FAIR FINANCE

Untapped Assets: Stillman College And The Landscape Of HBCUs

Can investment and development firms partner with Historically Black Colleges and Universities (HBCUs) such as Stillman College in Tuscaloosa, Alabama to use real estate assets to generate revenue, catalyze economic development in underserved areas and provide workforce training for their student populations?

Impact in Action: Profiles of Higher Education is produced by the Beeck Center for Social Impact + Innovation at Georgetown University, funded by Lumina Foundation

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ABOUT THE SERIES

Impact in Action: Profiles of Higher Education is a three-part series looking at new partnerships and financial strategies enabling higher education institutions to serve as catalysts for impact-centered economic and workforce development. The series looks at the strategies and tactics schools can implement for greater success and stability.

Part 1, Rowan University: A Blue-Collar Soul, we see how the Glassboro, New Jersey school used a number of new ideas to maintain its mission of serving first-generation students while its enrollment and stature as a research institution was on the rise.

Part 2, Untapped Assets: Stillman College And The Landscape Of HBCUs, shows how Historically Black Colleges and Universities are working with investment and development firms to use real estate assets to generate revenue, catalyze economic development in underserved areas and provide workforce training for their student populations.

Part 3, University of Virginia Wise And Entrepreneurship In Appalachian Virginia features new partnerships and financial strategies that drive development for underserved communities.

These profiles were produced by the Beeck Center for Social Impact + Innovation at Georgetown University with support from Lumina Foundation. As a collection, they show academic institutions using innovative approaches including:

- Using multiple tools to build stronger financial positions including new public financing programs such as Opportunity Zones and New Market Tax Credits, as well as regional programs
- Building new and enhanced partnerships with local business and government communities
- Creating innovative approaches to online learning.

To cope with the unprecedented challenge of a pandemic and the worst economic downturn in nearly a century, these colleges and universities are adopting an expansive mindset that sheds old ideas about the boundaries of an academic institution.

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Overview

By 2017, Stillman College, like some other HBCUs, had been coping with declining enrollment and straitened financial circumstances for years.

Dr. Cynthia Warrick, president, arrived at Stillman in 2017 as the Interim President. She actively tried NOT to take the permanent position at Stillman. But its students work hard to stay in school, and they won her heart. "It's hard to turn your back on poor children," she said. She recounted the story of a student who wore the same clothes every day. When the staff asked if they could give him money to wash his clothes, he explained they were the only ones he had.

HBCUs, including Stillman, provide access to higher education for low-income and minority students who would otherwise not attend college. Some 75% of HBCU students are Pell-eligible. HBCUs graduate those students at higher rates than other higher education institutions. Many HBCUs have struggled financially due to reliance on tuition, the higher cost of borrowing and rising income disparity.

"Stillman College and the Landscape of HBCUs: Untapped Assets" illustrates how HBCUs are working with investment firms to use real estate assets to generate revenue, catalyze economic development in underserved areas, and provide workforce training for their student populations.   Stillman College is taking proactive steps under the leadership of Dr. Warrick to partner with real estate developers, investors and city leaders. Some new players have been drawn together by Opportunity Zones legislation, though at Stillman, the legislation has yet to produce tangible benefits.

Key Takeaways

A VALUABLE POSITION

As soon as it became clear that Stillman would be located in a designated Opportunity Zone, Dr. Warrick seized the opportunity to enlist the support of potential private equity partners and consultants to develop investment projects for the school's vacant and unused property.

Opportunity Zones offer a way to mitigate risk for impact investors, who are interested in both profits and social good. Stillman is one of an estimated 30-40 HBCUs with such investment opportunities on their campuses, many of them real estate investments or business partnerships.

Intentional development focused on the community needs can provide services to the students. Stillman, for instance, is located in a food desert; and retail outlets would serve the campus and the community. It could provide housing for working adults and student veterans; the closest non-student housing is much too expensive for moderate income renters. Additionally, development could provide jobs for students, because most Stillman students do not have cars; transportation is a major barrier to part-time employment.

