MINNESOTA PRIVATE COLLEGE COUNCIL

April 21, 2025

Senator Ann Rest
Chair, Senate Tax Committee

Dear Chair Rest and Tax Committee Members,

On behalf of the 18 private nonprofit higher education institutions that are members of the Minnesota Private College Council, I write to express our opposition to Senate File 3194, a proposal to impose a tax on assets of certain institutions of higher education.

Our colleges strongly oppose this bill because it will deeply undermine the philanthropic giving to nonprofit colleges that is foundational to their ability to carry out their educational missions, it will increase tuition costs and reduce institutionally-provided financial aid for students, and it may be unconstitutional under Article X, Section 1 of the Minnesota Constitution.

The Public Purpose and Benefit of Nonprofit Colleges

Minnesota's private nonprofit colleges serve the same public purposes as Minnesota's public postsecondary institutions: we educate students so they can bring vitality to our economy, be engaged citizens, and serve and strengthen the communities in which they live.

Our 18 institutions make major contributions to the educational outcomes of our citizens and economic prosperity of our State:

- MPCC institutions serve **more than 54,000** students annually (40,000 undergraduates and 14,300 graduate students).
- **One in three** Minnesota high school graduates who stay in Minnesota to pursue a bachelor's degree enroll in an MPCC institution.
- The share of low-income students and students of color that our institutions serve **is similar to or greater** than Minnesota's two public four-year systems.
- Our four-year graduation rate for Pell Grant students (a measure of low-income status) is **second in the nation** when compared to private nonprofit colleges on a state-by-state basis and exceeds all public sector systems in the nation on a state-by-state basis.
- Our institutions provide $11 of institutional financial aid for every dollar of state-funded financial aid our students receive.
- Our institutions **generate $4.5 billion in annual economic impact** for the State.
- **Our institutions employ more than 12,000 Minnesota employees**, making our colleges collectively the 13th largest employer in the State, comparable in size to US Bank and Essentia Health.

445 Minnesota Street
Suite 500
St. Paul, Minnesota 55101

651-228-9061
colleges@mnprivatecolleges.org
www.mnprivatecolleges.org

In short, private nonprofit colleges are a profoundly valuable asset to our state. Our state and its citizens benefit greatly from the presence of high-quality private higher education institutions in Minnesota.

Private institutions receive no direct appropriations for operating support from the State of Minnesota. Just 4% of the State's higher education spending benefits students at private institutions, through need-based financial aid grants that go directly to low-income undergraduate students, reducing the cost of an education to them individually. In return, nonprofit institutions produce one-third of the bachelor's degrees and more than 40% of the master's degrees granted annually in Minnesota.

<u>An Endowment Tax Would Increase the Cost of Tuition and Undermine Philanthropic Giving</u>

The important contributions to the public good that our nonprofit colleges and universities deliver – developing the potential of young people to contribute to the vitality, creativity, and prosperity of our State – are possible because of the private philanthropy that supports our institutions.

Endowment assets are used solely and entirely to carry out the public-purpose educational missions of our institutions. The income produced by endowment assets provides financial aid for students, holds down the price of tuition, helps pay the salaries of faculty and staff, and helps fund student support services.

This proposed tax would reduce the amount of resources available to nonprofit institutions, which will result in less financial aid for students, higher tuition for students, fewer educational options and opportunities for students, lower quality education for students, and fewer student support services. **Thus, this endowment tax is ultimately a tax on students.**

If the legislature chooses to impose an endowment tax, it would be choosing to reduce the educational investments in Minnesota's future generations, thereby undermining our State's future economic prosperity.

Important details to understand about endowments include the following:

- An endowment is not a single bank account containing a large amount of unrestricted money. It is a collection of hundreds of individual accounts, each established to hold distinct perpetual gifts from individual donors according to the specific terms of each gift.
- A large majority of endowment assets are restricted by donors to specific educational purposes they want their gift to serve.
- The largest share of endowment assets, whether restricted or unrestricted, typically are used to provide financial aid to students.
- For example, at one MPCC institution that could be subject to this tax, 91% of the institution's endowment is restricted for purposes specified by donors. Of the restricted endowment, 78% of the restrictions are for financial aid. And, 71% of the total endowment is restricted to financial aid.
- Endowment that is not restricted to financial aid – whether restricted for other purposes or unrestricted – is used to pay for things like professors' salaries, academic and mental health support services for students, and expenses such as utilities, insurance, and other general operating costs.

- Institutions are <u>legally required</u> to carefully balance the use of endowment funds between current beneficiaries and future beneficiaries, so that endowment funds serve the donor's intended purposes in perpetuity. In practice, this means that annual draws on endowment assets for current operating purposes are typically limited to the 4%-5% range. Beyond lawful endowment draws, endowment assets are not generally available to be spent by institutions.
- Because endowment assets are legally restricted by the terms of their specific gifts, their use for payment of any tax would be prohibited. Any tax payments required would have to come from non-endowed funds. At non-profit institutions, the non-endowed resources that would need to be used to pay this tax are largely tuition revenue and non-endowed charitable gifts.

Perhaps most importantly, an endowment tax would effectively deter major philanthropic gifts for nonprofit institutions subject to the tax. Under the bill, a major gift by a donor to an institution's endowment would constitute "growth in assets" and therefore be immediately subject to a tax of 15% to 25%. Furthermore, any growth in the invested value of endowment gifts will also be subject to the tax.

Knowing this, donors will simply choose to no longer make such gifts. Donors won't make gifts when their gift is subject to a tax resulting in a substantial portion of their gift not being used to fund the institution and purpose they wanted to support. In this way also, an endowment tax will simply reduce philanthropic investment in future generations of Minnesota's young people who want to pursue a college education.

In sum, by imposing this tax, SF 3194 directly diminishes and undermines the philanthropy that:

- makes private college options affordable for students;
- adds to the diversity of educational options in our state;
- substantially furthers the State's economic and social prosperity; and
- lessens the tax burden that would otherwise need to be imposed on Minnesota taxpayers for the costs of educating the 54,000 students currently served by nonprofit institutions.

Our country and our state have long recognized that serving public purposes and delivering public goods should not be the province of government only. Building a healthy and prosperous society can be better achieved when our government also fosters and protects the work of non-governmental, nonprofit charitable entities which serve the same public purposes and advance the same common good.

To further the common good in that way, the Minnesota Constitution provides as follows:

> "Taxes shall be uniform upon the same class of subjects and shall be levied and collected for public purposes, but public burying grounds, public school houses, public hospitals, academies, colleges, universities, all seminaries of learning, all churches, church property, houses of worship, institutions of purely public charity, and public property used exclusively for any public purpose, shall be exempt from taxation except as provided in this section. . . . The legislature by law may define or limit the property exempt under this section other than churches, houses of worship, and property solely used for educational purposes by academies, colleges, universities and seminaries of learning."

As interpreted by the Minnesota Supreme Court in *Rice County v. Bishop Seabury Mission*, 95 N.W. 882 (MN 1903), this provision appears to prohibit the taxation of endowments.

For all of these reasons, our nonprofit colleges and universities hope that the Committee will not advance this bill further in the legislative process.

Thank you for the opportunity to share the foregoing information and our perspectives on SF 3194 with the Committee.

Respectfully,

Paul Cerkvenik
President