MD ENERGY ADVISORS

# A Dream Deferred:

## DEFERRED MAINTENANCE PROJECTS COST HBCUs TIME, TALENT AND TREASURE

# A “Dream Deferred”:

## Deferred Maintenance Projects Cost HBCUs Time, Talent and Treasure

Historically Black Colleges and Universities (HBCUs) and the triumphant living history of Black Americans in the United States are inextricably intertwined. HBCUs are the pride of the faculty, administration, alumni and communities they are integral parts of. And for good reason. Most HBCUs were established in the second half of the 19th century in the years following the emancipation of Africans as enslaved persons in the U.S. In the decades since, HBCUs have educated, esteemed and empowered generations.

And while HBCUs have remained stalwarts in the Black community throughout the years, through a nexus of cultural shifts, HBCU popularity is currently experiencing a renaissance. First, the use of social media means that everyone has access to the spoils of HBCU life—whether it’s the battle of the bands at halftime of sporting events or Greek life, more people know about HBCUs than ever before. Popular sports figures have aided in bringing a spotlight to HBCUs as well; championship basketball player J.R. Smith enrolled at North Carolina Agricultural

& Technical State University, playing golf there; and former NFL greats Deion Sanders (formerly at Jackson State University) and Eddie George (at Tennessee State University) went on to coach college football at HBCUs while touting their uniqueness and virtues.

Additionally, the continually rising costs of college and relative affordability of many HBCUs comparatively, increasingly makes HBCUs an option for many young people, not only Black students. Moreover, broader societal interest has powered an increase in philanthropic dollars for several of the most notable HBCUs.

Importantly, with this renaissance comes opportunity for renewal—and support where HBCUs need it the most for their continued survival and success. One of these critical areas: the modernization of the built environment after years of deferred maintenance.

## Deferring the Dream

It makes sense that many HBCUs are in need of facilities upgrades. HBCUs have some of the oldest campuses and facilities in the country. Unfortunately, their age coupled with the financial and capital constraints that often hinder HBCUs from making necessary investments means maintenance and repairs too often go undone. However, the price of deferring maintenance is high.

> **“Deferred maintenance is the cancer of higher education. If you don’t treat it, it grows. If you don’t treat it fully, it grows back.”**
>
> **Sidney H. Evans**,
> *Executive Vice President for Finance and Administration*
> **Morgan State University**

The Federal Accounting Standards Advisory Board defines deferred maintenance as “maintenance that was not performed when it should have been or was scheduled to be and which was put off or delayed for a future period.”

While HBCUs are a major point of pride for students, alumni, faculty and staff, some also commiserate around stories of poor facility conditions. With the rise in digital media, these stories, once kept on campus, now go viral. Whether the issue is a lack of air conditioning in summer months, decrepit showers and bathrooms, mold, or heat outages in classrooms, exit interviews and social media timelines tell a story that too many HBCU facilities are in poor condition. Such conditions result in students deciding to attend college elsewhere; families questioning whether or not to send their children to school at these universities; and less than optimal conditions for learning and living for the students that attend and remain.

The U.S. Government Accounting Office (GAO) makes the case that this is not an isolated issue, but rather, a widespread challenge throughout the HBCU community. In its report **"Action Needed to Improve Participation in Education's HBCU Capital Financing Program,"** the GAO outlines that half (24 of 48) of HBCUs that responded to its survey question on their current deferred maintenance backlog stated that "repairs were not performed when they should have been"—on average reporting a backlog of $19 million.

In addition, 30 HBCUs reported in the survey that their deferred maintenance backlog had increased in the three years prior (2015 through 2017), while only seven HBCUs reported their backlog decreased. Public HBCUs, on average, reported deferred maintenance backlogs of $67 million and private HBCUs of $17 million. In the energy performance contracting work MD Energy Advisors (MDEA) does with HBCUs, we too have found HBCU clients with tens of millions of dollars in deferred maintenance.

