Talking Points: Tax-Exempt Bond Financing

The tax-exempt bond financing available to colleges and universities enables them to provide greater access at lower costs to students and conduct innovative research that benefits the nation.

- Colleges and universities rely on tax-exempt bonds to acquire, construct, renovate, and expand their capital infrastructures, which include academic buildings, residence halls, modern energy plants, and more.
    - For colleges and universities, the interest rates on tax-exempt bonds are significantly lower than on taxable bonds—thus creating beneficial financial terms.
    - A recent analysis found that the interest rate reduction can be as much as 2.1 percent, which results in significant savings on multimillion-dollar construction projects.[1]
- Public colleges and universities are typically a component of state or local governments, while private nonprofit institutions are recognized as tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code.
    - There are two types of tax-exempt bonds utilized by colleges and universities: municipal bonds and private activity bonds. Public institutions use municipal bonds, and private nonprofit institutions (and some public institutions) access private activity bonds.
    - The nonprofit educational institution borrower, not the governmental body issuer, is solely responsible for and liable to repay the bonds.
- By reducing the cost of borrowing, colleges and universities can lower operating costs and—as a result—keep tuition rates lower than they might if they had to rely on taxable financing.
    - For many institutions, revenue from tuition or restricted gifts simply does not provide sufficient funds to build, expand, and renovate as is necessary to meet their respective missions, and taxable debt is costlier—often by a material amount.
- Without access to tax-exempt financing, smaller colleges would need to rely on taxable bonds or other forms of borrowing, which typically have higher interest rates. This would lead to higher borrowing costs that, in turn, would strain budgets and reduce the ability to invest in necessary campus improvements. Protecting and enhancing access to low-cost financing can be a strategic way to help institutions make better use of their scarce resources, support research infrastructure, and bolster our nation's innovation capacity.

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[1] National Association of College and University Business Officers, *A Brief Summary of Higher Education Tax Policies & Issues* (National Association of College and University Business Officers, 2025), https://edge.sitecorecloud.io/nacubo1-nacubo-prd-dc8b/media/Documents/Topics/Tax/2025-Higher-Education-Tax-Summary-Feb-18-FINAL.pdf.