White Paper – Historically Black Colleges and Universities and Opportunity Zones

-The Hidden Opportunities for Historically Black Colleges and Universities-

Monday, March 15, 2021

Purpose

The purpose of this white paper is to provide an overview of Historically Black Colleges and Universities (HBCUs) and the potential opportunities related to the U.S. federal government's Opportunity Zones. This white paper provides background into HBCUs and Opportunity Zones, which HBCUs are located in and near Opportunity Zones, and perspectives on these higher education institutions using Opportunity Zones.

Background

The Story of Historically Black Colleges and Universities (HBCUs)

Since the 1800's, Historically Black Colleges and Universities (HBCUs) have been vital to educating African-Americans others in the United States. The Higher Education Act of 1965 defines an HBCU as "…any historically black college or university that was established prior to 1964, whose principal mission, and is, the education of [B]lack Americans, and that is accredited by a nationally recognized accrediting agency or association determined by the Secretary [of Education] to be a reliable authority as to the quality of training offered or is, according to such an agency or association, making reasonable progress toward accreditation." Founders established these institutions to provide educational opportunities to African-Americans and other denied opportunities at other institutions of higher educations. At one point, there were as many as 121 institutions throughout the United States and U.S. Virgin Islands. The number of HBCUs has declined to 103 institutions. Currently, there are approximately 101 federally-recognized HBCUs that continue to educate and prepare students for the global market. State legislature or Congress have designated at least 21 of these institutions as land grant college or universities to receive the benefits of the Morrill Acts of 1862, 1890, and 1994. HBCUs have demonstrated its ability to graduate the highest number of African-Americans in fields that include the medical, finance, and legal professions. HBCUs have opened its doors to all students, regardless of their race, an opportunity to achieve an education that helps contribute to a global society.

HBCUs receive a variety of funding sources to help accomplish their objectives, missions, and goals. These sources of funding include federal, alumni, private corporation, and foundations that HBCU administrator seek to help operate their institutions. However, these institutions do not receive the same opportunities as non-HBCUs to obtain access to resources to help meet objectives, missions and goals. As a result, HBCUs have the tasks of doing more with less resources to educate its students.

The Story of Opportunity Zones (OZs)
During the Trump administration, he passed a law that created Opportunity Zones as part of the Tax Cuts and Jobs Act. The President signed the Act on December 22, 2017. An economically-distressed community where new investments, under certain conditions, may be eligible for preferential tax treatment. U.S. Department of Treasury authorized the Opportunity Zones oversees the Opportunity Zones. The Treasury designated the Internal Revenue Service, commonly known as the IRS, with the authority to implement the regulations. The goals of the Opportunity Zones are to:

- improve targeted areas through investment opportunities,
- drive further investments into the targeted areas, and
- create economic development and job creation that will improve the lives of low-income residents.

City and County officials provided input to U.S. Governors for consideration of the potential Opportunity Zones. The governors submitted the list of potential zones to the U.S. Treasury for review and approval. Once approved, the Opportunity Zones are formally designated and investments in these areas can begin. The Treasury approved 8,764 Opportunity Zones in all 50 States, Washington D.C., Guam, Northern Marianas Island, Puerto Rico, U.S. Virgin Islands, and American Samoa. More than 2,000 counties and independent cities have Opportunity Zones.

To receive the tax benefits of investing within these Opportunity Zones, individuals, corporations, LLCs, partnerships, or other eligible parties recognized for Federal income tax purposes can invest in established Opportunity Zone funds. In addition, individuals and businesses located within the designated Opportunity Zones can participate and receive potential tax benefits. However, the mentioned parties must invest through established Opportunity Zones Funds. In addition, the managers of these funds must be located and operated within one of 50 States, Washington D.C., Guam, Northern Marianas Island, Puerto Rico, U.S. Virgin Islands, and American Samoa.

These funds can benefit from one of the following activities:

- Defer eligible gains for federal tax purposes
- Renovate real estate properties
- Land development
- Invest in businesses
- Operate businesses

These funds cannot invest in the following projects or businesses:

- Any store of which the principal business is related to alcohol for consumption off premises
- Any store or business related to marijuana
- Private or commercial golf courses

- Country club
- Massage parlor
- Hot tub facility
- Racetrack or other facilities used for gambling
- Suntan facility

These Opportunity Zones are active for 10 years with an end date of December 31, 2028. Investors have until March 31, 2021, to take advantage of incentives to invest in a Qualified Opportunity Fund. The U.S. Internal Revenue Service, also known as the IRS, issued Notice 2021-10 that extended this and other deadlines that impact the Opportunity Zones.

Currently, there are no established reporting requirements related to measuring impact or progress within the established Opportunity Zones or Opportunity Zone funds. However, the Opportunity Funds must self-report to be eligible to participate in the Opportunity Zones.

The breakdown

Currently, there are 103 HBCUs that exist in the United States. However, the United States federal government only recognizes 101 of these institutions for consideration to receive federal funding and contracts. The federal government would not technically recognize the remaining two HBCUs, Morris Brown College (Georgia) and Barber Scotia College (South Carolina) because of the lack of accreditation. Yet, there may be instances that these HBCUs would be able to access federal funding and contracts. However, those instances of access to federal funding would be few and require special permission or waivers from the funding agency.