THE LANDSCAPE OF HBCUS

Roughly half of the nation's 105 HBCUs have a freshman class where three-quarters of the students are from low-income backgrounds, while just 1% of the 676 non-HBCUs serve as high of a percentage of low-income students, according to a study published in 2017 by the Education Trust in Washington, D.C. HBCUs graduate almost 40% of those low-income students, whereas the graduation rate at other schools for Pell grant students is closer to 30%.

Real estate development and other investments are one available lever for HBCUs to pull in order to fulfill this historic mission. HBCUs, including Stillman, were often founded in the decades after the Civil War in what were then the outskirts of metropolitan areas in historic communities of color that were economically disadvantaged; Now, they occupy central locations that have been underdeveloped because of systemic racism, including redlining.

FINANCE AT HBCUS

Public HBCUs are backed by the full faith and credit of their state and receive funds from their state to operate. Supporting students from economically challenged backgrounds often requires a much more personal and comprehensive approach to education. This kind of support is especially well-provided on a smaller campus with lower student-faculty ratios, where it is hard to fall through the cracks. However, most HBCUs have less robust endowments than larger private HBCUs such as Spelman and Morehouse and therefore rely primarily on tuition, which has been suffering from a period of declining enrollment following the 2008 recession.

STILLMAN'S CASE

Since 2018, Dr. Warrick has worked hard to increase enrollment at Stillman. However, the five-year period between 2012-2017 was a difficult time for Stillman in terms of both declining enrollment and increasing costs. Following the 2008 recession, enrollment numbers decreased by half, down to around 628 students by the Fall of 2016. At the same time that Black families were struggling to recover from lost jobs and income, college education costs continued to increase. Dr. Warrick instituted a 20% annual furlough and gradually brought the campus budget back in line, painfully. With enrollment up, from less than 600 students in January 2017 to 861 in 2019, Stillman has been living within its means.

FALL OF 2020: THE NEW WORLD

The pandemic and Black Lives Matter movement are drawing new attention among philanthropists to HBCUs. The momentum may spread to impact investors. Key players in Stillman College's development are optimistic that the Opportunity Zone development project adjacent to the school will have committed investors in place by the end of the summer. The drive toward impact-oriented investment that began before the pandemic and the Black Lives Matter movement may also aid HBCUs.

Conclusion

Potential investments are taking on new urgency in the wake of the pandemic and after the death of George Floyd. As the United States is once again grappling with the historic legacy of slavery and centuries of systematic racism, more people are recognizing that HBCUs are a proven lever to move Black children from low-income families into the middle class. Stillman has been ranked among the top tier of small liberal arts colleges since 2004 and its supporters argue that it and the other HBCUs need to be a critical priority in higher education.

Federal programs such as Opportunity Zones and impact investing can play a role in closing a financing gap for higher education that serves disadvantaged Black communities. But the United States needs a national strategy for education for disadvantaged communities. Many small schools, including Stillman, struggle to assemble the combined expertise and resources necessary to build potential project outlines, according to Alexander Flachsbart, founder and CEO of Opportunity Alabama, an 501(c)(3) organization dedicated to supporting Opportunity Zones that will provide access to more capital in Alabama's low-income communities. For proposed developments to become viable Opportunity Zone projects, additional capital is needed, especially in the feasibility phase, because these projects are neither in the scope nor budget of small universities.

With enrollment up, from less than 600 students in January 2017 to 861 in 2019, Stillman has been living within its means. It's hard to turn your back on poor children," - In April 2017, Dr. Cynthia Warrick, took the position of president for good.

Headshot of Dr. Cynthia Warrick Credit: Stillman College

A VALUABLE POSITION

Dr. Cynthia Warrick, the President of Stillman College, had her eyes on a couple of parcels of land at the edge of the 105-acre campus. Anyone could see they were worth something. Stillman is within walking distance of the downtown of fast-growing Tuscaloosa, Alabama. And a planned revitalization of West Tuscaloosa, including a luxury housing development, was proceeding near the lush lawns and brick buildings of the HBCU, founded in 1876.

