

April 3, 2007

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A recent CBO paper, *Nonprofit Hospitals and Tax Arbitrage*, highlighted the ability of non-profit hospitals to borrow through tax-exempt financing at the same time that they maintain large portfolios of assets – the earnings from which are not taxed because of the hospitals' tax-exempt status. The paper quantified the tax benefits going to the institutions, and discussed the implications of implementing a new definition of tax arbitrage to limit this practice. It also developed several measures of the effect of a change in the arbitrage definition on the tax benefits going to the institutions.

We note from page 9 of the report that this practice of maintaining a large untaxed portfolio of assets while simultaneously borrowing with tax-exempt debt extends to other nonprofit institutions, such as colleges and universities. We request that CBO undertake for colleges and universities a similar analysis to that in the December 2006 report. The report should examine the following issues:

- Changes over time in the volume of tax-exempt bond issuance;
- An examination of which institutions utilize tax-exempt bonds, and if possible, the uses of the proceeds;
- The scope of possible arbitrage profits and the possible effect of those profits in motivating borrowing;
- A comparison of the use of tax-exempt bonds across non-profit and public institutions;
- A comparison of the value of the subsidy from tax-exempt bonds to the costs of raising capital through the market;
- If possible, an examination of whether the subsidy affects the prices of services provided by the institutions;

- Guidance as to what types of additional reporting by colleges and universities to the Internal Revenue Service and the public would provide useful information with respect to the borrowing by colleges and universities of tax-exempt financing while maintaining large untaxed portfolios of assets.

Sincerely,

Chuck Grassley
Ranking member