

Affordable Student Housing

Frequently Asked Questions Amended 2023 Budget Act and Higher Education Trailer Bill

Background

On September 13, 2023, Governor Newsom signed Senate Bill 104, the amended 2023 Budget Act, and Senate Bill (SB) 142, the amended higher education trailer bill. SB 142 amends provisions in SB 117 (Statutes of 2023), the higher education trailer bill for the 2023-24 State Budget.

In late June, SB 117 made significant changes to the Higher Education Student Housing Grant Program by revising the funding source for affordable student housing construction from a State General Fund grant to locally issued lease revenue bonds. SB 142 presents a preliminary solution and commits to a full resolution of the issues created by SB 117.

This document summarizes SB 104 and SB 142, anticipates questions district leaders may have about the impact on their program, and presents responses based on currently available information.

Summary of SB 104, the amended 2023 Budget Act

SB 104, also known as the Budget Bill Jr #2, amends the 2023 Budget Bill to provide an ongoing commitment of resources to maintain affordable rental rates. Specifically, SB 104 states: *“The funds appropriated in this item shall be allocated by the California Community Colleges Chancellor’s Office to local community college districts for ongoing support for annual rental subsidies for the provision of affordable student housing rental rates for approved community college projects authorized by the Higher Education Student Housing Grant Program pursuant to Chapter 18.5 (commencing with Section 17200) of Part 10 of Division 1 of Title 1 of the Education Code. The rental subsidies shall be based upon the amount needed to maintain affordable student housing rates and shall be provided annually for a period of 30 years, until June 30, 2054. Additionally, funding provided in this item may be used to support approved projects.”*

Summary of SB 142, amended Higher Education Trailer Bill

SB 142 includes legislative intent language indicating “*a statewide lease revenue bond or other statewide financing or fiscal approach be developed and included to support California community college affordable student housing projects.*”

In fall 2023, the Administration, Department of Finance, and senior representatives of the Legislature are anticipated to craft details of a state financing option in collaboration with CCC interest holders. The goal is for the statewide financing proposal to be included and released in January 2024 as part of Governor Newsom’s 2024-25 State Budget proposal.

During the two budget committee hearings which considered this bill, the Department of Finance assured concerned legislators that no community college district (CCD) that has already received funding from the Higher Education Student Housing Grant Program will need to return those dollars to the state. They confirmed that they are operating in good faith to ensure that the financing mechanism created over the fall will not result in dollars being returned to the state. Specifically, it is the intent for the state to issue financing and allow districts to make a ledger notation indicating the state fund source changed. Such an approach would prevent a transaction in which districts revert cash back to the state. In other words, if you are a district which has already received funding from this program, you do not need to worry about returning that funding to the state at this time.

SB 142 also does the following:

- Shifts the issuance of revenue bonds for the California Community Colleges (CCC) portions of three intersegmental projects with the University of California (UC) from the CCC to the UC.
- States that the three CCC and UC intersegmental projects to be covered through the UC issuance of revenue bonds will retain a split in the number of beds for low-income students between the participating campuses that is consistent with the Higher Education Student Housing Grant Program application approved by the state and further defined in the subsequent operating agreements between each UC campus and the CCC district partnership.
- Clarifies CCC districts that received General Fund support for grants in the Budget Act of 2022 shall revert those General Fund resources by June 29, 2024, or upon the enactment of the 2024 Budget Act, whichever is later.
- The June 2024 reversion date gives districts assurance they will not have to return funds until the end of the fiscal year, with the goal of not returning funds

and providing time for the development of a state financing solution before June 2024.

Effect on State-Approved Affordable Student Housing Projects

Do you believe a state financing solution will in fact be included in the 2024-25 state budget?

During budget committee hearings held in September 2023, the Department of Finance assured concerned legislators that community college districts that have already received funding from the Higher Student Housing Grant Program do not need to worry about returning funding to the state.

My district received an Affordable Student Housing Construction Grant as part of the 2022 California Budget. How will we return grant funding to the state and when does it need to be returned?