To top it off, Stillman and its real estate were in a federally designated Opportunity Zone, making them available for rich tax subsidies for investors. Warrick thought maybe a hotel, so Stillman students could take hospitality management courses. A restaurant or a grocery story: Stillman is in a food desert. Or, what about workforce housing for graduate students, faculty, or mid-level managers at the nearby Mercedes Benz plant? If she could find a developer, the college could make as much as $200,000 a year from the ground lease, a significant amount for a school with total operating revenue of $14.1 million. As Stillman has been living within its means, net assets increased $200,000 in 2019-2020, so a ground lease could potentially double that.

A development could provide services to the students, because Stillman was located in a food desert; and retail outlets would serve the campus and the community. It could provide housing for working adults and student veterans; the closest non-student housing is much too expensive for moderate income renters. Additionally, development could provide jobs for students, many of whom don't have cars, making transportation a major barrier to part-time employment.

Maybe the biggest factor that pushed her to think expansively: She was a pharmacist-turned-college-president who'd grown up in Texas. First of all, she'd never missed a payroll. And second, "I'm from San Antonio," she said with a laugh, during our initial interview with her in February 2020. "We develop everything."

The Landscape of HBCUs

Warrick started working on the development on her campus in 2019, in part because she thought the tax incentives in the new Opportunity Zones legislation could sweeten the deal for investors. Passed in 2017, the first several years of the program have drawn opportunistic investors seeking to benefit from the capital gains relief contained in the legislation. **Opportunity Zones also offer a way to mitigate risk for impact investors, who are interested in both profits and social good. Stillman is one of an estimated 30-40 HBCUs with such investment opportunities on their campuses, many of them real estate investments or business partnerships. Those potential investments are taking on new urgency in the wake of the pandemic and after the death of George Floyd. As the United States is once again grappling with the historic legacy of slavery and centuries of systematic racism, more people are recognizing that HBCUs are a proven lever to move Black children from low-income families into the middle class. Supporters argue that makes them a critical priority in higher education in the United States.**

Stillman Choir at Stillman College. Credit: Stillman College

"What I'm buoyed by is the fact that there is a renewed focus on us as a people. I'm hopeful that focus will translate into renewed commitment to our rights and needs, including education," said Lodriguez Murray, vice president of public policy and government affairs at the UNCF, the association that represents private HBCUs. According to the National Center for Education Statistics (NCES) 2017-2018, of the 101 HBCUs located in 19 states, the District of Columbia and the U.S. Virgin Islands, 51 were public institutions and 50 were private nonprofit institutions, like Stillman.

Roughly half of the nation's 105 HBCUs have a freshman class where three-quarters of the students are from low-income backgrounds, while just 1% of the 676 non-HBCUs serve as high of a percentage of low-income students, according to a study published in 2017 by the Education Trust in Washington, D.C. **HBCUs graduate almost 40% of those low-income students, whereas the graduation rate at other schools for Pell grant students is closer to 30%. About 20% of Black graduates with STEM degrees come from HBCUs, where, on average, the cost of attendance is 28% less than comparable non-HBCUs.**

"What I'm buoyed by is the fact that there is a renewed focus on us as a people. I'm hopeful that focus will translate into renewed commitment to our rights and needs, including education."

Real estate development and other investments are one available lever for HBCUs to pull in order to fulfill this historic mission. HBCUs, including Stillman, were often founded in the decades after the Civil War in what were then the outskirts of metropolitan areas; now, they occupy central locations that have been underdeveloped because of systemic racism, including redlining.

Higher education institutions have long used real estate as a way to supplement their revenue streams and help their surrounding communities. Stillman College is a case study in the opportunities at HBCUs and the obstacles that lie in their paths.

