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For Immediate Release  
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Grassley Seeks CBO Analysis of Certain Aspects of College Athletics' Tax Exemption,  
Universities' Tax-exempt Financing

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, has asked the Congressional Budget Office to review the economic benefits received from the tax-exempt status of college athletics and the practice of colleges and universities' maintaining a large untaxed portfolio of assets while simultaneously borrowing with tax-exempt debt.

“Educational institutions represent a big part of the non-profit sector,” Grassley said. “As part of reviewing non-profit practices, it will be helpful to get a better understanding of how colleges and universities use their tax-exempt status in certain areas. Congress needs to know whether educational institutions actually use their generous tax breaks to improve education, or whether the taxpayers are subsidizing other priorities.”

Grassley's request comes as part of his broad look at the non-profit sector, aimed at making sure non-profit institutions provide public benefit in exchange for their tax-exempt status and are not misused for individual benefit at taxpayer expense.

The text of his letters to the Congressional Budget Office follows here.

April 3, 2007

Dr. Peter R. Orszag  
Director  
Congressional Budget Office  
Ford House Office Building  
Second and D Streets, SW, Room 402  
Washington, DC 20515

Dear Dr. Orszag:

Educational institutions represent a large portion of the tax-exempt sector, and the

commercialization of colleges and universities, particularly in the area of intercollegiate athletics, is an area of interest. I would like to gain a better understanding of the economic benefits received from the tax-exempt status of college athletics.

To accomplish this objective, I request the Congressional Budget Office to conduct a study of the following aspects of the tax-exempt status of college athletics:

- An analysis of what commercialization means in the context of nonprofit organizations and how it relates to the provision of social benefits that is a primary justification for nonprofit tax preferences;
- A description of how commercialization varies across the spectrum of colleges and sports;
- A discussion of the tax treatment of college athletic programs, including:
  - the exemption from Federal income taxation and the operation of the unrelated business income tax;
  - corporate title sponsorship payments;
  - active royalty income;
  - charitable deductions for booster programs, including those made for the right to purchase tickets; and
  - the use of tax-exempt bonds to finance the construction and renovation of university athletic facilities.
- A discussion of the economic effects of the tax treatment of college athletics;
- A discussion of the distribution of tax benefits among the participants in college athletics including colleges, administrators, coaches, athletes, alumni, donors, and spectators;
- 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 economic benefits received from the tax-exempt status of college athletics.

Sincerely,

Chuck Grassley  
Ranking Member

April 3, 2007

Dr. Peter R. Orszag  
Director  
Congressional Budget Office  
Ford House Office Building  
Second and D Streets, SW, Room 402  
Washington, DC 20515

Dear Dr. Orszag:

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.

I 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. I 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