August 5, 2020 - Town of Fairfax- FAQ'S for Refinancing Pension Obligations

Below are responses to "Frequently Asked Questions (FAQs) prepared by the Town's Municipal Advisor, Wulff, Hansen, & Co. They will address these more completely during their presentation at the August 5th Town Council meeting. In their experience, the Town Municipal Advisor finds that explaining these concepts verbally with a visual aid is required in communicating these complex topics to both Councils and members of the public. The information below is taken from and is qualified in its entirety by their August 5th presentation. The presentation will include a breakdown of Savings, with tables to show the detail of the savings over the life of the financing. We hope that this information can help bridge the gap for Councilmembers and community in anticipation of the presentation on Wednesday.

1) Have any other jurisdictions in Marin County used the Town's streets as lease assets? If non, have other jurisdictions in California used this structure? What has been their experience?

We are not aware of any entity in Marin County which has utilized a structure with streets serving as the leased asset, but our firm is in discussions with entities in the County which are currently contemplating this approach for their own financing needs. Two examples of entities in Southern California who have recently used streets for this purpose are 1) the City of West Covina which used this approach to issue over $200 million in lease revenue bonds to finance unfunded pension liabilities earlier this summer (as part of the process S&P Global Ratings affirmed its existing rating), these bonds were oversubscribed in the sale creating multimillions in additional savings for the city, and 2) the City of Redondo Beach which used this approach to issue bonds to finance various capital projects.

2) **Is the Town's current unfunded accrued pension liability (UAL) a fixed amount or does it change?**

The payoff amount is an estimate as of June 30, 2021, provided by CalPERS, based on its latest actuarial valuation. At the time of the issuance of the bonds, the amount of the unfunded liability will be verified by CalPERS as the amount that can be paid off in full to bring the then balance owed to CalPERS on each specific plan to zero. This balance is subject to change per CalPERS future investment performance, both positive (creating a surplus) and negative (creating a new unfunded actuarial liability).

3) If the Town proceeds with the payoff of the UAL through these bonds, what happens when CalPERS does not meet their 7% investment return? Is there some guarantee that when we pay off the UAL we are "done"?

The payoff will bring the Town's obligation to make payments on its unfunded liability to zero as of June 30, 2021. If, going forward CalPERS earns less than 7%, a new unfunded actuarial liability would be created with an amortized payment schedule to pay it off over a period 15-30 years. Then if CalPERS performs with greater results and returns greater than 7%, the excess is set aside for the benefit of the Town to be applied in the future to any unfunded liabilities that are created. This process is repeated every year.

4) Is the Town only proposing to payoff the highest tiers (miscellaneous Tier 1, Safety Tier 1 & 2)? Why?

This is correct. We are not aware of any additional risks in financing the non-legacy PEPRA plans. PEPRA plans are not typically focused on in pension restructurings as they have built-it controls than limit the unfunded actuarial liability from growing uncontrollably when compared to the defined benefit legacy pension plans. These plans could be added to the financing if so desired.

5) What are the interest savings to the Town under his proposed refinancing?

In regard to the pre-2013 Unfunded Actuarial Liability, the Town locked in $1,023,550 in savings when it issued its 2017 Lease, which was sold to Capital One. The term sheet for the 2020 bonds from Capital One would lock-in additional savings of approximately $491,729 by refinancing the 2017 Lease (pre-2013 unfunded actuarial liability), as well as, new potential savings on the current unfunded actuarial liability of $3,134,738. The combined savings estimated for the contemplated transaction totals $3,626,467, between the refinancing of the 2017 Lease refinancing and refinancing the current unfunded actuarial liability. If you add the estimated savings on the contemplated transaction to the actual savings generated from the 2017 Lease, you get a combined total savings estimate of $4,650,017, compared to the scheduled payments to CalPERS (on both the pre-2013 and post-2013 unfunded actuarial liability.

The below table explains the breakdown the of savings figures shown in the presentation and above in response #6. The figures from the staff report were broken out into various time horizons, term of the security versus remaining term of the CalPERS schedule, due to the shortening of the obligation. In regard to the $1.9 million in savings, it was an anecdotal reference to the amount of savings, included in the $3.1 million created by the early payoff of the obligation to CalPERS when compared to the CalPERS schedule.

Estimated savings from refi of 2017 Lease	$ 491,729
Estimated savings from the refinancing of the current unfunded actuarial liability	3,134,738
Estimated savings from this transaction	**3,626,467**
Actual savings from issuing 2017 Lease	1,023,550
Total Estimated Savings from current transaction plus actual savings on 2017 transaction	**4,650,017**

6) When are the bonds paid off?

The bonds would be paid off in FY2036-37.

7) What does PAR and POB stand for?

Par (100%) is a synonym for the principal amount of the bonds. POB is an acronym for pension obligation bond.

8) What are the risks associated with using our streets as assets?

The bond documents will provide that the re-letting remedy will not be applicable to the streets, meaning that the holder of the bonds cannot access use of the streets as its security. The only remedy for a failure of the Town to make its lease payments would be a lawsuit brought by the Trustee on behalf of the bond holders to compel payment by the Town. The anticipated buyer, Capital One, also understands that the remedies are consistent with the description above.

Bond Counsel will be available provide further clarification at the August 5th meeting. The leased assets will be the existing assets provided in the 2017 Lease (Town Hall, Corporate Yard, Pavilion, and Fire Station) plus streets with verified replacement value of $10 million (approximately 25% of the total of the town owned streets).

9) What are the Town's current projected annual payments to CalPERS for its existing UAL obligation? Can CALPERS assess further UAL payments even with this payoff?

Payment Schedules can be found in the Town's Actuarial Valuation Reports for each plan. The CalPERS payment schedule shown in our presentation is the combination of amortization schedules shown by CalPERS on the Town's three largest plans, which are anticipated to be included in the financing. If CalPERS produces a 7% return there will be no increase in the unfunded liabilities owed by the Town, unless the projected required retirement benefits are adjusted by CalPERS. Future UAL will be generated due to underperformance by CalPERS; this transaction in no way guarantees positive future performance by CalPERS investments.