Finance At HBCUs

Public HBCUs are backed by the full faith and credit of their state and receive funds from their state to operate. Private schools have to fundraise on their own and have more latitude on how to raise those funds. Some of the top HBCUs are private, including Morehouse College and Spelman College which both have approximately 2,000 students, roughly double the size of Stillman. Both Morehouse and Spelman are historic single sex universities with very active alumni who have helped create a more robust endowment for their schools.

However, most HBCUs rely primarily on tuition (financed in large part through federal programs such as the Pell Grant) and funding from the federal government through legislation such as the Future Act, which provides permanent funding for programs including STEM research and the Strengthening Historically Black Colleges Program. Some 68% percent of the populations at HBCUs collectively are eligible for Pell Grants, which provide up to $6,345 to students from families with a combined total income of less than $26,000/annually. Some families qualify for lower grants with higher incomes.

"No other group of schools educated 75% Pell eligible students. No one else does that. The schools set up to educate the progeny of slaves still to this day do that."

The NCES publication, 1985, The Traditionally Black Institutions of Higher Education 1860 to 1982 states that although HBCUs were originally founded to educate Black students, they enroll students of other races as well. This diversity has increased over time. In 2018, non-Black students made up 24 percent of enrollment at HBCUs, compared with 15 percent in 1976 (NCES). Despite broadening their admissions policies, HBCUs have struggled with enrollment. The number of HBCU students increased 47 percent, from 223,000 to 327,000 students, between 1976 and 2010, then decreased 11 percent, to 292,000 students, between 2010 and 2018 (NCES). In comparison, the number of students in all degree-granting institutions increased 91 percent, from 11.0 million to 21.0 million students, between 1976 and 2010, then decreased 7 percent, to 19.6 million students, between 2010 and 2018 (NCES).

Supporting students from economically challenged backgrounds often requires a much more personal and comprehensive approach to education. This kind of support is especially well-provided on a smaller campus with lower student-faculty ratios, where it's hard to fall through the cracks.

America's historic black colleges are also paying the price of institutionalized racism in the financial sector. Almost a century of racist lending practices in the American financial system have made the cost of borrowing and issuing debt bonds to secure loans for **HBCUs much more expensive than for other schools. In a study conducted for the Journal of Financial Economics, researchers found that HBCUs, particularly those in the deep south, including Alabama, Mississippi, and Louisiana, pay financial institutions a markup rate almost 30 points higher than non-HBCUs in those three states, nearly triple the 11-point difference elsewhere in the country.**

"The schools are treated like the people. The schools are still working to find legitimacy among their peers because they do things differently," said Murray. "HBCUs have a student body that is unlike any other type. No other group of schools educated 75% Pell eligible students. No one else does that. The schools set up to educate the progeny of slaves still to this day do that." Like most small private colleges and particularly HBCUs, Stillman is facing significant financial challenges as it struggles to maintain and build its enrollment while managing the high costs of maintaining the facilities. At Stillman, 85% of students are eligible for Pell grants.

Stillman's Case

Stillman has always straddled worlds. Just after the Civil War ended, in 1875, the state of Alabama changed its constitution to make it illegal to educate Blacks using public funds. At the time, Charles Stillman, a white man born in Charleston, S.C., was serving as pastor of the First Presbyterian Church in Tuscaloosa. He decided to petition the General Assembly to start a school to educate Black ministers. A few years later, after Stillman was granted permission and began operating the Stillman Institute, a Black man was lynched on the grounds of First Presbyterian. Records have not been able to confirm whether the person was a student of the Institute, but because the lynching occurred while Dr. Stillman was Pastor, it was felt this act was in retribution for the founding of the school.

The first students were black males who would become ministers. Two of the most famous graduates were: Rev. William Henry Sheppard, ordained in 1888 and the missionary to the Congo known as the "Black Livingstone" and Rev. John Wesley Rice, Sr., the grandfather of Secretary of State Condoleeza Rice. Between 1930 and 1946, the Stillman Institute transformed into a hospital and nurse training school which was called the Emily Estes Snedecor Nurses' Training School and Hospital.