Our review the OZs and HBCUs found that many were in these zones or within the proximity. Based on our research, we identified the following:

- 21 states within the southern and midwestern region of the United States have HBCUs,
- The state of Alabama has the largest number of HBCUs (14),
- 77 counties within these states have HBCUs,
- 80 cities within these counties have HBCUs,
- Among the 21 states with HBCUs, there were 3,893 OZs approved and designated by the United States Department of Treasury,
- The state of Texas has the largest number of OZs (628),
- The state of Florida has the second largest number of OZs (427),
- 6 of the 103 HBCUs are located within an OZ and not near other OZs,
- 36 of the 103 HBCUs are located near other OZs and not within an OZ,
- 55 of the 103 HBCUs are located within an OZ and near other OZs, and
- 6 of the 103 HBCUs are not located within an OZ or near other OZs.

Summary of Results

We have provided a chart that summarizes our research into HBCUs and Opportunity Zones. The chart provides users with the following information:

- HBCUs categorized by State,
- Number of HBCUs within the State,
- Location of the HBCU (address and county),
- Whether the HBCU is in an Opportunity Zone,
- Census tract codes for those HBCUs located within an Opportunity Zone, and
- Whether the HBCU is near or within a 10 mile radius of an Opportunity Zone.

Perspective

Access to funding for capital projects and other types of projects for many of these institutions has not been easy. Further, negative perceptions and biases against most of these institutions have factored into the limited resources to allocated to meet objectives and goals. In addition, some institution experience management that may hamper the opportunities towards economic growth. However, there are HBCUs that have the economic development expertise and political influence to gain access to the information and resources that would allow for growth.

Various developments within Opportunity Zones included residential and commercial real estate development appear to enhance the local area. In many cases, investors provided the financial resources to build business incubators, convention halls, and sports facilities that can generate economic growth for the area. There are questions about the impact of these investments, but could benefit HBCUs seeking the necessary funding projects on its campuses. For instance, Florida A&M University, also known as FAMU, located in Tallahassee, Florida, is a HBCU that could take advantage of the Opportunity Zones to promote growth and improve its facilities. FAMU is located within an Opportunity Zone (census tract code 12073000400) that allows it to take advantage of investments for projects such as residential real estate or larger projects such as its initial planned convention center and renovations to its stadium. In addition, FAMU is located near other Opportunity Zones that allow for partnerships in development projects off campus. This example shows what that HBCUs could benefit from Opportunity Zones to help its projects. However, our research identified HBCUs not located within or near Opportunity Zones.

HBCUs Left Out of Opportunity Zones

We identified six HBCUs that were not within Opportunity Zones to directly benefit from the potential benefits and access to investment funding.

- Gadsden State Community College (Alabama)
- Miles College (Alabama)
- Shelton State Community College (Alabama)
- University of the District of Columbia (Washington, D.C.)
- Cheyney University (Pennsylvania)
- Lincoln University (Pennsylvania)

All HBCUs serve underrepresented groups and have economic impacts to the surrounding areas. However, these six HBCUs not included in or near Opportunity Zones raises questions and concerns of missed investments. Specifically, these investments could have helped spur economic development for the HBCUs and communities. While these HBCUs are the exception, many of the HBCUs are located within or near Opportunity Zones that allow for potential investments and growth. Keep in mind that local officials including mayors, city managers, and chief executives, and city councilmembers help the governors determine the location of these Opportunity Zones. They submit the locations to the governors who then submits to the U.S. Treasury for final approval and designation. As a result, relationships will local, county, and state officials are important to gaining access to economic incentives such as the Opportunity Zones.

Further Research Needed on the Impact

HBCUs and Opportunity Zones can provide access to capital needed to improve facilities and create economic developments for these institutions and the surrounding areas. Further, there are HBCUs that have taken advantage of the Opportunity Zones through partnerships with Qualified Opportunity Zone Funds. However, there may be concerns that other HBCUs did not take advantage of the Opportunity Zones and potentially missing out on investments. As a result, there is a need for further research into HBCUs and Opportunity Zones. The following questions are potential starting points as part of the research and help HBCUs and other interested parties in future incentives.

- How aware was the HBCU administration about the Opportunity Zones?
- How was the local, county, and state outreach to ensure HBCUs were aware and involved in the Opportunity Zones?
- What is the relationship between local, county, and state officials?
- What partnerships did HBCUs formed to take advantage of the Opportunity Zones?
- What were results of those partnerships?
- What projects did HBCUs execute and complete within or near the Opportunity Zones?
- What were the reasons for HBCUs not included in the Opportunity Zones?
- What were the challenges faced in taking advantage of the Opportunity Zones?
- What concerns did the HBCU administration have about the Opportunity Zones?

The answers to these questions and further research can help ensure HBCUs can take advantage of these and other incentives that promote economic development.

Conclusion

The Federal government created the Opportunity Zones to help improve communities that have been historically underserved with little or no investment. Potential investors could invest in designated communities in return for tax incentives. The debate about whether this incentive have improved the communities is still for debate. HBCUs are a part of the American landscape that have been able to provide educational opportunities for many with limited resources. Years of funding shortages and instances of racism from various government levels and private sector towards these institutions have played a factor in the disparity with non-HBCU institutions. In addition, management issues have impacted a HBCUs that resulted in lost opportunities for growth and operations.

Many of these HBCUs are located within or near Opportunity Zones that can offer potential investments to finance various projects. These projects could help improve HBCUs and the surrounding communities if the opportunities were available and taken advantage. Some HBCUs have taken advantage of the Opportunity Zones, while others may have not. There is a need for further research to determine how HBCUs fared in and near Opportunity Zones. Based on the results, interested parties can better understand HBCUs and work towards providing more investment opportunities.