

Grassley Questions Use of Some Munis

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WASHINGTON — One of the top Republicans on the Senate's tax-writing committee urged Congress to review all higher education tax incentives and expenditures, including tax-exempt bonds, as part of comprehensive tax reform.

At a Senate Finance Committee hearing earlier this week, Sen. Charles Grassley, R-Iowa., noted that tax-exemption is the third most expensive tax incentive in the higher education sector, totaling more than \$18 billion. Wednesday's hearing focused on the variety of tax expenditures and whether they are a contributing factor to the rising costs of a college education.

"When it comes to tax-exempt bonds, it seems that the ease of borrowing is causing a race to spend without considering whether such spending adds to a student's learning," [Grassley said at the hearing](#). "All education-related tax expenditures should be examined to ensure that students and families, in addition to taxpayers, are getting the most bang for their buck."

Grassley has a long history of asking Congress to review tax expenditures and tax-exempts, said Vince Sampson, president of the Education Finance Council.

At the hearing, the lawmaker referred to a Congressional Budget Office report, released in April 2010, that found Congress could save billions of dollars by prohibiting tax-exempt colleges and universities from earning arbitrage indirectly through endowments that are invested at higher interest rates than what they are paying on their tax-exempt bonds. Grassley, who commissioned the report, raised questions about whether schools should be able to borrow on a tax-exempt basis.

“One would expect that every part of the tax code will be subject to some sort of review as part of the tax reform process and it will be incumbent on higher education financing to explain why it’s valuable,” said Chuck Samuels, a partner at Mintz, Levin, Cohn, Ferris, Glovsky and Popeo PC, who represents the National Association of Health and Higher Education Facilities Authorities. Samuels said higher education is prepared to make its case for the benefits it receives from the tax code, just as it has been doing for years. “The higher education community shouldn’t shy away from it,” he said.

However, if some of the higher education tax incentives were limited, that would have a profound effect on institutions who rely on this financing to maintain and build new education facilities, proponents said.

“It would disproportionately disadvantage smaller, poorer institutions if they were unable to use tax-exempt bond financing,” Samuels said. “Larger institutions have some ability to access the taxable market. Higher education is a public purpose that is just as important as any government purpose.”

Matt Hamill, senior vice president of the National Association of College and University Business Officers, agreed with Samuels. “The importance of tax-exempt bonds to universities is at an all time high,” he said. Partial funding for many state college and university capital projects comes from state governments, which have seen their budgets slashed in recent years. Now that higher education institutions are receiving less funding from states to support their capital needs, they have to go out into the muni market and borrow, he said.