

HISTORY OF UNIVERSITY OF CALIFORNIA HOUSING

University housing programs date from the 1920's. In 1958, Group A and Group B housing programs were formed. Group A secured Federal Department of Education (D.O.E.) financing for the debt managed on a systemwide basis. [Group B secured D.O.E. financing for housing facilities whose debt was administered by each campus. New facilities were funded from additional D.O.E. loans and University of California Group A Housing Revenue Bonds, bank loans or housing reserves.

In the early 60's, the John Kennedy administration further emphasized campus 'live-learn' programs. The D.O.E. directly subsidized (cash) residential properties if documents could substantiate the 'degree granting mission' of the designated property. These were funded via the federal H.U.D. vehicle at no cost to the campus.

During this same period, several gifts to UCB housing were provided, including gifts for the 'Shorb' Theme House, and a Diego Rivera mural which still resides in Stern Hall. Co-funding was occasionally applied, using loans from Group A housing reserves or President's discretionary funds. (President's discretionary funds were the product of indirect cost recovery. Subsequent indirect cost distribution has granted increased transfers to the campuses and eliminated this fund source for incremental projects.)

The California Legislature approved the Master Plan for Higher Education in 1960. The plan emphasized that any state resources be applied to instruction and research in order to minimize student tuition. The plan specifies that auxiliary services such as housing, parking, and bookstores be self supporting.

In 1967, the Regents established a Group A student rent structure policy that annually established systemwide rents. This policy, in effect, neutralized the impact of new construction and associated debt between campuses; rates on each campus were virtually identical. By 1972, the differences between debt, facility and room design, configuration (doubles or triples), food programs, housing services (RA's and staff support programs), program space (computer labs, day care), etc., created enough discrepancy between campuses that an average rate could not be identified.

Alternative methods were applied through 1994, when The Regents approved the current program: UC Office of the President establishes net earnings targets required to meet debt service requirements by campus, and the campuses establish gross revenue requirements to meet the net earnings target and their individual housing administration and programs costs. Campuses set rents which are communicated annually to UCOP and The Regents.

In 1986, housing facilities began to be 'pooled' with other UC projects for financing. The conditions and financing terms varied by pool, utilized fixed and variable rates, different interest only periods at the beginning of the term, minimum revenue requirements (coverage), etc. Projects and pools have subsequently been refinanced as the commercial loan market offered better conditions.

University of California Housing System

In 1993, the outstanding Group A bonds were defeased and the Group A indenture “retired,” and its successor University of California Housing System (UCHS) established through the issuance of the \$255 million University of California Housing System Revenue Bonds. (The sale saved nearly \$22 million in interest obligations over the defeased Group A requirements). Subsequent Regents actions also changed the Group A and B designations into the University of California Housing System (UCHS) systemwide administration and the Campus Housing Facilities (CHF) campus administrations. In Fall 2003, UCHS bonds were defeased with the issuance of the University General Revenue Bond, series A and B.

Campus housing offices coordinate UCHS properties (approximately 90% of bedspaces as of Fall, 2003), Campus Housing Facilities (7%), Third Party housing (3%). Dedicated for-rent facilities are also available for faculty and staff (1%). (Per Regent policy, CHF property rental rate and occupancy levels are assembled and reviewed annually by University of California Office of the President, nevertheless, CHF finances and debt payments are administered locally by each campus. Third Party housing is on campus property usually built and operated by a Third Party Developer; campus housing offices maintain an ‘arms-length’ relationship with Third Party Management in order to minimize the impact of these properties on UC books.)

At the time of its establishment, UCHS consisted of 26,750 residence hall bed spaces, 6,520 single student apartment bed spaces, 2,850 student family apartment units, and 460 apartments for University faculty and/or staff. Total replacement value of UCHS facilities, based on the Engineering News Record (ENR) index of December 1993 was \$2.7 billion.

As of December 2003, UCHS has grown to 33,074 residence hall bed spaces, 9,808 single student apartment bed spaces, 3,616 student family apartment units, and 493 apartments for University faculty and/or staff.

Current Financing Structures

UCHS housing is currently financed through the 2003 General Revenue Bond and though Pool 1 and Pools 3 through 10. Current bond maturity dates range from 2004 to 2032. Current outstanding General Revenue Bond debt totals \$473 million and approximately \$809 million in Pool bonds.

Indenture language applying to some Pool bonds requires annual net revenues to exceed debt service by 1.25 for the first year of occupancy (this is the ‘coverage ratio’). Additionally, 1.35X coverage for some pools is required the year prior to additional bonds being issued. The incremental income target ensures funds are available for major maintenance on facilities. Campuses may establish rents that exceed the coverage ratio to reduce anticipated rate spikes when a property (and new debt) comes online, to build reserves for large maintenance projects (property renovation) or to contribute cash (equity) for a new project in order to minimize long term debt.

While housing reserves are held at Office of the President, all housing funds and reserves maintain campus integrity. Reserves at OP are used for annual debt service payments.

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Current Housing Model

Housing Administration

Each campus administratively and financially responsible for its own operations.

UC Office of the President oversees housing policy and manages UCHS funds
(maintain campus fund identity).

Growth Funding

No state or federal funding has been applied to UC Student Housing in the last 20 years.

Follows California's 1960 'Master Plan for Higher Education' definition:

Auxiliary (support) enterprises are 'self supporting'
- self generated revenues cover all costs.

Financing

Bond Market evaluates project risk based upon (among other):

Ability generate necessary revenue to cover debt
long term enrollment growth / bed demand exceeds supply
campus rents below or at local market level.

Finance Covenant supports new housing debt with systemwide net revenues
to meet 1.25X (current) and 1.35X (additional bonds) debt service coverage tests
(see text).

Each project approved based upon campus ability to meet annual 1.25 test.
Exception exists for (one time) interest relief during first year of debt to
prevent rent spike (provided systemwide revenues can support 1.25 test).

Coverage formula provides means to accrue reserves for future maintenance and equity
requirements (i.e. some ability to minimize debt).

Housing Rates

Theoretical business model: rate based revenues = operating expense + debt service @ 1.25.

Traditionally, debt growth will require increased rates or reduced programs / expenses.

Campus debt increase for new facilities can be allocated across that campus' existing bed inventory.

Campuses with low inventory will experience 'labor pains' before more established campuses.

[Faculty / Staff property rents must support themselves: no co-mingling of revenue / expense.]

Debt Capacity

Theoretically, due to independent fund source,
given adequate rent levels and housing demand to ensure coverage,
there are no limits to growth.

University capital demand / debt capacity currently being studied by
systemwide task force.

Housing could have a detrimental impact on University growth due to higher coverage test (2.0x) for some types of UC projects.