

NOVEMBER 8, 2021

Overview of Student Housing

PRESENTED TO: Assembly Budget Subcommittee No. 2
On Education Finance
Hon. Kevin McCarty, Chair



LEGISLATIVE ANALYST'S OFFICE

State Role Over Time

State Role Historically Has Been Small

- Historically, student housing facilities have been supported by student charges and have not been subsidized by the state.
- In 1987, the state provided the California State University (CSU) with \$2.5 million one time to create a revolving loan fund available for campuses to add affordable student housing units. Under the program (which still operates), campuses can receive low-interest loans, which they repay over time using student housing charges.

State Role Recently Was Expanded

- As part of the 2019-20 budget, the state created Rapid Rehousing programs for homeless college students—providing total ongoing state General Fund of \$19 million (\$9 million for California Community Colleges [CCC], \$6.5 million for CSU, and \$3.5 million for University of California [UC]).
- As part of the 2021-22 budget agreement, the state made its first substantial contribution to student housing projects—providing state General Fund of \$500 million in 2021-22, \$750 million in 2022-23, and \$750 million in 2023-24.
- Public community college and university campuses can apply for grant funds to construct new student housing or convert commercial space to student housing.

New State Program Focuses on Capacity and Affordability

- **Capacity.** One goal of the new state program is to increase the inventory of student housing, particularly to help foster future enrollment growth.
- **Affordability.** Another goal of the new program is to reduce the cost of student housing, especially for lower-income students.



Student Housing Goals: Capacity

Capacity Goals Are Locally Driven

- State law does not contain specific student housing capacity goals. (State law does permit campuses to provide student housing, and it allows campuses to require students to live in campus housing. Under state law, all public campuses are to give current and former homeless youth and foster youth priority for any campus housing.)
- None of segments' governing boards have established systemwide goals for the share of students to be housed.
- Campuses set their own goals. Campus goals vary. Many campuses aim to house all interested first-year students. Some campuses aim to house first- and second-year students. In addition to single undergraduate students, university campuses typically have goals to house a certain share of graduate students and students with families.

Location of Campus Has a Big Impact

- A campus' share of local versus nonlocal students has a major impact on the size of its housing program.
 - Campuses with a high share of students commuting (including community colleges and some CSU campuses) tend to have either no on-campus housing or relatively small on-campus housing programs.
 - Campuses with a high share of nonlocal students (including UC campuses and some CSU campuses) tend to have larger on-campus housing programs.



