



TOWN OF FAIRFAX

STAFF REPORT

October 5, 2016

TO: Mayor and Town Council

FROM: Garrett Toy, Town Manager 
Michael Vivrette, Finance Director

SUBJECT: Discussion of financing strategies for the Town's retirement obligations and capital improvements

CONTINUED FROM SEPTEMBER 7, 2016, MEETING

RECOMMENDATION

Discuss financing strategies for the Town's retirement obligations and capital improvements and direct staff as appropriate

DISCUSSION

At its May 2016 budget workshop, the Council discussed possible options for financing the Town's CalPERS side fund (i.e., retirement obligation) and infrastructure/capital improvements. The Council indicated it was interested in the options and would like further discussion at a future meeting.

One of the FY16-17 goals for the Finance department is to "refinance" the CalPERS side fund. The side fund is the amount calculated by CalPERS which represents the unfunded pension liability prior to 2007. CalPERS has also calculated the unfunded liability for communities between 2007 and 2013 referred to as the pre-2013 UAL (Unfunded Accrued Liability). The combined total of the side fund and pre-2013 UAL is approximately \$4.1 million (side fund-\$1.4 million and pre-2013 UAL- \$2.7 million).

Towards this goal, staff consulted with the Town's Municipal Advisor, Mark Pressman of Wulff, Hansen & Co, regarding the refinancing of the Town's retirement liability as well as the potential for financing additional capital improvements with the savings. The options were discussed with the Town's Finance Committee which consists of Mayor Goddard and Vice Mayor Reed. Specifically, we discussed:

- Option 1: refinancing only the side fund and pre-2013 UAL obligations
- Option 2: refinancing the side fund and pre-2013 UAL obligations and taking money out for capital improvements.

Under both options, the refinancing would not extend the existing 20-year term of payments.

Under Option 1, the Town refinances only the side fund and pre-2013 UAL (see Attachment 1). The "Existing Total Side Fund and Pre-2013 Pool UAL" column shows the current annual payments. The "New Refunding Debt Service" Column shows the new payments with

refinancing. The “Savings to Town” column shows the amount saved each year or difference between the current and new payments.

The Town will save approximately \$100,000 annually in interest over the first five years. In year 6 (2022), the side fund is paid off and the Town will continue to make payments for the pre-2013 UAL. As a result, the annual interest savings to the Town decreases from \$100,000 to an approximate average of \$60,000 per year. However, you will note that the Town’s annual payment has dropped by \$240,000. While this is not technically a “savings” it is money available to be allocated toward other Town expenses (e.g., pension obligations). The refinancing will save the Town over \$1.4 million in interest over the 20-year period (see Attachment 2).

Under Option 2, the Town uses its fiscal year savings to “pull” out approximately \$900,000 for capital improvements (see Attachment 3). The “New Money” columns show how much of the fiscal year savings will be used to finance the funds for capital improvements. The “Remaining Available Cash Flow” column shows the remainder of the annual savings not used to support the debt service for refinancing. Attachment 4 shows an approximate interest rate for capital improvements. Please note the actual amount will vary depending on the interest rate.

Option 2 uses a taxable rate for the “pulled out” funds. While the funds used for capital improvements can be financed with either tax-exempt or taxable rates, we used the taxable rate because there are no “spend down” requirements. Unfortunately, a tax-exempt interest rate requires all the funds to be spent within 3 years, which is highly unlikely for Fairfax. The interest rate for the refinancing of CalPERS retirement obligations is also at a taxable (higher) interest rate because the funds are not for public purpose. They benefit private individuals.

The FY16-17 budget anticipates the Town financing \$250,000 for capital improvements. Assuming a portion of the \$900,000 is applied toward the \$250,000 that leaves \$650,000 to be allocated for future projects. Staff suggests the Council develop a long term capital improvement plan for the use of the remainder of the funds. It should also be noted that the Town could pull out a lesser amount or apply some or all of the funds to other eligible expenses such as other pension obligations.

The financing mechanism would be a certificate of participation (COP) which is a lease financing structure used by many municipalities to finance capital improvements and facilities as well as retirement obligations. Mr. Pressman will provide more details on this commonly used public financing technique at the Council meeting. Mr. Pressman will also discuss the advantages and disadvantages of paying down other pension obligations instead of using the funds for capital improvements.

FISCAL IMPACT

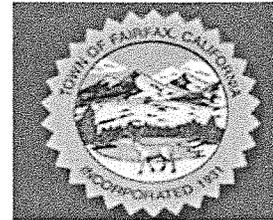
Depends on the option.

