



TOWN OF FAIRFAX

STAFF REPORT

September 7, 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

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 consist of Mayor Goddard and Vice-Mayor Reed. Specifically, we discussed: 1) refinancing the side fund and pre -2013 UAL obligations and taking money out for capital improvements or 2) refinancing only the side fund and pre-2013 UAL obligations.

Under Option 1, and without extending the term of the payments, the Town would make the same annual payment for the side fund and pre-2013 UAL, but would be able to "pull" out between \$900,000 -\$1,000,000 for capital improvements depending on interest rates. The interest rate for the refinancing of CalPERS retirement obligations must be at a taxable (higher) interest rate because the funds are not for public purpose. They benefit private individuals. However, the funds used for capital improvements can

be financed with either tax-exempt or taxable rates. "Pulled out" funds using tax-exempt interest rates must be spent within 3 years. If "pulled out" funds are financed with taxable interest rates, there is no spend down requirement. Attached is Option 1 showing the refinancing of the side fund and pre-2013 UAL and the funding generated with taxable and tax-exempt rates for the capital improvements.

Option 2 only refinances the side fund and pre-2013 UAL. The attached Option 2 shows that the Town would save approximately \$100,000/yr over the first five years and then approximately \$50,000/yr over the next sixteen years. The first 5 years include both the side fund liability and the pre 2013 UAL. After 5 years, only the pre 2013 UAL remains as a liability to be refinanced.

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.

FISCAL IMPACT

Depends on the option

ATTACHMENTS

Option 1

Option 2

OPTION 1

TOWN OF FAIRFAX
Analysis of Refunding of CalPERS Obligations
All figures are preliminary and are subject to adjustment with market interest rates and other assumptions
Prepared by Wulff, Hansen & Co.
As of 8/9/2016

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

Tax Exempt	Safety Side Fd & Share Pre 2013 UAL	Misc Side Fd & Share Pre 2013 UAL	Combined	Refinancing Safety	Refinancing Misc	Refinancing Combined	Tax Exempt Potential New Financing	Tax Exempt New Money Net Proceeds
Maturity	2037	2036	2037	2037	2036	2037	2037	2037
Approx Int Rate (Arb Yield)	7.50%	7.50%	7.50%	3.50%	3.65%	NA	2.30%	NA
Liability (Excl Int)	2,643,463	1,476,726	4,120,189	2,810,000	1,570,000	4,380,000	1,040,000	1,010,000
Potential Total Savings	NA	NA	NA	798,000	648,000	1,446,000	NA	27,000
**Savings vary per year								
Assets necessary to secure transaction							5,420,000	

Taxable

Above as Taxable proceeds New Money Financing

							Taxable	Taxable
Maturity	2037	2036	2037	2037	2036	2037	2037	2037
Approx Int Rate (Arb Yield)	7.50%	7.50%	7.50%	3.50%	3.65%	NA	3.64%	NA
Liability (Excl Int)	2,643,463	1,476,726	4,120,189	2,810,000	1,570,000	4,380,000	1,035,000	910,000
Potential Total Savings	NA	NA	NA	798,000	648,000	1,446,000	NA	34,800
**Savings vary per year								
Assets necessary to secure transaction							5,415,000	

