TOWN OF FAIRFAX
STAFF REPORT

TO: Mayor and Town Council

FROM: Michael Rock, Town Manager MKR
Michael Vivrette, Finance Director

SUBJECT: Discussion/Consideration of refinancing the 2002 General Obligation Bonds (Measure K)

DATE: December 2, 2011

RECOMMENDATION:

(1) Discuss options for the use of savings from refunding (refinancing) the 2002 General Obligation bonds, and give staff direction as to which option to pursue.

(2) Authorize staff to proceed with the refunding of the 2002 Bond series with issuance of the 2012 General Obligation Refunding Bonds.

DISCUSSION:

Working with Mark Pressman, of Wulff, Hansen & Co, staff has identified that due to the general decline of interest rates, the Town has an opportunity to realize a significant savings by refunding (refinancing) the 2002 series of the General Obligation bonds it currently has outstanding. This is similar to refinancing a home mortgage.

The projected savings of $375,000 represents a present value savings of 15% which is significantly higher than the benchmark of 3%, which is the breakpoint for determining if refinancing is worthwhile.

Similar to what the Town did in 2008 with an earlier series of the same bond, this can be done with:

- No extension in length of existing loan
- Lower annual payments by property owners each year
- No out-of-pocket expenses to the Town by including costs of issuance/new money in the debt outstanding

Staff has identified several scenarios for the use of savings from refinancing:

Option 1 - Give all the benefit of reduced interest rate savings to property owners.

The preliminarily estimate is approximately $30,000 of total annual savings to property owners. Using $1.085 billion as the Town's assessed value, this would be equal to approximately $.00276 per $100 of assessed value. On an average assessed value

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home of $600,000 that equates to approximately $16.58 reduced property taxes per year. It should be noted that under current law, a property tax bill is typically deducted against income taxes, thus reducing the total savings to the property owner.

Option 2 - Give all savings in a lump sum to the Town for use as designated in the original bond issue ("cash out refunding").

If the savings are monetized and given to the Town for use as authorized in the election (street repair, etc.), the amount the Town would realize is approximately $375,000 when the refunding is completed.

- This would permit the town to complete more of the road projects which were identified with the original issuance of the bonds.
- Property owners will continue to pay their tax levy on the bonds at or slightly below what they would be paying without any bond refunding.
- Bond Counsel is able to give a clean legal opinion for a cash out refunding transaction for the Town.

The Town did a partial cash out refunding of the Series 2000 Bonds in 2008. Those bonds had the same authorization as the 2002 Series Bonds currently under consideration.

Option 3 - Give partial savings to both parties

Option 4 - Refinance the bonds with a shorter payback period

Staff is requesting that Council

(1) Discuss options for the use of savings from refunding (refinancing) the 2002 General Obligation bonds, and give staff direction as to which option to pursue.

(2) Authorize staff to proceed with the refunding of the 2002 Bond series with issuance of the 2012 General Obligation Refunding Bonds.

Once the decision is made to refinance the bonds and the option for use of savings is determined, Staff will come back to council in January for authorization issuance of bonds and to provide for public hearings as required by law.