Your district does not need to return the Affordable Student Housing Construction Grant funding at this time. By no later than the 2024 Budget Act, a statewide lease revenue bond or other statewide financing approach will be developed and included to support state-approved affordable student housing projects.

Can my district use the Affordable Student Housing Construction Grant funding now? What if we have already spent some of the grant funding?

Districts with state-approved Affordable Student Housing construction projects may use grant funding appropriated in the 2022-23 fiscal year to cover project development activities. Districts decisions to proceed with construction are made at local discretion. Districts may consider a project delivery method which staggers the housing project's design and construction in phases. If your district is nearing construction, please consider completing your sitework and construction in increments. These approaches mitigate risks and allow projects to continue making progress.

Given the recent changes to the program, how should Affordable Student Housing Construction Grant revenue be recorded?

Districts that were awarded Affordable Student Housing Construction Grant funds are not expected to return these funds. Therefore, revenue should be recognized in the fiscal year it was received and recorded as restricted within Object 6000, Capital Outlay.

Local Lease Revenue Bonds and Future State Financing

What is a lease revenue bond?

A lease revenue bond is a type of municipal security where the bond is financially backed by dedicated lease payments. Lease-revenue bonds are sometimes used by state and local government to finance capital outlay projects. The revenue stream paying the debt service on the bond is created from lease payments to the financing entity.

Do lease revenue bonds require voter approval?

No. The Dean-Offner lease exception allows California's local governmental entities to issue lease revenue bonds without voter approval.

When will the state lease revenue bond funding be available?

A funding solution will be determined in the 2024 Budget Act. Current legislation indicates the state will pursue a statewide lease revenue bond or develop another statewide financing or fiscal approach to provide ongoing funding support for CCC Affordable Student Housing projects. Announcement of a funding approach is anticipated as part of the Governor's 2024-25 Budget Proposal in January.

My district has a state approved intersegmental project with a University of California campus or California State University campus. What does the financing transition from state grant funding to a local lease revenue bond mean for us?

The University of California and the California State University will work with its respective community college partner to coordinate the issuance of revenue bonds through their respective debt-financing programs. CCC districts do not need to issue a local lease revenue bond. Please note that the scope of the project should remain consistent with the grant application approved by the State.

Annual Rental Subsidies for Affordable Student Housing

Explain why SB 104 provides ongoing rental subsidies for state approved Affordable Student Housing Construction projects? How much funding is currently available?

SB 104, the amended 2023 Budget Act, provides ongoing funding to supplement rental revenue across approved projects. In practice, these funds allow colleges and state leaders to apply resources to debt service for approved projects, while also remaining committed to rental affordability. The 30-year timeline provides districts' assurance of the ongoing commitment to allocate resources for a period long enough to cover debt service on the construction of CCC affordable student housing projects. By covering construction costs, colleges can charge rental rates significantly below market value. These subsidies

will be available for 30 years, through June 30, 2054, when construction cost debt service is paid. The amended 2023 Budget Act provides \$61.5 million.

Effect on Planning Grants for Affordable Student Housing

Is my district's Affordable Student Housing Planning Grant impacted by the changes made in the 2023 Budget Act?

No. The \$18 million appropriated in the 2022 Budget Act for planning grants remains unchanged by current legislation. Districts may continue to use these planning grant funds for the following eligible activities:

- Feasibility studies
- Engineering studies
- Financing studies
- Environmental impact studies
- Architectural plans
- Application fees
- Legal services
- Permitting costs
- Bonding
- Site preparation

When does Affordable Student Housing Planning Grant funding need to be encumbered and expended?

The encumbrance deadline for Affordable Student Housing Planning Grants is June 30, 2025. The final expenditure deadline is June 30, 2027.

How should Affordable Student Housing Planning Grant revenue be recorded?

Affordable Student Housing Planning Grant revenue should be recognized in the fiscal year received and recorded as either restricted within Object 6000, Capital Outlay, or as Object 8620, restricted general categorical funds, as determined by specific planning activities and local accounting policy.