



Staff Report

Date: September 10, 2014

To: Mayor and Council Members

From: Joe Chinn, Town Manager

Subject: Early payoff of County of Marin notes due in December 2016 and 2017 in the amount of Three Hundred Eighty Five Thousand Four Hundred and Seven dollars (\$385,407). The original proceeds of this debt was used to payoff CalPERS side fund debt in 2012.

Recommendation

Staff recommends the Council pay off the December 19, 2016 and 2017 notes to Marin County in September 2015. This option reduces the Town's interest expenses by \$22,267 over the next two years and retires the Marin County TRAN notes originally issued in 2012.

Background and discussion

In December 2012, the Council was presented with a report recommending payoff of the outstanding CalPERS side fund debt. This payoff was approved by the Council. The payoff was accomplished through a combination of drawing down five hundred and seventy six thousand (\$576,000) from the Facilities Fund and executing a loan agreement with Marin County in the amount of nine hundred twenty thousand seven hundred seventy seven (\$920,777) dollars. The Marin TRAN notes terms and payment schedule is:

- Loan principal amount \$920,777
- Annual principal and interest payments between \$203,895 to \$204,309
- Five year term loan
- Annual principal and interest payments
- Interest rate to be 3.5% for years 1, 2 and 3; 3.75% interest in year 4 and 4% interest in year 5
- No prepayment penalty should the Town elect to prepay the debt at the time the annual payment is due
- Debt to be secured by Town property tax payments and no issuance costs

Due Date	Principal	Interest	Total Due at Maturity	
12/19/2013	\$197,000	\$6,895	\$203,895	Note paid.
12/19/2014	\$189,000	\$13,230	\$202,230	Note paid.
12/19/2015	\$184,000	\$19,320	\$203,320	Note paid.
12/19/2016	\$178,000	\$25,365	\$203,365	
12/19/2017	\$172,777	\$31,531	\$204,308	
	\$920,777	\$96,341	\$1,017,118	

The Town has two remaining notes to pay per the above schedule. The Fiscal Year 2015-16 budget included the early payment of the December 19, 2016 note (which leaves the December 2017 note for later payment). Given the Town has additional resources available from the fiscal results from Fiscal Year 2014-15 and paying off both notes early saves the Town \$22,267 interest costs in the next two years, Staff recommends early payoff of both remaining notes which also improves future financial stability.

Options

1. Payoff both Notes as recommended, in the amount of \$385,406.63.

The positives and negatives of paying off both notes in September 2015 are:

Positives:

- The debt is entirely paid off
- Interest costs are avoided for the next two fiscal years
- The total Town interest costs are reduced by \$22,267 compared to the debt schedule

Cons:

- Reduces the fund balance in Fiscal Year 15-16 by an additional \$190,045 compared to Option 2 (though fund balance would be higher than otherwise in following fiscal years because of the future interest cost reduction if follow Option 1)

2. Only Pay one Note in September 2015 as included in the current budget.

The current FY 2015-16 budget includes \$196,690 to pay off the note due December 2016 and the other note to be paid off in one of the next two fiscal years. The positives and negatives of paying off one of the two notes in September 2015 are:

Positives:

- The Town fund balance would be \$190,045 higher at the end of FY 2015-16 because the Town would not pay off the entire debt this fiscal year

Cons:

- Town would have debt remaining from the \$172,777 principal plus interest expenses associated with the final note.
- Town interest costs are higher in total than if the debt was fully repaid early.
- Fund balance following full repayment slightly lower than under Option 1.

Fiscal, resource and timeline impacts

Under full repayment in Option 1, it is recommended that the budget for debt service in FY 2015-16 be increased to \$385,407 from the current budgeted amount of \$196,690 (an increase of \$188,717) to reflect the additional debt service payment this year to eliminate the debt. However, the budget for the following years would be improved with no debt payments remaining from the TRANS notes.

Alternative actions

The two options are discussed above.

Environmental review (if applicable)

Not applicable.

Attachments

- None