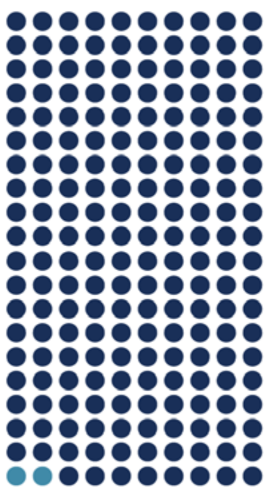
This is a critical issue reaching a critical mass. Campuses need to be modernized—or they can't compete in the 21st century and beyond. Deferred maintenance makes it more difficult to attract students, harder to retain students, and impacts HBCU income, creating a vicious cycle of disrepair for HBCUs that already find it harder to attract private capital providers who frequently consider them "too risky." The 2018 report from the bond rating agency Standard & Poor's highlights the impact deferred maintenance may ultimately have on bond ratings. This has the potential to be a real problem for HBCUs in the short, near and long term.

According to the report **"HBCU Pathways: A Call to Action for HBCU Investment"** by Brookings Metro, disparities in available capital, combined with narrowly focused underwriting and lending practices, create a negative feedback loop in which wealthier institutions get wealthier, while other institutions struggle to sustain current operations and are denied opportunities to grow.

While HBCUs generate substantial income for their surrounding communities and matriculate students at high rates—making up three percent of higher education institutions, yet enrolling 10% of all African American students and producing almost 20% of all African American graduates[1]—HBCUs too often struggle with sustainable sources of income. And schools without liquidity face limited financing options.

One glaring example of disparities are endowments, or investable assets, including savings, real estate, stocks, and other resources that nonprofits draw upon for operational expenses and expansion. "HBCU Pathways" outlines that altogether, the 10 largest HBCU endowments in 2020 totaled just $2 billion, compared to $200 billion across the top 10 Predominately White Institutions (PWI). The combined endowment for every HBCU in the country through 2019 was just over $3.9 billion. While New York University alone had an endowment of $4.3 billion that year.

## TOP 10 ENDOWMENTS



**$200B**

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**$2B**

## ENDOWMENTS ACROSS THE NATION

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**$3.9 B**

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NYU

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Understanding the generational wealth gaps that persist today is imperative. Importantly, so is the development of a strategic plan to address the resulting issues, head on.

# Investing in HBCUs

**"As a Chief Financial Officer, when you have a budget problem, the physical plant and buildings are the first place where presidents and CEOs go to cut the budget,"** says Sidney H. Evans, Executive Vice President for Finance and Administration at Morgan State University (MSU). "I use the cancer analogy to get people's attention because most people, if they know they have cancer, would treat it. And deferred maintenance is a serious problem for our academic institutions and HBCUs."

In 2016, Mr. Evans invested in the first step in a plan to manage Morgan State's deferred maintenance issue. He hired a leading higher education facilities firm for $120,000 to do a 40,000 feet assessment of every building; soon afterward, commissioning an even deeper ROPA (Return On Physical Assets) model analysis, which broke each building down to a 10,000 foot view. With his team he took the second report to the Maryland State Board of Regents, the governing body for state universities and told them the current Capital Improvement Plan would take 100 years: there was nearly $300 million in deferred maintenance.

## After the initial shock, the next question was: How are you going to pay for it?

Mr. Evans and his team set out with a plan of action. The state of Maryland provides funding for new buildings, but little to none for old buildings—so in 2018 he took his plan to state leaders who were also blown away by the extent of work that needed to be done. Executive Vice President Evans presented that he would go to the debt markets to borrow money and proceeded to borrow $25 million; $16 million for a new building the state wouldn't fund until 2032 and $9 million for deferred maintenance. Though only a "drop in the bucket," it was a start. The state of Maryland then gave $39 million for five years, ending in 2023. Since that time the state has given Morgan State University another $23 million in deferred maintenance, providing a total of $62 million to address $225 million in deferred maintenance.

As CFO, business acumen is critical to these discussions. Mr. Evans understands and emphasizes that this is an investment for the state of Maryland, as such, state leaders see the value in a plan for the asset that the university is as an economic engine. Further, investments today mean less money the state has to give 15-20 years from now. While all HBCUs might not have a state on its side as MSU does, there are other ways to find pots of money—from endowments to nonprofit institutions.

Because funds can be hard to come by, HBCUs must be creative to problem solve and address deferred maintenance. There are many different options and programs that may be viable alternatives for some. Additionally, the **HBCU Capital Financing Program** provides loans to eligible HBCUs for the repair, renovation, construction, or acquisition of capital projects or to refinance existing capital debt. Several offices at the U.S. Department of Education are involved in administering the program, including the Office of Postsecondary Education and the Budget Office, with one official responsible for overall program management. The Department also contracts with a designated bonding authority to manage the program's operations.

