Date of Hearing: April 23, 2024

ASSEMBLY COMMITTEE ON HIGHER EDUCATION
Mike Fong, Chair
AB 2076 (McCarty) – As Amended March 19, 2024

SUBJECT: California Student Housing Revolving Loan Fund Act of 2022: state fund loan.

SUMMARY: Requires the State Controller to loan $200 million from the Pooled Money Investment Account (PMIA) and deposit it into the Student Housing Revolving Loan Fund (SHRLF), which provides zero-interest 30-year loans to the California Community Colleges (CCC), California State University (CSU), and University of California (UC) to support building affordable student, faculty, and staff housing. Requires the General Fund (GF) to repay the loan with interest to the PMIA. Specifically, **this bill**:

1) Stipulates that the loan principal and interest (as enumerated in the summary) must be fully repaid on or before June 30, 2029. The loan may be fully repaid sooner than that date to avoid incurring a penalty.

2) Requires that the interest rate on the loan must be equal to the PMIA average monthly effective yield rate, as determined by the Treasurer. The interest must be repaid from the GF.

EXISTING LAW:

1) Establishes the SHRLF Act of 2022 and establishes SHRLF in the State Treasury to provide zero-interest loans to qualifying CCC, CSU, and UC applicants for the purpose of constructing affordable student housing and affordable faculty and staff housing. Stipulates that all moneys in the fund are hereby continuously appropriated without regard to fiscal years.

2) Appropriates for the 2023–24 fiscal year (FY), the sum of $200 million from GF, to be deposited in the SHRLF. States that it is the intent of the Legislature to appropriate the following in subsequent fiscal years to be deposited in the SHRLF:

   a) $300 million in the 2024–25 FY;

   b) $300 million in the 2025–26 FY;

   c) $300 million in the 2026–27 FY;

   d) $300 million in the 2027–28 FY; and,

   e) $300 million in the 2028–29 FY.

3) Authorizes the State Treasurer to pledge any or all of the moneys in SHRLF as security for payment of the principal of, and interest on, a particular issuance of bonds by a designated lending authority. The Treasurer may invest moneys in SHRLF that are not required for its current needs, including proceeds from the sale of bonds, in eligible securities, as specified, all interest or other increment resulting from the investment or deposit of moneys from the SHRLF shall be deposited in the SHRLF.

4) Stipulates that moneys in the SHRLF may not be subject to transfer to any other funds, as specified, except to the Surplus Money Investment Fund (Education Code (EC) Section 67329.1, et seq.).

5) Establishes the Pooled Money Investment Board (PMIB), consisting of the State Controller, State Treasurer, and the Director of Finance. The PMIB is required to meet at least once in every three months and must designate at least once a month the amount of money available for investments in securities, as specified, or in deposits in banks and savings and loan associations, or in loans to the GF and the type of investment or deposit. Authorizes the PMIB to increase the amount of surplus money normally available for time deposits with the express purpose of placing this money in banks that are members of a California job development corporation and who have made loans to such a corporation or to corporation-approved borrowers. The PMIB governs PMIA (Government Code Sections 16430 and 16480.1, et seq.).

FISCAL EFFECT: Unknown

COMMENTS: *Purpose of the measure*. According to the author, "by removing this program's funding, as proposed in the 2024-25 Governor's Budget, there are few ongoing funding sources or financing tools to help California's public colleges and universities meet the growing need for affordable student housing. The Higher Education Student Housing Grant Program, for example, is currently oversubscribed."

The author contends that, "loaning $200 million to the California Student Housing Revolving Loan Fund would leverage short-term funding to create an ongoing, self-sustaining funding stream to help finance affordable student housing at our public colleges and universities. This program is used to issue zero-interest loans to UC, CSU, and CCC campuses to construct an estimated 25,000 student housing beds below market rate, making student housing more affordable."

The California Educational Facilities Authority (CEFA). The CEFA was established in 1973 and is housed in the Office of the State Treasurer, and was created for the purpose of issuing revenue bonds to assist private non-profit institutions of higher learning, in the expansion and construction of educational facilities. Because it is authorized to issue tax-exempt bonds, the CEFA may provide more favorable financing to such private institutions than might otherwise be obtainable.

The law specifically provides that bonds issued under this Act shall not be a debt, liability, or claim on the faith and credit or the taxing power of the State of California, or any of its political subdivisions. The full faith and credit of the participating institution is normally pledged to the payment of the bonds.

What is SHRLF? According to CEFA, on September 27, 2022, the SHRLF Act of 2022 was chaptered into law with the passing of AB 190, the Higher Education Trailer Bill (Chapter 572, Statutes of 2022), authorizing CEFA and the California School Finance Authority (CSFA) to develop the SHRLF to provide zero-interest loans to qualifying colleges and universities to construct affordable student, faculty, and staff housing. It would require CSFA to develop an application and consider applications from qualifying CCC, as provided, and CEFA to consider applications from qualifying applicants of the UC or the CSU systems, as specified. It was the intent of the Legislature to appropriate $900 million in the 2023-2024 FY and $900 million in the 2024-2025 FY.

