



BDR 18-933 SB 215

EXECUTIVE AGENCY FISCAL NOTE

AGENCY'S ESTIMATES

Date Prepared: March 31, 2015

Agency Submitting: Business and Industry

Items of Revenue or Expense, or Both	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Effect on Future Biennia
Personnel (Expense)		\$449,207	\$608,983	\$1,217,966
Operating (Expense)		\$4,557	\$3,269	\$6,538
Equipment (Expense)		\$40,020		
Bond Issuance (Expense)		\$5,021,421	\$6,673,322	\$13,346,644
Information Services (Expense)		\$20,992	\$3,523	\$7,046
Reserve (Expense)		\$10,000,000	\$10,000,000	\$10,000,000
Total	0	\$15,536,197	\$17,289,097	\$24,578,194

Explanation

(Use Additional Sheets of Attachments, if required)

Student Loans are unfamiliar to the Department of Business and Industry. In effort to establish a rough estimate of the costs associated with the program, consultation has occurred with the Nevada Housing Division and Ballard-Spahr. The attachments provided outline the details supporting the proposed Student Loan Refinancing Program.

Name Lisa Figueroa

Title ASO IV

DEPARTMENT OF ADMINISTRATION'S COMMENTS

Date Tuesday, March 31, 2015

The agency's response appears reasonable.

Name James R. Wells

Title Director

Section A1: Line Item Detail by GL

Budget Account: 4681 B&I - BUSINESS AND INDUSTRY ADMINISTRATION

Item No	Description	Actual 2013-2014	Work Program 2014-2015	W26 Year 1 2015-2016	W26 Year 2 2016-2017
E226	EFFICIENT AND RESPONSIVE STATE GOVERNMENT				
	EXPENDITURE				
01	PERSONNEL				
5100	SALARIES	0	0	310,839	426,949
5200	WORKERS COMPENSATION	0	0	7,901	8,936
5300	RETIREMENT	0	0	45,074	61,908
5400	PERSONNEL ASSESSMENT	0	0	1,895	2,563
5500	GROUP INSURANCE	0	0	71,247	91,630
5700	PAYROLL ASSESSMENT	0	0	437	600
5750	RETIRED EMPLOYEES GROUP INSURANCE	0	0	6,900	9,650
5800	UNEMPLOYMENT COMPENSATION	0	0	406	554
5840	MEDICARE	0	0	4,508	6,193
	TOTAL FOR CATEGORY 01	0	0	449,207	608,983
04	OPERATING EXPENSES				
7050	EMPLOYEE BOND INSURANCE	0	0	13	12
7054	AG TORT CLAIM ASSESSMENT	0	0	1,272	1,272
7292	EITS VOICE MAIL	0	0	324	423
7295	EITS STATE PHONE LINE	0	0	1,188	1,562
7460	EQUIPMENT PURCHASES < \$1,000	0	0	1,595	0
8241	NEW FURNISHINGS <\$5,000 - A	0	0	165	0
	TOTAL FOR CATEGORY 04	0	0	4,557	3,269
05	EQUIPMENT				
8241	NEW FURNISHINGS <\$5,000 - A	0	0	40,020	0
	TOTAL FOR CATEGORY 05	0	0	40,020	0
11	STUDENT LOAN BOND EXPENSES				
7020	OPERATING SUPPLIES	0	0	3,300	3,300
7040	NON-STATE PRINTING SERVICES	0	0	2,500	2,500
7045	STATE PRINTING CHARGES	0	0	225	330
7060	CONTRACTS	0	0	4,860,000	6,520,000
7285	POSTAGE - STATE MAILROOM	0	0	315	420
7430	PROFESSIONAL SERVICES	0	0	50,000	40,000
7431	PROFESSIONAL SERVICES-A	0	0	75,000	75,000
7980	OPERATING LEASE PAYMENTS	0	0	2,610	3,480
	TOTAL FOR CATEGORY 11	0	0	4,993,950	6,645,030
26	INFORMATION SERVICES				
7533	EITS EMAIL SERVICE	0	0	665	875

State of Nevada - Budget Division
Line Item Detail & Summary
2015-2017 Biennium (FY16-17)

