree by 2009 and an additional 9.4 percent earned a certificate while 8.3 percent earned a bachelor's degree. Among students in the second-lowest income quartile, the results were only slightly better: 15.8 percent completed an associate degree, an additional 10.5 percent earned a certificate, and 10.8 percent were awarded a bachelor's degree. See: National Center for Education Statistics. (2013). Digest of education statistics, 2013. Retrieved from http://nces.ed.gov/programs/digest/d13/tabs/dt13_326_40.asp?current=yes