Existing Housing Capacity

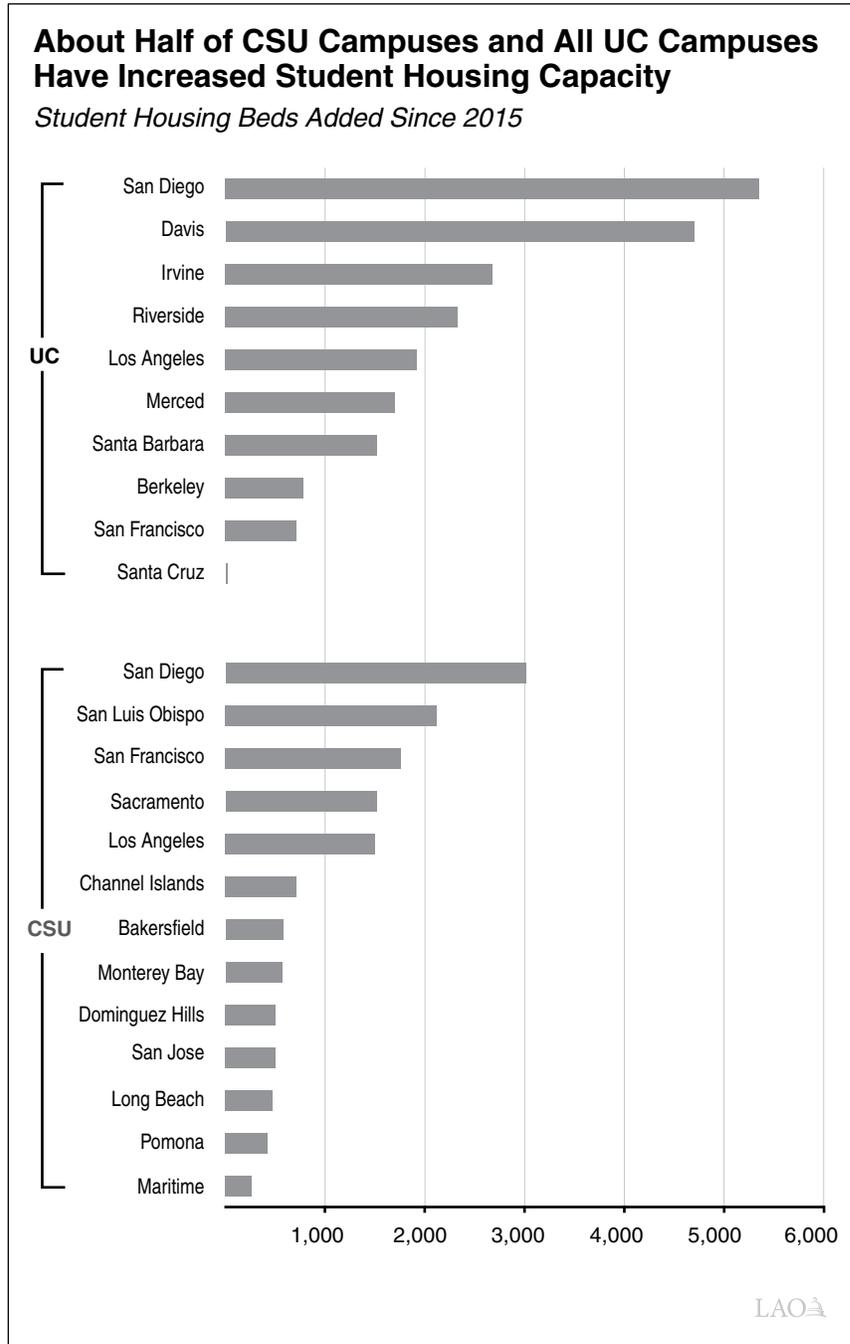
University Campuses Have Added Considerable Housing Since 2015

- Since 2015, CSU reports having completed the construction of approximately 14,300 additional beds (through 28 campus housing projects) and is in the process of constructing approximately 2,300 additional beds (through 6 projects).
- UC reports having completed the construction of approximately 21,700 additional beds (through 23 campus housing projects) and is in the process of constructing approximately 19,100 additional beds (through 21 projects).



Existing Housing Capacity

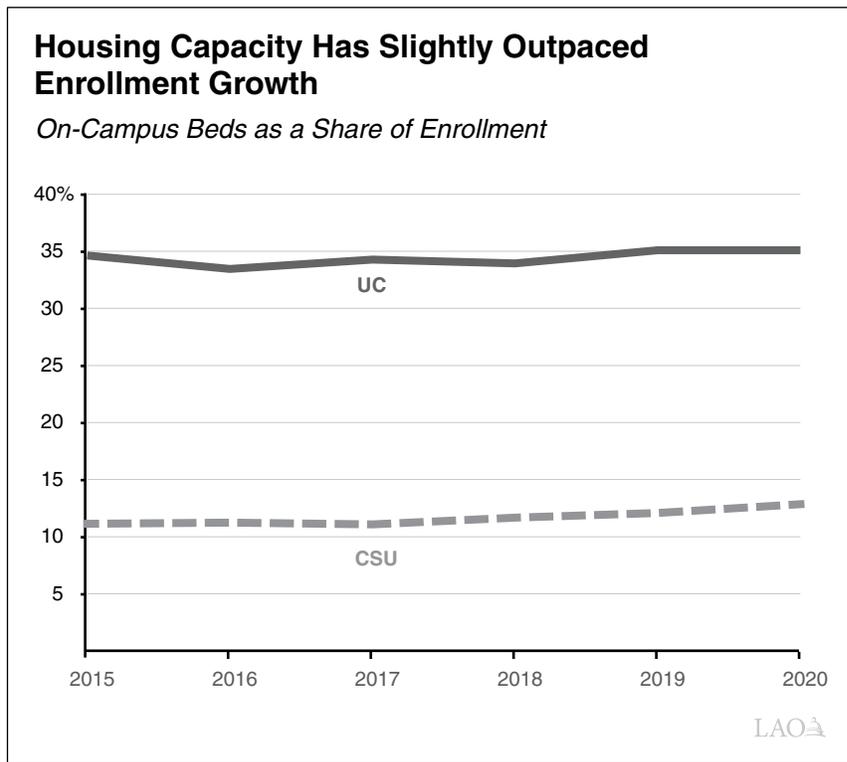
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Existing Housing Capacity

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- At both CSU and UC, on-campus beds as a share of student enrollment is slightly higher in 2020 compared to 2015.