Item No	Description	Actual 2013-2014	Work Program 2014-2015	W26 Year 1 2015-2016	W26 Year 2 2016-2017
7554	EITS INFRASTRUCTURE ASSESSMENT	0	0	1,460	1,514
7556	EITS SECURITY ASSESSMENT	0	0	1,135	1,134
7771	COMPUTER SOFTWARE <\$5,000 - A	0	0	3,630	0
8371	COMPUTER HARDWARE <\$5,000 - A	0	0	14,102	0
	TOTAL FOR CATEGORY 26	0	0	20,992	3,523
86	RESERVE				
9178	RESERVE - BAL FWD TO SUBSEQUENT FY	0	0	10,000,000	10,000,000
	TOTAL FOR CATEGORY 86	0	0	10,000,000	10,000,000
	TOTAL EXPENDITURES FOR DECISION UNIT E226	0	0	15,508,726	17,260,805
	TOTAL REVENUES FOR BUDGET ACCOUNT 4681	0	0	0	0
	TOTAL EXPENDITURES FOR BUDGET ACCOUNT 4681	0	0	15,508,726	17,260,805

Student Loan Operating Costs

Description	October Start	
	Year 1 Total	Year 2 Total
Postage (\$35/Month)	315	420
Certificates	2,500	2,500
Business cards, Letterhead, Envelopes (\$25/Month)	225	300
Xerox Copier (\$290/Month)	2,610	3,480
NHD Cost of Issuance	1,500,000	1,500,000
NHD Negative Arbitrage	2,500,000	2,500,000
NHD Loan Servicing	840,000	2,520,000
NHD Loan Loss Reserve	10,000,000	10,000,000
Ballard-Spahr Estimated - Feasibility Research	20,000	0
Ballard-Spahr Estimated - Financial Advisor (Initial Consult)	10,000	0
Ballard-Spahr Estimated - Bond Counsel	75,000	75,000
Ballard-Spahr Estimated - Financial Advisor (Ongoing Consult)	40,000	40,000
	<u>\$ 14,990,650</u>	<u>\$ 16,641,700</u>

In-House Staff Operating Cost

\$100 start up; \$25/Month

	3,300	3,300
Total:	<u>\$ 14,993,950</u>	<u>\$ 14,993,950</u>

7020 - Operating Supplies	3,300	3,300
7040 - Non-State Printing	2,500	2,500
7045 - State Printing	225	300
7060 - Contract Services	4,860,000	6,520,000
7285 - State Mail	315	420
7430 - Professional Service - Financial	50,000	40,000
7431 - Professional Service - Legal	75,000	75,000
7980 - Copier Lease	2,610	3,480
9178 - Reserve	10,000,000	10,000,000
Total:	<u>14,993,950</u>	<u>16,645,000</u>

Projected Student Loan Refinancing Program Operating Costs

Direct Costs to the Department of Business and Industry:	Year 1	Year 2
Category 01 - Personnel	449,207	608,983
Category 04 - Operating	4,557	3,269
Category 05 - Equipment	40,020	-
Category 11 - Cost of Issuance - Operating	36,421	38,322
Category 26 - Information Technology	20,992	3,523
	<u>551,197</u>	<u>654,097</u>
External Costs:		
Category 11 - Cost of Issuance - Contracted Services	<u>14,985,000</u>	<u>16,635,000</u>
	<u>15,536,197</u>	<u>17,289,097</u>
	Ok	Ok

BAV Line Items

Date: 3/30/15 11:15 AM

Budget Period: 2015-2017 Biennium (FY16-17)