ATTACHMENTS

1. Option 1
2. Option 1
3. Option 2
4. Option 2

OPTION 1
Refunding only - No new money

Town of Fairfax
Side Fund and Share of pre-2013 pool UAL
Public Offering Method of Sale
September 29, 2016



All figures are estimates and subject to change with market rates

Combined			
Period Ending	Existing Total Side Fund and Pre-2013 pool UAL	New Refunding Debt Service	Savings to Town
6/30/17	514,505	414,767	99,738
6/30/18	529,940	426,756	103,184
6/30/19	545,838	442,882	102,956
6/30/20	562,213	452,932	109,281
6/30/21	532,811	431,894	100,917
6/30/22	240,528	190,294	50,234
6/30/23	247,744	198,157	49,587
6/30/24	255,176	205,532	49,644
6/30/25	262,832	212,513	50,319
6/30/26	270,717	219,075	51,642
6/30/27	278,838	225,025	53,813
6/30/28	287,203	229,950	57,253
6/30/29	295,820	234,525	61,295
6/30/30	304,695	243,750	60,945
6/30/31	313,835	252,450	61,385
6/30/32	323,250	255,625	67,625
6/30/33	332,948	262,938	70,010
6/30/34	342,937	274,688	68,249
6/30/35	353,224	280,688	72,536
6/30/36	363,821	291,125	72,696
6/30/37	193,660	160,813	32,847
	7,352,535	5,906,379	1,446,156

Refunding Only - No new Money

OPTION 1

**TOWN OF FAIRFAX
 Analysis of Refunding of CalPERS Obligations
 As of 9-29-16**

Prepared by Wulff hansen & Co.

All figures are preliminary and are subject to adjustment with market interest rates and other assumptions

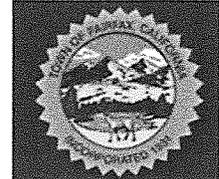
Side Fund, and Share of pre-2013 pool UAL (Assumes full payoff)

Maturity	Current <u>Combined</u>	2037	Refinancing <u>Combined</u>	2037
Approx Int Rate (Arb Yield)		7.50%		3.50 - 3.70%
Liability (Excl Int)		4,120,189		4,380,000
Potential Total Savings net of Costs		NA		1,446,000

**Savings vary per year - see schedule
 Assets are necessary to secure transaction

OPTION 2
Refunding with New Money - No Spend Down Restrictions

Town of Fairfax
 Side Fund and Share of pre-2013 pool UAL & Taxable COP
 Public Offering Method of Sale
 September 29, 2016



Taxable COP - Net New Project Funds: \$910,000

Period Ending	Combined Refunding			New Money		
	Existing Total Side Fund and Pre-2013 pool UAL	New Refunding Debt Service	Savings to Town	Period Ending	Savings Applied to New Money Debt Service	Remaining Available Cash Flow
6/30/17	514,505	414,767	99,738	6/30/17	99,624	114
6/30/18	529,940	426,756	103,184	6/30/18	99,513	3,671
6/30/19	545,838	442,882	102,956	6/30/19	98,113	4,843
6/30/20	562,213	452,932	109,281	6/30/20	106,713	2,568
6/30/21	532,811	431,894	100,917	6/30/21	100,113	804
6/30/22	240,528	190,294	50,234	6/30/22	48,613	1,621
6/30/23	247,744	198,157	49,587	6/30/23	47,863	1,724
6/30/24	255,176	205,532	49,644	6/30/24	47,113	2,531
6/30/25	262,832	212,513	50,319	6/30/25	51,363	(1,044)
6/30/26	270,717	219,075	51,642	6/30/26	50,463	1,179
6/30/27	278,838	225,025	53,813	6/30/27	54,563	(750)
6/30/28	287,203	229,950	57,253	6/30/28	53,338	3,915
6/30/29	295,820	234,525	61,295	6/30/29	57,113	4,182
6/30/30	304,695	243,750	60,945	6/30/30	60,713	232
6/30/31	313,835	252,450	61,385	6/30/31	59,138	2,247
6/30/32	323,250	255,625	67,625	6/30/32	67,563	62
6/30/33	332,948	262,938	70,010	6/30/33	70,500	(490)
6/30/34	342,937	274,688	68,249	6/30/34	68,250	(1)
6/30/35	353,224	280,688	72,536	6/30/35	71,000	1,536
6/30/36	363,821	291,125	72,696	6/30/36	68,563	4,133
6/30/37	193,660	160,813	32,847	6/30/37	31,125	1,722
	<u>7,352,535</u>	<u>5,906,379</u>	<u>1,446,156</u>		<u>1,411,357</u>	<u>34,799</u>

New Money to Town with No Spend Down Restrictions

OPTION 2

TOWN OF FAIRFAX

Analysis of Refunding of CalPERS Obligations With New Money Component
All figures are preliminary and are subject to adjustment with market interest rates and other assumptions

Prepared by Wulff, Hansen & Co.

As of 9-29-16

Side Fund, and Share of pre-2013 pool UAL (Assumes full payoff)

Taxable New Money Offering	Current		Refinancing		Taxable	
	Combined Obligation	2037	Combined Obligation	2037	Potential New Money Financing	Taxable New Money Net Proceeds
Maturity		2037		2037		2037
Approx Int Rate (Arb Yield)		7.50%		NA		3.64%
Liability (Excl Int)		4,120,189		4,380,000		1,035,000
Potential Total Savings Net of Expenses		NA		1,446,000		NA
**Savings vary per year						
Assets necessary to secure transaction						5,415,000
						910,000