Aerial of Stillman College Campus. Credit: Stillman College

The school opened in 1930 and operated until 1946, the only hospital for Negroes in Tuscaloosa. In the early 1950s, Stillman expanded to provide a broader range of liberal arts degrees. Vivian Malone, the first Black graduate of the University of Alabama, stayed in a dorm at Stillman. Condoleeza Rice's father was dean of students; the secretary of state grew up on the campus.

Stillman has been ranked among the top tier of small liberal arts colleges since 2004. However, the five-year period between 2012-2017 was a difficult time for Stillman in terms of both declining enrollment and increasing costs. Enrollment numbers decreased by half, down to around 628 students in the Fall of 2016. The decline was largely due to the lingering impact of the 2008 recession on lower income and minority families. At the same time that Black families were struggling to recover from lost jobs and income, college education costs continued to increase. Adding insult to injury, a controversial Obama Administration change in federal policy made hundreds of thousands of families ineligible for the Parent-Plus loan, which usually filled the funding gap from the balance left after the Pell grant. Stillman's enrollment in 2012 was made up of 74% Pell grant recipients; in 2019 that number was 85%.

On the expenditure side, in 2012 Stillman received a $40 million federal HBCU Capital Finance Loan to finance a new Stadium Complex, Rouhlac Hall, the Education Building (now the Harte Center) and the Wynn Center. The loan repayment terms were based on the expected income from the enrollment of 1,300 students which amounted to monthly debt servicing payments of $260,000. However, that same year enrollment fell short by approximately 300 students and continued to decline thereafter. By 2017, despite debt refinancing and soliciting other sources of support, Stillman was forced to take on an additional $1.5 million bank loan, which had to be guaranteed by the City of Tuscaloosa. The City in turn became the first mortgagee on about half of the Stillman campus.

At present, Stillman's independent endowment is $5 million dollars. Stillman also shares 1/7th of the Bellingrath Morse Trust with Rhodes College (4/7th) and Huntingdon College (2/7th). This $92 million dollar trust was set up specifically to support Christian education by the estate of the Coca Cola distributor in Mobile, Ala. Stillman manages about $13 million including its share of the Trust.

Dr. Warrick arrived in 2017. She was meant to be an interim president. After stints at Grambling State University and South Carolina State University, she actively tried NOT to take the permanent position at Stillman. She was burned out, she said. But **Stillman's students won her heart. She recounted the story of a student who wore the same clothes every day, until they started to smell. When the staff asked if they could give him money to wash his clothes, he explained they were the only ones he had.**

Alumni at the college include lawyers, doctors and ministers from rural Alabama Warrick told the Wall Street Journal as she was restructuring the institution's finances. "They've told me that no one else would take them but Stillman. I think we have a responsibility to still be that place."

Since April 2017, Dr. Warrick has worked hard to increase enrollment at Stillman. She also instituted a 20% annual furlough and gradually brought the campus budget back in line, painfully. With enrollment up, from less than 600 students in January 2017 to 861 in 2019, Stillman has been living within its means. In 2018, she took the role of president for good. "It's hard to turn your back on poor children," she said.

The city of Tuscaloosa continues to play an important role in supporting the historic college particularly through public and private partnerships including the new federal Qualified Opportunity Zone program. The Opportunity Zone designation gives investors a break on capital gains if they invest in a project in one of the more than 8,700 zones across the country. Ultimately, if the investors/developers hold an investment in an Opportunity Zone for long enough – usually 10 years – they will eliminate the tax on the new investment's future appreciation.

As soon as it became clear that Stillman would be located in a designated Opportunity Zone, Dr. Warrick seized the opportunity to enlist the support of potential private equity partners and consultants to develop investment projects for the school's vacant and unused property holdings.

