BDR S-1207
SB 506

EXECUTIVE AGENCY
FISCAL NOTE

AGENCY'S ESTIMATES

Date Prepared: April 7, 2015

Agency Submitting: Business and Industry, Housing Division

Items of Revenue or Expense, or Both	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Effect on Future Biennia
Reserve (Expense)	$8,600,000			
Reserve (Expense)	$9,400,000			
Total	$18,000,000	0	0	0

Explanation (Use Additional Sheets of Attachments, if required)

Please refer to Exhibit I for detail.

There will be a fiscal impact to the Reserve.

As approved through 2013 Legislature unused funds for the Home Means Nevada Program, will revert unspent funds to the General Fund.

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

Memorandum

To: **Lisa Figueroa, Administrative Services Officer, Dept. of Business & Industry**

From: **C.J. Manthe, Administrator Nevada Housing Division**

Date: **3/27/15**

Re: **Fiscal Note Response– SB506**

The following is a response to the fiscal impact on the Housing Division of SB506 as presented to the Senate Committee on Finance on 3/27/2015. The Summary and Sections 24 and 28 of SB506 provide:

AN ACT relating to state financial administration; requiring the transfer of certain money to the State General Fund; revising various provisions relating to the authority for such transfers; and providing other matters properly relating thereto.

Sec. 24. *The State Controller shall transfer the sum of $8,600,000 from money held in bond reserve funds established pursuant to NRS 319.340 to Budget Account 101-9081, Budget Reserve, for unrestricted State General Fund use to offset the difference between projected revenues and collections and to be used only as necessary to meet existing and future obligations of the State.*

In response to Section 24 of SB506 the Housing Division consulted the latest AA credit rating report it received from National Rating Service Standard and Poor's (S&P) to assess the impact of the proposed $8,600,000 reserve sweep. One of the key ratio's supporting the AA credit rating was the Housing Division's ratio of Total Equity as a percentage of Total Assets. The attached exhibit A-1, illustrates the S&P target ratio for AA rated Housing Finance Agencies as 21%. Per our calculation from February 2015 unaudited financial statements less the proposed reserve sweep the Housing Divisions ratio would be 22.26% and thus remain in the range desired to retain the AA credit rating. We have examined other impacts of the reserve sweep and do not forecast any negative fiscal impact of Section 24 of SB506 within the remainder of this fiscal year or the next biennium. Therefore we conclude overall there is no significant negative fiscal impact from Section 24 of SB506 to the Housing Division.

Sec. 28. *NRS 319.340 is hereby amended to read as follows:*
319.340
1. The Division may establish one or more bond reserve funds, and shall pay into each such bond reserve fund:
(a) Any money appropriated by the Legislature for the purpose of the fund;
(b) Any proceeds of sale of notes or bonds to the extent provided in connection with the issuance thereof; and
*(c) Any other money which may be available to the Division for the purpose of the fund from any other source or sources. All money held in any bond reserve fund, except as otherwise expressly provided in this chapter, must be used, as required, **[**solely**]** for the payment of the principal of bonds secured in whole or in part by the fund or of the sinking fund payments with respect to such bonds, the purchase or redemption of such bonds, the payment of interest on such bonds **,** **[**or**]** the payment of any redemption premium required to be paid when the bonds are redeemed before maturity **[.]** **or any other purpose authorized by the Legislature.***
2. Money in such a fund must not be withdrawn from the fund at any time in an amount that would reduce the amount of the fund below the requirement established for that fund, except to pay when due, with respect to bonds secured in whole or in part by that fund, principal, interest, redemption premiums and sinking fund payments for the payment of which other money of the Division is not available. Any income or interest earned by or incremental to any bond reserve fund resulting from the investment thereof may be transferred by the Division to other funds or accounts of the Division and to the Account for Low-Income Housing created pursuant to NRS 319.500, to the extent that the amount of that bond reserve fund is not reduced below the requirement for the fund.

In response to Section 28 of SB506 the Housing Division looked at current and projected financial statements and to the latest credit rating report it received from national Rating service Standard and Poor's (S&P). S&P issued the Housing Division a credit rating of AA. The AA credit rating in S&P's definition means the Division's fiscal position enables it to have a very strong capacity to meet its financial commitments. It differs from the highest-rated obligors (AAA) only to a small degree. This credit rating allows the Housing Division to receive nearly the lowest possible coupon rates (interest paid to investors) available in a given market. The AA rating additionally provides increased investor interest in bonds issued by the Housing Division as it indicates low risk of default and general fiscal stability.

We believe the inclusion of the language "***or any other purpose authorized by the Legislature"*** as a permanent addition to 319.340.1 would impair the Housing Divisions ability to retain its AA credit rating as issued by S&P. Adding this language permanently to 319.340.1 would remove the safeguards/restrictions built into the statute which are designed to provide for sufficient bond reserves and to increase investor confidence in the Housing Division's bond issues. This appearance of increased risk would potentially result in the Housing Division receiving a credit rating of A, BBB or lower. As you can see below these credit ratings carry much more risk than AA in the eyes of a potential investor:

S&P Credit Rating A: An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

S&P Credit Rating BBB: An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitments.