

November 25, 2020

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SBA Desk Officer  
Office of Information and Regulatory Affairs  
Office of Management and Budget  
New Executive Office Building  
Washington, DC 20503

Re: OMB Control Number 3245-0407

Dear Mr. Rich,

The American Council on Education (ACE) and the undersigned higher education associations submit these comments regarding the Office of Management and Budget (OMB) Control Number 3245-0407 SBA Form 3510—Loan Necessity Questionnaire (Non-Profit Borrowers). While we understand that these forms were granted emergency approval by OMB and are currently in the field, we wish to express concern about some of the questions and their potential impact on nonprofit higher education institutions.

In general, the questions do not work well for the financial structure of colleges and universities, nor do they get to the heart of the financial challenges that institutions are facing because of COVID-19. We are also concerned that the questions seem to impose requirements on the use of funds that were not in place when the funds were distributed and expended.

For example, when COVID-19 hit in March, most colleges were already halfway through the spring semester, and students had already paid their tuition and various residential service and auxiliary fees. Consequently, tuition revenue itself might not have decreased that term. But when campuses closed, many colleges refunded room, board, and other support fees to students, and consequently saw a revenue decrease of at least 20 percent. Returning these funds left institutions with inadequate liquidity to support campus infrastructure and salaries. They also faced extraordinary expenses, particularly due to the costs of moving all instruction online, supporting many students' technology needs, travel costs for students to return home, and sanitizing campuses. Most institutions have only two major revenue collection periods each year for tuition and related expenses—at the start of each semester—and so had no incoming revenue to pay for these unexpected costs. In addition, colleges faced extraordinary losses in auxiliary revenues. Focusing on the one area where revenue might have held even, tuition revenue, is much too simple an ask to understand the dynamics of colleges' budgeting and costs.

In another example, the questionnaire asks about institutional endowments. Endowments are not savings accounts or rainy-day funds being built up to demonstrate wealth but instead provide a steady and reliable long-term funding source to support students, research, and other programs that would otherwise be paid for by tuition, state and federal funding, or other resources. Endowments are highly restricted by law regarding what can be used and not used; tapping an endowment's corpus can have serious financial implications, even if the funds are unrestricted. Preserving unrestricted funds, particularly given the nature of the pandemic, is essential for institutions to survive the current fiscal year.

We are pleased that the questionnaire does provide the opportunity to speak about total lost revenue or costs. We hope your reviewers will rely on a more holistic picture of the pandemic's complete financial impact on institutions when assessing the extraordinary life-line the Paycheck Protection Program provided to many very small colleges.

Below are comments regarding specific questions within the questionnaire. The form as written will take colleges, on average, at least four additional hours to complete, beyond the 90-minute estimate. Additional time will be needed to pull information from systems because the questions as written do not align with how financial information is accumulated and reported. We ask that SBA delay this questionnaire and work with the higher education community to rewrite the questions in a way that captures the information needed, while also reflecting an understanding of the financial structure of institutions of higher education.

### **Revenue**

In the "Loan Necessity Questionnaire (Non-Profit Borrowers)" section, the form appears to assume that colleges keep their books and records on a cash basis. For example, questions 1 and 2 under "Non-Profit Activity Assessment" asks for "gross receipts" instead of revenue recognized for the second calendar quarter. However, the form for for-profit borrowers asks for revenue numbers and not gross receipts.

Additionally, because gross receipts must include gifts, grants, and contributions, including gifts and grants with restrictions, it will provide a false sense of financial viability. Legal restrictions and Financial Accounting Standards Board (FASB) reporting rules would not allow use of restricted funds at the college's discretion during liquidity challenges, even if caused by national emergencies.

The form also does not appear to capture refunds issued to students in the spring. If institutions **must** take a cash approach, we ask that a line be added for "returns or adjustments due to COVID-19." Alternatively, if Question 5D is supposed to capture funds returned to students when campuses closed (foregone revenue to the institution), we suggest that cash outlays be defined as "amounts returned to students, customers, and vendors in addition to cash expenditures." This would alleviate ambiguity and promote consistency across the sector.