However, on July 10, 2023, SB 117 was chaptered into law (Chapter 50, Statutes of 2023) amending the funding levels for the SHRLF and allocating $200 million for the 2023- 2024 FY, with the intent to appropriate $300 million for each FY starting from FY 2024–2025 through FY 2028–2029, totaling $1.7 billion, to be deposited in the Fund. Per SB 117, 75% of the $200 million allocation must be available for UC and CSU applicants and 25% must be available for CCC applicants.

The SHRLF requires the development of a new revolving loan program under CSFA and CEFA. This SHRLF requires policy development, underwriting criteria, regulation development, forms development, and a loan tracking system. In addition, staff have to review the loan applications and make recommendations to their respective boards to approve the loans. Since this is a revolving loan program, it would be replenished through the repayment of loans, thus it would be ongoing. In addition, CSFA and CEFA would be empowered to issue bonds in the future to replenish SHRLF if the demand were there.

The author states that, “students who would typically not attend a college due to the high cost of living associated with that campus will then be able to attend since funds used via this program results in affordable housing. This will greatly benefit lower-income and historically marginalized communities trying to attain higher education.”

What is PMIA? Through PMIA, the State Treasurer invests taxpayers’ money to manage the State’s cash flow and strengthen the financial security of local governmental entities. The PMIA policy sets as primary investment objectives safety, liquidity and yield.

The Investment Division of the State Treasurer’s Office manages the PMIA under statutory. The Pooled Money Investment Board (PMIB) governs the PMIA. The PMIA has three primary sources of funds: the State GF; special funds held by State agencies; and moneys deposited by cities, counties, and other entities into the Local Agency Investment Fund (LAIF). At the end of March 2024, the PMIA portfolio totaled approximately $156.5 billion. The daily investment activity in March 2024 averaged $2.754 billion.

Investment Division staff invest PMIA funds in a wide range of securities, using more than 100 brokers, dealers, banks and direct issuers of commercial paper and corporate debt. By law, PMIA moneys can be invested in the following categories: U. S. government securities, securities of federally-sponsored and supranational agencies, domestic corporate bonds, foreign government bonds, money market mutual funds, interest-bearing time deposits in California banks, savings and loan associations and credit unions, prime-rated commercial paper, repurchase and reverse repurchase agreements, security loans, banker's acceptances, negotiable certificates of deposit and loans to various bond funds.

Through the PMIA, the Investment Division manages two programs of particular note: the LAIF and time deposits.

The LAIF allows cities, counties and special districts to place money in a major portfolio and, at no additional costs to taxpayers, use the expertise of Investment Division staff. Participating agencies can withdraw their funds from the LAIF at any time. At the end of March 2024, the LAIF had 2,346 participating agencies and a balance of $21.0 billion.

Under the time deposit program, the PMIA provides money to community banks at competitive rates. Eligible institutions are commercial banks, savings banks and credit unions that are federally insured and licensed to accept deposits in the State of California. Banks which receive time deposit funds can use the money to expand economic opportunity and create jobs in the communities they serve. At the end of March 2024, the PMIA had 152 time deposits totaling $5.1 billion in 55 institutions.

Committee comments. This measure requires the GF to repay the loan, as drawn down upon by the UC, CSU, or CCC, with interest to the PMIA. As currently drafted, Committee Staff understands that some stakeholders may not necessarily interpret the current language of the measure in the same manner, that a UC, CSU, or CCC would have to pay back the PMIA with interest. Committee Staff also understands that the intent of the author is for the UC, CSU, or CCC, to pay back the money they receive through the SHRLF, per the initial terms of the SHRLF and that the GF would pay back the PMIA loan with interest over the five-year term.

To alleviate any potential ambiguity, moving forward, the author may wish to work with all appropriate stakeholders to ensure that no uncertainty remains in terms of the structure of the terms of repayment.

Arguments in Support. According to the UC, "University students are struggling to find affordable housing options throughout California. University of California campuses reported over 16,000 students signed up for waitlists for campus housing. University of California has approximately 6,500 student beds across the system that could be built if funding were available. The California Student Housing Revolving Loan Fund would allow campuses to proceed with these projects to create more available campus housing for students."

The CSU Office of the Chancellor states that, "Because of the state's current budget shortfall, the funding [SHRLF] was pulled back in the Governor's January Budget proposal. By utilizing the funding within the Pooled Money Investment Account, AB 2076 represents a creative approach to secure the necessary funding to initiate this important revolving loan program. The zero-interest loan program is critical to providing affordable housing and address the needs facing so many of our students, staff, and faculty."

Prior legislation. AB 1602 (McCarty) of the 2021-22 Legislative Session, which was held on the Suspense File in the Senate Committee on Appropriations, would establish the SHRLF Act of 2022 to provide zero-interest loans to qualifying applicants of the UC, CSU, and the CCC for the purpose of constructing affordable student, faculty, and staff housing.

Committee Staff understands this measure was held because SHRLF was ultimately adopted into the Annual Budget Act.

REGISTERED SUPPORT / OPPOSITION:

Support

California State University, Office of the Chancellor
University of California

Opposition

None on file.

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