Town of Fairfax

Side Fund and Share of pre-2013 pool UAL

Public Offering Method of Sale Option

July 21, 2016



New Project Fund: \$1,010,000

Tax-Exempt Certificates of Participation

Combined

Miscellaneous Plan

Fund and Pre-2013 pool

Safety, Tier 1 Plan

Period Ending	Total Side Fund and Pre-2013 pool UAL		Fiscal Year Savings	Safety, Tier 1 Plan		Miscellaneous Plan		Fund and Pre-2013 pool		Combined		Period Ending	Refunding Debt Service	Savings	Cash Flow
	Refunding Debt Service	pool UAL		Refunding Debt Service	Savings	Refunding Debt Service	Savings	Refunding Debt Service	Savings						
7/1/2021	304,168	373,139	66,971	110,599	141,366	30,767	110,599	141,366	414,767	514,505	99,738	7/1/2021	95,721	99,738	4,017
7/1/2022	314,825	384,333	69,508	111,931	145,607	33,676	111,931	145,607	426,756	529,940	103,184	7/1/2022	100,756	103,184	2,428
7/1/2023	326,763	395,863	69,101	116,119	149,975	33,856	116,119	149,975	442,882	545,838	102,956	7/1/2023	99,356	102,956	3,600
7/1/2024	332,863	407,739	74,877	120,069	154,474	34,405	120,069	154,474	452,932	562,213	109,281	7/1/2024	107,956	109,281	1,325
7/1/2025	343,138	419,971	76,834	88,756	112,840	24,084	88,756	112,840	431,894	532,811	100,917	7/1/2025	100,556	100,917	361
7/1/2026	102,438	124,303	21,866	87,856	116,225	28,369	87,856	116,225	190,294	240,528	50,234	7/1/2026	48,306	50,234	1,928
7/1/2027	106,313	128,032	21,720	91,844	119,712	27,868	91,844	119,712	198,157	247,744	49,587	7/1/2027	47,556	49,587	2,031
7/1/2028	109,938	131,873	21,936	95,594	123,303	27,709	95,594	123,303	205,532	255,176	49,644	7/1/2028	46,556	49,644	3,088
7/1/2029	113,363	135,829	22,467	99,150	127,003	27,853	99,150	127,003	212,513	262,832	50,319	7/1/2029	50,556	50,319	(237)
7/1/2030	116,575	139,904	23,329	102,500	130,813	28,313	102,500	130,813	219,075	270,717	51,642	7/1/2030	49,356	51,642	2,286
7/1/2031	119,475	144,101	24,626	105,550	134,737	29,187	105,550	134,737	225,025	278,838	53,813	7/1/2031	53,156	53,813	657
7/1/2032	121,850	148,424	26,574	108,100	138,779	30,679	108,100	138,779	229,950	287,203	57,253	7/1/2032	57,456	57,253	(203)
7/1/2033	124,050	152,877	28,827	110,475	142,943	32,468	110,475	142,943	234,525	295,820	61,295	7/1/2033	61,606	61,295	(311)
7/1/2034	131,075	157,464	26,389	112,675	147,231	34,556	112,675	147,231	243,750	304,695	60,945	7/1/2034	60,594	60,945	351
7/1/2035	132,750	162,187	29,437	119,700	151,648	31,948	119,700	151,648	252,450	313,835	61,385	7/1/2035	59,525	61,385	1,860
7/1/2036	134,250	167,053	32,803	121,375	156,197	34,822	121,375	156,197	255,625	323,250	67,625	7/1/2036	68,400	67,625	(775)
7/1/2037	140,313	172,065	31,753	122,625	160,883	38,258	122,625	160,883	262,938	332,948	70,010	7/1/2037	71,200	70,010	(1,190)
7/1/2038	146,000	177,227	31,227	128,688	165,710	37,023	128,688	165,710	274,688	342,937	68,249	7/1/2038	68,800	68,249	(551)
7/1/2039	151,313	182,543	31,231	129,375	170,681	41,306	129,375	170,681	280,688	353,224	72,536	7/1/2039	71,400	72,536	1,136
7/1/2040	156,250	188,020	31,770	134,875	175,801	40,926	134,875	175,801	291,125	363,821	72,696	7/1/2040	68,800	72,696	3,896
7/1/2041	160,813	193,660	32,848	138,875	180,813	40,926	138,875	180,813	160,813	193,660	32,847	7/1/2041	31,200	32,847	1,647
	3,688,523	4,486,607	798,094	2,217,855	2,865,928	648,073	2,217,855	2,865,928	5,906,379	7,352,535	1,446,156		1,418,812	1,446,156	27,344

TOWN OF FAIRFAX

Analysis of Refunding of CalPERS Obligations

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

Prepared by Wulff, Hansen & Co.

