Department of Planning and Budget
2018 Fiscal Impact Statement

1. **Bill Number:** SB438

House of Origin	☒	Introduced	☐	Substitute	☐	Engrossed
Second House	☐	In Committee	☐	Substitute	☐	Enrolled

2. **Patron:** Wexton

3. **Committee:** Education and Health

4. **Title:** Establishes the Virginia Student Loan Refinancing Authority

5. **Summary:** The proposed legislation establishes the Virginia Student Loan Refinancing Authority as a political subdivision of the Commonwealth to facilitate the education of residents and promote the economic development in the Commonwealth.

   The Authority will be governed by a 10-member board, including the State Treasurer as an ex-officio voting member, for the purpose of developing and implementing a program by which the Authority may guarantee the obligations of an individual who incurred qualified education loan debt as a Virginia student at an institution of higher education in the Commonwealth under loans that refinance such education loan debt. The measure limits eligibility to individuals who have not received, and are not eligible to received, relief under applicable federal student loan repayment or loan forgiveness programs. The Authority is authorized to issue bonds to finance its obligations.

   The Authority is required to submit an annual report to the Governor and General Assembly no later than November 1 that contains the annual financial statements for the fiscal year ending the preceding June 30.

6. **Budget Amendment Necessary**: Yes. New Item.

7. **Fiscal Impact Estimates:** Preliminary. See Line 8.

8. **Fiscal Implications:** According to the State Council of Higher Education for Virginia (SCHEV), several states have recently approved loan refinancing legislation; however, these states have underlying state loan programs in place to support the administration of the program and mitigate the financial risk. This bill creates a stand-alone organization whose sole purpose is to refinance existing loans.

   It is anticipated this new authority will initially require at least a year's worth of state support for its operations until it can issue bonds to become self-supporting. In order for the authority to begin issuing debt, it is assumed that an executive director position ($110,000 salary plus benefits), a professional level financial analyst position ($70,000 salary plus benefits) and an administrative position ($40,000 plus benefits) would need to be hired, at a one-time cost of $275,000. In addition, it is estimated that $40,000 in one-time funding would be needed to cover office expenses and roughly $160,000 to pay for bond counsel and fund advisor. Overall, an estimated one-time amount from the general fund of $525,000 is needed. If funded, provisions could be included that the $525,000 be repaid to the state once the authority is self-supporting.

According to the Department of the Treasury, as currently authorized in this bill, the debt issued by this authority would not impact the debt capacity of the Commonwealth.

9. **Specific Agency or Political Subdivisions Affected:**

   Virginia Student Loan Refinancing Authority

10. **Technical Amendment Necessary:** Yes. According SCHEV, the following amendments may be needed:

    Page 9, line 523 references the definition of "qualified education loan" under 20 U.S.C. § 221(d) ("Instructions of citizens from American republics"), but SCHEV believes that the reference should be "26 U.S.C. § 221(d) (education loans) as the correct cite.

    Lines 601-602 of the legislation stipulates that a beneficiary must have "incurred qualified education loan debt as a Virginia student at an institution of higher education in the Commonwealth" which is understood to refer to those meeting the domicile requirements under §§ 23.1-502 through 505, Code of Virginia. As such, the bill addresses those who have abandoned their Virginia domicile and moved from the state post-college but does not address borrowers who moved to Virginia after college or those continuously residing in Virginia but otherwise not eligible to establish domicile. Alternatively, consideration could be given to amending the bill to address any individuals "residing in the Commonwealth" at the time they need to refinance their student loans. This change would lead to more consistent administration of the program.

11. **Other Comments:** House Bills 615 and 968 are similar to Senate Bill 438.

    Virginia previously had an authority similar in structure as this proposal called the Virginia Education Loan Authority (VELA). VELA was disbanded and its assets sold in 1997 to private entities for a one-time windfall to the state of $64 million.

    The private student loan refinancing market has grown in recent years, with many financial entities offering the ability to refinance an individual's multiple student loans into one loan, often at a lower interest rate and over a variable number of years. These entities though, only take credit-worthy individuals. Virginia's program would have to decide whether to accept higher risk candidates for refinancing.