



# CONSORTIUM OF UNIVERSITIES OF THE WASHINGTON METROPOLITAN AREA

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May 3, 2013

The Honorable Anthony Williams  
Chair  
D.C. Tax Revision Commission  
One Judiciary Square  
1101 4<sup>th</sup> Street, SW  
Suite W770  
Washington, D.C. 20024

Dear Chairman Williams:

The purpose of this correspondence is to provide the Commission with additional information about the contributions colleges and universities make to the District of Columbia, its economy, its residents and their quality of life. After my testimony before the Commission last December, and during some of the Commission meetings I have attended since, questions have been raised about what colleges and universities contribute to the District. In light of the Commission's plans to take up the issue of PILOTS at its June 3<sup>rd</sup> meeting, I thought it would be useful if the Commission had additional information to consider on the topic. Therefore, this submission will present information specific to colleges and universities whose main campuses are located in the District of Columbia.<sup>1</sup> Specifically, this submission will discuss how the mission of D.C. colleges and universities justifies their tax exempt status without PILOTS; the unique regulatory and economic environment in the District that would make imposition of PILOTS unfair and counterproductive; and the many benefits—direct and corollary—colleges and universities contribute to the District of Columbia and its residents.

### The Mission of Higher Education Fully Justifies Tax Exempt Status

Often lost in a conversation about higher education's contributions, ironically enough, is its primary purpose—providing extensive undergraduate and graduate education, related training of post-graduate students, and in some cases, medical and health-related services. Universities have been granted tax exemptions federally, and in every state including the District of Columbia, because of the value of this primary service—the education and training of the

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Per the Consortium's standard practice, this submission represents the position of the Consortium's non-federal D.C. members: American University, Catholic University of America, the Corcoran College of Art + Design, Gallaudet University, The George Washington University, Georgetown University, Howard University, Trinity Washington University and the University of the District of Columbia.

nation's citizenry and workforce—which drives and sustains our economy. Indeed, it is a service that the government would have to provide if the universities did not.<sup>2</sup>

A recent report by the Milken Institute provided quantifiable measures of the contribution of colleges and universities. It found inestimable value in having higher education within a jurisdiction. In addressing the reasons for regional prosperity, the Milken report stated:

“Our research makes a compelling case that for America’s communities, the returns to investment from higher education have never been greater . . . Education increases regional prosperity . . . Add one year of college to a region’s workforce, for instance, and GDP per capita jumps 17.47%.” Milken Institute press release, February 27, 2013. See “A Matter of Degrees: The Effect of Educational Attainment on Regional Economic Property” attached for your review.

Viewed another way, the value of an educated workforce—which is likely to occur in jurisdictions where quality higher education resources are abundant and accessible—has a quantitative value. Again, according to the Milken Report, “For each additional year of post-secondary school a region’s workforce obtains, real GDP per capital and real wages per worker jumped by more than 17 percent.”<sup>3</sup>

In short, our institutions are economic drivers. D.C. colleges and universities collectively educate approximately 85,000 students each year and confer approximately 23,000 degrees. In addition, D.C. colleges and universities justify their tax exemption<sup>4</sup> providing thousands of hours of educational instruction in a wide variety of subjects that train our workforce, bolster our economy and form the foundation of a learned society.

### The District of Columbia’s Unique Regulatory Environment Make PILOTS Particularly Ill Suited and Unfair for Local Institutions

Despite a robust performance of their mission, D.C. colleges and universities are constrained by rules unique to the District of Columbia that limit how many students they can educate. The campus plan process mandated by D.C. zoning law places enrollment caps on the number of students local

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<sup>2</sup> Local leaders have acknowledged that the value of higher education is related to the economic health of our city. In his testimony before the House D.C. Subcommittee at the time of the DC TAG program’s creation, DC TAG author Representative Tom Davis (R-VA) said, “I believe very strongly that the resources our bill authorizes for educational opportunity is the best money we can spend in the Nation’s Capital . . . Mayor Williams has characterized H.R. 974 [the bill establishing the D.C. TAG program] as ‘very, very important legislation, not only in improving education but in bringing our city back.’ . . . Higher education is the key that opens the door to the future,” Rep. Tom Davis, Chairman, House D.C. Subcommittee, Statement on H.R. 974 delivered before a hearing of the D.C. Subcommittee, Senate Committee on Government Reform, June 24, 1999.

<sup>3</sup> According to the Milken report, the Washington-Arlington-Alexandria DC-VA-MD-WV metro area ranks 3<sup>rd</sup> in the country with average years of schools equaling 14.58. Real GDP per capita is also third highest at \$62,666. In comparison, the population with the fewest years of schooling can be found in Visalia-Porterville, CA. Real GDP per capita in that region is calculated at \$29,060.

<sup>4</sup> Tax exemption only applies to properties used for educational purposes. Where universities use property for commercial (ie. non-educational) purposes, they pay taxes like any other nonexempt organization. For example, in university-facilitated commercial developments such as 2000 Pennsylvania Avenue, NW, the university pays real estate taxes and the business tenants pay sales taxes.

universities may admit each year, an action which limits a key (in many instances, the primary) source for institutional revenue and growth. Consortium research has identified no other jurisdiction in the nation that has both a PILOT program and caps on student enrollment.<sup>5</sup>