Two projects emerged from these initial discussions. The planned projects included building a major brand hotel on the Stillman campus and a mixed-use facility that would include a "sit-down" restaurant, retail space, coffee shop, and second-floor apartments for junior faculty and other young professionals. A third potential project, still in the conceptual stage, is the conversion of a dormitory into senior citizen housing to create a multi-generational college.

Eventually, Warrick was introduced to the right developer: Robert Jenkins, Senior Managing Director of Renaissance Equity Partners. At her invitation, he flew down to Tuscaloosa in fall of 2019. "This is a woman with a plan," he thought when he met Warrick in her office. And when he saw the land available for development: "It's pretty clear to me that it's a prime location." Jenkins is a central figure in several HBCU projects across the country. Before the pandemic struck, he aimed to raise a $75 million fund over three years to invest in real estate projects on and around HBCUs, taking advantage of public financing programs including HUD insurance for multi-family housing, New Market tax credits and Opportunity Zone designations.

The drive toward impact-oriented investment that began before the pandemic and the Black Lives Matter movement may also aid HBCUs. The institutions have increasingly been catalysts for change in communities across the country. Because they were founded in the decades after the Civil War, they are often located in historic communities of color that were economically disadvantaged as the middle class of all races moved out to the suburbs in the middle of the 20th century.

Morgan State University in Baltimore, MD is an example of an HBCU that is creating transformative change in its community by creating a bridge to investment partners for a new mixed-use development project called Northwood Plaza adjacent to the university in a designated Opportunity Zone. The new $50 million project took years to negotiate, involving more than 20 community organizations, the developers, investors and the university. "We understood that investors need a viable project, one that has a direct impact on the community, but also generates a fair return on the investment." Morgan State's Vice President Sidney Evans adds, "as I talk to other university presidents about these types of projects, you can't just come up with any type of development project, it must add value to the community and to the investors. Capital just isn't free."

Robert Jenkins, Senior Managing Director of Renaissance Equity Partners. Jenkins is a central figure in several HBCU projects across the country. Before the pandemic struck, he aimed to raise a $75 million fund over three years to invest in real estate projects on and around HBCUs, taking advantage of public financing programs including HUD insurance for multi-family housing, New Market tax credits and Opportunity Zone designations.

Photo Credit: Renaissance Equity Partners.

Other Opportunity Zone projects with HBCUs include those in Jenkins' portfolio. At present Jenkins' Renaissance Opportunity Funds are supporting five potential HBCU projects, including two that are further along than Stillman's.

The University of the Virgin Islands is an HBCU partner on a $22 million mixed-use project – a Tech Village – with about 60 apartments and 10,500 square feet of commercial space across from the university's St. Croix campus. Plans also call for a 120-room teaching hotel, to be financed, developed and managed separately. The project is seen as a key to economic and workforce development, as it will enable housing and business around a tech park and incubator meant to diversify the economy away from tourism.

In Norfolk, Virginia, Norfolk State University is the HBCU partner on the planned Sandra DeLoach Plaza, a $26.3 million mixed-use development with 125 apartments and 5,000 square feet of retail space. The project's developer is a potential joint venture between The RBH Group of Newark, New Jersey, which developed the acclaimed Teachers Village mixed-use project, and Luna Development, a Black-owned general contracting and real estate development company in Norfolk. The latter has signed on to the project.

The $150 million Teachers Village is now home to three charter schools, mixed-use retail and restaurants and 204 residential units that are 70 percent occupied by educators. The development concept was designed to revitalize downtown Newark with both retail and affordable housing while providing priority to schools and teachers as tenants. A future phase is expected to contain 30,000 square feet of commercial space targeted for a supermarket.