Budget Account: 4681 B&I - BUSINESS AND INDUSTRY ADMINISTRATION

Version: W26 STUDENT LOAN

Department: 74 DEPARTMENT OF BUSINESS AND INDUSTRY

Division: 740 B&I - BUSINESS AND INDUSTRY

Function: 025 COMMERCE & INDUSTRY

Sub-Function: 035 DEPT OF BUSINESS & INDUSTRY

Fund: 101 GENERAL FUND

Assigned Analyst: byers

DU	Grp	Catg	GL	Description	Year 1	Year 2	Schedule
E226	000	01	5100	SALARIES	310,839	426,949	PAYROLL
E226	000	01	5200	WORKERS COMPENSATION	7,901	8,936	PAYROLL
E226	000	01	5300	RETIREMENT	45,074	61,908	PAYROLL
E226	000	01	5400	PERSONNEL ASSESSMENT	1,895	2,563	PAYROLL
E226	000	01	5500	GROUP INSURANCE	71,247	91,630	PAYROLL
E226	000	01	5700	PAYROLL ASSESSMENT	437	600	PAYROLL
E226	000	01	5750	RETIRED EMPLOYEES GROUP INSURANCE	6,900	9,650	PAYROLL
E226	000	01	5800	UNEMPLOYMENT COMPENSATION	406	554	PAYROLL
E226	000	01	5840	MEDICARE	4,508	6,193	PAYROLL
		01 Total			449,207	608,983	
E226	000	04	7050	EMPLOYEE BOND INSURANCE	13	12	PAYROLL
E226	000	04	7054	AG TORT CLAIM ASSESSMENT	1,272	1,272	PAYROLL
E226	000	04	7292	EITS VOICE MAIL	324	423	EITS
E226	000	04	7295	EITS STATE PHONE LINE	1,188	1,562	EITS
E226	000	04	7460	EQUIPMENT PURCHASES < \$1,000	1,595	0	EQUIPMENT
E226	000	04	8241	NEW FURNISHINGS <\$5,000 - A	165	0	EQUIPMENT
		04 Total			4557	3269	
E226	000	05	8241	NEW FURNISHINGS <\$5,000 - A	40,020	0	EQUIPMENT
		05 Total			40,020	0	
E226	000	11	7020	OPERATING SUPPLIES	3,300	3,300	- None -
E226	000	11	7040	NON-STATE PRINTING SERVICES	2,500	2,500	- None -
E226	000	11	7045	STATE PRINTING CHARGES	225	330	- None -
							BUILDING RENT NON-BUILDINGS AND
E226	000	11	705A	NON B&G - PROP. & CONT. INSURANCE	17	17	FOUNDATIONS
E226	000	11	7060	CONTRACTS	4,860,000	6,520,000	VENDOR SERVICES
							BUILDING RENT NON-BUILDINGS AND
E226	000	11	7110	NON-STATE OWNED OFFICE RENT	27,117	27,929	FOUNDATIONS
							BUILDING RENT NON-BUILDINGS AND
E226	000	11	7255	B & G LEASE ASSESSMENT	337	346	FOUNDATIONS
E226	000	11	7285	POSTAGE - STATE MAILROOM	315	420	- None -
E226	000	11	7430	PROFESSIONAL SERVICES	50,000	40,000	VENDOR SERVICES
E226	000	11	7431	PROFESSIONAL SERVICES-A	75,000	75,000	VENDOR SERVICES
E226	000	11	7980	OPERATING LEASE PAYMENTS	2,610	3,480	VENDOR SERVICES
		11 Total			5,021,421	6,673,322	
E226	000	26	7533	EITS EMAIL SERVICE	665	875	EITS
E226	000	26	7554	EITS INFRASTRUCTURE ASSESSMENT	1,460	1,514	PAYROLL
E226	000	26	7556	EITS SECURITY ASSESSMENT	1,135	1,134	PAYROLL
E226	000	26	7771	COMPUTER SOFTWARE <\$5,000 - A	3,630	0	EQUIPMENT
E226	000	26	8371	COMPUTER HARDWARE <\$5,000 - A	14,102	0	EQUIPMENT
		26 Total			20,992	3523	
E226	000	86	9178	RESERVE - BAL FWD TO SUBSEQUENT FY	10,000,000	10,000,000	- None -
		86 Total			10,000,000	10,000,000	
		Grand Total			15,536,197	17,289,097	

State of Nevada
BAV Position List

3/27/15 9:30 AM

Budget Period: 2015-2017 Biennium (FY16-17)

Budget Account: 4681 B&I - BUSINESS AND INDUSTRY ADMINISTRATION

Version: W26 STUDENT LOAN

DU	PCN	Group	Class	Class Description	Type	Grade	Step	Adj	Act FTE	WP FTE	Yr1 FTE	Yr2 FTE	Start Dt	End Dt
E226	000990	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000991	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000992	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000993	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000994	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000995	SLB	07740	ECONOMIST 1	New	33	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000996	SLB	07218	ADMIN SERVICES OFFICER 1	New	37	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000997	SLB	07175	LOAN OFFICER	New	34	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000998	SLB	07175	LOAN OFFICER	New	34	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	000999	SLB	07649	PROGRAM OFFICER 1	New	31	1	0	0.00	0.00	1.00	1.00	201510	201706
E226	001000	SLB	07625	MANAGEMENT ANALYST 2	New	35	1	0	0.00	0.00	1.00	1.00	201510	201706




BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF BUSINESS AND INDUSTRY
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BRUCE H. BRESLOW
Director