If the final form takes a revenue approach, the term "gross" revenue should be dropped. The FASB has eliminated the concept of gross revenue, because revenue recognized would include returns and discounts. This would allow institutions of higher education to reduce revenue by room and board refunds made during the second quarter of 2020. Combined with clarifying

that cash outlays in Question 5D includes return of funds to students, this will explain both revenue declines and a significant pinch on liquidity.

**CARES Act Higher Education Emergency Relief Fund (HEERF)**

Question 10 on “Liquidity Assessment” asks about additional money beyond PPP funds received via the CARES Act. Because HEERF funds were emergency relief funds, not operationally generated, the SBA form should indicate if CARES Act funds should be included in Question 2.

**Capital Improvements**

Question 8A asks “Between March 13, 2020 and the end of the loan forgiveness covered period of the PPP loan, did Borrower begin any new capital improvement projects not due to COVID19?” Institutions of higher education often have planned capital projects funded primarily by donors. SBA should understand that these projects are likely included under “restricted” funds. Colleges will likely try to add text comments to explain this. Perhaps Question 8B can be expanded to ask if cash outlays were planned and funded by donors.

**Liquidity Assessment**

Under the questions on “Liquidity Assessment,” institutions of higher education can have cash or temporary investments that cannot be used because of donor-imposed restrictions. Perhaps SBA can follow FASB’s rules on liquidity and availability of resources and reword Question 1 to ask “How much did the borrower own in unrestricted/available cash, savings, and temporary cash investments?”

**Endowments**

Under “Liquidity Assessment” Questions 5A-C, there are several questions about an institution’s endowment. We recommend that a follow-up question ask for the approximate market decline in endowment valuation between December 31, 2019, and March 31, 2020. Even if donors approved additional emergency spending, market declines contributed to liquidity shortfalls during the crisis.

We believe these slight changes to the form going forward, or in future audits, will be helpful to better understand the financial snapshot of institutions of higher education, given the unique nature of the structure of nonprofit colleges and universities. We look forward to working with you as SBA continues to carry out stewardship of this important program.

Sincerely,



Ted Mitchell, President

On behalf of:

American Council on Education  
Asociación de Colegios y Universidades Privadas de Puerto Rico

Association for Biblical Higher Education  
Association of Catholic Colleges and Universities  
Association of Independent California Colleges and Universities  
Association of Independent Colleges and Universities in Massachusetts  
Association of Independent Colleges and Universities of Pennsylvania  
Association of Independent Colleges and Universities of Rhode Island  
Association of Independent Colleges of Art & Design  
Association of Independent Kentucky Colleges and Universities  
Association of Jesuit Colleges and Universities  
Association of Vermont Independent Colleges  
Commission on Independent Colleges and Universities New York State  
Conference for Mercy Higher Education  
Council for Advancement and Support of Education  
Council for Christian Colleges & Universities  
Council of Independent Colleges  
EDUCAUSE  
Federation of Independent Illinois Colleges and Universities  
Great Lakes Colleges Association  
Independent Colleges & Universities of Florida  
Independent Colleges and Universities of Missouri  
Independent Colleges and Universities of Texas  
Independent Colleges of Indiana  
Independent Colleges of Washington  
International Association of Baptist Colleges and Universities  
Iowa Association of Independent Colleges and Universities  
Kansas Independent College Association  
Louisiana Association of Independent Colleges and Universities  
Maine Independent Colleges Association  
Maryland Independent College and University Association  
Minnesota Private College Council  
NASPA - Student Affairs Administrators in Higher Education  
National Association for College Admission Counseling  
National Association of College and University Business Officers  
National Association of Independent Colleges and Universities  
Network of Colleges and Universities, Evangelical Lutheran Church in America  
North Carolina Independent Colleges and Universities  
Oregon Alliance of Independent Colleges and Universities  
Tennessee Independent Colleges and Universities Association  
Wisconsin Association of Independent Colleges and Universities  
Yes We Must Coalition