Fall of 2020: The New World

HBCUs' track record serving disadvantaged and Black populations mean they could benefit from donations and increasing investment following the killing of George Floyd and Black Lives Matter protests. On June 1, 2020, the UNCF received a $1 million donation from retailing giant Amazon. The donation was part of a larger $10 million donation made to 11 organizations selected by Amazon's Black Employee Network. It's significant that the UNCF was chosen out of many available non-profits and social justice groups: HBCUs engender deep and abiding loyalty in their alumni bases.

When the pandemic reached the United States, and higher education institutions sent students home, 160 students remained on the campus because they had paid for housing and meals, and many did not have secure homes. Ten international students could not travel home until July. And there's another role Stillman and HBCUs play as keepers of Black history and traditions, and ambassadors from that tradition. "When corporations look to improve diversity, they don't go to the University of Alabama," said Jenkins.

> ***"Yes, the economy is slowing, but people have to live somewhere," Jenkins pointed out. "A family doesn't have to live in an 8,000 square foot house, but they have to live somewhere."***

The projects involving hotels have been affected most by the pandemic; those that involve workforce housing and mixed-use development hold promise, especially as cities and government agencies look for ways to rejuvenate the economy. “Yes, the economy is slowing, but people have to live somewhere,” Jenkins pointed out. “A family doesn’t have to live in an 8,000 square foot house, but they have to live somewhere.” Workforce housing and food stores such as those found in mixed-use developments are unlikely to be derailed. And the slower pace has taken the pressure off fundraising. As hotel plans at Stillman have been pushed back, for instance, Jenkins aims to raise $12.5 million this year instead of $25 million.

The COVID-19 crisis has slowed many economic development projects, including the plans for a hotel at Stillman. Though Stillman had signed a memorandum of understanding with a hotel developer, those plans are now on hold as occupancy rates nationwide were still below 40% at the beginning of the summer. However, the $15 million mixed use project, which calls for workforce housing, a restaurant and a retail store, is proceeding. A feasibility study showed a high need for workforce housing in Tuscaloosa. “There is luxury housing going into Tuscaloosa, but not enough quality workforce housing,” Jenkins said. “If I were going to bet, I’d say there is a 90% chance of this project going forward.” The project has also won phase-one approval for its HUD financing. Dwight Capital, a major HUD multifamily lender, has completed a preliminary review of the project and expressed interest, Jenkins said.

Opportunity Zones still provide a unique incentive to developers to commit patient capital in communities that need more flexible financing options. Although some in the industry had speculated that there would be limited excess capital gains since the beginning of the COVID-19 crisis, especially for Opportunity Zone investment, it appears that investors are seeking impact investments, based on conversations with investment managers. **“We have seen an increase in interest from wealthy families and individuals looking to make an impact with their investments,” said Alison Delgado, a partner in New York City-based Obsidian Opportunity Fund, though she reported that Opportunity Zones were not the major attraction for investors: rather, the impact of the investment is.**

The Biznow online journal reported in May 2020 that, “several qualified opportunity zone fund managers and experts say they have noticed a considerable increase in the amount of deal activity occurring in recent weeks. This has included a flow of new money coming into opportunity zone funds, and many deals that had been in the works closing and moving forward with construction.” Opportunity Fund managers are now in a great position to market deals that provide a decent tax deferred investment and a benefit to underserved communities. This is all good news for Stillman if the school can package its investment projects with the help of organizations like Opportunity Alabama, which works to facilitate Opportunity Zone deals, and other fund managers who are looking for ways to support both racial equity and development.

Several new projects in Opportunity Zones adjacent to universities have recently been announced, including a new $450 million mixed-use project in South Los Angeles next to the University of Southern California. This is again a good sign for schools like Stillman.

"You can do good and do well in the Opportunity Zones program. You're choosing to put capital in these underserved communities that normally do not see it, and on top of that you get the tax incentive," said one of the principal founders of Opp Zone Capital fund, Edmon Rakipi, in a recent article.

One unknown for Stillman College and all higher education institutions is the extent to which enrollment falls due to the pandemic. Stillman was only beginning to emerge from its slump in enrollment, and is in a precarious position.

