University of California Tax and Financing Mechanism Priorities

As Congress considers passing additional legislation to respond to the COVID-19 epidemic, the University of California (UC) supports the inclusion of the following tax and financing mechanisms to assist with response needs:

- **Access to Low-Cost Capital.** Access to affordable capital is a necessary lifeline for institutions and the communities they serve if they are to return to normal operations. Colleges and universities will face significant infrastructural challenges in returning to normal operations, and access to low-cost capital will be an essential complement to other federal aid sources used for these purposes. Furthermore, providing access to zero-interest loans and/or grants during the pandemic with the opportunity to refinance existing debt would allow institutions to free up resources for outbreak related purposes. Higher education institutions need to be identified specifically to ensure these funds can be accessed.

- **Re-instatement of Advance Refunding Bonds.** The reinstatement of Advance Refunding Bonds is one way to assist with COVID-19 economic recovery efforts. Reinstating these bonds would be helpful to ensure that governmental entities, including state and local governments, are able to invest in infrastructure projects. The reinstatement of Advance Refunding Bonds would ensure that certain bonds could be refinanced to take advantage of lower interest rates and provide for greater cost savings.

- **Hospital Infrastructure and Life Safety Loans.** In order to help build and preserve hospital bed capacity, legislation should be enacted to allow for interest-free loans to be provided to hospitals. The loans would be intended to be used for capital projects related to expanding the number of beds or deferred maintenance or life safety construction for existing beds to keep them in service. Proceeds would need to be spent within a certain time-frame and could not be invested for arbitrage. The terms of the loans would be up to 30 years interest free, with the ability to extend the loan at a rate tied to the 30-year U.S. Treasury rate.

As the COVID-19 pandemic has made clear, hospitals and health systems are an integral part of our nation’s infrastructure. They also provide economic stability and opportunity for job growth in the communities they serve. Unfortunately, hospital infrastructure is deteriorating and capacity is stretched thin just as treatment options are improving and demand for health care services is increasing. This growing demand is driven by an aging population that will increasingly require more complex care, longer hospital stays and more hospital beds. Hospital Infrastructure and Life Saving Loans will help ensure our nation’s hospitals address their capital needs, meet the increased patient demand and deliver high-quality care in an evolving health care system.

- **Paid Sick and Family and Medical Leave Act (FMLA) Leave.** Legislation should provide governmental entities, including public universities, with the ability to receive payroll tax credits for certain sick leave and family leave benefits as were made available
to other types of employers under H.R. 6201, the Families First Coronavirus Response Act. This act provides refundable tax credits to employers for providing certain leave options including paid emergency FMLA and paid sick leave related to workers impacted by COVID-19, but excluded governmental entities, including public universities, from being eligible for this tax credit.

- **Employee Retention Tax Credit.** Provide eligibility to governmental entities, including public universities, for the Employee Retention Tax Credits, which were created as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act provided certain employers, but not public institutions, with a refundable tax credit of up to $5,000 for wages paid to employees when operations were “fully or partially” suspended due to COVID-19 related actions.

- **Main Street Lending Program.** In implementing the Main Street Lending Program, which was authorized under the CARES Act, the Federal Reserve should update its guidance to clarify that non-profit entities, including institutions of higher education, are eligible to apply for loans and other financial tools made available under the program. Additionally, institutions of higher education should be considered eligible to participate in the program regardless of how many employees they have and should be eligible to participate even if they have more than 10,000 employees. If the Federal Reserve does not issue updated guidance clarifying that such entities are eligible to participate in the Main Street Lending Program, or other suitable lending programs, then UC requests that legislation be considered allowing such entities to participate in suitable lending programs.

- **Prevent Taxation of CARES Act Higher Education Emergency Relief Fund Financial Aid Grants.** Action should be taken to clarify that emergency financial aid grants provided to college students under the CARES Act’s Higher Education Emergency Relief Fund are not intended to be subject to taxation.

- **Suspension of Taxation for Scholarship and Grant Aid.** Provide for a temporary suspension of tax rules that require the taxation of scholarship and grant aid used for non-tuition related expenses during the COVID-19 crisis so that expenses paid for using scholarship and grant aid used to pay for expenses during the crisis would not count as taxable income to students. This change would be particularly helpful to low-income students receiving Pell Grants.

- **Unrelated Business Income Taxation "Basketing" Issues.** Eliminate Unrelated Business Income Taxation (UBIT) changes made in the Tax Cuts and Jobs Act (TCJA) under I.R.C. Section 512(a)(6) that require tax-exempt entities to calculate UBIT losses and gains on a by each activity basis, rather than allowing for UBIT calculations to be made on an aggregate losses and gains basis. Allowing for a return to rules in effect prior to passage of the TCJA that allowed for calculations to be made on an aggregate basis will assist tax-exempt entities, including public universities, in their ability to recover from COVID-19 related impacts.

- **Universal Charitable Deduction.** Provide for a universal charitable deduction that would go beyond the temporary universal deduction amount of $300 per tax payer enacted as part of the CARES Act. Increasing the dollar limit for donations to be counted as tax deductible expenses, regardless of whether a tax filer files itemized returns will help non-profit entities in their efforts to recover from COVID-19.