CCC Housing Is Mostly at Rural Colleges and Decades Old

- Prior to 2019, 11 community colleges had student housing programs. Almost all of these colleges were located in rural areas and had longstanding housing programs.
- In 2019, Orange Coast College opened a student housing facility with 800 beds. This student housing facility is the largest among the community colleges (more than four times larger than at any other, accounting for about one-third of all community college beds in the system).



Addressing and Responding to Student Housing Demand

Campuses Use a Similar Process to Assess Student Housing Demand

- Campuses routinely track on-campus occupancy rates, waitlists for on-campus housing units, and rental vacancy rates within their local areas.
- If waitlists for campus housing are high, local vacancy rates are low, and/or campus housing goals are not being met, campuses will initiate a more intensive student housing study. As part of this study, campuses typically will survey students to learn more about their housing preferences as well as undertake a fuller analysis of the local housing market.

Many Campuses Currently Have Waitlists

- For fall 2021, CSU reports 13 campuses with waitlists totaling 8,700 students (up from 5,800 in fall 2019).
- For fall 2021, eight UC campuses report waitlists totaling more than 7,500 students. Some campuses report increases over pre-pandemic levels, whereas others report substantial reductions.

Many Campuses Have Plans to Further Increase Housing Capacity

- CSU reports 17 housing projects under development at 11 campuses adding more than 11,000 beds.
- UC reports 11 housing projects under development at 6 campuses adding more than 16,000 beds.



Student Housing Goals: Affordability

Campuses Aim to Keep Student Housing Charges Affordable

- Campuses set their student housing charges each year, with the two main goals of (1) covering their housing programs' annual operating and debt service costs while (2) still being somewhat below market rents.