CJ MANTHE
Administrator

Memorandum

To: Terry Reynolds, Deputy Directory, Dept of Business & Industry
From: C.J. Manthe, Administrator Nevada Housing Division 
Date: 3/26/15
Re: Cost estimates – student loan refinancing program

Per your request for an estimate of the potential cost of issuance for bonds in relation to a student loan refinancing program we examined the Housing Divisions' last tax exempt bond issue. Our cost on this tax exempt issue was approximately 1.5% of the bond issue size. These costs include; underwriter's fee, bond counsel, disclosure counsel, printing and rating, trustee fees, financial advisor fees, issuer counsel, legal notices and the Department of Business and Industry's private bond cap transfer fee.

If Private Activity Volume Cap is used to refinance student loans there is a statewide limit of approximately \$300 million per year (as allocated by the Internal Revenue Service) of tax exempt debt authority. If we estimate the new program uses 1/3 of the available authority each year this would result in a \$100 million bond. Based upon the estimate of 1.5% issuance cost, a bond of \$100 million would cost approximately \$1.5 million. Based upon an average loan size of \$25 thousand a \$100 million bond would serve approximately 4,000 student loans.

Another factor is potential negative arbitrage associated with tax-exempt bonds. This happens as bonds are sold and proceeds are received but not all the loans are originated immediately, they ramp up over a period of time. During this ramp up bondholders are being paid interest while loans have not been originated to receive interest income. For example, on a \$100 million bond issue with a coupon of 5% the average monthly interest expense would be \$417 thousand. Until there were sufficient loan repayments to cover the interest expense the program would experience negative arbitrage.

It is important to note as the loans are refinanced they lose their federal guarantee, interest subsidies and deferment benefits. National data suggests there is currently a 10% default rate for student loans. Applying this national estimated default rate may result in the need to establish a \$10 million loan loss reserve based on a \$100 million bond size. This would add increased fiscal pressure on the program.

The second request was for an estimate of the loan servicing costs associated with the proposed program. Loan servicing entails the processing of the monthly loan payments, transferring monthly loan proceeds to the bond trustee for debt service payment, loss mitigation and adherence to federal lending regulations. In order to provide an estimate we originally reached out to the National Council of Higher Education Resources who have servicer members and to U.S. Bank who has a student loan servicing department. Neither of these sources were able to reply as of yet.

In absence of information from other sources we looked to the experience of the Home Means Nevada program with its contract loan servicer. Based on the estimate of serving 4,000 student loans per year the basic annual servicing fee would be estimated at \$1.68 million (\$35 per loan per month). There would be additional fees for loss mitigation.

Please note the projections provided within this memo do not account for program start-up costs or ongoing costs of operations.

Recap of fiscal impact of tax-exempt bond issuance and servicing for a student loan refinancing program

Expense	Year 1	Year 2
Cost of Issuance	\$ 1,500,000	\$ 1,500,000
Negative Arbitrage**	\$ 2,500,000	\$ 2,500,000
Loan Servicing	\$ 840,000	\$ 2,520,000
Loan Loss Reserve	\$10,000,000	\$10,000,000
Total	\$14,840,000	\$16,520,000

** 6 months of debt service with limited loan origination

From: [Bruce Breslow](#)
To: [Lisa Figueroa](#)
Subject: FW: costs estimate
Date: Monday, March 30, 2015 11:58:23 AM

Lisa,

I spoke with Ballard-Spahr which represented B&I on the last bond issue and asked them to estimate the costs for BDR-18933 (student loans)

There are two parts. The first is determining the feasibility of the bond market for this "first of it's kind" bond sale. They estimate \$20,000 for researching and determining potential feasibility on their part and an additional \$10,000 for the financial advisor for B&I. Total of \$30,000 In order for the program to work the bond would need to be strong enough to get a good rating from a rating agency. Otherwise the interest rates would be too high to refinance existing bonds.

The second part would be an estimate of costs to sell such a bond in the future. That cost would be \$75,000 for bond counsel and \$40,000 for the financial advisor.

The total estimated cost to bring this bond to market (IF feasible) would be \$145,000 and there is no guarantee that there would be a buyer for these bonds at this time. In addition, B&I would need money to cover the cost of staff time and associated operating costs for the one-time bond issuance of \$5,000 bringing the total to \$150,000.

This does not include the costs for operations.



Bruce H. Breslow

Director

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