



November 17, 2022

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
Washington, DC 20515

The Honorable Kevin McCarthy
Minority Leader
U.S. House of Representatives
Washington, DC 20515

The Honorable Charles Schumer
Majority Leader
U.S. Senate
Washington, DC 20510

The Honorable Mitch McConnell
Minority Leader
U.S. Senate
Washington, DC 20510

Re: Build America Bonds and Coming Expiration of Federal Subsidy Payments

Dear Speaker Pelosi, Minority Leader McCarthy, Majority Leader Schumer, and Minority Leader McConnell:

On behalf of the higher education associations listed below, I write to urge Congress to take action in the lame-duck to address the coming expiration of federal subsidy payments in the Build America Bonds (BABs) program to compensate from the reduction of interest subsidies due to sequestration.

As public colleges and universities began the long process of recovery after the Great Recession more than a decade ago, institutions invested billions of dollars in long-term infrastructure projects to both stimulate the economy and support their campus communities. To aid in this recovery, Congress created several direct pay bond options, including BABs, which provided a 35 percent subsidy from the federal government for the lifetime of the bond to cover a percentage of interest costs. Public 2-year and 4-year colleges and universities used BABs for a range of projects, including environmental upgrades to campus infrastructure, research facilities, and other critical investments.

Over the intervening years, however, Congress has reduced the subsidy amounts promised to issuers through the sequestration process. Now, we understand that absent immediate federal legislative action, **starting in January 2023 federal subsidy payments for BABs will be eliminated entirely** due to federal Pay as You Go Act (PAYGO) requirements.

Specifically, the American Rescue Plan Act of 2021 (ARPA) added \$1.9 trillion in deficit spending between 2021-2031 to the Office of Management and Budget's PAYGO scorecard and was passed without a sequestration waiver. As a result, subsidy payments and other sequestrable accounts would be eliminated entirely beginning in 2022. Fortunately, the

Protecting Medicare and American Farmers from Sequester Cuts Act of 2021 suspended PAYGO cuts to subsidized bonds in calendar year 2022. As we approach calendar year 2023, however, public universities again face the elimination of promised subsidy payments that would have a devastating impact on university budgets.

Public 2-year and 4-year institutions in more than half of the states issued billions of dollars in BABs, which will result in millions in losses to these institutions if subsidy payments are eliminated. Many institutions have begun calculating the impact the loss of subsidy payments would have on their campuses, and the impact is significant. For example, one midwestern institution with a \$105 million BAB issued in 2010 calculated that they stand to lose nearly \$12 million in subsidy payments from 2023 to 2031, on top of the existing 5.7 percent sequestration cut. Another institution in the northwest calculated that their loss will be close to \$10 million over that time. For institutions that were issued larger bonds, those losses are even greater. For example, one institution with a \$655 million bond issued in 2010 has projected that it stands to lose \$101.3 million in subsidy payments from 2023 to 2031.

This of course is only the direct impact to higher education. In a recent letter to Budget Committee leadership, the Public Finance Network noted that “nearly 2,400 communities issued BABs to finance \$180 billion in projects.”¹ Beyond the BAB program, the letter also notes that state and local entities stand to lose out on subsidy payments for Qualified School Construction Bonds (QSCB), Qualified Zone Academy Bonds (QZAB), New Clean Renewable Energy Bonds (New CREB), and Qualified Energy Conservation Bonds (QECB) that are otherwise guaranteed to them under the law. All told, the total elimination of \$14 billion in payments will also be felt by college campuses across the country, as state and local governments seek ways to offset these lost subsidy payments.

The higher education community is enormously grateful for the significant resources provided by Congress since the spring of 2020 in the form of emergency aid relief benefiting millions of students and supporting institutions. And yet, significant challenges remain now and in the future for students and institutions. Unfortunately, these additional losses would be substantially detrimental to public colleges and universities and those we serve. We implore Congress to resolve this issue and uphold the commitment made to support public infrastructure as enacted when the program was created.

Sincerely,



Ted Mitchell
President

CC: Chair Bernie Sanders, Senate Committee on the Budget
Ranking Member Lindsey Graham, Senate Committee on the Budget
Chair John Yarmuth, House Committee on the Budget

¹ Public Finance Network letter to House and Senate Budget Committee Leadership on PAYGO Sequestration, June 21, 2022, https://gfoaorg.cdn.prismic.io/gfoaorg/563d4b3e-ac62-4e05-bdba-eaa239457b89_PFN+Ltr+to+Budget+Cmte_PAYGO+Sequestration_FINAL.pdf

Ranking Member Jason Smith, House Committee on the Budget
Members of the 117th Congress

On behalf of:

American Association of Community Colleges
American Association of State Colleges and Universities
American Council on Education
Association of American Universities
Association of Governing Boards of Universities and Colleges
Association of Public and Land-grant Universities
National Association of College and University Business Officers