Caption: Sheppard Library Credit: Stillman College

Obstacles

Many small schools, including Stillman, struggle to assemble the combined expertise and resources necessary to build potential project outlines, according to Alexander Flachsbart, founder and CEO of Opportunity Alabama, a 501(c)(3) organization dedicated to supporting Opportunity Zones that will provide access to more capital in Alabama's low-income communities. As Flachsbart noted recently, his organization can attract developers by preparing a concept paper for projects such as Stillman's. But, in order for that concept to become a viable Opportunity Zone project, money is needed for a demand study and pre-development costs. Both debt and equity partners need to be committed and these services are usually costly, and not within the scope of a small university budget. Borrowing money for the project preparation phase is a difficult cost to justify, especially for cash-strapped schools like Stillman, whose costs are even higher given its asset and equity balance. Stillman's project has passed an important hurdle, receiving phase one approval for HUD financing. But it still needs to raise $1 million for pre-development costs in order to entice a developer to sign a memorandum of understanding. The pre-development costs are always the riskiest part of a project; and are more so because West Tuscaloosa, though it obviously shows potential, is as yet largely undeveloped.

Meanwhile, momentum continues to build as a consensus forms around the value of HBCUs, which fill a unique role in higher education. In mid-June, Netflix founder Reed Hastings and his wife donated $120 million, $40 each to Morehouse and Spelman colleges, and $40 million to the UNCF.

Whether the new philanthropy spreads to the impact investing sector, and whether Opportunity Zones are a viable incentive for HBCUs remains to be seen. “The schools like the people have been underinvested in for hundreds of years. How much is enough to bring them up to par?” UNCF’s Murray said. “Other institutions of higher education had a 300-year head start.”

KEY TAKEAWAYS AND CONCLUSIONS

HBCUs, including Stillman, provide access to higher education for low-income and minority students who would otherwise not attend college. Some 75% of HBCU students are Pell-eligible. HBCUs graduate those students at higher rates than other higher education institutions.

- Many HBCUs have struggled financially due to reliance on tuition, declining federal assistance, the higher cost of borrowing and rising income disparity.
- Stillman College is taking proactive steps under the leadership of Dr. Cynthia Warrick to build a stronger endowment and partnership with old and new partners in the business community and city of Tuscaloosa. Some new players have been drawn together by Opportunity Zones legislation, though at Stillman, the legislation has yet to produce tangible benefits.
- The pandemic and Black Lives Matter movement are drawing new attention among philanthropists to HBCUs. The momentum may spread to impact investors. Key players in Stillman College’s development are optimistic that the Opportunity Zone development project adjacent to the school will have committed investors in place by the end of the summer.
- Federal programs such as Opportunity Zones and impact investing can play a role in closing a financing gap for higher education that serves disadvantaged Black communities. But the United States needs a national strategy for education for disadvantaged communities.

For Further Engagement

Dr. Cynthia Warrick has kindly agreed to engage with higher-education decision-makers. She can be reached at stillmanprez@stillman.edu.

Research Sources & Notes

Research for this white paper was conducted during a time of unprecedented turmoil as the COVID-19 pandemic closed large areas of the world. Our interviews were conducted by phone and Zoom. The authors would like to thank Stillman College and Dr. Warrick for making themselves available for interviews during this difficult time in the interests of sharing best practices on how Historically Black Colleges and Universities are working with investment and development firms to use real estate assets to generate revenue, catalyze economic development in underserved areas and provide workforce training for their student populations.

Series of interviews with Dr. Cynthia Warrick, President of Stillman College, and Robert Jenkins, Senior Managing Director of Renaissance Equity Partners. (2020, February -June)

Interview with Alexander Flachsbart, founder and CEO of Opportunity Alabama. (2020, May 4, 2020)

Interview with Alison Delgado, partner, Obsidian Opportunity Fund. (2020, June 22)

Interview with Dr. Charles Mitchell, organist. (2020, July 7)

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