Aside from zoning rules, the District has not provided the same level of economic support to colleges and universities or to their students as have other jurisdictions. For example, the District has relatively few D.C. funded programs that assist D.C. residents in gaining access to higher education opportunities in the District of Columbia. Data reported by the National Association of State Grant and Aid Programs (NASSGAP) is particularly instructive. For example, when compared to the five other states with similar sized populations between the age of 18 and 24, the District is second to the bottom in generosity<sup>6</sup> in providing financial aid to its students.<sup>7</sup> Compared to all other states, only Alaska provides less support to its students than the District.<sup>8</sup> The District is also the only jurisdiction included in the NASSGAP study which sends most of its need-based financial aid out of state (72% of the District's financial aid does not support District students attending District universities.) The next closest states are Vermont, which sends 27% of aid out of state and Rhode Island, which sends 22% out of state. Most states restrict need-based aid to in-state use.<sup>9</sup>

In sum, the District's regulatory regime, coupled with its limited investment in financial aid or other economic support for District universities, creates a context of constraints on colleges and universities unique to this jurisdiction. To compound these burdens by asking D.C. institutions to accept the additional cost of PILOTS would be unfair and threaten to impair our institutions' abilities to fulfill their missions while unnecessarily limiting economic growth in the District.

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<sup>5</sup> A Consortium survey of state higher education executives in all 50 states has uncovered only two examples of government mandated enrollment caps—both in small beach communities in California that were adopted in the late 70's. Neither community imposes a PILOT on its home institution.

<sup>6</sup> While NASSGAP lists the District as the 11<sup>th</sup> most generous state in the country, the total grant dollar figure reported includes the \$32.6 million federal dollars distributed via the D.C. TAG program. This figure represents 96% of all aid provided to District students. When DC TAG is backed out since it is not a "state program" per se, the amount spent per District student falls to \$23.95 per student. See Chart 11, Grant Dollars per Estimated Population by State, 2010-11, NASSGAP 42<sup>nd</sup> Annual Survey Report. On the Web at [www.nassgap.org/survey/NASSGAP\\_Survey\\_Instrument\\_2010-11.pdf](http://www.nassgap.org/survey/NASSGAP_Survey_Instrument_2010-11.pdf).

<sup>7</sup> According to Table 11, those five states and their per student contribution from fewest residents to largest are: Wyoming, \$268.16 per student; Vermont, \$314.37 per student; Alaska, \$20.21 per student; North Dakota, \$150.56 per student; South Dakota, \$54.18 per student; and the District of Columbia, \$23.95 per student.

<sup>8</sup> The six states with the least generous financial aid support for its residents, listed from least generous to most generous are: Alaska, \$20.21 per student; New Hampshire, \$24.10 per student; Hawaii, \$25.62 per student; Arizona, \$31.49 per student; and Idaho, \$32.79 per student. Using the methodology described in footnote 6, the District's \$23.95 would fall between Alaska and New Hampshire.

<sup>9</sup> See Table 9, "Need-based Grants Awarded to Students, by State and by Type of Institution," NASSGAP Report, 2010-2011 Academic Year.

## Higher Education Institutions Provide Additional Value to the District That Further Undercut Arguments in Favor of PILOTS

The Commission should also consider the additional value that universities provide the District outside the core educational services discussed above. My previous submission referenced the Consortium's economic impact study finding that about 2% of the District's Gross City Product (GCP) can be attributed to its colleges and universities.<sup>10</sup> Not included in the city's GCP, but potentially more valuable are the alumni produced by the District's colleges and universities who settle here and become contributing tax paying members of the community.<sup>11</sup>

In addition, colleges and universities provide a variety of different ancillary services to the District and its residents. Attached to my submission are two addenda that provide examples of such services. The first addendum focuses on academic support services that are performed as a byproduct of universities' performance of their main mission. The second addendum is a list of ancillary services institutions provide to assist city residents, in many cases helping to shoulder the responsibilities that are traditionally the province of local government. In reviewing both addenda, it is important to note that both sets of services are in addition to, and in many cases flow from, colleges' and universities' main mission of providing educational services to students. In addition, these lists are examples, not an exhaustive compilation, and as a result it would be difficult to quantify the economic impact of these services. They do, however, demonstrate that local colleges and universities bring enormous additional value to the District beyond their core mission of education, which further undercuts any public policy argument in favor of PILOTS.

### Summary

Today, the District is among the most economically robust jurisdictions in the country. However, as the federal government's presence inevitably declines in the nation's capital due to sequestration and ongoing pressure to reduce the federal deficit, other sectors will have to take its place. As shown by the Milken report, knowledge based industries create healthy economies. The District has a chance to promote such a knowledge based economy, building on the existing base provided by its colleges and universities. The imposition of PILOTS on local institutions of higher education would be shortsighted and counterproductive to the goal of advancing knowledge based industries. Therefore, the Consortium urges the Commission to reject PILOTS as a viable policy option, and instead encourage District leaders

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<sup>10</sup> See "Capital Assets: Economic Impact and Beyond," Consortium of Universities, 2010. On the Web at [www.consortium.org](http://www.consortium.org), click on link on the home page under Announcements.

<sup>11</sup> Though difficult to calculate across all Consortium schools, at least one member institution has found that it has produced at least 60,000 new residents of the Washington region. Though the value of that 60,000 strong contingent is incalculable, the success of Consortium graduates can be easily discerned. In the District of Columbia, Consortium research has discovered that since Home Rule was instituted, two-thirds of the District's elected mayors and 56% of its elected legislators have received degrees from DC colleges and universities. In addition, many alumni of D.C. colleges and universities have founded businesses in the District. Please see attached Chart entitled "Consortium Alumni Businesses in Washington Metropolitan Area."

to embrace a more collaborative approach of building on the strengths of its higher education sector to create a stronger economy for all.

Thank you for this opportunity to submit this document. I welcome any questions the Commission or its staff may have about its contents.

Sincerely,

A handwritten signature in black ink that reads "Sally Kram". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Sally Kram  
Director of Public & Governmental Affairs