

**EXECUTIVE AGENCY
FISCAL NOTE**

AGENCY'S ESTIMATES

Date Prepared: February 7, 2017

Agency Submitting: Business and Industry

Items of Revenue or Expense, or Both	Fiscal Year 2016-17	Fiscal Year 2017-18	Fiscal Year 2018-19	Effect on Future Biennia
Expense (Expense)		\$16,798,533	\$18,396,192	\$35,194,725
Total	0	\$16,798,533	\$18,396,192	\$35,194,725

Explanation

(Use Additional Sheets of Attachments, if required)

It appears that private activity bonds cannot be used to refinance student loans. Director Breslow will work with the bill sponsor to see if there are other viable options. The fiscal note impact estimate was based upon consultation with the Nevada Housing Division and Gilmore & Bell. 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 Friday, January 27, 2017

The agency's response appears reasonable.

Name Laura E. Freed

Title Executive Branch Budget Office

Projected Student Loan Refinancing Program Operating Costs

Direct Costs to the Department of Business and Industry:	Year 1	Year 2
Category 01 - Personnel	515,418	701,147
Category 04 - Operating	4,292	3,626
Category 05 - Equipment	43,824	-
Category 11 - Cost of Issuance - Operating	36,387	38,330
Category 26 - Information Technology	53,612	18,089
	<u>653,533</u>	<u>761,192</u>
External Costs:		
Category 11 - Cost of Issuance - Contracted Services	<u>16,145,000</u>	<u>17,635,000</u>
	<u>16,798,533</u>	<u>18,396,192</u>
	Ok	Ok

BAV Line Items

Date: 1/20/17 3:53 PM

Budget Period: 2017-2019 Biennium (FY18-19)

