

**Comments to the House Ways and Means Committee
Tax Reform Working Group
Debt, Equity and Capital**

April 15, 2013

Northwestern University is pleased to provide comments to the House Ways and Means Debt, Equity and Capital Tax Reform Working Group. We urge the Committee to maintain tax-exempt financing for private universities like Northwestern to finance large-scale capital projects, such as scientific research facilities. Tax-exempt financing is a vital and cost-effective financial management tool for research universities.

Northwestern University is a private nonprofit research university with campuses in Chicago and Evanston, Illinois and Doha, Qatar. Our talented students (8,000 undergraduates and 8,000 graduate students) come from all 50 states and 107 countries and will graduate to work in all sectors of the American economy: the arts, business, charity, education, engineering, government, law, media and professional sports. Northwestern students come from diverse backgrounds and benefit from generous need-based aid provided by the University. In 2012-13 we distributed over \$119 million in need-based scholarships provided from University resources.

In 2012, Northwestern faculty and students conducted over \$500 million in sponsored research across a wide range of disciplines. In recent years, this research has produced tangible economic benefits, by spinning out over 50 new businesses based on Northwestern technology, and licensing Northwestern technology to existing companies. At Northwestern, students engage in faculty-supervised research and creative work, internships, civic involvement, and other beyond-the-classroom experiences that enhance their educational experiences and serve the greater community.

To illustrate how a University uses tax-exempt financing, we have recently committed to undertake the construction of a new biomedical research facility that will expand our research capabilities and enhance scientific discovery in the medical and life sciences program. This new building will allow teams of researchers to collaborate in a close environment spanning several disciplines, and create a hub for a major biomedical research complex in Chicago, adding value to our clinical partners and enabling our students and faculty to make extraordinary scientific advances for the benefit of patients in Illinois and beyond.

This project fulfills a fundamental commitment that nonprofit institutions like Northwestern undertake when they request their nonprofit status. Such organizations commit to meeting society's needs without a profit motive. There is a significant public benefit to this new construction, as not only does it result in jobs (both via the construction of the building and faculty that staff offices), but it becomes a location for scientific breakthroughs that better the lives of citizens and creates new technologies to help grow the economy.

As a University, we have different options to finance large capital projects, including "pay-as-you-go" using operating funds, including revenue from endowment assets; obtaining financing through the taxable finance commercial market; or obtaining or issuing tax-exempt bonds through a state or local

governmental entity. Congress has long recognized that tax-exempt financing is a vehicle consistent with the tax-exempt status of nonprofit organizations.

Nonprofits' use of tax-exempt financing, similar to that of municipalities, is a well understood and accepted financing vehicle which has long benefited both issuers and investors. It has historically afforded a two percent cost advantage over taxable financing options or the imputed cost of operating funds. Tax-exempt financing via municipal bonds offers the lowest costs of borrowing and usually the best terms, making it by far the most attractive method to use. In addition, tax-exempt financing allows us to allocate the cost of the use of a facility over the period of time it is in use, and helps balance the cost imposed on current users with the costs appropriately assigned to future users.

As the Committee works to develop comprehensive tax reform, we recognize that many difficult choices must be made. With the help of tax-exempt financing, our capital projects are less expensive to build, enabling us to fulfill our public service mission more economically. Limiting non-profit access to tax-exempt financing would have many detrimental effects and I urge the Committee to reject any proposal that seeks to do so.

Submitted by:
Morton O. Schapiro
President and Professor
Northwestern University