Mr. Evans invites other HBCUs and CFO colleagues to use Morgan State's plan as a model in developing their own. While every university may not be able to borrow funds, the most important counsel Mr. Evans gives is to not ignore deferred maintenance. "Deferred maintenance creates more problems down the road and affects the bottom line—less students, less contribution from donors, high attrition rates," says Mr. Evans. He encourages colleagues to figure out a plan that works for their situation—from the finances to the timing of activities like taking a residence hall offline for maintenance. Mr. Evans is also currently working with an African American owned firm to create a working fund of capital HBCUs can access.

**The impact of investing in HBCUs is both palpable and immeasurable.** For Morgan State University, having a roadmap for a comprehensive and aggressive capital and deferred maintenance plan is a huge milestone. And while there's more work to do, the capital accessed and the awareness created throughout the state's education system has given the university tremendous momentum. Morgan State University recently opened its first new dormitory on campus in 31 years and its enrollment is up 22% over the last two years.

**“No other institution in Maryland is growing quite like us, and facilities has a lot to do with it,”** says Executive Vice President Evans.



## Igniting Excellence

Crucially, the United Negro College Fund (UNCF) is lobbying Congress to contribute to the sustainability of HBCUs as well.

According to UNCF, **90% of HBCUs need repairs to their buildings, laboratories, dormitories and research facilities.**

The **Institutional Grants for New Infrastructure, Technology, and Education for (IGNITE) HBCU Excellence Act** recognizes the contributions of HBCU institutions in the most important way possible: by providing HBCUs the support and investment needed to sustain and deepen their transformational work—**namely $2 Billion to upgrade facilities.**

Specifically, the Act provides support for HBCUs to utilize public and private investments to renovate, repair, modernize, or construct new campus facilities, including instructional, research, and residential spaces; as well as preserve buildings with historic significance and ensure the resilience, safety, and sustainability of campus facilities. The Act also provides access to campus-wide, reliable high-speed broadband to support digital learning and long-term technological capacity and much more to support community-based partnerships that provide students and community members with academic, health, research, and social services. To date, funds have been allocated, but they have not yet been approved by the 118th Congress.

**"The IGNITE HBCU Excellence Act is so important for one—the students and two—for the institutions as a whole, who have provided a space for America's best and brightest, including the current Vice President of the United States to learn, grow and spread their wings as intellectuals,"** says Dr. Terrence Tarver, Legislative Director, Public Policy and Government Affairs at the United Negro College Fund.

Despite the structural disadvantages and barriers, the nation's approximately 100 HBCUs have more power than people often realize. For decades the UNCF has worked to strengthen member HBCU institutions so that more Black students can earn higher education degrees. A 2017 UNCF report noted that each year, "HBCUs generate 134,090 jobs for their local and regional economies," and "every $1 million spent by HBCUs and their students produces 13 new jobs." That same report outlines that **HBCU graduates "generate $14.8 billion in economic impact annually**—equivalent to a ranking in the top 200 on the Fortune 500 list of America's largest corporations."

Equipped with data and determination, the UNCF is mobilizing communities to help advance the IGNITE HBCU Excellence Act, including a campaign of more than 276,000 letters to date sent to Congress in support of the Act. Dr. Tarver and his colleagues are also encouraging the private sector to advocate for the Act. He emphasizes: **"The private sector is so important in these partnerships to get information out there. Students are coming to fill their jobs—this is a pipeline for the future."**

# Realizing the Dream

The revitalization of HBCU campuses and facilities is critical to the continued advancement of not only Black Americans—but to all of the United States of America.

Modernizing HBCU campus environments so that they are the spaces our young people can thrive, realize their dreams and continue to become the change our communities and our world needs, should be a top priority.

MD Energy Advisors is a trusted partner in the campus modernization process. Two of MDEA's principals are alumni of Morgan State University—and like most HBCU graduates—they are passionate about giving back to the HBCU community that enriched their lives and contributed to their success.

To learn more about ways HBCUs are modernizing their campuses, contact:

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[1]United Negro College Fund