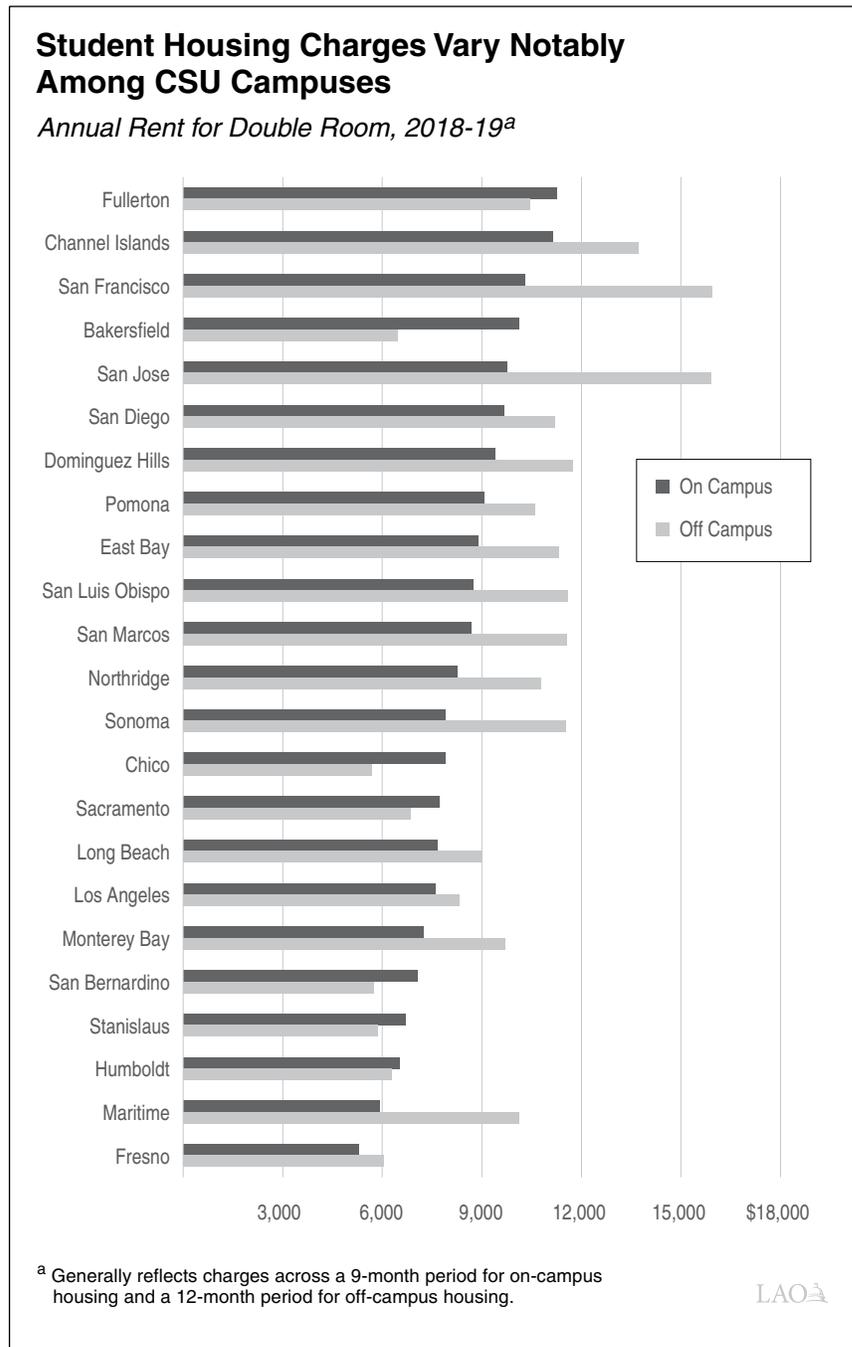
On- and Off-Campus Rents Vary by Campus

- On-campus housing charges range from more than \$11,000 per academic year at CSU Fullerton and CSU Channel Islands to less than \$6,000 per academic year at CSU Maritime and CSU Fresno. At most CSU campuses, academic-year charges are lower than off-campus charges (though those are calculated on a 12-month basis).
- UC does not systematically collect data regarding on-campus housing charges. Campus officials emphasize, however, that their housing charges are intended to be below market.
- Despite campuses aiming to have below-market housing charges, students living off-campus report paying less on average for their total living costs than students living on-campus. Off-campus students have somewhat more control over their living costs in that they can choose to have more roommates or scale back on food expenses.



Student Housing Goals: Affordability

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Financing

Three Main Financing Approaches

- **Revenue Bonds.** Universities can sell bonds to cover project costs. Campuses repay the associated debt using revenue from student housing charges. Repayment typically occurs over 30 years but can be structured for longer or shorter terms.
 - Campuses typically pay a portion of project costs (5 percent to 20 percent) in cash using their housing reserves. Typically, borrowing terms (including interest rates) become more favorable as the share of project costs covered with cash increases.
- **Public-Private Partnerships (P3).** P3s are locally negotiated agreements between a campus and a private partner. Typically, the partner helps finance some or all of the project costs. The partner pays off associated debt using revenue from student housing charges. In many P3s, the partner also operates and maintains the student housing facility for a set period. Typically, after some period (for example, 30 years), operation of the facility transfers to the campus.
- **Donors.** Some projects are covered using philanthropic support.

Most Common Approaches Varies Among the Segments

- Two-thirds of community college student housing projects have been financed using local bonds, with one-third using a P3 arrangement.
- CSU campuses primarily use revenue bonds and reserves to finance projects. Since 2015-16, 11 percent of new beds have been added using P3s.
- UC uses a mix of bonds, reserves, donors, and P3s to cover costs. Since 2015-16, 41 percent of new beds have been added using P3s.



Financing

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Existing Housing Situation Can Impact Financing Approach

- Campuses with longstanding student housing programs, relatively low levels of debt, and housing facilities in good condition tend to have more budget capacity. In these cases, campuses can build up reserves (through ongoing student housing charges at their existing facilities) to help finance new facilities.
- Newer campuses, campuses carrying a proportionally high amount of debt, and campuses with old housing stock requiring substantial renovation are less advantageously positioned in that they tend to lack sizeable reserves for launching new facilities.