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

Version: W01 STUDENT LOANS

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: dagdagan

DU	Grp	Catg	GL	Description	Actual	Work Pgm	Year 1	Year 2	Schedule
E225	000	01	5100	SALARIES	0	0	345,869	475,235	PAYROLL
E225	000	01	5200	WORKERS COMPENSATION	0	0	8,197	9,621	PAYROLL
E225	000	01	5300	RETIREMENT	0	0	62,442	85,786	PAYROLL
E225	000	01	5400	PERSONNEL ASSESSMENT	0	0	3,008	3,119	PAYROLL
E225	000	01	5500	GROUP INSURANCE	0	0	80,244	106,692	PAYROLL
E225	000	01	5700	PAYROLL ASSESSMENT	0	0	1,015	996	PAYROLL
E225	000	01	5750	RETIRED EMPLOYEES GROUP INSURANCE	0	0	9,202	12,116	PAYROLL
E225	000	01	5800	UNEMPLOYMENT COMPENSATION	0	0	430	689	PAYROLL
E225	000	01	5840	MEDICARE	0	0	5,011	6,893	PAYROLL
		01 Total					515,418	701,147	
E225	000	04	7050	EMPLOYEE BOND INSURANCE	0	0	18	18	PAYROLL
E225	000	04	7054	AG TORT CLAIM ASSESSMENT	0	0	1,183	1,165	PAYROLL
E225	000	04	7292	EITS 18-19 ELIM (OLD EITS VOICEMAIL)	0	0	384	513	EITS
E225	000	04	7295	EITS 18-19 ELIM (OLD EITS STATE PHONE LINE)	0	0	1,447	1,930	EITS
E225	000	04	7460	EQUIPMENT PURCHASES < \$1,000	0	0	1,080	0	EQUIPMENT
E225	000	04	8241	NEW FURNISHINGS <\$5,000 - A	0	0	180	0	EQUIPMENT
		04 Total					4,292	3,626	
E225	000	05	8241	NEW FURNISHINGS <\$5,000 - A	0	0	43,824	0	EQUIPMENT
		05 Total					43,824	0	
E225	000	11	7020	OPERATING SUPPLIES	0	0	3,300	3,300	- None -
E225	000	11	7040	NON-STATE PRINTING SERVICES	0	0	2,500	2,500	- None -
E225	000	11	7045	STATE PRINTING CHARGES	0	0	225	330	- None -
E225	000	11	705A	NON B&G - PROP. & CONT. INSURANCE	0	0	17	17	BUILDING RENT NON-BUILDINGS AND GROUNDS
E225	000	11	7060	CONTRACTS	0	0	5,020,000	6,520,000	VENDOR SERVICES
E225	000	11	7110	NON-STATE OWNED OFFICE RENT	0	0	27,117	27,929	BUILDING RENT NON-BUILDINGS AND GROUNDS
E225	000	11	7255	B & G LEASE ASSESSMENT	0	0	303	354	BUILDING RENT NON-BUILDINGS AND GROUNDS
E225	000	11	7285	POSTAGE - STATE MAILROOM	0	0	315	420	- None -
E225	000	11	7430	PROFESSIONAL SERVICES	0	0	50,000	40,000	VENDOR SERVICES
E225	000	11	7431	PROFESSIONAL SERVICES-A	0	0	75,000	75,000	VENDOR SERVICES
E225	000	11	7980	OPERATING LEASE PAYMENTS	0	0	2,610	3,480	VENDOR SERVICES
		11 Total					5,181,387	6,673,330	
E225	000	26	7511	EITS DATABASE ADMINISTRATOR	0	0	18,056	0	EITS
E225	000	26	7533	EITS EMAIL SERVICE	0	0	1,574	2,097	EITS
E225	000	26	7554	EITS INFRASTRUCTURE ASSESSMENT	0	0	2,350	2,539	PAYROLL
E225	000	26	7556	EITS SECURITY ASSESSMENT	0	0	1,134	1,544	PAYROLL
E225	000	26	7558	EITS 18-19 ELIM (OLD EITS VIRTUAL SERVER)	0	0	3,829	5,748	EITS
E225	000	26	7771	COMPUTER SOFTWARE <\$5,000 - A	0	0	10,121	6,161	EQUIPMENT
E225	000	26	8371	COMPUTER HARDWARE <\$5,000 - A	0	0	16,548	0	EQUIPMENT
		26 Total					53,612	18,089	
E225	000	86	9178	RESERVE - BAL FWD TO SUBSEQUENT FY	0	0	11,000,000	11,000,000	- None -
		86 Total					11,000,000	11,000,000	
		Grand Total					16,798,533	18,396,192	



BRIAN SANDOVAL
Governor

STATE OF NEVADA
DEPARTMENT OF BUSINESS & INDUSTRY
HOUSING DIVISION
1830 College Parkway Ste. 200
Carson City, Nevada 89706
Phone: (775) 687-2240 or (800) 227-4960
Fax (775) 687-4040
TDD Number (800)326-6868
www.housing.nv.gov

BRUCE BRESLOW
Director

CJ MANTHE
Administrator

To: Bruce Breslow, Director, Dept. of Business & Industry
From: C.J. Manthe, Administrator Nevada Housing Division
Date: 1/19/17
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 11% serious delinquency (Fed defines this rate as those with payments overdue by at least 90 days) rate for student loans. Applying this national estimated default rate may result in the need to establish an \$11 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 absence of information from other authoritative 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. Navient Corporation, which services student loans and offers payment plans tied to borrower's income, estimates it attempts to reach out to each student loan borrower 230-300 times through email, calls and letters in the year leading up to a borrowers default. Based on this information it would be costly and labor intensive to conduct the loss mitigation function on delinquent student loans.

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	Year1	Year2
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	\$11,000,000	\$11,000,000
Loss Mitigation***	Unable to estimate	Unable to estimate
Total	\$15,840,000	\$17,520,000

** 6 months of debt service with limited loan origination

*** While no direct data was available this could cost several thousand dollars per delinquent loan

BDR 18-18 Student Loan Program

Information Technology Component

Assumes the Department will develop a custom system to support the new Student Loan Program. The system project will involve a Department IT Professional 2 (new position) and an MSA Contractor (programmer) through the State Purchasing Division's Master Services Agreement. Also, an EITS Database Administrator would be utilized to design and build the database portion of the system.

