

TOWN OF FAIRFAX

STAFF REPORT

TO: Mayor and Town Council

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



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

DATE: January 11, 2012

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:

At the December 7, 2011 Town Council meeting the Council discussed the various options for the allocation of the proceeds (outlined under "Background") from the refinancing of the General Obligation Bonds (Measure K). Both Bond Counsel and Wulf, Hansen & Company have requested the Town hold a public hearing today to give the public another chance to express their desires for the allocation of the proceeds. Attached to this staff report is the schedule for the refinancing. Interest rates are still declining so waiting an extra month may benefit the Town. The Council will consider approving the documents and sale of the Bonds at the February 1, 2012 Council meeting. The bonds will then be sold in mid February.

BACKGROUND:

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:

AGENDA ITEM # 18

- 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 preliminary 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 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.

ATTACHMENTS:

Preliminary Schedule for General Obligation Refunding (Series 2002)

TOWN OF FAIRFAX
PRELIMINARY SCHEDULE FOR 2011 G.O. Refunding (Series 2002)
AS OF 12/05/2011

Prepared by Wulff, Hansen & Co.

All dates are preliminary and subject to change

Dec

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Jan

S	M	T	W	T	F	S
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

Feb

S	M	T	W	T	F	S
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29			

Mar

S	M	T	W	T	F	S
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

Date	Action	Responsible
Nov 14	Discuss numbers and tentative schedule	All
Dec 7	Council meeting- give staff direction	Town
Dec 9	Notice of Public Hearing for 1-11-12	Town
Dec 19	First draft of legal documents	All
Dec 27	First draft of Preliminary Official Statement (POS)	BC
Jan 11	Town Council: holds public hearing	Town
Jan 12 11 am	Conference call- Review documents	All
Jan 16	Second draft of POS and legal documents Documents to rating agencies	BC Town
Jan 20	Documents to Town for Town Council meeting on Feb 1	Town
Jan 24 9 am	S&P conference call with Town	All
Jan 25	File Notice of Intent to sell bonds	Town
Jan 27	Receive ratings	Town
Feb 1	Town Council meeting approves documents and sale of bonds	Town
Feb 2	Print POS and distribute 'Notice of Sale', and POS (via IPREO)	Town/BC
Feb 15	Competitive sale date 'Notice of Call' to Paying Agent for 3-16-12	All
Feb 20	Print OS	BC
Feb 29	Pre Close	All
Mar 1	Close	All
Mar 16	Refund outstanding bonds	

PARTIES

CITY	Town of Fairfax (Issuer)
BCDC	Quint & Thimmig (Bond Counsel/Disclosure Counsel)
FA	Wulff, Hansen & Co. (Financial Advisor)
PA	US Bank (Paying Agent)



Council meets 1st Wednesday of month, 7 pm