As of 8/31/2016

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

Tax Exempt	Safety Side Fd & Share Pre 2013 UAL	Misc Side Fd & Share Pre 2013 UAL	Combined	Refinancing Safety	Refinancing Misc	Refinancing Combined
Maturity	2037	2036	2037	2037	2036	2037
Approx Int Rate (Arb Yield)	7.50%	7.50%	7.50%	3.50%	3.65%	NA
Liability (Excl Int)	2,643,463	1,476,726	4,120,189	2,810,000	1,570,000	4,380,000
Potential Total Savings	NA	NA	NA	798,000	648,000	1,446,000

**Savings vary per year

Assets necessary to secure transaction



**Town of Fairfax
Side Fund and Share of pre-2013 pool UAL
Public Offering Method of Sale Option
July 21, 2016**

Safety, Tier 1 Plan				Miscellaneous Plan				Combined			
Period Ending	Refunding Debt Service	Total Side Fund and Pre-2013 pool UAL	Fiscal Year Savings	Period Ending	Refunding Debt Service	Fund and Pre-2013 pool UAL	Savings	Period Ending	Refunding Debt Service	Fund and Pre-2013 pool UAL	Savings
7/1/2022	314,825	384,333	69,508	7/1/2022	111,931	145,607	33,676	7/1/2022	426,756	529,940	103,184
7/1/2023	326,763	395,863	69,101	7/1/2023	116,119	149,975	33,856	7/1/2023	442,882	545,838	102,956
7/1/2024	332,863	407,739	74,877	7/1/2024	120,069	154,474	34,405	7/1/2024	452,932	562,213	109,281
7/1/2025	343,138	419,971	76,834	7/1/2025	88,756	112,840	24,084	7/1/2025	431,894	532,811	100,917
7/1/2026	102,438	124,303	21,866	7/1/2026	87,856	116,225	28,369	7/1/2026	190,294	240,528	50,234
7/1/2027	106,313	128,032	21,720	7/1/2027	91,844	119,712	27,868	7/1/2027	198,157	247,744	49,587
7/1/2028	109,938	131,873	21,936	7/1/2028	95,594	123,303	27,709	7/1/2028	205,532	255,176	49,644
7/1/2029	113,363	135,829	22,467	7/1/2029	99,150	127,003	27,853	7/1/2029	212,513	262,832	50,319
7/1/2030	116,575	139,904	23,329	7/1/2030	102,500	130,813	28,313	7/1/2030	219,075	270,717	51,642
7/1/2031	119,475	144,101	24,626	7/1/2031	105,550	134,737	29,187	7/1/2031	225,025	278,838	53,813
7/1/2032	121,850	148,424	26,574	7/1/2032	108,100	138,779	30,679	7/1/2032	229,950	287,203	57,253
7/1/2033	124,050	152,877	28,827	7/1/2033	110,475	142,943	32,468	7/1/2033	234,525	295,820	61,295
7/1/2034	131,075	157,464	26,389	7/1/2034	112,675	147,231	34,556	7/1/2034	243,750	304,695	60,945
7/1/2035	132,750	162,187	29,437	7/1/2035	119,700	151,648	31,948	7/1/2035	252,450	313,835	61,385
7/1/2036	134,250	167,053	32,803	7/1/2036	121,375	156,197	34,822	7/1/2036	255,625	323,250	67,625
7/1/2037	140,313	172,065	31,753	7/1/2037	122,625	160,883	38,258	7/1/2037	262,938	332,948	70,010
7/1/2038	146,000	177,227	31,227	7/1/2038	128,688	165,710	37,023	7/1/2038	274,688	342,937	68,249
7/1/2039	151,313	182,543	31,231	7/1/2039	129,375	170,681	41,306	7/1/2039	280,688	353,224	72,536
7/1/2040	156,250	188,020	31,770	7/1/2040	134,875	175,801	40,926	7/1/2040	291,125	363,821	72,696
7/1/2041	160,813	193,660	32,848					7/1/2041	160,813	193,660	32,847
	3,688,523	4,486,607	798,094		2,217,855	2,865,928	648,073		5,906,379	7,352,535	1,446,156