The system will be:

- Web-based
- Utilize Microsoft's .NET framework along with SQL Server database
- Hosted on an EITS virtual server (monthly fee)

A new position, IT Professional 2, will oversee the development, testing, deployment and ongoing operation of the system.

Cost Summary

Develop System								
	Units	Count	Rate	Total	Count	Rate	Total	Comments
MSA Contracts		YR 1			YR 2			
Sr. Programmer/Analyst	Hours	1280	\$ 125.00	\$ 160,000.00	\$ -	\$ 125.00	\$ -	Software Developer approx. 8 person months.
EITS Services								
EITS Database Administrator	Hours	160	\$ 112.85	\$ 18,056.00	\$ -	\$ 112.85	\$ -	EITS DBA design & build database
Software								
SQL Server 2016 w/ 10 CALs	Licenses	1	\$ 2,859.00	\$ 2,859.00	1	\$ 2,859.00	\$ 2,859.00	Database software
SAP Crystal Reports	Licenses	4	\$ 589.44	\$ 2,357.76	4	\$ 589.44	\$ 2,357.76	Reporting
Visual Studio Professional 2015	Licenses	2	\$ 472.00	\$ 944.00	2	\$ 472.00	\$ 944.00	Developer licenses
System Total				\$ 184,216.76			\$ 6,160.76	
EITS Server Hosting								
EITS virtual server year 1 - 8 months year 2 - 12 months	EITS monthly Charge	8	\$ 478.57	\$ 3,828.56	\$ 12.00	\$ 478.57	\$ 5,742.84	Server for hosting system. Monthly charge by EITS for 1 virtual server.
				\$ 188,045.32			\$ 11,903.60	

**State of Nevada
BAV Position List**

1/20/17 3:49 PM

Budget Period: 2017-2019 Biennium (FY18-19)

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

Version: W01 STUDENT LOANS

DU	PCN	Group	Class	Class Description	Type	Grade	Step	Adj	Act FTE	WP FTE	Yr1 FTE	Yr2 FTE	Start Dt	End Dt
E225	001000	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001001	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001002	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001003	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001004	SLB	02212	ADMIN ASSISTANT 2	New	25	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001005	SLB	07740	ECONOMIST 1	New	33	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001006	SLB	07218	ADMIN SERVICES OFFICER 1	New	37	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001007	SLB	07175	LOAN OFFICER	New	34	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001008	SLB	07175	LOAN OFFICER	New	34	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001009	SLB	07649	PROGRAM OFFICER 1	New	31	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001010	SLB	07625	MANAGEMENT ANALYST 2	New	35	1	0	0.00	0.00	1.00	1.00	201710	201906
E225	001011	SLB	07926	IT PROFESSIONAL 2	New	37	1	0	0.00	0.00	1.00	1.00	201710	201906