Housing Constraints

Financing

- Neither CSU or UC report experiencing debt capacity constraints. Staff at both segments report that their systems have room to accommodate billions of dollars in additional debt.
- Individual housing projects, however, face the basic challenge of being viable from a fiscal perspective—meaning they can cover their operating and debt service costs while remaining affordable for students.
 - During the initial years of a new housing facility, the facility sometimes is cross-subsidized by other campus housing facilities to help keep initial student charges affordable. (As debt service costs typically remain flat but rents rise over time, supporting the facility becomes easier moving forward.)

Environmental Issues

- Campuses indicate that the California Environmental Quality Act (CEQA) review process (and potentially litigation) increases project costs and lengthens project schedule.

Land Acquisition

- A few campuses mention land acquisition as a challenge. (When facing land constraints, campuses typically add more beds by “building up” on their existing land.)



Implementation Update on New Housing Grants

Campus Applications Are Now Being Reviewed by Administration

- Applications were due to the Department of Finance (DOF) on October 31, 2021. DOF received 113 applications associated with a total funding request of \$3.3 billion (\$1.3 billion more than the total funding allotted for the program).
- All three segments (CCC, CSU, and UC) submitted applications in excess of their respective total program allotments.

Applications Exceed Program Funding				
<i>First Round of Applications (Dollars in Millions)</i>				
	Number of Applications	State Funding Requested	2021-22 Program Allotment	Total Program Allotment^a
CCC				
Construction	21	\$1,248	\$225	\$975
Planning	71	313	25	25
CSU	8	\$756	\$150	\$600
UC	8	\$597	\$100	\$400
Hastings^b	1	\$219	—	—
Intersegmental^c				
Construction	2	\$112	—	—
Planning	2	4	—	—
Totals	113	\$3,250	\$500	\$2,000

^a A total of \$2 billion is appropriated for the program (\$500 million in 2021-22, \$750 million in 2022-23, and \$750 million in 2023-24).

^b Funding provided to Hastings College of the Law likely would count against UC's program allotment.

^c Funding provided to an intersegmental partnership likely would count against each of the respective segment's program allotment.



Implementation Update on New Housing Grants

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Increase in Student Housing Capacity Will Vary Notably Across Segments

- Based upon a sample of applications, the cost per bed could range from \$150,000 to more than \$300,000.
- Based upon these initial cost estimates, the program could fund between 7,000 and 12,000 additional beds, for an increase of between 4 percent and 7 percent in total housing capacity across the three segments.
- Given their respective program allotments, the percent increase in student housing capacity will vary among the segments—potentially doubling at the community colleges, increasing 3 percent to 5 percent at CSU, and increasing 1 percent to 2 percent at UC.



Key Takeaways

Campuses Generally Are Able to Increase Housing Capacity Without State Support

- Even though ensuring the fiscal viability of any new housing project is a perennial challenge, many campuses in recent years have been able to finance and add student housing.
- Because students can be required to live on campus, campus housing projects tend to be low risk, with predictable revenue.
- Cross-subsidizing new housing projects with other self-support projects has helped keep new projects fiscally viable.
- Current interest rates, which are at historical lows, make constructing new housing projects at this time particularly attractive for campuses.

Campus Challenges Tend to Be Localized

- The main constraint to adding affordable student housing is not the same across all campuses. Campus fiscal conditions, existing campus housing stock, current housing markets, construction costs, specific environmental issues, and other community concerns vary across campuses. Even within a campus, constraints can vary among specific housing projects.
- These differences suggest any state policy response to increasing student housing capacity would need to offer flexibility for campuses to address their particular challenges.



Key Takeaways

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State Has Other Options for Addressing Affordability Challenges and Homelessness

- Traditionally, the state has helped low-income students cover their living costs while in college through financial aid programs.
- In recent years, the Legislature has significantly increased the amount of financial aid provided for students' living costs.
- In addition to enriching traditional financial aid programs, the state recently has funded basic needs programs, including Rapid Rehousing programs. Campuses report that these programs are meeting their objective of moving homeless students into stable housing.
- How the new housing grants will interact with these other state programs remains somewhat unclear. Whether they will be more or less cost-effective in helping students also remains unclear.

State Faces Other Significant Fiscal Trade-Offs

- To serve additional students, some campuses need not only more housing but also more academic space. Campuses tend to rely on the state to construct new academic space whereas they tend to have more financing options in constructing new housing.
- The state also has an interest in serving existing students in safe, well-maintained facilities, but all the segments report having sizeable maintenance backlogs.

