TOWN OF FAIRFAX
SUPPLEMENTAL STAFF REPORT
April 6, 2016

TO: Mayor and Town Council

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

SUBJECT: Adopt a resolution of the Town Council authorizing the issuance and sale of its 2016 General Obligation Refunding Bonds to refund the Town of Fairfax 2006 General Obligation Bonds to finance infrastructure improvements

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NOTE: This is a supplemental report to items #12 and #13 on the Town agenda.

RECOMMENDATION

1) Open/close public hearing
2) Direct bond counsel to revise the documents for a transaction that will be a straight general obligation bond refunding to pass all savings through to taxpayers and return to the May Town Council meeting for approval.

DISCUSSION

At its March 2, 2016 meeting, the Town Council directed staff to proceed with the refinancing of the 2006 series with the goal of obtaining additional funds for capital improvements. We initially estimated the Town would be able to pull out approximately $100,000 depending on interest rates, final structuring, and when the bonds are priced. With that in mind and, the possibility of increasing interest rates, staff rushed to place this item on this evening's agenda.

To generate new monies for capital projects, the refunding issue is structured, as it was in 2008 and 2012, by the issuance of revenue bonds by the Fairfax Financing Authority and using the proceeds of that issue to purchase the Town's general obligation refunding bonds. The interest rate differential between the revenue bonds and the general obligation refunding bonds generates the new project monies.

However, the Town's Municipal Advisor, Mark Pressman of Wulff, Hansen & Co in San Francisco, indicates that California law limits the interest rate differential between the revenue bonds and the general obligation refunding bonds to 1%. This means that if the interest rate on the revenue bonds is 2.5%, the interest on the general obligation refunding bonds would be limited at 3.5%. With the small size of this transaction (upwards of $1.5M), the rate limitation will only generate approximately $20,000 for capital projects after costs of the transaction. The

SUPPLEMENT TO
AGENDA ITEM #12 + 13

balance of any savings must be passed through to taxpayers. A quick analysis indicates taxpayers would be paying an additional $67,000 over the life of the bonds for the Town to pull out the $20,000 for projects.

As a result of this limitation and the costs, staff is now recommending that the Council pursue Option #2 as described in the attached summary of options prepared by the Town's Municipal Advisor. In essence, the Town would be refinancing the bonds with the objective of passing all the savings to tax payers.

This action would require bond counsel to revise the documents for a transaction that will be a straight general obligation bond refunding without the use of the Fairfax Financing Authority. It should be noted that this option has lower issuance costs. That refunding transaction, and related authorization documents, would require returning to the May Town Council meeting for approval. Under this option, the estimated annual savings to taxpayers is $1.19 per $100,000 assessed value, or $5.95 per year for a $500,000 assessed value home. Annually taxpayers would save an aggregate of approximately $15,000/year or a total of $165,000 over the remaining 11-year period of the bonds.

Alternatively, the Council may choose to move ahead with the bond refinancing action as initially recommended, continue the matter, or do nothing (i.e., do not refinance). The need to conduct a meeting of the Fairfax Financing Authority would only be required if the Council wants to proceed as initially recommended.

Please note that due to the complexity of the issue, the Town Municipal Advisor's and Bond Counsel (Brian Quint, Quint & Thimmig) will plan to make a brief presentation at the meeting addressing the bond refunding process and the available options to the Council.

ATTACHMENT
Summary of Options

TOWN OF FAIRFAX
Proposed 2016 Refunding of 2006 General Obligation Bonds
SUMMARY OF CURRENT REFUNDING OPTIONS

With today's low interest rate environment, the Town of Fairfax is considering refunding its 2006 General Obligation Bonds (the "2006 Bonds"), one of three series of bonds sold after an election held in 1999 to fund improvements to community facilities, streets and storm drains within the Town (the "Project"). In 2008 and 2012 the Town refunded the other series of that authorization previously issued in 2000 and 2002. Those refunding transactions were structured to generate moneys for Project costs rather than lower the tax levy to property owners in the Town.

In refunding the 2006 Bonds, the Town has three options:

The *first option* would provide new funds to the Town to go toward the Project, similar to the structure employed in connection with the 2008 and 2012 issues, with a portion of the savings lowering the tax rate.

The *second option* would pass all savings through to tax payers, lowering the tax levy.

The *third option* would be to abandon the refunding program.

Generating meaningful savings by refunding the 2006 Bonds is challenging due to the small size of the issue ($1,255,000 of the 2006 Bonds remains outstanding). The amount of Project moneys resulting from the refunding of the 2006 Bonds is not nearly as great as in the previous refunding transactions. The primary reason for this is the small size of the proposed issue as compared with the previous larger refunding transactions ($2.2 and $2.9 million respectively).

To generate new Project moneys, the refunding issue must be structured, as it was in 2008 and 2012, by the issuance of revenue bonds by the Fairfax Financing Authority and using the proceeds of that issue to purchase the Town's general obligation refunding bonds. The interest rate differential between the revenue bonds and the general obligation refunding bonds generates the new Project moneys. However, California law limits the interest rate differential between the revenue bonds and the general obligation refunding bonds to 1%. This means that if the interest rate on the revenue bonds is 2.5%, the interest on the general obligation refunding bonds would be limited at 3.5%. With the small size of this transaction, the rate limitation will generate Project moneys of only about $20,000 after costs of the transaction. The balance of any savings must be passed through to taxpayers.

A brief summary of the options now before the Town Council follows:

1. Continue tonight with the proposed Town/Authority refunding transaction and related documents with approximate new Project funds of $20,000 and remaining savings passed on to taxpayers. The savings to tax payers will be dependent on the reduction in interest rates between the existing bonds and the new Bonds, but are estimated to be $0.70 per $100,000 or $3.50 per year for a $500,000 assessed value home; or

2. Direct bond counsel to revise the documents for a transaction that will be a straight general obligation bond refunding without use of the Fairfax Financing Authority and pass all savings through to taxpayers. That refunding transaction, and related authorization documents, would return to this Council at the May Town Council meeting for approval. Utilizing this option would generate estimated annual savings to taxpayers of $1.19 per $100,000 assessed value, or $5.95 per year for a $500,000 assessed value home; or

3. Abandon any refunding transaction.

ATTACHMENT 1