Section A1: Line Item Detail by GL

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

Item No	Description	Actual 2015-2016	Work Program 2016-2017	W01 Year 1 2017-2018	W01 Year 2 2018-2019
E225	EFFICIENT AND RESPONSIVE STATE GOVERNMENT				
	EXPENDITURE				
01	PERSONNEL SERVICES				
5100	SALARIES	0	0	345,869	475,235
5200	WORKERS COMPENSATION	0	0	8,197	9,621
5300	RETIREMENT	0	0	62,442	85,786
5400	PERSONNEL ASSESSMENT	0	0	3,008	3,119
5500	GROUP INSURANCE	0	0	80,244	106,692
5700	PAYROLL ASSESSMENT	0	0	1,015	996
5750	RETIRED EMPLOYEES GROUP INSURANCE	0	0	9,202	12,116
5800	UNEMPLOYMENT COMPENSATION	0	0	430	689
5840	MEDICARE	0	0	5,011	6,893
	TOTAL FOR CATEGORY 01	0	0	515,418	701,147
04	OPERATING				
7050	EMPLOYEE BOND INSURANCE	0	0	18	18
7054	AG TORT CLAIM ASSESSMENT	0	0	1,183	1,165
7292	EITS 18-19 ELIM (OLD EITS VOICEMAIL)	0	0	384	513
7295	EITS 18-19 ELIM (OLD EITS STATE PHONE LINE)	0	0	1,447	1,930
7460	EQUIPMENT PURCHASES < \$1,000	0	0	1,080	0
8241	NEW FURNISHINGS <\$5,000 - A	0	0	180	0
	TOTAL FOR CATEGORY 04	0	0	4,292	3,626
05	EQUIPMENT				
8241	NEW FURNISHINGS <\$5,000 - A	0	0	43,824	0
	TOTAL FOR CATEGORY 05	0	0	43,824	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
705A	NON B&G - PROP. & CONT. INSURANCE	0	0	17	17
7060	CONTRACTS	0	0	5,020,000	6,520,000
7110	NON-STATE OWNED OFFICE RENT	0	0	27,117	27,929
7255	B & G LEASE ASSESSMENT	0	0	303	354
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	5,181,387	6,673,330

State of Nevada - Budget Division
Line Item Detail & Summary
2017-2019 Biennium (FY18-19)

Item No	Description	Actual 2015-2016	Work Program 2016-2017	W01 Year 1 2017-2018	W01 Year 2 2018-2019
26	INFORMATION SERVICES				
7511	EITS DATABASE ADMINISTRATOR	0	0	18,056	0
7533	EITS EMAIL SERVICE	0	0	1,574	2,097
7554	EITS INFRASTRUCTURE ASSESSMENT	0	0	2,350	2,539
7556	EITS SECURITY ASSESSMENT	0	0	1,134	1,544
7558	EITS 18-19 ELIM (OLD EITS VIRTUAL SERVER)	0	0	3,829	5,748
7771	COMPUTER SOFTWARE <\$5,000 - A	0	0	10,121	6,161
8371	COMPUTER HARDWARE <\$5,000 - A	0	0	16,548	0
	TOTAL FOR CATEGORY 26	0	0	53,612	18,089
86	RESERVE				
9178	RESERVE - BAL FWD TO SUBSEQUENT FY	0	0	11,000,000	11,000,000
	TOTAL FOR CATEGORY 86	0	0	11,000,000	11,000,000
	TOTAL EXPENDITURES FOR DECISION UNIT E225	0	0	16,798,533	18,396,192
	TOTAL REVENUES FOR BUDGET ACCOUNT 4681	0	0	0	0
	TOTAL EXPENDITURES FOR BUDGET ACCOUNT 4681	0	0	16,798,533	18,396,192


Student Loan Program

Develop System

	Units	Count	Rate	Total	Count	Rate	Total	Comments
<u>MSA Contracts</u>		YR 1			YR 2			
Sr. Programmer/Analyst	Hours	1280	\$ 125.00	\$ 160,000.00	\$ -	\$ 125.00	\$ -	Software Developer approx. 8 person months.
<u>EITS Services</u>								
EITS Database Administrator	Hours	160	\$ 112.85	\$ 18,056.00	\$ -	\$ 112.85	\$ -	EITS DBA design & build database
<u>Software</u>								
SQL Server 2016 w/ 10 CALs	Licenses	1	\$2,859.00	\$ 2,859.00	1	\$ 2,859.00	\$ 2,859.00	Database software
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System Total				\$ 184,216.76			\$ 6,160.76	
<u>EITS Server Hosting</u>								
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				<u>\$ 188,045.32</u>			<u>\$11,903.60</u>	

SQL Server 2016 Standar Edition

Includes server licenses and 10 CALs



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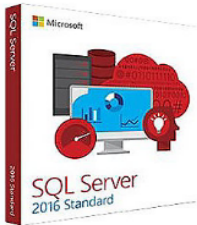
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Visual Studio Professional 2015



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